headlam
group plc

Europe's leading floorcovering distributor

Annual Report and Accounts 2008

Headlam markets, **supplies** and **distributes** an extensive range of **floorcovering** products to independent flooring retailers and contractors throughout the UK, France, Switzerland and the Netherlands.

Our operational strategy is focused on providing our customers with an up to date comprehensive range of competitively priced floorcovering products with the support of a next day delivery.

As part of this strategy, Headlam offers its suppliers the opportunity to achieve wide market penetration backed by cost effective distribution.

In implementing this strategy, Headlam has developed a diverse and autonomous structure with 50 businesses in the UK and a further four in Continental Europe.

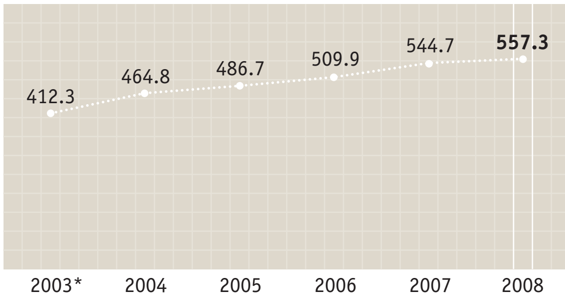
A key factor contributing to the group's success is the individuality of experienced management teams who are responsible for the market presence, development and ultimate profitability of their business.

Each business is supported by the commitment to continued investment in people, product, facilities and IT. This commitment has provided the basis for the group's growth and performance enabling it to develop into Europe's leading floorcovering distributor.

Financial Highlights

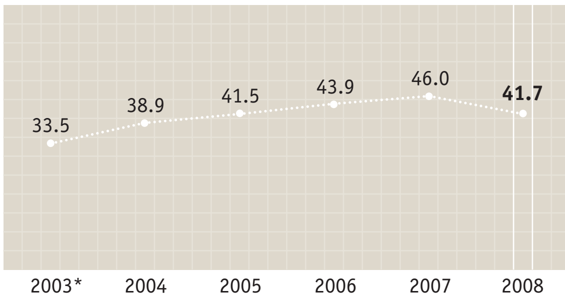
Sales
(£m)

+2.3%



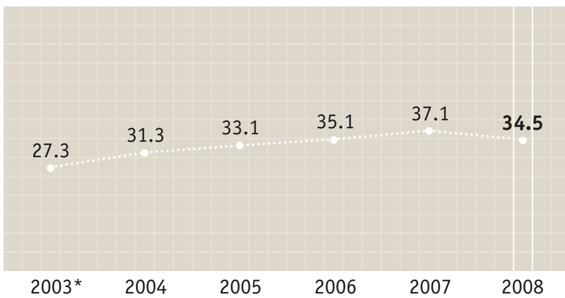
Operating Profit
(£m)

-4.3m



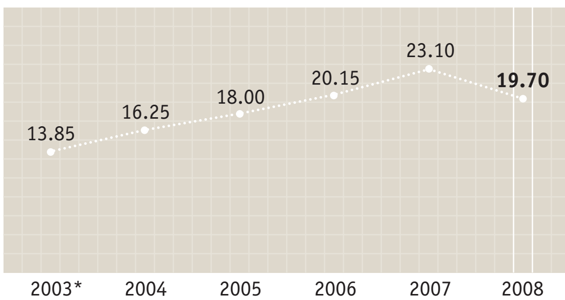
Earnings Per Share
(p)

-7.0%



Proposed Dividends
(p)

-14.7%



* Not restated for IFRS

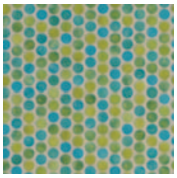
Contents

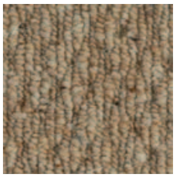
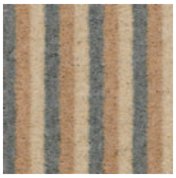
Market Presence

The UK operating structure is based on five business sectors each aimed at maximising market penetration and supporting different aspects of the floorcovering market.

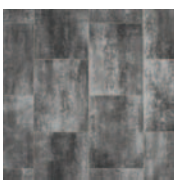
Our Regional and National multi-product businesses provide a comprehensive residential and commercial product range and extensive geographical coverage.

The Regional commercial businesses focus on strong relationships with suppliers and a high level of localised service for their customers. Our Residential specialist businesses supply medium to premium residential carpet on a national basis and the Commercial specialist businesses, which have a national presence, provide a range of products servicing various aspects of the commercial market.




Our business in France operates from two distribution centres and 21 service centres and the businesses in Switzerland and the Netherlands each operate from a single distribution centre. All four businesses on the Continent offer an extensive range of floorcovering products providing full national coverage across their respective countries.



Market Presence

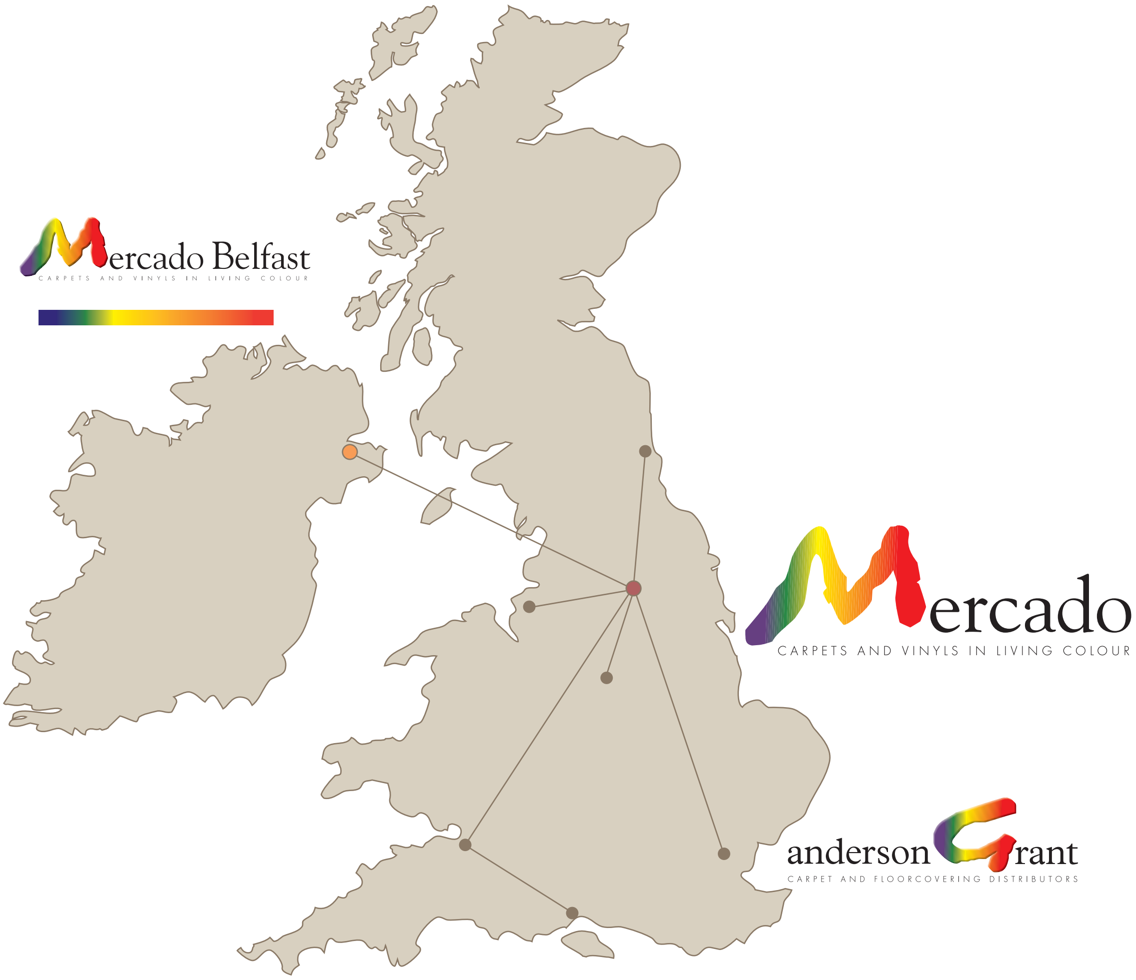
continued

Regional Multi-product Distribution

- Distribution Centre
- Service Centre

National Multi-product Distribution

- Distribution Hub
- Distribution Centre
- Trans-shipping location



Market Presence
continued

Regional Commercial Distribution

- Distribution Centre
- Shared Distribution Centre
- Service Centre

National Residential Specialist Products

● Distribution Centre

Market Presence
continued

National Commercial Specialist Products

● Distribution Centre

European Multi-product Distribution

Chairman's Statement

I am pleased to report that, whilst the UK market proved to be particularly challenging during 2008, each of our business sectors and product categories outperformed market indicators and increased their market share. Our businesses in Continental Europe benefited from more stable conditions and were able to continue their improvement.

Compared with last year, revenue from the group's activities increased by 2.3% to £557.3 million. Profit before tax declined by 11.2% to £40.1 million.

Earnings and dividend

Shareholders will be aware that during the last two years, the board has progressively increased dividends with the intention of achieving a payout ratio of 67% by the end of 2009. The board remains committed to this objective, but whilst difficult trading conditions persist, has decided to delay the full implementation of this policy. We intend to resume our commitment to enhancing shareholder returns through increasing dividends as soon as it is evident that the economies in the regions in which we trade have returned to normal conditions.

The board is therefore recommending a final dividend of 14.1p per share. Total dividend for the year will decrease by 14.7% from 23.1p to 19.7p per share.

The final dividend, if approved by Shareholders at the Annual General Meeting, will be payable at the close of business on 5 June 2009.

Strategy

The performance of our 50 businesses in the UK and four businesses in Continental Europe confirms that our fundamental strategy, of operating these businesses autonomously whilst complying with strict operational and financial disciplines, is delivering sustainable results.

This strategy allows the highly motivated and incentivised individual management teams to focus on their specific business objectives within either the geographical areas or specific product sectors in which they operate.

The key objectives for the group and within each individual business are to maintain and continue to expand our position as the leading floorcoverings distributor in Europe.

The development of the group will be achieved through a combination of organic growth, as market conditions allow, and continued investment in new freehold distribution facilities, which will incorporate the latest material handling equipment. This will be supplemented by the strategic acquisition of floorcovering distributors to enlarge our position in the UK and Continental Europe.

Operations

Through the complementary efforts of the senior and individual business management, we continue to work closely with the leading worldwide flooring manufacturers to develop residential and commercial products in order to enhance our market position.

This relationship with our suppliers has resulted in our 50 businesses in the UK, located in 19 distribution centres and 12 service centres, launching 3,725 new products through our 361 external sales people who positioned 732,000 new point of sale items and sample books into independent flooring retailers and contractors.

Products are developed and launched in an ongoing timely manner, to ensure that our customers are at the forefront of all new products coming into their respective markets.

Our businesses in Continental Europe continue to prosper and the ongoing development will be enhanced by the construction of a new freehold purpose built distribution centre for our Dutch operations.

Employees

The benefit of a group structure, combined with encouraging the autonomy of individual business operations, provides all employees with the opportunity for career progression in both specific businesses and the group as a whole. This was particularly evident during 2008 and early 2009 when a number of our employees continued their career development through internal promotion.

We wish to thank all of our management and employees for their contribution to the group's performance in 2008.

Outlook

During the last 16 years, our floorcovering distribution business has delivered continual growth in sales revenue, profitability and dividend payment. This growth has been interrupted in 2008 due to the wider economic conditions.

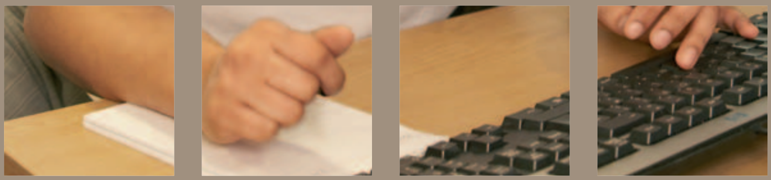
In light of these conditions, the group has undertaken certain restructuring and reduced costs during 2008 and the first quarter of 2009. With unpredictable markets, we will continue to carefully monitor and reduce overheads where possible whilst retaining our high level of service to customers.

Notwithstanding this, we are committed to pursuing our fundamental strategy and maintaining the autonomous structure of the group, providing a platform to maximise our market position and achieve our core objective of sustainable future growth.

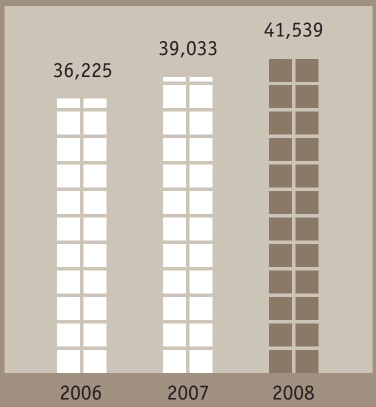
Graham Waldron Chairman

"We are committed to pursuing our fundamental strategy to maximise our market position and achieve sustainable future growth"

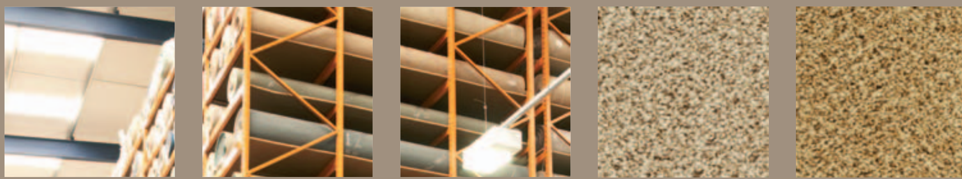
ORDER



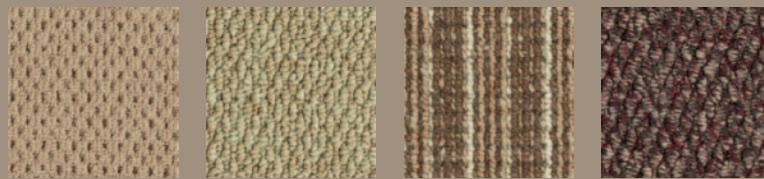
Active Customer Accounts



Customers in the UK, who are principally independent flooring retailers and contractors, placed ***4,576,574 orders*** *during 2008*



SELECT

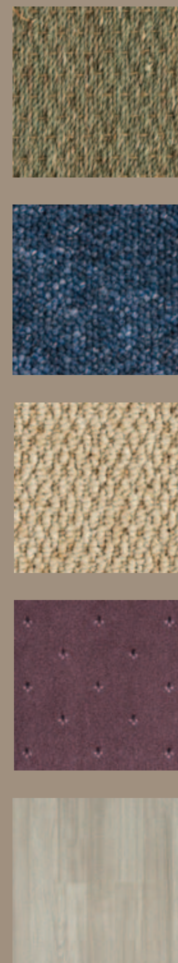


UK Warehouse Storage

48
million
cubic feet

→ *Immediate order processing, comprehensive product ranges and high stock levels allow us to respond quickly to customer demand*

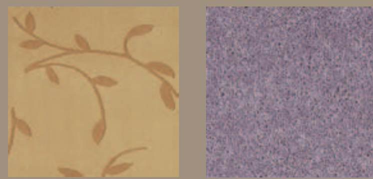
CUT



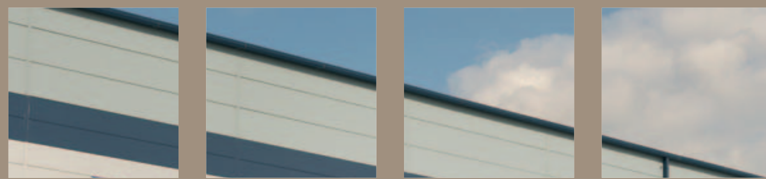
UK Cut Lengths

1,014
per hour

Investment in material processing and handling equipment enables us to increase efficiency and reduce waste



DELIVER



UK Deliveries

24,400
per week

Orders, which are received on a daily basis, are processed immediately and subject to customers requirements delivered the following day

Chief Executive's Review

We believe that the performance of the UK businesses is particularly robust in what were extremely challenging market conditions, and were able to increase their market share.

During 2008, the combined performance of our 50 UK businesses resulted in a marginal decrease in sales revenue of 1.1%, which on a like for like basis was a decrease of 2.5%.

With the benefit of a strong first quarter, first half like for like sales revenue in the UK increased by 2.8%. However, with market conditions deteriorating in the second half, like for like sales revenue declined by 7.2%.

We believe that the performance of the UK businesses is particularly robust in what were extremely challenging market conditions and undoubtedly, our collective businesses were able to increase their market share.

This was achieved through a group strategy based on autonomous businesses, with focused and motivated management teams and sales representatives, developing their individual markets in both residential and commercial floorcovering with independent flooring retailers and contractors.

Our businesses in Continental Europe continue to prosper, where revenue from our businesses located in France, Switzerland and the Netherlands increased on a like for like basis by 3.2% in local currency.

Facilities investment

During 2008, we completed the construction of a new purpose built freehold 42,000 square feet (sq ft) distribution facility for MCD Wales in Bridgend. This became operational in the spring of 2008, enabling MCD Wales to increase their residential and commercial business in South Wales and the south west of England.

The two additional service centres located in Dartford, 5,000 sq ft, and Walthamstow, 9,000 sq ft, became operational at the beginning of 2008, enabling Faithfulls to enlarge significantly its commercial presence in London.

During May 2008, we opened our 6,000 sq ft freehold service centre in Southampton, which provides Richards with an enlarged commercial presence in the south of England.

We have completed the 6,000 sq ft extension to the freehold distribution facility of Baileys Plymouth, which will allow Baileys to develop commercial activities with flooring contractors in the south west of England, to complement what has principally been a residential business to date.

In the Netherlands, the construction of a new purpose built freehold 65,000 sq ft distribution centre is now complete. This will allow Lethem Vergeer and the recently acquired Silvester to enhance their product offering and increase service levels to customers.

We are in the process of applying for planning permission and in final negotiations to purchase land to relocate the Faithfulls and Garrods businesses in Hadleigh, near Ipswich. This new 120,000 sq ft freehold distribution centre, anticipated to be complete by the end of 2010, will considerably increase the two businesses profile in the south east of England in both residential and commercial flooring.

Restructuring

On 23 September 2008, a fire completely destroyed our distribution centre in Northampton, from which the Garrard Waters business operated. With the benefit of disaster management procedures and utilising information technology, the Garrard Waters business was operational the following day from our Coleshill distribution centre.

We have established a local presence for Garrard Waters' management and sales representatives in a 10,000 sq ft service centre in Northampton to maintain and enhance their customer relationships. The principal logistics service continues to operate from Coleshill.

In the late autumn, we decided to relocate the logistics of Baileys Bristol and Solmere Bishop Auckland to our existing larger distribution centres in Thatcham and Gildersome, Leeds respectively. By maintaining their independent management and sales activity with both suppliers and customers, this restructuring provides Baileys and Solmere with extended product ranges and a comprehensive logistics service to benefit their customers.

With the particularly challenging markets we are operating in, the group has also been prudent with the recruitment of replacement employees. In conjunction with the restructuring at Garrard Waters, Baileys and Solmere, we reduced the number of employees during 2008 by 9%, from 1,892 to 1,720.

UK operations

Our 50 businesses in the UK continue to operate within five defined business sectors. This allows the autonomous businesses to optimise their market presence, working to clearly defined strategies and objectives.

Regional multi-product: The 20 businesses sell both residential and commercial floorcovering, operating regionally, in total giving a comprehensive geographical coverage throughout the UK. Whilst sales revenue declined by 5.6%, market indications would substantiate this outperformed the UK floorcovering market and consequently these businesses increased their market share.

National multi-product: The Mercado network of businesses, operating nationally throughout England, Wales and Northern Ireland, also outperformed the market in residential and commercial floorcovering notwithstanding its modest decline in sales revenue of 2.4%.

Regional commercial: The 15 operations in this sector, four of which are benefiting from an investment in new facilities, were able to increase sales revenue by 7.4%. It is our intention in coming years to increase the number of service centres, in order to enlarge the geographical presence of these operations for the regional distribution of commercial floorcovering.

Residential specialist: Through a continuing process of product development and marketing, particularly the medium to high price carpet products, these 13 businesses were able to outperform significantly the UK carpet market and increased sales revenue by 13.9%.

Commercial specialist: Our four commercial specialist businesses enjoyed a more positive commercial market and were able to increase sales revenue by 1.2%.

yourfloors.co.uk

In July 2008, we launched the consumer internet gateway, yourfloors.co.uk. The yourfloors facility creates an opportunity for independent flooring retailers to take advantage of the increasing trend for consumers to purchase online.

“Our 50 businesses in the UK continue to operate within five defined business sectors allowing them to optimise their market presence”

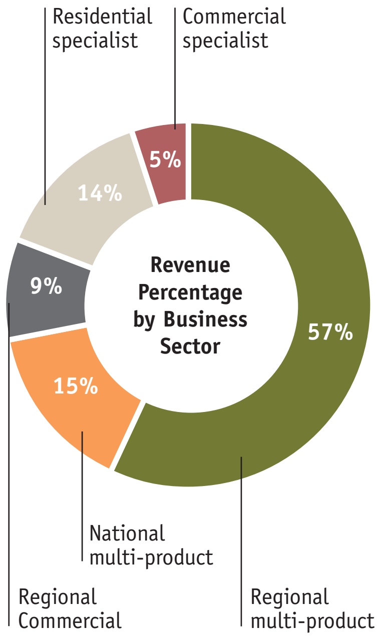


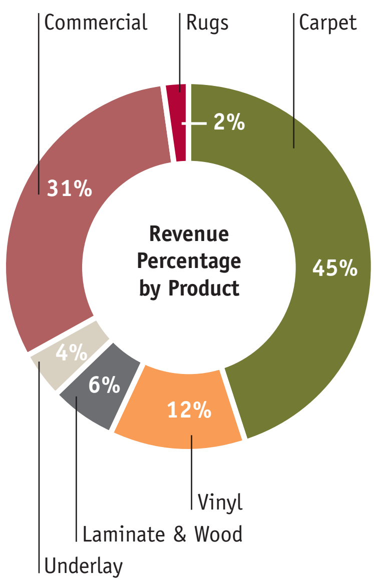




Chief Executive's Review

continued





Each individual retail customer participating enjoys the benefit of their own website created by yourfloors.

Performance criteria measured by daily activity on the website, sample requests and ultimately orders, are showing an increasing daily trend. Since its launch, we have recorded 252,512 visits to the website and satisfied 12,865 requests for samples. With further enhancements currently being undertaken, we expect yourfloors to provide a benefit in coming years to our customer base and ultimately, to the group as a whole.

Suppliers

The business relationship and partnership with our principal suppliers is particularly important to the ongoing growth of the group's activities. This consistent approach, both from a group strategic involvement and the product development of our individual management teams, enables the continual launch of new products through our external sales teams into independent flooring retailers and contractors.

Products

The product development activity with our suppliers has resulted in an increased market presence throughout the principal floorcovering products in the UK.

Carpet continues to be our largest product category, accounting for 45% of UK sales revenue. During 2008, we launched 2,224 new ranges, placing 491,000 new point of sale items into our customers and, whilst sales declined 4.7% in the year, market indicators would again suggest this significantly outperforms the market as a whole.

Residential vinyl sales revenue increased by 2.2% supported by the placement of 170,000 new point of sale items to launch 956 new ranges with independent flooring retailers and contractors.

Wood and laminate benefited from a number of innovative product launches in laminate flooring and an increasing presence in engineered and solid wood, which enabled the sales revenue decrease to be managed to 1.2%.

Rugs have continued to enlarge their profile in the group, principally through the activities of National Carpets, Crucial Trading and Plantation Rug Company. This has resulted in the sales revenue of rugs increasing by 46% and the product now accounts for 2.5% of UK sales revenue.

Commercial Flooring produced an increase in sales revenue of 5.2% benefiting from stronger demand for commercial flooring and the developing presence of our regional commercial businesses. Commercial flooring now accounts for 31% of UK sales revenue.

funonthefloor.com

During 2008, the group contributed to a generic advertising campaign, funonthefloor.com, to increase the profile and consumer awareness of carpets in the UK. Given the existence of particularly challenging market conditions when this initiative was launched, the results are very difficult to measure. The participants in the campaign have agreed to a reduced level of contribution to continue the initiative during 2009.

Customers
The number of active accounts increased from 39,033 in 2007 to 41,539 in 2008. This clearly demonstrates the market strength and financial stability of independent flooring retailers and contractors. During the year, our customers placed 4,576,574 orders, compared with 4,624,489 in 2007 and although credit taken by customers increased from 42 days in 2007 to 44 days in 2008, this was primarily due to an increase in the proportion of business with flooring contractors.

Acquisitions
The group has continued to evaluate acquisitions in both the UK and Continental Europe and whilst only one acquisition was completed during the year, it is our intention to enlarge our market position where a potential acquisition is a strategic benefit to the group.

Europe
Our businesses in France, Switzerland and the Netherlands continued the positive performance of previous years, increasing sales revenues by 3.2% in local currency.

In France, LMS enjoyed a solid market in both residential and commercial floorcovering. With the sales activities of its 21 service centres, supported by two principal distribution centres, LMS increased sales revenue by 3.0%.

Belcolor in Switzerland continued to enlarge its presence in commercial flooring and parquet, complementing its presence in residential floorcovering, and increased sales revenue by 3.7%.

In the Netherlands, Lethem Vergeer continued to enlarge its business, principally in residential floorcovering, increasing sales revenue by 2.0%.

In October 2008, we acquired the residential distribution business of Silvester in the Netherlands. This business was immediately relocated following completion, to our original distribution centre. During March 2009, Lethem Vergeer and Silvester commenced operations from the new purpose built distribution centre.

Outlook
During the financial and operating plan process for 2009, we considered very carefully the market conditions before us. Whilst the trading environment continues to be challenging, the group's performance in the first quarter of 2009 has been in line with our planned expectations.

The autonomous management teams in the UK and Continental Europe are clearly focused on their individual targets and measurements, which we consider are positioned at realistic levels. Assuming no further significant deterioration in market conditions, the group believes it is structured to achieve its operating objectives for the year.

Tony Brewer Group Chief Executive

"The number of active customer accounts increased from 39,033 in 2007 to 41,539 in 2008 illustrating that the independent sector continues to prosper"

Financial Review

TRADING

Revenue

Group revenues increased during the year by 2.3% from £544.7 million to £557.3 million.

In the UK, like for like sales decreased by 2.5%. However, businesses acquired during 2007 contributed an incremental £4.3 million during the year reducing the decline in revenue to 1.1% from £463.7 million to £458.6 million.

On the Continent, our businesses collectively achieved a like for like improvement of 3.2% with overall revenues, including currency effects, increasing by 21.9% from £81.0 million to £98.70 million.

Gross margin

A substantial proportion of product purchased by the group originates from suppliers located in Continental Europe. The purchases by our UK businesses are predominately Sterling based. However, due to Sterling's continued decline against the Euro over the course of 2008, coupled with high raw material price inflation on oil related products during the first half of 2008, imported product was subjected to a number of price increases. These increases were passed into the market in full enabling gross margins to be retained.

Although inflationary pressures on oil-based raw materials have eased, Sterling remains at historically weak levels compared with the Euro. Notwithstanding the existence of forecasts, that predict that Sterling will recover some of its losses against the Euro during 2009, the pricing environment has potential to remain volatile and it is difficult to be certain about improvements in gross margin whilst these conditions persist.

Expenses

Distribution and administration expenses, collectively representing 23.9% of revenue, increased by 8.3% compared with the previous year.

Distribution expenses amounting to £98.5 million increased by 12.3% compared with last year mainly due to fuel price rises, the full year impact of sales and marketing investment either implemented or initiated during 2007 in combination with the cost of launching yourfloors.co.uk and funding the first year of funonthefloor.com.

Administration expenses decreased by 1.8% from £35.0 million to £34.4 million due to the lower level of intangible amortisation in 2008, £0.3 million compared with 2007 when it amounted to £1.5 million.

As mentioned in the Chief Executive's Review, during the second half of last year we introduced a restructuring plan in connection with the businesses located in Bishop Auckland, Bristol and Northampton. The cost of restructuring amounted to £0.8 million and we expect the full year benefit to amount to £2.2 million.

We have already received substantial payments on account in connection with the fire at our Northampton facility and discussions with our insurers are nearing conclusion. We are not presently aware of any reasons why this claim will not be settled equitably.

Financing costs

The movement in finance costs from £0.8 million to £1.6 million was due to the increase in bank funding used to finance the share buyback programme during 2007 and 2008 and a requirement for additional working capital investment during the second half of 2008.

Taxation

As previously anticipated, the effective rate of taxation decreased to 28.5% during the year down from last year's rate of 30.0%. We expect the rate to fall to 28.0% for 2009.

Last year we highlighted the potential for the group's deferred tax liability to increase by £7.8 million because of the abolition of capital allowances in respect of Industrial Buildings. On further examination, we have reconsidered the accounting implications and determined that this adjustment was not necessary. Therefore, consistent with our interpretation of IAS 12: Deferred Tax, no adjustment has been reflected in these accounts.

Dividends

As already highlighted in the Chairman's Statement, the board has proposed a reduction to the final dividend for 2008, which will result in total dividends for the year decreasing by 14.7% to 19.7p per share. This represents a cautious response by the board to challenging markets and desire to retain a measure of flexibility in uncertain times.

Cash flows and net funds

Cash generated from operations

Cash flows from operating activities declined by 10.6% during the year from £52.7 million to £47.1 million.

Investment in net working capital increased during the year by £9.7 million from £10.0 million to £19.7 million leading to cash generated from operations reducing by £15.3 million from £42.7 million to £27.4 million.

Compared with last year, we reduced our investment in trade and other receivables and inventory by £7.7 million and £3.3 million respectively. The movement in trade and other payables required us to utilise additional bank funding amounting to £20.7 million compared with 2007 because the decline in revenues during the second half of 2008 led to a significant curtailment in buying activity.

Subject to no material adverse change in 2009 sales revenue, we expect our working capital investment to be substantially lower.

Cash flows from investing and financing activities

Net cash outflows from investing activities totalled £7.1 million compared with £11.3 million during 2007. Investment in property, plant and equipment amounted to £10.7 million compared with £11.0 million for 2007. In common with 2007 and as already highlighted in the Chief Executive's Review, expenditure related to a number of relatively small projects.

Expenditure in 2009 will cover the purchase of the freehold interest in the Kidderminster property, which was formerly occupied on a leasehold basis, completion of the facility for our Dutch business and purchase of the land for the distribution facility for Faithfulls. These projects in conjunction with regular recurring investment will result in expenditure being broadly the same as 2008.

Within our freehold property portfolio, we hold five vacant properties. These properties are currently being marketed for disposal, but we recognise that the prospect of sale in the immediate future is remote given current economic circumstances. Furthermore, our preference is to hold the properties and realise a fair value rather than sell at a discounted price.

Net cash flow from investing activities moved from a cash out flow of £39.7 million during 2007 to a cash inflow of £13.1 million in 2008. The 2007 expenditure was principally due to the share buy-back programme whilst the cash inflow in 2008 results from the draw down of loan facilities.

Changes in net funds

Group net funds decreased from £16.7 million to £0.7 million during the year as detailed in the table below.

Employee benefits

During the year, the employee benefits net deficit, as measured under IAS 19 increased by £3.3 million from £11.3 million to £14.6 million. The adverse movement on the UK defined benefit pension plan was the principal cause with the deficit increasing from £10.9 million to £12.9 million because of plan obligations rising mainly due to the adoption of the more up-to-date mortality assumptions that were used for the triennial actuarial valuation at 31 March 2008.

The group operates both UK and Swiss defined benefit plans. The UK plan, which is the group's largest plan, is subject to a triennial actuarial valuation that determines the plan's funding requirement. The UK plan actuary has now issued the results of the triennial actuarial valuation following a period of consultation between the trustee and company. The results conclude that the net deficit has increased from £13.1 million at 31 March 2005 to £22.4 million at 31 March 2008. The two main factors contributing to this deterioration, which arises because of an increase in the plan's obligations, are changes in the mortality assumptions and an increase in the inflation assumption. The mortality assumptions have been derived to take account of the characteristics of the plan members and include a greater allowance for future increases in longevity compared with the assumptions previously adopted. The annual contributions for providing future service benefits have increased by £0.2 million and annual contributions required to fund the past service deficit have increased by £1.2 million. This results in total annual contributions increasing by £1.4 million from £2.6 million to £4.0 million.

Facilities and going concern

The group's total bank facilities amount to £89.5 million. Our UK facilities total £75.0 million of which £30.0 million, a five-year term loan that was drawn in full during the year, lapses in July 2012. The remaining £45.0 million are on demand facilities of which £20.0 million is due for renewal by 31 May 2009 and £25.0 million due by 31 July 2009. Both our UK banks have in principal, communicated their intention to renew these facilities for a further twelve months.

Our banking partners on the Continent have also signalled their intent to provide continued support.

Having reviewed the group's resources and a range of likely trading out-turns, the directors believe they have reasonable grounds for stating that the group has adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to adopt the going concern basis in preparing the group's financial statements.

Stephen Wilson **Group Finance Director**

CHANGES IN NET FUNDS

	At 1 January 2008 £000	**Cash flows £000**	**Translation differences £000**	**At 31 December 2008 £000**
Cash at bank and in hand	16,805	**16,600**	**1,788**	**35,193**
Bank overdraft	(103)	**112**	**(9)**	**–**
	16,702	**16,712**	**1,779**	**35,193**
Debt due within one year	–	**(3,726)**	**(780)**	**(4,506)**
Debt due after one year	–	**(30,000)**	**–**	**(30,000)**
	16,702	**(17,014)**	**999**	**687**

Directors, Officers and Advisers

BOARD OF DIRECTORS

G Waldron
Chairman ❄
Graham was appointed an executive director in June 1991 becoming Chairman later that year until 31 December 1999. On the resignation of Trevor Larman on 1 June 2006 he was re-appointed Chairman. He has 56 years experience in the floorcovering industry. He is the non-executive Chairman of Tandem Group plc. Age 78.

A J Brewer
Group Chief Executive ■
Tony was appointed an executive director in June 1991, becoming Managing Director of the Floorcoverings Division in January 1992, and was appointed Group Chief Executive in November 2000. He has 31 years experience in the floorcovering industry. Age 48.

S G Wilson
Group Finance Director
Steve was appointed Group Finance Director in December 1991. He is the non-executive Chairman of Synergy Healthcare plc and is a fellow of the Institute of Chartered Accountants. Age 54.

R W Peters
Non-executive Director ◆ ● ■
Dick was appointed a non-executive director in December 2005. He was formerly Senior Partner for the East Midlands practice of Deloitte & Touche in Nottingham. He is a BSc in Mathematics and Statistics and is a fellow of the Institute of Chartered Accountants. He has considerable experience of auditing large companies, both UK and overseas, transactional support and project management activities. He is a director and Chairman of Headlam Pension Trustees Limited. Age 54.

M K O'Leary
Senior Independent Director ◆ ● ■
Mike was appointed a non-executive director in March 2006. He was formerly a director of MISYS plc and chief executive of Marlborough Stirling plc. Mike has worked in domestic and international markets and brings a wealth of general management experience to the company. He is currently a non-executive director of Psion Teklogix plc, the Stroud & Swindon Building Society and Digital Healthcare Limited, where he is Chairman. Age 56.

D L Grove
Non-executive Director ◆ ● ■
David was appointed a non-executive director in October 2007. He is Chairman of Hill & Smith Holdings PLC, Chairman of Key Technologies PLC and a non-executive director of a number of private manufacturing, distribution and investment companies. Age 60.

COMPANY SECRETARY

G M Duggan
Geoff was appointed Company Secretary in April 1998. He is an associate of the Institute of Chartered Secretaries and Administrators and a fellow of the Chartered Institute of Management Accountants. Age 48.

EXECUTIVE MANAGEMENT

A J W Simpson
Managing Director UK Operations
Andrew joined the company in September 1991 and is the Managing Director of UK Operations. Andrew has 36 years experience in the floorcovering industry. Age 56.

G B Phillips
Finance Director Operations
Gary joined the company in June 1992 and is the Finance Director of floorcovering operations. He is an associate of the Chartered Institute of Management Accountants. Age 45.

A R Judge
Managing Director,
Coleshill and Tamworth businesses
Tony joined the company in May 1992 and is Managing Director of all businesses operating from the Coleshill and Tamworth distribution centres. Tony has 28 years experience in the floorcovering industry. Age 44.

K R Yates
Managing Director, Mercado
Keith joined Mercado in April 1983 and was subsequently appointed its Managing Director in 1996. Keith has 26 years experience in the floorcovering industry. Age 53.

◆ **Audit committee**
● **Remuneration committee**
■ **Nomination committee**
❄ **Charities committee**

ADVISERS

Auditors
KPMG Audit Plc
2 Cornwall Street
Birmingham B3 2DL

Taxation Advisers
Deloitte LLP
Four Brindleyplace
Birmingham B1 2HZ

Principal Bankers
Barclays Bank PLC
PO Box 3333
15 Colmore Row
Birmingham B3 2WN

The Royal Bank of Scotland plc
Corporate and Institutional Banking
5th Floor, 2 St Philips Place
Birmingham B3 2RB

Stockbrokers
Arden Partners plc
Arden House
17 Highfield Road, Edgbaston
Birmingham B15 3DU

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

Financial Calendar

Announcements

Interim Management Statement	18 May 2009
Annual General Meeting	26 June 2009
Interim results announced	28 August 2009
Interim Management Statement	19 November 2009
Full year results announced	March 2010

Dividend Dates

Final dividend for 2008, if approved, payable to qualifying shareholders on the register as at 5 June 2009	1 July 2009
Interim dividend for 2009 announced	August 2009
Interim dividend for 2009 payable	January 2010

Directors' Report

The directors present their annual report to shareholders on the affairs of the group and the company together with the audited financial statements and independent auditor's report, for the year ended 31 December 2008.

Principal activity
The group's activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering and certain other ancillary products. The principal trading subsidiaries are listed on page 91.

Review of the business
A detailed review of the group's activities and future plans is contained within the Chairman's Statement on page 10 and the Chief Executive's Review and the Financial Review on pages 16 to 21. The information contained in these sections fulfils the requirements of the Business Review, as required by Section 417 of the Companies Act 2006 and should be treated as part of this report. The reports on Corporate Governance on pages 29 to 34 and Corporate and Social Responsibility on pages 41 to 43 are also incorporated into this report by reference. A description of the group's financial risk management objectives and policies and its exposure to price, credit liquidity and cash flow risk is contained in note 22 to the Financial Statements on page 81.

Principal risks and uncertainties
The group's business, results and financial condition are influenced by a range of risks and uncertainties many of which are beyond the control of the board. Whilst the following highlights some of these risks it is not intended to provide an exhaustive analysis of the risks affecting the business. For instance, there are some risks which are as yet not known and others which whilst not presently material could become a significant factor in the future.

Market demand
Approximately 94% of the group's sales are to independent retailers and flooring contractors. The activity levels within this customer base are determined by consumer demand created through residential property refurbishment or moves, new residential housing developments and a wide range of commercial refurbishment and new building projects. Periods of recession, low consumer confidence or changes in trends and preferences have the potential to affect market activity and therefore demand for products supplied by the group. However, market activity is monitored in each individual business and at group level on a daily basis which enables a rapid response to any factors adversely affecting trading. Furthermore, since the group's principal activities are supply and distribution, it has the ability to quickly respond to market changes. This, coupled with the development of broad market penetration through the establishment of a range of diverse regional, national and specialist businesses provides the group with a degree of resilience and protection.

Competitor risk
The group operates in four different geographical markets which generally share similar trading characteristics. Within each market, the group competes with a variety of regional and national distributors, manufacturers selling directly to our customer base and indirectly with multiple retail chains. The group seeks to sustain its competitive position by maintaining close relationships with its supplier and customer base.

Substantial and continued investment in:

- management
- an extensive product offering
- a knowledgeable sales resource
- stock availability
- IT
- efficient material handling and
- logistics

removes the need to compete strictly on price and allows the group to enhance its overall market position through its commitment to service. The distribution competition in Continental Europe is diverse and very fragmented. The group has deliberately adopted a cautious acquisition policy in these markets searching for opportunities that provide good growth opportunities but at sensible valuations. Given the number of opportunities it is possible that a competitor, following a more aggressive acquisition strategy on the Continent, could challenge the group's position as Europe's leading floorcovering distributor.

Credit risk
The group trades with the majority of its customers on credit terms and therefore there is always the risk that customers are unable to pay outstanding balances. The group has standardised credit checking and debt collection procedures at each individual business. Businesses are encouraged to share credit information with other group businesses on a regular basis in order to prevent the escalation of small credit risks. All open accounts are subject to credit limits and businesses must obtain central approval for credit limits in excess of £10,000. These procedures, combined with the local knowledge of the credit control teams, not only reduce the risk of default, but also, in a number of instances, provide opportunities to assist the customer to trade out of their default position. The group does not use credit insurance since the level of default is generally low. Appropriate impairment provisions are made on a regular basis whenever the likelihood of default is high.

Infrastructure
An important element of the group's ability to service its customer base is its network of distribution and service centres. The group's policy of improvement through continued investment in new or extended facilities has been one of the principal drivers behind the group's historic growth rates. In order to support growth rates in the future, the group will continue to invest in new centres. There is a risk that future growth will be constrained if these development projects are unduly delayed through either land availability, planning consent or prohibitive building cost.

Systems
The group is highly reliant on its IT systems to deliver its operational objectives and maintain financial control. As a consequence, any prolonged IT failure has the potential to adversely affect business activity. However, each business has its own dedicated computer system and failure in one will not interrupt another. Furthermore, the group operates well defined back up procedures and has contingency plans in place to enable swift recovery from a failure of this nature.

Transport
The majority of customer orders result in deliveries within twenty four hours on vehicles operated by the group. Any interruption to this service, for example, major disruption to road networks or the prolonged reduced availability of vehicle fuel could have an adverse affect on activity.

Directors' Report
continued

People
The group's ability to deliver continued success is very dependant upon its people. The group is committed to providing a workplace that is safe and environmentally sound and creating opportunities for individuals to progress their careers. Recruitment, training and development are aimed at ensuring that the group has suitably skilled and qualified people to meet the operational needs of the business.

Pension
The cost of funding the group's defined benefit plans may increase due to a decline in investment returns, movement in interest rates and longer life expectancy. As a result of the triennial actuarial valuation of the UK plan, undertaken at 31 March 2008, the group agreed to make an additional payment of approximately £1.4 million every year until 2018. The results of future scheme valuations, the next being 31 March 2011, could result in this commitment increasing.

Government legislation
The group's operations are regulated by a variety of laws, which relate, amongst others, to health and safety, the environment, employment, commercial, corporate, financial and tax. The group is committed to complying with these requirements in each of the markets in which it operates and achieves this by managing its obligations at the group level and within individual businesses. Where appropriate, the group engages the services of competent third party advisers. Changes in regulations are incorporated into the group's polices and procedures on a timely basis.

Financial results and dividends
The profit attributable to equity holders of the company for the financial year was £28.7 million as shown in the Consolidated Income Statement set out on page 46.

The directors are proposing a final dividend for the current year of 14.10p per share (2007: 17.75p), making a total dividend of 19.70p per share for the year (2007: 23.10p).The final dividend, if approved by shareholders at the Annual General Meeting ("AGM"), will be payable on 1 July 2009 to shareholders whose names appear on the register at the close of business on 5 June 2009. The associated ex-dividend date is 3 June 2009. An interim dividend of 5.60p per share (2007: 5.35p) was paid on 2 January 2009 to shareholders on the register at the close of business on 5 December 2008.

Directors and their interests
The following were directors of the company during the financial year ended 31 December 2008: Graham Waldron, Tony Brewer, Steve Wilson, Dick Peters, Mike O'Leary and David Grove, biographical details of the directors currently serving on the board being set out on page 22. No other person has acted as a director of the company during the financial year ended 31 December 2008. The company's Articles of Association ("articles") give directors power to appoint and replace directors. The articles also require directors to retire and submit themselves for election to the first AGM following appointment, that directors retire at the AGM held in the third calendar year after election or last re-election and that one third of the directors retire by rotation each year. Accordingly Steve Wilson and Mike O'Leary retire by rotation and being eligible, offer themselves for re-election at the forthcoming AGM. In proposing their re-election, the board confirms to shareholders that following a formal performance evaluation, each of these individual's performance continues to be effective and they have expressed a willingness to continue in their roles.

Details of directors remuneration and service contracts are set out on pages 37 and 38.The beneficial interests of the directors and their immediate families in the company's shares and their interests in share options are detailed on page 39. No director had, at any time during the period under review, a material interest in any contract with the company or any of its subsidiaries.

Directors' indemnity
The company maintains directors and officers liability insurance and indemnity cover (as defined in section 233 of the Companies Act 2006) which is provided for the benefit of the company's directors and officers.

AGM
This years AGM will be held at the group's distribution facility in Coleshill, Birmingham on Friday 26 June 2009 at 10.00am. The notice convening this meeting has been mailed to shareholders with this Annual Report.

A description of the resolutions that will be proposed at the meeting is set out below.

Resolution 1 - Report and accounts
The company is required by law to put its Annual Report and Accounts for the financial year ended 31 December 2008 before the meeting. Shareholders are invited to vote to receive and adopt the Annual Report and Accounts for the year ended 31 December 2008.

Resolution 2 - Declaration of dividend
The directors recommend the payment of a final dividend of 14.10p on each of the ordinary shares entitled thereto. The final dividend, together with the interim dividend of 5.60p, gives a total dividend of 19.70p. Subject to shareholders' approval, the final dividend is expected to be paid on 1 July 2009 to shareholders on the register on 5 June 2009.

Resolution 3 - Re-election of Steve Wilson as a director
Steve Wilson (age 54) is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. He became Group Finance Director on appointment to the board in December 1991.

Resolution 4 - Re-election of Mike O'Leary as a director
Mike O'Leary (age 56) is retiring by rotation in accordance with the company's articles and is offering himself for re-election by shareholders. Mike was appointed a non-executive director in March 2006. He was formerly a director of MISYS plc and chief executive of Marlborough Stirling plc.

Resolution 5 - Re-appointment of Auditor
The company is required to appoint an auditor at each general meeting at which accounts are laid before the company, to hold office until the end of the next such meeting. This resolution proposes the appointment of an auditor. KPMG has expressed its willingness to continue in office.

Resolution 6 - Agreement of Auditor remuneration
In addition to the company's requirement to appoint an auditor, shareholder authority is sought for the directors to determine the remuneration to be paid to the auditor for the period of appointment.

Resolution 7 - Directors' Remuneration Report
Shareholders are being asked to approve the 2008 director's Remuneration Report, which is set out on pages 35 to 40 of the

company's Annual Report and Accounts. Whilst the payment of remuneration to the directors is not dependent on the passing of the resolution, the board will take the vote into account when considering the future development and operation of the company's remuneration policy and practice.

Special Business – Resolutions 8 to 11
Resolution 8 - Authority to allot shares
Shareholders are again being asked to pass the necessary resolution to grant to the directors a general authority, for the purpose of section 80 of the Companies Act 1985, to allot relevant securities. On this occasion the proposed general authority is to allot up to an aggregate nominal amount of £1,122,500 representing 22,450,000 ordinary shares (29.8% of the company's ordinary share capital in issue at 20 March 2009 (the latest practical date prior to the publication of this report)). As at 20 March 2009, the company held 2,248,647 treasury shares, which represented approximately 2.63% of the company's issued share capital, which the company can cancel or hold for sale or use to meet the obligations under the company's employee share schemes.

This authority will lapse on 30 June 2010 or at the conclusion of the AGM to be held in 2010, if earlier. Your directors have no current intention of exercising this authority except in connection with the company's employee share schemes.

Resolution 9 - Dis-application of pre-emption rights
Shareholders are again being asked to pass a resolution to empower the directors to allot equity securities, or sell treasury shares, for cash as if section 89(1) of the Companies Act 1985 (which gives shareholders certain pre-emption rights on the issue of shares or convertible securities) did not apply to any such allotment. The authority allows the issue or sale of shares of up to an aggregate nominal amount of £1,122,500 representing 22,450,000 ordinary shares in respect of rights issues and other issues pro-rata to existing entitlements, and also allows issues or sales for cash (other than in relation to a rights issue) limited to shares having an aggregate nominal amount of £213,000 (5% of the company's ordinary share capital in issue at 20 March 2009). The authority will lapse on 30 June 2010 or at the conclusion of the AGM to be held in 2010, if earlier.

Resolution 10 - Purchase of own shares
The directors believe that it is in the interests of the company and its members to continue to have the flexibility to purchase its own shares and this resolution seeks authority from members to do so. The directors intend only to exercise this authority where, after considering market conditions prevailing at the time, they believe that the effect of such exercise would be to increase the earnings per share and be in the best interests of shareholders generally. The effect of such purchases would either be to cancel the number of shares in issue or the directors may elect to hold them in treasury pursuant to the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 (the "Regulations"), which came into force on 1 December 2003. The Regulations enable certain listed companies to hold shares in treasury, as an alternative to cancelling them, following a purchase of own shares by a company in accordance with the Companies Act 1985. Shares held in treasury may subsequently be cancelled, sold for cash or used to satisfy share options and share awards under a company's employee share scheme. Once held in treasury, a company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of the shares. Further, no dividend or other distribution of the company's assets may be made to the company in respect of the treasury shares.

This resolution renews the authority given at the AGM held on 20 June 2008. The authority is in respect of 10% of the company's issued ordinary share capital (excluding treasury shares) as at 20 March 2009 and will lapse on 30 June 2010 or at the conclusion of the AGM to be held in 2010, if earlier. The resolution specifies the maximum and minimum prices at which the shares may be bought. If the company buys any of its shares under the authority proposed by resolution 10, the board will decide at the time whether to cancel them immediately or hold them in treasury. The purchase of shares will be dependent on market conditions and will also take into account the cash generated in the business and other investment opportunities that may arise over time.

Details of share options outstanding and treasury share movements including details of own shares acquired by the company are shown respectively in notes 19 and 21 to the financial statements.

Resolution 11 - Shareholder rights directive
This will be proposed as a special resolution to approve the holding of general meetings, other than AGMs, on 14 days' notice. Although the company's articles currently permit this, regulations are due to come into force on 3 August 2009 to implement the Shareholder Rights Directive in the UK. As currently drafted, these regulations will require a shareholder resolution to be passed to authorise general meetings to be held on 14 days' notice. Without the passing of resolution 11, the minimum notice period under the regulations would be 21 days. If resolution 11 is passed by the shareholders, the regulations as currently drafted would only allow the company to call a general meeting on 14 days' notice if it were to make a system of electronic voting available to its shareholders in respect of the meeting in question. Although the final form of the regulations will not be known before the AGM, the directors nevertheless consider it to be in the best interest of shareholders to pass resolution 11 in order to prevent being constrained by the regulations implementing the directive.

Recommendation
The directors consider that all the resolutions to be proposed at the AGM are in the best interests of the company and its shareholders as a whole. Your board will be voting in favour of them and unanimously recommends that you do so as well.

Full details of these resolutions are provided in the Notice of Annual General Meeting accompanying this report.

Takeovers directive
The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into English law.

As at 31 December 2008, the company's issued share capital comprised a single class of shares referred to as ordinary shares. Details of the ordinary share capital can be found in note 21 to the financial statements which should be treated as forming part of this report.

On a show of hands at a general meeting of the company every holder of ordinary shares present in person and entitled to vote shall have one vote and, on a poll, every member present in person or by proxy

Directors' Report
continued

and entitled to vote shall have one vote for every ordinary share held. The notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the company's website after the meeting.

There are no restrictions on the transfer of ordinary shares in the company other than:

- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws).
- pursuant to the Listing Rules of the Financial Services Authority whereby certain directors, officers and employees of the company require the approval of the company to deal in the company's ordinary shares.

Resolution 10, which will be proposed as a special resolution at the 2009 AGM, will give the company authority to use its available cash resources to acquire up to 12,467,000 of its own shares in the market for either cancellation or to hold them as treasury shares. The directors will only use this power after careful consideration, taking into account market conditions prevailing at the time, other investment opportunities, appropriate gearing levels, and the overall position of the company. The directors will only purchase such shares after taking into account the effects on earnings per share and the benefits for shareholders.

The company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

There are no agreements between the company and its directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid. The company's banking arrangements are terminable upon a change of control of the company. Certain other indebtedness becomes repayable if a change of control leads to a downgrade in the credit rating of the company.

The company's articles may only be amended by a special resolution at a general meeting of shareholders. At the 2009 AGM a special resolution will be put to shareholders proposing amendments to the company's existing articles as described under the above AGM section and in the Notice of Annual General Meeting.

Substantial shareholdings
As at the last date prior to posting the Annual Report and Accounts, in accordance with the Disclosure and Transparency Rules, the company had been notified of the following substantial interests in the share capital of the company.

Ordinary shares of 5p each

Shareholder	Number	Per cent	Nature of holding
Aberforth Partners LLP	4,163,928	5.01%	Indirect
Aegon UK Group of Companies	5,853,493	7.04%	Direct and Indirect
Aviva plc	6,281,526	7.56%	Direct and Indirect
AXA S.A.	4,573,109	3.39%	Direct and Indirect
Credit Suisse Asset Management Limited	5,665,376	6.82%	Direct
Legal & General Investment Management Limited	3,292,327	3.96%	Direct
Lloyds TSB Group Plc	5,773,723	6.95%	Direct and Indirect
Schroders plc	8,289,262	9.97%	Direct

Contributions for political and charitable purposes
The group's Charities Committee considers requests for charitable donations within set criteria. During 2008, in addition to donations made to overseas charities, the group contributed charitable donations to UK charitable organisations, principally to local organisations serving the communities in which we operate, of £9,528 (2007: £19,174).

The group's policy is not to make any donations for political purposes in the UK or to donate to EU political parties or incur EU political expenditure. Accordingly neither the company nor its subsidiaries made any political donations or incurred political expenditure in the financial period under review (2007: nil).

Supplier payment policy
It is the group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers. The group seeks to strictly comply with these payment terms whenever it is satisfied that the supplier has provided the goods and services in accordance with the agreed terms and conditions. The payment policy has been and will continue to be developed to meet the group's specific requirements and is not based on any particular code or standard relating to payment practice. The number of creditor days of the company at 31 December 2008 was 45 days (2007: 43 days).

The environment
The group regards compliance with relevant environmental laws and the adoption of responsible standards as integral to its business operation. It is also committed to introducing measures to limit any adverse effects its business may have on the environment and will promote continuous improvement in accordance with best available techniques.

Directors' Report

continued

Employee involvement
The total number of employees at the end of the period was 2,061. The group recognises the value of its employees and seeks to create an energetic, dynamic and responsive environment in which to work. It places considerable importance on communications with employees which take place at many levels through the organisation on both a formal and informal level.

Employees are encouraged to own shares in the company and the group operates an HMRC Approved Savings Related Share Option Scheme (SAYE). Those employees who choose to take up the option to purchase shares in the company may enter into a savings arrangement for either a three or five year period, with the option price determined by reference to the share price at the date of grant. On exercise the shares are purchased by the employee free of income tax and national insurance, although capital gains tax rules apply.

Disabled employees
The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by handicapped or disabled persons. Where existing employees become disabled, it is the group's policy wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion wherever appropriate.

Further details of arrangements relating to employees are described in the Corporate and Social Responsibility report on pages 41 to 43.

Statement of Directors' Responsibilities
The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

The group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the group and the parent company and the performance for that period; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- make judgments and estimates that are reasonable and prudent.
- state whether they have been prepared in accordance with IFRSs as adopted by the EU and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

Directors' Responsibility Statement in respect of the annual financial report:
The directors confirm that, to the best of their knowledge:

- The group and parent company financial statements in this report, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRSs), including interpretations issued by the International Accounting Standards Board (IASB) and those sections of the Companies Act 1985 applicable to companies reporting under IFRSs as adopted in the EU, give a true and fair view of the assets, liabilities, financial position and profit of the company and group taken as a whole; and

- The management report (which comprises the Directors' report and Chief Executive's Review) includes a fair review of the development and performance of the business and the position of the company and the group taken as a whole, together with a description of the principle risks and uncertainties they face.

Disclosure of information to the auditor
In accordance with the provisions of section 234 ZA of the Companies Act 1985 the directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each of the directors has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information, as defined, and to establish that the company's auditor is aware of that information.

Auditor
KPMG Audit Plc has expressed its willingness to continue in office as auditor of the company and in accordance with the provisions of section 385 of the Companies Act 1985, a resolution for its re-appointment and to authorise the directors to agree its remuneration will be proposed at the forthcoming AGM. Auditor remuneration and fees paid during the year to 31 December 2008 are set out in note 3 to the financial statements.

This directors report has been approved by the board and signed on its behalf by

Geoff Duggan
Company Secretary
30 March 2009

Corporate Governance

The company is committed to high standards of corporate governance and supports the principles laid down in the revised Combined Code on Corporate Governance as issued by the Financial Reporting Council in June 2006 ('the Code'). This statement describes how the principles of the Code are applied and reports on the company's compliance with the Code's provisions. The Code is publicly available on the Financial Reporting Council's website www.frc.org.uk.

The directors consider that the company has been in compliance with the provisions of the Code throughout the year ended 31 December 2008 and up to the date of this report.

Directors' and board effectiveness
The board is collectively responsible for the proper management and success of the group. Its role is to provide entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed; to set strategic aims, ensure that the necessary financial and human resources are in place to meet its objectives and review management performance; to set the group's values and standards; and to ensure that its obligations to its shareholders and others are understood and met.

To help ensure the effective control of the group, the board has a number of items reserved for its sole consideration:

- setting group strategy
- preparation, review and approval of an annual budget and medium term projections
- reviewing operational and financial performance
- approving acquisitions and divestments
- material agreements and major capital commitments
- reviewing the group's systems of financial control and risk management
- ensuring that appropriate management development and succession plans are in place
- reviewing the health and safety and environmental performance of the group
- approving appointments to the board and to the position of Company Secretary and approving policies relating to directors' remuneration and the severance of directors' service contracts
- ensuring that a satisfactory dialogue takes place with shareholders
- approval of annual and interim results and the annual report and accounts
- setting and agreeing dividend policy
- approving and reviewing the group's treasury policy
- reviewing the group's approach to corporate governance and ensuring compliance with the listing requirements
- setting the group's policy with regards to corporate social responsibility

Further details of the board's role in relation to the group's systems of internal control and risk management are given on pages 33 and 34. A description of the specific responsibilities delegated to the principal board committees is given on pages 31 to 33.

Board of directors
The board of directors (the "board") currently has six members, comprising Graham Waldron, Chairman, Tony Brewer, Group Chief Executive, Steve Wilson, Group Finance Director and three independent non-executive directors, Dick Peters, Mike O'Leary and David Grove. Mike O'Leary was the Senior Independent Director throughout the year. All of the directors bring strong judgement to the boards deliberations and the board is of sufficient size and diversity that the balance of skills and experience is considered to be appropriate for the requirements of the business. The non-executive directors are all independent of management and free from any business or other relationship, including those relationships and circumstances referred to in provision A.3.1 of the Code that could materially interfere with the exercise of independent and objective judgement. The Senior Independent Director, Mike O'Leary, is available to shareholders if they have concerns which are not resolved through the normal channels of the Chairman, Group Chief Executive or Group Finance Director; or for which such contact is inappropriate. The board will keep under review the size and structure of the board to ensure it is appropriate for the ongoing business.

The biographical details of the current directors are given on page 22.

The board usually meets eight or nine times a year and normally includes at least one meeting at an operating business. During the year there are sufficient opportunities for the Chairman to meet with the non-executive directors without the executive directors being present should this be deemed appropriate. The Company Secretary maintains a record of attendance at board meetings and committee meetings, further details of which are set out on page 31.

Chairman and Group Chief Executive
The roles and responsibilities of the Chairman and Group Chief Executive are clearly divided, set out in writing and periodically reviewed by the board. Whilst collectively they are responsible for the leadership of the group, the Chairman's primary responsibility is for leading the board and ensuring its effectiveness and the Group Chief Executive is responsible for implementing strategy, running the businesses in accordance with the objectives and policies agreed by the board and for the executive management of the group.

The other significant current commitments of the Chairman are listed in his biography on page 22 and the board is satisfied that his existing commitments do not unduly restrict his availability to the group.

Board information, induction, training and professional development
The board has a forward rolling business agenda which is regularly updated to include specific topics that directors have requested for review at future meetings. The board reviews the key activities of the business receiving papers and presentations from senior management and external advisers, generally a week in advance of the meeting, to enable it to do so effectively. There is an established procedure for the

Corporate Governance
continued

preparation and review, at least annually, by the board of medium term plans and the annual budget. The board receives regular reports from the executive management covering a broad range of issues including health, safety and environmental matters, finance and operational performance, risk management, business development initiatives, special projects, legal and regulatory developments, governance and best practice guidelines that affect the group. The Company Secretary is responsible to the board, and is available to individual directors, in respect of board procedures. In conjunction with the Chairman, the Company Secretary ensures that information distributed to the board is sufficient, clear and accurate, that it is circulated in a timely manner and is appropriate to enable the board to discharge its duties.

On joining the board, a director receives a comprehensive induction pack which includes background information about the group and its directors, details of board meeting procedures, directors' responsibilities, procedures for dealing in company shares and a number of other governance-related issues. The director meets with the Group Chief Executive to be briefed on the general group strategy encompassing visits to group businesses. External training, particularly on matters relating to the role of a director and the role and responsibilities of board committees, is arranged as appropriate. Ongoing training is provided as and when necessary and may be identified in annual performance reviews or on an ad hoc basis. The suitability of external courses is kept under review by the Company Secretary. Training and development of directors in the year took various forms, including visits to group businesses with the Group Chief Executive, attendance by certain directors at courses run by professional bodies and solicitors, attendance at external training sessions and seminars on matters relevant to members of the audit and remuneration committees and workshops run by external bodies on various commercial and regulatory matters. Directors receive regular updates appropriate to the business throughout the year and the company provides resources for directors to develop and refresh their knowledge and capabilities as required. All directors are suitably qualified, trained and experienced so as to be able to participate fully in the work of the board.

All directors have access to the services of the Company Secretary. In addition, to assist with the independent conduct of their function and if required in connection with their duties, the non-executive directors are able to obtain professional advice at the company's expense, and a process is in place to facilitate this. The company provides directors' and officers' insurance cover, in line with normal market practice, for the benefit of directors in respect of claims arising in the performance of their duties.

Board appointments and performance evaluation
There is a formal and transparent procedure for the appointment of new directors to the board which is described in the section on the nominations committee below. Non-executive directors are initially appointed for a three-year term and, subject to review and re-election, can serve up to a maximum of three such terms.

In line with agreed procedures, using an in-house process, the board has conducted an evaluation of its own performance and that of its committees and individual directors, including the Chairman, involving the completion of a questionnaire. No actions were considered necessary as a result of the evaluations. The board intends to conduct a further evaluation of its performance during 2009 with the aim of continually improving processes, procedures and performance. The evaluation process is designed to cover board processes, the structure and capability of the board, strategic alignment, board dynamics and the skills brought to the board by each director.

The schedule of matters reserved for the board, statements outlining the roles of the Chairman and Group Chief Executive, the terms of reference of the committees and other policy statements are periodically reviewed as part of the evaluation process.

The Chairman communicates frequently with the non-executive and executive directors. Directors have the opportunity to discuss any issues or concerns with the Chairman at any time throughout the year.

Director re-election
All directors are subject to election by shareholders at the first AGM following their appointment by the board. Under the articles of association of the company, each of the directors is required to retire by rotation at least once every three years. Details of the directors retiring and seeking re-election at an AGM are given to shareholders in the directors report and also in the notice of meeting.

Accountability and audit
The statement of the responsibility of directors for the preparation of the Directors' Report and the accounts under adopted IFRS is set out on page 28.The director's confirmation that they consider it appropriate to prepare the accounts for 2008 on a going concern basis is given on page 21.

Communication with shareholders
The company is committed to maintaining good communications with shareholders. The board aims to present a balanced and understandable assessment of the group's financial position and prospects in its reporting to shareholders and this is outlined in the Financial Review. The company reports formally to shareholders twice a year when its half year and full year results are announced and an interim and a full year report is issued to shareholders. There are regular institutional, analyst and media presentations which cover strategy, trading and market conditions. The company seeks to present an accurate and objective view in a manner appropriate for the intended audience. Contact with the major shareholders is principally maintained by the Group Chief Executive and Group Finance Director. The Chairman ensures that the views of shareholders are communicated to the board as a whole. The board is provided with a summary of the feedback from broker and shareholder meetings on a six-monthly basis. The Group Chief Executive and Group Finance Director have met with the company's brokers during the year to ensure they are aware of the current views of major shareholders and of any material issues they

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may have. These reports include summaries prepared by the company's brokers on the market's reaction to results announcements and the subsequent meetings between management and investors. External brokers' reports on the company are circulated to all directors. The Senior Independent Director and the other non-executive directors are invited to attend presentations to analysts and shareholders, in particular the annual and interim results presentations. No specific meetings were requested by shareholders with the non-executive directors during the year.

All directors normally attend the AGM and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended. The group seeks to present an accurate, objective and balanced picture in its annual and interim reports, trading statements, results presentations and city announcements in a style and format which is appropriate to the intended audience. Copies of annual and interim reports, along with other published information and press releases, are available on the company's website at www.headlam.com. The notice of the meeting and related papers are sent to shareholders at least twenty-one clear days before the meeting and separate resolutions are proposed on each substantial issue. Shareholders at the meeting are advised as to the level of proxy votes received, including the percentage for and against each resolution together with the level of abstentions, following each vote on a show of hands. The company issues a market announcement after the conclusion of the AGM setting out the voting results of the various resolutions and details are made available on the company's website.

Details of the 2009 AGM are set out in the notice of meeting which forms part of these report and accounts along with details of the facilities available for proxy votes to be cast electronically. The company offers shareholders the right to withhold their vote, if they so wish, in line with best practice.

Directors' attendance record
The attendance of directors at relevant meetings of the board and of the remuneration, audit and nominations committees held during 2008 was as follows:

	Board	Committee meetings		
	meetings	Remuneration	Audit	Nominations
Total number of meetings	8	5	3	1
Graham Waldron	8	*	*	*
Tony Brewer	8	*	*	1
Stephen Wilson	8	*	*	*
Dick Peters	7	5	3	1
Mike O'Leary	7	5	3	1
David Grove	7	5	3	1

*Executive directors do not attend these meetings unless invited to do so by the committee Chairman.

Board committees
The terms of reference of the following board committees are available upon request.

Audit committee
At 31 December 2008, membership of the audit committee comprised Dick Peters (Chairman), Mike O'Leary and David Grove, each being non-executive directors and regarded by the board as independent. The board has determined that Dick Peters has recent and relevant financial experience. Only members of the committee are entitled to be present at meetings however the auditor, Chairman, Group Chief Executive and Group Finance Director attend meetings by invitation. The company does not have a formal internal audit function, considering that one is not appropriate, however detailed monthly reviews are carried out by the Finance Director for Operations and Financial Controller. The Finance Director for Operations reports to the Group Finance Director and has access to the Chairman of the committee. The committee members, all other directors and senior management have direct access to the external auditor throughout the year, to seek advice or raise any issues or concerns.

The committee monitors the integrity of the company's financial statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the company and the external auditor is maintained, including reviewing non-audit services and fees, and makes recommendations to the board on the appointment, re-appointment or dismissal of the external auditor. It also reviews the group's systems of internal control and the processes for monitoring and evaluating the risks facing the group on an ongoing basis. The committee periodically reviews its terms of reference and its effectiveness and recommends to the board any changes required as a result of such review.

The committee has an agenda linked to events in the group's financial calendar, normally meeting at least twice a year, including meetings before the annual and interim results announcements. The committee met three times in the year, members' attendance record being given above, during which it discharged its responsibilities as set out in its terms of reference and schedule of business for the year. All of the committee members attended the meetings that they were eligible to attend. The committee has authority to investigate any matters within

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its terms of reference, to access resources, to call for information and to obtain external professional advice at the cost of the company.

At each meeting there is an opportunity for the external auditor to discuss matters with the committee without any executive management being present. The committee has independent access to the external auditor who has direct access to the Chairman of the committee outside formal committee meetings. The Audit committee has the specific task of keeping under review the nature and extent of non-audit services provided by the external auditor in order to ensure that objectivity and independence are maintained. The external auditor has in place processes to ensure its independence is maintained including safeguards to ensure that, where it does provide non-audit services, its independence is not compromised. It has written to the audit committee confirming that, in its opinion, it is independent.

During the 2008 financial period, the Audit committee discharged its responsibilities by:
- reviewing the group's draft 2007 preliminary annual results announcement and financial statements and 2008 interim results statement prior to board approval, including consideration of the significant accounting judgments contained therein, and reviewing the external auditors' detailed reports thereon
- reviewing the group's trading update announcement prior to release at the AGM
- reviewing the consistency of and any changes to the group's accounting policies, the application of appropriate accounting standards and methods used to account for significant or unusual transactions.
- reviewing regularly the potential impact on the group's financial statements of certain matters such as impairment of asset values and employee benefits
- reviewing the effectiveness of the 2007 external audit process and recommending to the board, after due consideration, the re-appointment of the incumbent external auditor at the AGM
- reviewing the application of the board's policy on non-audit work performed by the group's external auditor together with the non-audit fees payable to the external auditor in 2007
- reviewing the external auditors' plan for the audit of the group's 2008 accounts, which included key areas of focus, key risks on the accounts, confirmations of auditor independence and the proposed audit fee and approving the terms of engagement for the audit
- reviewing reports from the external auditor on the group's systems of internal control in advance of the announcement of the group's results for 2007 (the internal report included a summary of and commentary on the business risks and internal control processes) and reporting to the board on the results of this review and reviewing interim updates prior to the interim results
- receiving regular updates from management on key financial control matters arising in the group
- considering the appropriateness of an internal audit function

During the year the committee reviewed the scope and programme of work to be undertaken by the external auditor, considered the independence and objectivity of services provided and reviewed the level of fees paid for those services. Whilst KPMG have been an external auditor to the group since 1991, there is a procedure in place for the audit partner to change every five years, so maintaining objectivity and independence without the need to change firms, the last such change taking place during 2007.

Resolution 5 set out in the Notice of AGM recommends that shareholders re-appoint KPMG Audit Plc as the group's auditor and resolution 6 authorises the directors to determine their remuneration.

When appointing advisers for non-audit work, the group considers the value for money, experience and objectivity required and in this respect it has used Deloitte & Touche to conduct non-audit tax work. The committee recognises that there are occasions when it is advantageous to use the external auditor to undertake non-audit services, when they are best placed to do so. The committee operates under a formal policy approved by the board to help ensure the independence and objectivity of the external auditor is not compromised. The policy states that non-audit fees paid to the principal external auditor should not exceed 250% of the audit fee, except in the case of significant events. The Chairman of the committee is required to authorise non-audit work above a pre-agreed threshold. Note 3 to the group accounts provides a breakdown of 2007 and 2008 audit and non-audit fees. In 2008, the non-audit services provided by the external auditor was below the pre-agreed threshold, being predominantly in respect of salary sacrifice arrangements.

Remuneration committee
The Remuneration committee comprises Mike O'Leary (Chairman), Dick Peters and David Grove. It met five times in the period. The committee determines, on behalf of the board, service contract terms, remuneration and benefits, including bonuses, for executive directors and senior managers. It is also responsible for the granting of share based incentive awards. Further information on the activities of the committee is given in the directors' Remuneration Report on pages 35 to 40 which should be read in conjunction with this report. The directors' Remuneration Report also describes how the principles of the Code are applied in respect of remuneration matters and includes a statement on the company's policy on directors' and senior managers' remuneration, benefits, share scheme entitlements and pension arrangements.

A resolution to approve the remuneration report will be proposed at the AGM.

Nominations committee
During the year the Nominations committee consisted of the non-executive directors, Mike O'Leary, Dick Peters and David Grove, and the Group Chief Executive, Tony Brewer, under the Chairmanship of Mike O'Leary. Appointments to the committee are made by the board. The committee leads the process for identifying and makes recommendations to the board on candidates for appointment as directors of the company and as Company Secretary, giving full consideration to succession planning and the leadership needs of the group. It also makes recommendations to the board on the

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composition and Chairmanship of the Audit and Remuneration committees. It keeps under review the structure, size and composition of the board, including the balance of skills, knowledge and experience and the independence of the non-executive directors, and makes recommendations to the board with regard to any changes. The committee meets periodically when required. The Nominations committee met once during the year, as reflected in the attendance record during 2008 given above. Only members of the committee are entitled to be present at meetings but others may be invited by the committee to attend. The board has agreed the procedures to be followed by the Nominations committee in making appointments to the various positions on the board and as Company Secretary. The committee has access to such information and advice both from within the group and externally, at the cost of the company, as it deems necessary. This may include the appointment of external executive search consultants, where appropriate. No director is involved in any decisions regarding their appointment.

All non-executive directors are appointed for an initial three year term pursuant to a standard letter of appointment, which is available for viewing at the company's registered office during normal business hours or at the AGM.

The committee ensures that newly appointed directors receive a full induction and when considering the re-appointment of directors ensures that the board has an appropriate balance of skills, knowledge and experience. Items discussed by the committee during the year to enable it to discharge its duties in accordance with its terms of reference included:

- the size, structure, composition and skills of the board membership
- the consideration of potential candidates submitted by members of the board regarding the appointment of an independent non-executive director
- the proposal to re-elect Steve Wilson and Mike O'Leary under the retirement by rotation provisions
- the board and board committee evaluation process

The committee, in conjunction with the board, receives updates from the Group Chief Executive on succession and development planning for senior positions within the group. Changes to directors' commitments are reported to the committee as they arise and are considered on their individual merits. There were no significant changes to any of the directors' external commitments during the year.

Risk management and internal controls
The board has overall responsibility for establishing and maintaining the group's systems of internal control and for reviewing its effectiveness.

The board confirms that it has established procedures necessary to comply with the Code to implement the guidance on internal control issued by the Turnbull Committee and is reporting in accordance with that guidance.

The board is responsible for ensuring that the group maintains systems of internal controls, including internal financial control, operational and compliance controls and risk management systems and for monitoring the effectiveness of these controls. Meetings of the board and the Audit committee ensure that risk management and internal control are considered on a regular basis throughout the year and are subject to continuous review and development. This includes consideration of corporate social responsibility matters.

The systems are designed to meet the group's particular needs and to manage, rather than eliminate, the risks to which the businesses are exposed. By their nature, they provide only reasonable and not absolute assurance against material misstatement or loss. The board considers that the measures taken, including physical controls, segregation of duties and reviews by management, provide sufficient and objective assurance.

During the year the board maintained its process of hierarchical reporting and review in order to evaluate the effectiveness of the group's systems of financial and non-financial controls. The group has developed a comprehensive series of operating and financial control procedures which are applied at all businesses and the group finance team performs monthly reviews to verify that the businesses are complying with the prescribed operating and financial control procedures. In addition, the board reviews the group's high level internal controls and risk management arrangements. Furthermore, the Audit committee receives reports from the external auditor on matters identified in the course of its statutory audit work.

These procedures provide a documented and auditable trail of accountability, the results of which are periodically reviewed by management for completeness and accuracy. These procedures allow for successive assurances to be given at increasingly higher levels of management through to the board. Planned corrective actions are monitored for timely completion. Having reviewed its effectiveness, the directors are not aware of anything in the group's systems of control during the period covered by this report and accounts which could render them ineffective. There were no changes in the group's internal controls or financial reporting that have materially affected, or are reasonably likely to affect, the group's systems of internal control.

The group operates a comprehensive planning system, including detailed reviews at all subsidiary undertakings, together with formal reviews and approval of annual plans by the board. Actual performance is reported on a monthly basis measured against plan and prior year including a detailed explanation of major variances and on a daily basis, sales, margin and cashflow, measured against plan and prior year are reported. The company and its subsidiary undertakings have implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the potential exposure to fraud. The group has clearly defined guidelines for capital expenditure and investment appraisal. These include annual plans, detailed appraisal and review procedures, levels of authority and

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due diligence requirements when businesses are acquired. Any acquisition or disposal of a business needs formal board approval. The board reports that full procedures are in place to achieve compliance with the internal control aspects of the Code for the next financial period.

The output of these reviews form an important element of management reporting and a process is in place for monitoring the achievement of action plans together with the identification of new and emerging risks. An ongoing process of risk management and internal control in accordance with the Code has been in place for the financial year under review and up to the date of this report. The group views the careful management of risk as a key managerial activity in delivering business opportunities. The ethos of the group, delegation of responsibility and other control procedures together with accounting policies and procedures are communicated through the group and laid out in the group procedures manual which is periodically updated.

The objective of the group's risk management processes is to ensure sustainable development throughout the conduct of its business in a way which:

- satisfies its customers
- maintains proper relationships with suppliers and contractors
- protects against losses from unforeseen causes
- provides a safe and healthy workplace
- develops environmentally friendly processes
- minimises the cost and consumption of increasingly scarce resources
- prevents pollution and waste
- maintains a positive relationship with the communities in which it does business

A high standard of health and safety management is promoted at all levels within the group. The group's health and safety approach is supported by training programmes at operating businesses, group health and safety rules and monitoring and auditing to promote a high level of awareness and commitment. Individual businesses are assessed on a periodic basis, and remedial solutions implemented where necessary. Line management retain the responsibility for completion of action plans with progress being monitored and reported.

The Audit committee meets at least twice a year and in accordance with its terms of reference, reviews the effectiveness of the group's systems of internal control. In accordance with the Code the board has undertaken an assessment of the need for a group internal audit function. The board considers that the control systems and procedures undertaken by the group are adequately performed by management and therefore does not currently propose to introduce a group internal audit function but will keep the matter under review.

The integrity and competence of personnel is assessed during the recruitment process and monitored throughout employment. Ethical standards expected of personnel are laid out in the group procedures manual.

The system for monitoring risks is continuous and an ongoing process throughout the year. Principal risks and uncertainties are set out on pages 24 and 25 of the Directors' Report.

This process has identified a number of risks where action plans have been developed to eliminate, minimise or mitigate these risks (including the use of insurance where appropriate).The board has not identified or been advised of any significant failings or weaknesses where action has not been taken which might have a material impact on the business.

The Corporate Governance Report and the Audit Committee Report contained in it have been approved by the board and are signed on its behalf by

Geoff Duggan
Company Secretary
30 March 2009

Remuneration Report

Introduction
This report describes the group's remuneration policy as it applies to directors and senior executives and provides detailed disclosures in relation to directors' remuneration. It explains how the company has applied the principles of the Combined Code on Corporate Governance that relate to directors' remuneration during the period and has been prepared in accordance with the Directors' Remuneration Report Regulations 2002. The report is divided into two parts. The first part contains the commentary on remuneration policy which is not required to be audited. The second part contains the remuneration tables that have been audited in accordance with the relevant statutory requirements.

In accordance with the Companies Act 1985, a resolution will be submitted to the forthcoming AGM seeking shareholder approval for the directors' Remuneration Report.

Composition and role of the Remuneration committee
The remuneration committee is appointed by the board and comprises Mike O'Leary (Chairman), Dick Peters and David Grove. The non-executive directors have no personal financial interest, other than as shareholders, in matters to be decided, no potential conflicts of interest and, as independent non-executive directors, no day to day involvement in running the business. The biographical details for each of the committee members are shown on page 22. Details of members attendance at the meetings of this committee, which meets not less than three times a year, are shown in the report on Corporate Governance on page 31 and directors' shareholdings are shown later in this report on page 39. The remuneration of the non-executive directors is the responsibility of the other board members.

The committee is responsible for setting the framework and policy for the remuneration of the executive directors which it reviews annually for appropriateness and relevance. It is also responsible for determining the specific elements of the executive directors' remuneration, performance targets, their contractual terms and compensation arrangements. This is to ensure that on termination, contractual terms and payments are fair both to the company and to the individual so that failure is not rewarded and that the duty to mitigate loss is recognised. In addition, the committee monitors the level and structure of remuneration for senior management and approves their bonus payments. It also oversees any major changes in employee benefit structures throughout the group.

The terms of reference of the committee are available from the company on request. In setting policy and compensation levels, the committee has due regard to the Combined Code. The committee has access to advice provided by the Group Chief Executive, Company Secretary and external consultants, agreeing the terms of reference of any remuneration consultants it may appoint. During 2008 the committee sought information from a wide variety of published sources, and members attended seminars on the subject, to assist in the formulation of the committee's recommendations and in respect of retirement benefits and non-executive directors' fees. The committee did not however make any specific appointments in sourcing such information.

Remuneration policy
The group's remuneration policy is to ensure that the remuneration of executive directors and other senior executives is sufficiently competitive to enable the group to retain and motivate existing directors and attract high quality individuals in the future. The policy takes into account the group's performance, the markets in which the group operates and pay and conditions elsewhere in the group, with the objective of providing remuneration packages that are challenging and competitive in both commercial and human terms.

The committee aims to achieve a balanced package for each executive director, reviewing executive directors' remuneration annually. The company believes that in order to meet its remuneration objectives, the remuneration of executive directors should comprise a balance between fixed and variable performance related pay elements with a significant proportion of the potential remuneration dependent on the attainment of performance objectives, both through the annual bonus scheme and through participation in share incentive schemes. The committee constantly reviews remuneration policy to ensure that it is sufficiently flexible to take account of future changes in business operations and environment and recognises key developments in remuneration practice and alignment to shareholder interests. Participation in share incentive schemes is designed to align the interests of executive directors and other senior executives with the longer - term interests of shareholders by rewarding them for delivering increased shareholder value.

The Remuneration committee, through the executive directors and Company Secretary, seeks the views of the company's principal shareholders as necessary. In determining the level of base salaries and the annual performance related bonus scheme, the committee takes into consideration the potential maximum remuneration that executives could receive.

The group's remuneration policy in respect of non-executive directors is to pay annual fees, which reflect the responsibilities and duties placed upon them, whilst also having regard to market practice.

The total emoluments of the executive directors are disclosed on page 38.

No director is involved in the determination of, or votes on any matter relating to their own remuneration.

Components of remuneration
Base salary
The committee reviews base salary, which is the only element of remuneration that is pensionable, annually with any change taking effect from 1 January. As stated above, the aim of the group is to provide a competitive remuneration package to attract, retain and motivate key executives. In this regard the committee seeks to establish a base salary for each executive director and other senior executives determined by individual performance and having regard to market salary levels by reference to independent third party sources relating to market salaries. For 2009 however, the executive directors recommended to the committee that the executive directors' base salary should be held at the same level as 2008.

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Annual performance bonus
The committee reviews the annual performance related bonus scheme to ensure that it remains competitive in the marketplace and continues to offer an incentive to the executive directors and other senior executives. The scheme focuses on annual objectives and links individual performance with business financial targets. The financial targets are calculated by reference to the extent to which the group's profit before taxation meets the planned target. The committee establishes the objectives that must be attained for each financial year if a bonus is to be paid. As notified in previous remuneration reports and agreed by shareholders, if the targets are not achieved the committee has discretion to award part payment if circumstances are considered appropriate.

The committee takes account of the relative success of the group's performance and the extent to which strategic objectives are being attained. The performance related scheme for 2008, as reported last year, provided for a maximum bonus of 150% of base salary payable for achievement of performance related targets including over performance.

With regard to the current economic environment and the trading performance of the business, the committee has exercised its discretion in awarding a bonus payment to executive directors in respect of 2008 amounting to 33% of base salary. Furthermore, the committee reviewed the bonus scheme and, in recognition of current circumstances, decided to temporarily suspend the current bonus parameters in respect of 2009. In its place, the executive directors' bonus scheme for 2009 provides for a bonus award of 77% of base salary on achievement of financial target with a maximum of 150% of base salary payable for achievement of performance related targets including over performance.

Whilst being two separate annual schemes, the bonus payment in respect of 2008 and the potential payment in respect of 2009, if the financial target is achieved, amount to a total of 110% of one years base salary. This represents a reward that has previously been achieved over a one year period and is now only achievable on the performance attained over two years.

Details of the payments to directors are included in the directors' emoluments for the year on page 38.

Share incentive arrangements
The committee is keen to encourage directors and key employees to build up or increase their shareholdings in the company, so aligning their interests with the company's shareholders. The committee recognises the importance of share incentives in recruiting and retaining directors and key employees on whose performance the success of the company depends.

At the 2008 AGM shareholders authorised the adoption of a new HMRC approved discretionary share option scheme, the Headlam Group Approved Executive Share Option Scheme 2008 and a new non-HMRC approved discretionary share option scheme, the Headlam Group Unapproved Executive Share Option Scheme 2008 (together the "New Share Option Schemes"), which have replaced the Headlam Group Approved Executive Share Option Scheme 1998 and the Headlam Group Unapproved Executive Share Option Scheme 1998 that expired in 2008 (together the "1998 Share Option Schemes"). Shareholders also authorised the adoption of the Headlam Group Performance Share Plan 2008 (the "PSP") and the Headlam Group Co-Investment Plan 2008 (the "CIP"). The committee has not yet implemented either of the PSP or the CIP and does not currently plan to implement them in 2009.

A summary of the main terms of the 1998 Share Option Schemes, the New Share Option Schemes, the PSP and the CIP is set out below.

The 1998 approved scheme is a standard HMRC approved share option scheme under which a participant receives a right to acquire shares at a price equal to the market value of the shares at the grant date which will normally vest after 3 years, subject generally to continued employment and achievement of performance targets. No new options can be granted under this scheme following its expiry in 2008, however current options remain capable of exercise until their normal lapse date.

The 1998 unapproved scheme is a non-HMRC approved share option scheme under which a participant receives a right to acquire shares at a price equal to the market value of the shares at the grant date which will normally vest after 3 years, subject generally to continued employment and achievement of performance targets. Prior to its expiry in 2008, the Unapproved Scheme would have allowed the committee to grant awards in excess of the levels permitted by relevant tax legislation for the purposes of the 1998 Approved Scheme, although such awards would not have been tax-efficient. No new options can be granted under this scheme following its expiry, however current options remain capable of exercise until their normal lapse date.

The 2008 approved scheme is a standard HMRC approved share option scheme under which a participant receives a right to acquire shares at a price equal to the market value of the shares at the grant date which will normally vest after 3 years, subject generally to continued employment and achievement of performance targets.

The 2008 unapproved scheme is a non-HMRC approved share option scheme under which a participant receives a right to acquire shares at a price equal to the market value of the shares at the grant date which will normally vest after 3 years, subject generally to continued employment and achievement of performance targets. The 2008 Unapproved Scheme allows the committee to grant awards in excess of the levels permitted by relevant tax legislation for the purposes of the 2008 Approved Scheme, although such awards will not be tax-efficient.

The PSP is a discretionary non-HMRC approved plan under which a participant receives a right to acquire shares for no cost which will normally vest after 3 years, subject generally to continued employment and the achievement of performance targets.

The CIP is a discretionary non-HMRC approved plan under which a participant invests the whole or part of any annual bonus in ordinary shares of the company and receives a right to acquire matching shares for no cost which will normally vest after 3 years, subject generally to continued employment and the achievement of performance targets.

Remuneration Report
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The performance targets for options granted under the 1998 Share Option Schemes are based on the extent to which growth in the group's earnings per share ("EPS") exceeds growth in the Retail Prices Index ("RPI") over a three-year performance period, EPS being calculated as fully diluted earnings per share. In respect of the approved scheme EPS growth must exceed RPI growth by 3% pa or more over the three year performance period. In respect of the unapproved scheme, for options up to one times eligible earnings, EPS growth must exceed RPI growth by 3% pa or more over the three year performance period and by 5% or more over the three year performance period for options granted of between one times and two times eligible earnings. The committee felt that these performance conditions were appropriate at the time the options were granted.

Details of subsisting share options and shares issued under the various schemes summarised above are set out on page 39. No new executive share options were granted in 2008, the most recent grant of options made under the 1998 Option Schemes being in 2005.

Retirement benefits
The executive directors currently participate in the Headlam Group Staff Retirement Benefits Scheme, the defined benefit plan operated by the group, on a non-contributory basis. Details regarding the executive directors' participation in the defined benefit pension plan are given on page 40.

Other employment benefits
Executive directors receive taxable benefits including a company car, private fuel, lump sum life assurance for death-in-service cover and private medical insurance. They are also eligible to participate in the company's Inland Revenue-approved sharesave scheme which is open to all eligible employees on the same basis, providing a long-term savings and investment opportunity. The exercise of options under the sharesave scheme is not subject to the satisfaction of performance conditions as this is an all employee arrangement.

With regard to the other components of executive directors' remuneration, only minor changes are proposed in 2009 and these are covered in the respective sections of this report.

Service contracts
The current policy is for executive directors' service contract notice periods to be normally no longer than twelve months. The service contracts of the executive directors' have no fixed term but provide that either the director or the company may terminate the employment by giving twelve months' written notice and that the company may pay compensation in lieu of notice. The company recognises however that it may be necessary in the case of new executive appointments to offer an initial longer notice period, which would subsequently reduce to one year after the expiry of that period. All future appointments to the board will comply with this requirement.

The Chairman does not hold a service contract and does not participate in the company's executive share schemes, incentive plans or pension schemes. Additionally, he is not a member of the various committees of the board.

External appointments of executive directors
The board believes that experience of other companies' practices and challenges is valuable both for the personal development of its executive directors and for the company. It is therefore the company's policy to allow each executive director to accept one non-executive directorship of another company, although the board retains the discretion to vary this policy. Fees received by executive directors in respect of external non-executive appointments are retained by the individual director. In 2008 Graham Waldron and Steve Wilson received fees of £50,000 and £44,000 respectively.

Non-executive directors
The non-executive directors do not have service agreements but instead are appointed for an initial period of three years by letter of appointment which is terminable by either party subject to one month's notice, for which no compensation is payable. At the end of the initial period, the company discusses with the non-executive director whether they wish to renew their appointment and whether it is in the best interests of the company for their appointment to be renewed. Such renewal would normally be for a further period of three years (subject to termination as aforesaid). Non-executive directors are typically expected to serve two three-year terms, although the board may invite them to serve for an additional period. All appointments and subsequent reappointment is subject to approval by shareholders.

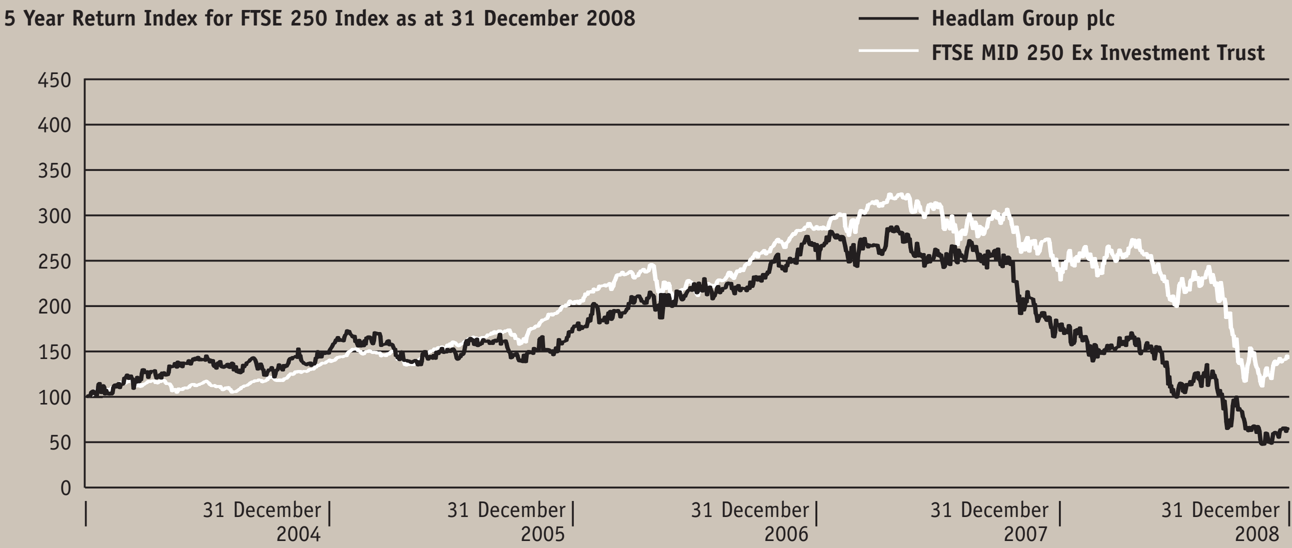
Non-executive directors' fees are reviewed by the board annually by reference to prevailing market conditions and at a level which will attract individuals with the necessary experience and ability to make a significant contribution to the group's affairs. The fees were reviewed during the year taking into account not only the need to attract individuals of the right calibre and experience, but also their increased responsibilities and time commitment, as envisaged in the Combined Code. As part of the review, the board received survey and other information from a variety of sources. With effect from 1 January annual fees remained unchanged at £35,000, with an additional £5,000 being paid to the respective chairmen of the Audit and Remuneration committees. Non-executive directors are not involved in any discussion or decision about their own remuneration nor do they participate in any of the company's share schemes, incentive plans or pension schemes. The aggregate limit for fees paid to non-executive directors is laid down in the articles.

Non-executive directors' appointment dates are shown on page 22.

Remuneration Report

continued

5 Year Return Index for FTSE 250 Index as at 31 December 2008



Source: Thomson Financial

Performance graph

The above graph has been included to meet the requirements of Schedule 7A of the Companies Act 1985. It shows the group's performance for the five year period to 31 December 2008 measured by total shareholder return ("TSR"), compared with the performance of the FTSE 250 Excluding Investment Trusts index also measured by TSR, which is defined as share price growth, plus re-invested dividends. The FTSE Excluding Investment Trusts 250 index has been chosen because it provides a basis for comparison against companies in a relevant broad based equity index in which the group was a constituent member at the start of the year. The FTSE SmallCap Index, of which the company is currently a constituent member, is believed to be a less meaningful index for comparison purposes. The TSR indices used in the chart have been calculated in accordance with the Directors Remuneration Report Regulations 2002 relative to a base date at the end of December 2003.

Audited information

The Remuneration Report from page 35 to page 37 up to this statement, has not been audited. With the exception of directors' interests in shares on page 39, from this point until the end of the report on page 40 the disclosures have been audited by the company's auditor, KPMG.

Directors' emoluments

The emoluments of the directors for their services as directors of the group for the year ended 31 December 2008 were:

	Salary and fees		Benefits		Performance related pay		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Executive directors								
Tony Brewer	**520**	495	**36**	31	**168**	659	**724**	1,185
Steve Wilson	**376**	358	**39**	46	**125**	487	**540**	891
Graham Waldron	**115**	110	**21**	20	**–**	–	**136**	130
Non-executive directors								
Tom Anderson (i)	**–**	16	**–**	–	**–**	–	**–**	16
David Grove (ii)	**35**	7	**–**	–	**–**	–	**35**	7
Mike O'Leary	**40**	37	**–**	–	**–**	–	**40**	37
Dick Peters	**40**	39	**–**	–	**–**	–	**40**	39
	1,126	1,062	**96**	97	**293**	1,146	**1,515**	2,305

(i) Tom Anderson resigned from the board and retired on 25 May 2007
(ii) David Grove was appointed on 19 October 2007

Remuneration Report

continued

Benefits are in respect of all taxable benefits arising from employment by the company including the provision of a company car, private fuel, life assurance cover and private medical insurance. Pension benefits and gains made by executive directors in respect of share options are excluded from the table above. The aggregate amount of gains made by executive directors on the exercise of share options was £33,973 (2007: £nil).

Directors' interests in shares

In accordance with Listing Rule 9.8.6R, the two tables set out below show the beneficial interests of the directors, and their connected persons, who held office at the end of the year in the ordinary shares of the company and the interests in the company's share schemes.

	Shareholdings at 31 December 2008	Shareholdings at 31 December 2007
Executive Directors		
Graham Waldron	**360,638**	310,638
Tony Brewer	**519,942**	443,874
Steve Wilson	**400,770**	336,433
Non-executive Directors		
Dick Peters	**5,000**	5,000
David Grove	**30,000**	10,000

The interests in shares of the directors were unchanged at 30 March 2009 from those at 31 December 2008.

During the year the company introduced a policy whereby executive directors are required to hold ordinary shares of 5p in the company equivalent in value to once time's base salary, newly appointed directors being expected to build their holding over a five year period.

Directors' interests in share option schemes

Details of options held by executive directors are set out below, a description of which is given on page 36:

	Options held at 1 January 2008	Options granted during the year	Options cancelled during the year	Options exercised during the year	**Options held at 31 December 2008**	Exercise price (pence)	Date from which exercisable	Expiry date
Tony Brewer								
1998 USOS (i)	342,858	–	–	–	**342,858**	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	**7,142**	420.00	Aug 2008	Aug 2015
Sharesave (iii)	8,337	–	–	(8,337)	**–**	197.00	Jan 2008	Jun 2008
Sharesave (iii)	–	5,367	–	–	**5,367**	303.20	Jul 2013	Jan 2014
Steve Wilson								
1998 USOS (i)	242,858	–	–	–	**242,858**	420.00	Aug 2008	Aug 2012
1998 ESOS (ii)	7,142	–	–	–	**7,142**	420.00	Aug 2008	Aug 2015
Sharesave (iii)	8,337	–	–	(8,337)	**–**	197.00	Jan 2008	Jun 2008
Sharesave (iii)	–	5,367	–	–	**5,367**	303.20	Jul 2013	Jan 2014
Graham Waldron								
Sharesave (iii)	2,331	–	2,331	–	**–**	401.00	July 2009	Jan 2010
Sharesave (iii)	–	3,100	–	–	**3,100**	303.20	Jul 2011	Jan 2012

(i) Headlam Group Unapproved Executive Share Option Scheme 1998 (1998 USOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 36.

(ii) Headlam Group Approved Executive Share Option Scheme 1998 (1998 ESOS)
Details of the operation of the scheme including the performance conditions attaching to options are provided on page 36.

(iii) Headlam Group Sharesave Scheme 2002 (Sharesave)
The company operates an Inland Revenue-approved all-employee savings-related share option scheme in the UK. The scheme is designed to provide a long-term savings and investment opportunity for employees and is described on page 37. On 10 January 2008 options granted in 2002 were exercised at normal maturity at the option price of 197.00 pence per share when the mid market value of a share was 400.75 pence per share. These shares were retained on exercise, but had the shares been sold, the gain that would have been made is stated under Directors' emoluments above.

Remuneration Report

continued

On 8 May 2008, the company granted options under its savings related share option scheme for terms of between three and five years at an option price of 303.20 pence per share.

The mid-market ordinary share price range during the year was 184.75p.to 440.00p with an average price of 321.58 pence. The mid market closing price of a Headlam Group plc ordinary share on 31 December 2008, the last trading day of the financial period, was 210.50 pence.

Pension benefits

Tony Brewer and Steve Wilson participate in the group's defined benefit pension scheme which provides benefits at a normal retirement age of fifty five based upon pensionable service and basic pay, bonus being excluded. The maximum pension payable under the scheme is two-thirds of final pensionable pay subject to Inland Revenue limits. There are lump sum death-in-service benefits and pension provisions for members' dependents.

Details of executive directors' pension benefits for the year ended 31 December 2008 are shown below:

	Increase in accrued pension during the year £000pa	**Transfer value of increase £000**	**Accumulated accrued pension at 31 December 2008 £000pa**	**Change in accrued pension over the year £000pa**	Accumulated accrued 31 December 2007 £000pa
Tony Brewer	**3**	**58**	**60**	**5**	55
Steve Wilson	**4**	**110**	**77**	**7**	70

The increase in accrued pension entitlement is the difference between the accrued benefit at the year end and that at the previous year end. Transfer values have been calculated on the basis of actuarial advice consistent with Actuarial Guidance Note GN11.The increase in the transfer value is the increase in the value of accrued benefits during the year. The transfer value of the increase in accrued benefits, required by the listing rules, discloses the current value of the increase in accrued benefits that the director has earned in the period, whereas the change in the transfer value, required by the Companies Act, discloses the absolute increase or decrease in the transfer value and includes the change in value of the accrued benefits that result from market volatility affecting the transfer value at the beginning of the year, as well as the additional value earned in the year.

	Transfer value of accrued pension at 31 December 2008 £000	**Change in transfer value over the year £000pa**	Transfer value of accrued pension at 31 December 2007 £000
Tony Brewer	**1,150**	**217**	933
Steve Wilson	**2,075**	**520**	1,555

This report has been approved by the Remuneration committee and signed on its behalf by

Geoff Duggan
Company Secretary
30 March 2009

Corporate and social responsibility

The Board is committed to Corporate and Social Responsibility ("CSR") and the need to take proper account of the morale and welfare of our employees, the satisfaction of our customers and our impact on the environment. We have a duty to our shareholders to consider all social and environmental issues that could affect our business.

Our commitment to CSR is articulated through our group procedures manual which includes our undertaking to act ethically and responsibly in all of our business dealings with stakeholders and includes our ethics, fraud and whistle blowing policies, which are communicated to employees. We do not permit bribery, anti-competition or corrupt practices in any dealings. We are committed to continuous improvements in all aspects of CSR – our policies, our systems, our performance and our reporting. Our management structure allows the consideration of social and environmental factors by both individual businesses within the group and also at a group level. Our links with external stakeholders continue to grow including improved customer liaison and community involvement. We aim to manage our relationships with our stakeholders and communicate with them professionally and responsibly. The board has identified its principal stakeholders as shareholders, customers, employees, suppliers and local communities and also recognises its responsibility to the environment.

We monitor our performance against objectives with the aim of continual improvement. In addition to improvements in respect of environmental performance, we have continued to make positive moves in waste and energy management, health and safety and staff development and welfare.

Our policy sets out the framework for the development and implementation of CSR activities across the group. We will conduct all our business activities in a fair and balanced manner, respecting and responding to legal, social and ethical issues arising from our commercial activities and are committed across the group to continued progress.

Health and safety
Health and safety is a key issue for the group. We have a health and safety policy, endorsed by the board and used throughout the group. The policy seeks to ensure that group operations are carried out at all times in such a manner as to ensure, so far as it is reasonably practicable, compliance with the relevant health and safety legislation in the jurisdictions in which we operate. It also seeks to ensure the health and safety at work of employees and all persons likely to be affected, including other contractors, customers, staff and members of the public where appropriate. The board receives an annual presentation on health and safety matters including detailed facts on health and safety issues and the progress made in improving our performance where required. These reports also outline planned health and safety initiatives and comment on potential future developments and challenges.

Relevant health and safety information and guidance forms part of our induction process and many managers are guided and supported in risk assessment techniques. We actively promote health and safety committees at all sites with representation from the various business departments, meeting on a periodic basis and co-ordinated by the health and safety manager on site.

All businesses undergo health and safety audits by an external contractor and the measures by which we judge satisfactory outcome are continually reviewed and the standards raised. Each business receives a comprehensive health and safety manual for use as a source of information, guidance and training together with a set of compliance documentation which is reviewed, and updated as necessary, on an annual basis.

The value of employee participation in delivering this commitment is recognised and management teams are encouraged to create a supportive culture. To achieve this we endeavour to ensure that we:

- continue to improve health and safety systems, procedures and guidance
- make personnel aware of this policy
- maintain high standards of health and safety
- maintain a consistent reporting structure
- provide adequate resources

Training in health and safety includes an awareness of impending changes in relevant legislation and other specialist subjects. The common approach taken throughout the group, with the group policy being introduced into recently acquired businesses, improves our governance. Good relationships are maintained with Health and Safety and Environmental Health regulators in the areas in which we operate with positive and prompt responses to any findings and/ or observations following compliance inspections.

During the year we have continued to develop our policies and procedures in relation to working at height and the storage and handling of flammable products, particularly aerosols, where new approaches have been adopted. Whilst we aim for lower levels, the low level of accidents reflects the success of our health and safety policies. Whilst management is committed to providing a safe working environment with the appropriate working practices and training, this can only be achieved if employees equally give their commitment to a rigorous health and safety culture. Investment in automated dispatch sortation equipment has significantly reduced manual handling in those businesses where they have been installed. In 2008 there were nineteen reportable accidents made to the Health and Safety Executive, none of which resulted in serious injury, with no prosecutions for breaches of health and safety or enforcement actions in the year. We investigate all reportable accidents and in the minority of instances where improvement is required, changes are implemented in a timely manner.

Our people
The wellbeing and professional development of our employees is central to recruiting and retaining high performing individuals. Our people seek to deliver their best for the business, which combined with a fair and responsive way of doing business, generates a common ambition to add value.

The board values two-way communication between the business unit management and employees on all matters affecting the welfare of the business including regular senior management visits to operating units.

Corporate and social responsibility
continued

The group's Annual Report is available to staff which provides employees with a greater awareness of the group's performance as well as the financial and economic factors that affect it. In addition, those employees who are eligible are also encouraged to become involved in the group's performance through participation in share schemes.

The group remains committed to providing a workplace that is safe and environmentally sound and which complies with applicable laws and regulations. The group expects employees to respect confidential information and company time and assets and believes in open and honest communication, fair treatment and equal opportunities. The group supports the fundamental principles of good governance.

It is the group's policy that employment opportunities, training, career development and promotion should be available to all, irrespective of age, gender, ethnic origin, religion or disability. Due consideration is given to applications for employment, having regard to the particular aptitudes and abilities of the applicants. Any employee who develops a disability during employment is given the opportunity to retrain for alternative employment where practicable, given the nature of the group's activities.

It is the group's continued practice to maintain employee participation and involvement in matters which affect their interests. The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings and through the annual and interim financial statements.

Employee turnover remains low and as a result the employee base remains stable. The group is firmly committed to developing the potential of its people and regularly reviews its succession planning processes. Recruitment, training and development is designed to ensure the group has suitably skilled and qualified employees to meet the operational needs of the business and offer the opportunity for employees to develop and grow. Training is delivered primarily through internal resources with assistance from external providers as and when required.

The group considers it important that its employees provide for their retirement and accordingly provides opportunities for them to participate in retirement plans.

Environmental
We seek to reduce each of CO^2 emissions, fuel consumption and vehicle emissions, the amount of waste sent to landfill, the amount of packaging and water consumption. We seek to increase recycling rates, increasing the use of green energy and encouraging the use of whole life cost assessments and pollution prevention initiatives.

Whilst we are not a significant consumer, we seek to reduce energy and water consumption through the introduction on repair, renewal or installation of energy or water efficient techniques and equipment.

We continue to invest in new facilities for our businesses which incorporate modern construction techniques and products, as applied in the construction of the new distribution facility in Bridgend and the extension to Plymouth. We are investigating renewable energy solutions and intelligent lighting systems in branches, which turns warehouse lights off automatically in areas which are not used for a period of time.

We had no prosecutions relating to environmental matters during the year. This reflects in part the fact that as a distributor our activities generally have a lower impact on the environment but also our proactive approach when planning and developing new branches.

The group has a policy to replace the commercial and motor vehicles it operates every five and three years respectively, so improving operational efficiencies and reducing operating costs and vehicle emissions. Obligations placed on manufacturers have resulted in the production of more efficient and less polluting vehicles. Progressive replacement of Euro 2 compliant commercial vehicles with new Euro 4 compliant models, according to manufacturers statistics, has resulted in significant savings in all regulated exhaust emissions: a 62.5% reduction in carbon monoxide, a 58.8% reduction in hydrocarbons, a 50% reduction in nitrous oxides and a 86.6% reduction in particulate matter or soot in respect of each replacement vehicle. Efficiencies achieved in motor vehicles have been less notable with CO^2 emissions for the majority of the motor vehicles operated reducing from 159g to 157g per new vehicle following the introduction of Euro 4 compliant models.

Adblue is an additive used in our Euro 4 compliant vehicles resulting in a cut in carbon emissions per vehicle by over 30%. Selective catalytic reduction involves optimising the fuel injection timing so fuel burns more efficiently and particulate emissions are radically reduced. But at the resultant higher combustion temperatures, the levels of NOx are increased so a catalytic converter is employed to reduce NOx. Before the exhaust gases reach the catalytic converter, adblue is injected in minute measured quantities into the exhaust system. In the heat of the exhaust stream, the adblue hydrolyses and ammonia molecules are released. The ammonia molecules and NOx react in the catalyst, producing harmless nitrogen and water in the form of steam.

Our operations predominantly create waste materials in the form of protective plastic wrapping, cardboard and wooden pallets. Increasingly we sort the plastic and cardboard in discreet types and, with the use of baler units that we have invested in over the last few years, dispatch these to specialist re-processing agents. This has allowed us to reduce the amount of our waste going to landfill and the number of vehicles on the road to collect our waste.

Wooden pallets are recycled where possible or sent to specialist re-processors. In addition we recycle the cardboard poles that are used in the centre of rolls of carpet and vinyl until they are no longer capable of being re-used. In these ways we have reduced the amount of waste that is sent to landfill sites. Guidance on waste management is issued to the managers of the individual businesses to increase awareness of the need to control waste.

Corporate and social responsibility
continued

Higher risk areas of the facilities, such as fuel and lubrication stores and fork lift truck battery charging areas, have containment and inspection regimes which meet legislative requirements.

Good relationships are maintained with national and local regulatory organisations such as the Environment Agency and Environmental Health Departments in the UK. Processes are in place to keep up to date on regulatory issues and are the subject of regular review. The amount of environmental legislation is growing, resulting in increasing training and compliance costs. Staff training in health, safety and environmental matters is important and is reviewed annually as part of normal appraisal processes.

Achieving sustained growth and profitability
Whilst seeking to achieve the group's goal of sustained growth and profitability in future years, there are a number of key areas which will assist in attaining the financial objectives at the same time as meeting our corporate social responsibility obligations.

Through improving our understanding and control of our supply chain, we shall continue to investigate the benefits from using green specification guides and modify our strategy accordingly. We shall continue to work with suppliers to ensure products are supplied from renewable sources and that their manufacturing processes fairly reward employees and do not seek to exploit.

We place great importance on effectively managing our operations to minimise the likelihood of adverse impact. We proactively manage our facilities to minimise energy consumption utilising energy efficient lighting and heating. Our new sites are subjected to an environmental assessment prior to any construction taking place. This allows solutions to any identified environmental issues to be incorporated into the planning process. Recognising that development can be potentially damaging, we seek to minimise energy consumption during the construction of new premises and the effects on the environment. Wherever possible, subject to the operating constraints of the business, existing trees and vegetation are retained and augmented as necessary. Existing sites are maintained in a tidy condition to minimise ecological impact.

We recognise that our business operations will be around for many years, having an impact on future generations, and to this end we work with local authorities to design new properties which not only comply with guidelines but seek to blend in with their surroundings through the careful use of quality materials, landscaping and design features. We support the desire to see development take place in sustainable locations we work with transport consultants to formulate green travel plans incorporating car sharing schemes and provision for bicycles when designing new facilities.

Independent Auditor's Report

to the Members of Headlam Group plc

We have audited the group and parent company financial statements (the "financial statements") of Headlam Group plc for the year ended 31 December 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Recognised Income and Expenses, and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 28.

Our responsibility is to audit the financial statements and the part of the directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the Review of the Business section of the Directors' Report. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditor's Report

to the Members of Headlam Group plc - continued

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' Remuneration Report to be audited 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 and the part of the directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;

- the financial statements and the part of the directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and

- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

30 March 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Note	2008 £000	2007 £000
Revenue	2	**557,296**	544,718
Cost of sales		**(382,670)**	(375,990)
Gross profit		**174,626**	168,728
Distribution expenses		**(98,517)**	(87,711)
Administrative expenses		**(34,387)**	(35,004)
Operating profit	2	**41,722**	46,013
Finance income	6	**7,016**	6,321
Finance expenses	6	**(8,618)**	(7,162)
Net finance costs		**(1,602)**	(841)
Profit before tax	3	**40,120**	45,172
Taxation	7	**(11,433)**	(13,534)
Profit for the year attributable to the equity shareholders		**28,687**	31,638
Dividend paid per share	21	**23.10p**	20.15p
Earnings per share			
Basic	9	**34.5p**	37.1p
Diluted	9	**34.5p**	36.8p

All group operations during the financial years were continuing operations.

Statements of Recognised Income and Expense for the year ended 31 December 2008

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Foreign exchange translation differences arising on translation of overseas operations		**6,631**	1,090	**–**	–
Actuarial gains and losses on defined benefit plans		**(4,245)**	5,000	**(3,125)**	5,302
Effective portion of change in fair values of cash flow hedges		**(848)**	–	**(848)**	–
Tax recognised on income and expenses recognised directly in equity		**1,304**	(1,660)	**868**	(1,712)
Net income recognised directly in equity		**2,842**	4,430	**(3,105)**	3,590
Profit attributable to the equity shareholders		**28,687**	31,638	**12,680**	35,300
Total recognised income and expense attributable to the equity shareholders	21	**31,529**	36,068	**9,575**	38,890

Balance Sheets

at 31 December 2008

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Non-current assets					
Property, plant and equipment	10	**99,741**	92,097	**75,278**	73,596
Investments in subsidiary undertakings	12	**–**	–	**86,079**	85,781
Intangible assets	11	**13,210**	13,210	**–**	–
Deferred tax assets	13	**5,372**	5,942	**4,306**	4,290
		118,323	111,249	**165,663**	163,667
Current assets					
Inventories	14	**107,597**	101,491	**–**	–
Trade and other receivables	15	**105,942**	100,830	**26,312**	20,466
Cash and cash equivalents	16	**35,193**	16,805	**46,048**	30,135
		248,732	219,126	**72,360**	50,601
Total assets		**367,055**	330,375	**238,023**	214,268
Current liabilities					
Bank overdraft	16	**–**	(103)	**–**	–
Other interest-bearing loans and borrowings	17	**(4,506)**	–	**–**	–
Trade and other payables	18	**(143,369)**	(154,320)	**(40,153)**	(38,271)
Employee benefits	19	**(2,428)**	(1,491)	**(2,428)**	(1,491)
Income tax payable	8	**(9,546)**	(10,747)	**(5,752)**	(5,306)
		(159,849)	(166,661)	**(48,333)**	(45,068)
Non-current liabilities					
Other interest-bearing loans and borrowings	17	**(30,000)**	–	**(30,000)**	–
Employee benefits	19	**(12,216)**	(9,837)	**(10,481)**	(9,364)
Deferred tax liabilities	13	**(3,856)**	(3,836)	**(2,865)**	(2,858)
		(46,072)	(13,673)	**(43,346)**	(12,222)
Total liabilities		**(205,921)**	(180,334)	**(91,679)**	(57,290)
Net assets		**161,134**	150,041	**146,344**	156,978
Equity attributable to equity holders of the parent					
Share capital	21	**4,268**	4,268	**4,268**	4,268
Share premium	21	**53,512**	53,512	**53,512**	53,512
Other reserves	21	**(6,712)**	(11,042)	**6,761**	9,062
Retained earnings	21	**110,066**	103,303	**81,803**	90,136
Total equity		**161,134**	150,041	**146,344**	156,978

These financial statements were approved by the board of directors on 30 March 2009 and were signed on its behalf by:

Tony Brewer
Director

Stephen Wilson
Director

Cash Flow Statements

for the year ended 31 December 2008

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Cash flows from operating activities					
Profit before tax for the year		**40,120**	45,172	**4,010**	2,700
Adjustments for:					
Depreciation, amortisation and impairment		**5,305**	6,227	**1,279**	1,162
Finance income	6	**(7,016)**	(6,321)	**(8,043)**	(7,197)
Finance expense	6	**8,618**	7,162	**5,918**	4,941
Profit on sale of property, plant and equipment		**(337)**	(18)	**(304)**	–
Share-based payments	19	**426**	501	**128**	194
Operating profit before changes in working capital and provisions		**47,116**	52,723	**2,988**	1,800
Change in inventories		**(1,480)**	(4,781)	**–**	–
Change in trade and other receivables		**876**	(6,849)	**379**	1,120
Change in trade and other payables		**(19,096)**	1,587	**(5,068)**	(798)
Cash generated from the operations		**27,416**	42,680	**(1,701)**	2,122
Interest paid		**(4,552)**	(3,325)	**(1,200)**	(486)
Tax (paid)/received		**(11,012)**	(11,729)	**606**	2,563
Additional contributions to defined benefit plan		**(1,147)**	(1,098)	**(887)**	(790)
Net cash from operating activities		**10,705**	26,528	**(3,182)**	3,409
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		**1,309**	159	**959**	–
Interest received		**2,997**	2,757	**2,801**	2,572
Dividends received		**–**	–	**9,586**	33,629
Acquisition of subsidiaries, net of cash acquired	23	**(726)**	(3,190)	**–**	(2,698)
Acquisition of property, plant and equipment		**(10,664)**	(10,980)	**(3,616)**	(7,685)
Net cash from investing activities		**(7,084)**	(11,254)	**9,730**	25,818
Cash flows from financing activities					
Proceeds from the issue of share capital		**–**	86	**–**	86
Proceeds from the issue of treasury shares	21	**751**	10	**751**	10
Proceeds from borrowings		**33,726**	–	**30,000**	–
Payment to acquire own shares	21	**(2,204)**	(21,687)	**(2,204)**	(21,687)
Repayment of borrowings		**–**	(246)	**–**	–
Payment of finance lease liabilities		**–**	(363)	**–**	(267)
Dividends paid	21	**(19,182)**	(17,455)	**(19,182)**	(17,455)
Net cash from financing activities		**13,091**	(39,655)	**9,365**	(39,313)
Net increase/(decrease) in cash and cash equivalents		**16,712**	(24,381)	**15,913**	(10,086)
Cash and cash equivalents at 1 January		**16,702**	40,851	**30,135**	40,221
Effect of exchange rate fluctuations of cash held		**1,779**	232	**–**	–
Cash and cash equivalents at 31 December	16	**35,193**	16,702	**46,048**	30,135

The company's profit before tax excludes dividends received from subsidiaries.

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Headlam Group plc (the "company") is a company incorporated in the UK.

The group Financial Statements consolidate those of the company and its subsidiaries which together are referred to as the "group". The company's Financial Statements present information about the company as a separate entity and not about the group.

Both the company's Financial Statements and the group's Financial Statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRS"). On publishing the company's Financial Statements here together with the group Financial Statements, the company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved Financial Statements.

The principal accounting policies applied in the preparation of the Financial Statements of the company and the Financial Statements of the group are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed below.

IFRS not yet applied
The following relevant standards and interpretations were issued and available for early application but have not been applied for the year ended 31 December 2008:

IFRS 8 *'Operating Segments'* requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the Chief Operating Decision Maker, as defined in the standard, to allocate resources to the segments and to assess their performance. This standard becomes mandatory for the group's 2009 Consolidated Financial Statements, the effect of this standard on group disclosures is still to be fully determined.

IFRIC14 IAS19 *'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'* clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC14 will become mandatory for the group's 2009 Consolidated Financial Statements, with retrospective application required. Following a review of the effect of adopting IFRIC14, its adoption in 2009 is not expected to have any effect on the group's Consolidated Financial Statements.

Revised IAS23 *'Borrowing Costs'* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS23 will become mandatory for the group's 2009 Consolidated Financial Statements and will constitute a change in accounting policy for the group. In accordance with the transitional provisions, the group will apply the revised IAS23 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no impact on prior periods in the group's 2009 Consolidated Financial Statements.

Revised IAS1 *'Presentation of Financial Statements (2007)'* introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS1 becomes mandatory for the group's 2009 Consolidated Financial Statements.

Amended IAS27 *'Consolidated and Separate Financial Statements (2008)'* requires accounting for changes in ownership interests by the group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS27, which become mandatory for the group's 2010 Consolidated Financial Statements, are not expected to have a significant impact on the group's Consolidated Financial Statements.

Amendment to IFRS2 *'Share-based Payments'* – Vesting Conditions and Cancellations' clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS2 will become mandatory for the group's 2009 Consolidated Financial Statements, with retrospective application. The adoption of this amendment is not expected to have any material effect on the group's Consolidated Financial Statements.

The annual improvements to International Financial Reporting Standards (IFRSs) project provides a vehicle for making non-urgent but necessary amendments to IFRSs. The 2008 annual improvements project makes amendments to a number of standards, these amendments were issued but not effective for the year ended 31 December 2008. These amendments are not expected to have a material impact on the group's Consolidated Financial Statements.

Measurement convention
The company and group Financial Statements are prepared on the historical cost basis. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

Basis of consolidation
Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account.

The financial statements of subsidiaries are included in the group's Consolidated Financial Statements from the date that control commences until the date that control ceases.

Notes to the Financial Statements

continued

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in the group's Consolidated Financial Statements.

Accounting estimates and judgements
The board are responsible for the development, selection and disclosure of the group's critical accounting policies and estimates and the application of these policies and estimates. In applying the accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may differ from the position described in the company's and group's Balance Sheet at 31 December 2008. The key sources of estimation uncertainty at the balance sheet date that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. The group is committed to investing in new facilities where existing facilities fail to provide satisfactory customer service in a cost effective manner. When construction on a new facility is initiated, the existing facility is marketed for sale and this action can on occasions give rise to an adverse difference between cost and fair value. It has been assumed that at the balance sheet date, fair value exceeds cost. This is formally assessed for all properties on a triennial basis. At the latest review, carried out at 31 December 2007, the fair value of UK freehold and long leasehold land and buildings exceeded cost by £12,100,000.

Goodwill impairment
The outcome of the group's annual impairment test for goodwill is dependent on the forecast cash flows of each cash generating unit together with key management assumptions including profit growth and discount rates. No impairment resulted from the annual impairment test for 2008.

Deferred tax assets
Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the asset will be realised in due course. This assumption is dependent on the group's ability to generate sufficient future taxable profits.

Employee benefits
The deficit relating to the group's defined benefit plans is assessed annually in accordance with IAS 19 and after taking independent actuarial advice. The principle assumptions are set out in note 19. The amount of the deficit is dependent on plan asset and liability values and the actuarial assumptions used to determine the deficit. The assumptions include asset growth rates, pension and salary increases, price inflation, discount rate used to measure actuarial liabilities and mortality rates.

Foreign currency
Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Financial statements of foreign operations
The assets and liabilities of foreign subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date.

The revenues and expenses of foreign subsidiaries are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign subsidiaries are taken directly to the translation reserve and reflected as a movement in the Statement of Recognised Income and Expense.

Foreign currency exposure
Note 22 contains information about the foreign currency exposure of the group and risks in relation to foreign exchange movements.

Classification of financial instruments issued by the group
Financial instruments issued by the group are treated as equity, i.e. forming part of shareholders' funds, only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company, or group as the case may be, to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company or group; and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number or its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these Financial Statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of financial expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Investments in debt and equity securities
Investments in subsidiaries are carried at cost less impairment losses.

Where the consideration for the acquisition of a subsidiary undertaking includes shares in the company to which the provisions of Section 131 of the Companies Act 1985 apply, cost represents the nominal value of shares issued, together with the fair value of any additional consideration given and costs. In the Consolidated Financial Statements, the excess of the fair value of the consideration of shares issued over the nominal value is credited to the special reserve.

Notes to the Financial Statements
continued

Derivative financial instruments
The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the income statement in the same period that the hedged item affects profit or loss.

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price. The gain or loss on remeasurement to fair value of forward exchange contracts is recognised immediately in the income statement.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the costs of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over their estimated useful lives. Land is not depreciated. The annual rates applicable are:

Freehold and long leasehold properties	– 2%
Short leasehold properties	– period of lease
Motor vehicles	– 25%
Office and computer equipment	– 10% - 33.3%
Warehouse and production equipment	– 10%-20%

Intangible assets
Goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but, tested annually for impairment.

In respect of acquisitions prior to 1 January 2004, goodwill is included on the basis of its deemed cost, which represents the amount recorded under UK GAAP which was broadly comparable save that only separable intangibles were recognised and goodwill was amortised. This is in accordance with IFRS 1.

Other intangibles
Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and impairment losses. Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less cumulative amortisation and impairment losses.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives of customer lists are deemed to be between 1 – 24 months.

Trade and other receivables
Trade and other receivables are stated at their nominal amount, discounted if material, less impairment losses. Debts are provided for, the credit loss allowance, on specific receivables in full as soon as they are known to be 'bad' or it becomes apparent that payment is 'doubtful'.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventory provisions are determined by reference to each individual product and are calculated by assessing the age, condition and quantity of each individual product.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of cash management of both the company and group are included as a component of cash and cash equivalents for the purpose only of the Cash Flow Statement.

Notes to the Financial Statements

continued

Impairment

The carrying amounts of the group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated.

For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate, i.e., the effective interest rate computed at initial recognition of these financial assets. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there had been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Employee benefits

The company and the group operate both defined benefit and defined contribution plans, the assets of which are held in independent trustee administered funds. The pension cost is assessed in accordance with the advice of a qualified actuary.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets, at bid price, is deducted. The liability discount rate is the yield at the balance sheet date using AA rated corporate bonds that have maturity dates approximating to the terms of the group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses that arise in calculating the group's obligation in respect of a scheme are recognised immediately in reserves and reported in the Statement of Recognised Income and Expense.

Where the calculation results in a benefit to the group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

The group operates a UK defined benefit pension plan and a defined benefit plan in Switzerland. In the UK as there is no contractual agreement or stated group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the company, which is the sponsoring employer. The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary.

Share-based payment transactions

The company and group operate various equity settled share option schemes under the approved and unapproved executive schemes and savings related schemes.

For executive share option schemes, the option price may not be less than the mid market value of the group's shares at the time when the options were granted or the nominal value.

Approved

These share option awards are subject to the movement of the group's earnings per share exceeding RPI over the relevant period.

Unapproved
These share option awards are subject to the movement of the group earnings per share exceeding RPI between 3% and 5% per annum.

The performance is assessed by reference to the group's published results.

The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

When options are granted to employees of subsidiaries of the company, the fair value of options granted is recognised as an employee expense in the financial statements of the subsidiary undertaking together with the capital contribution received. In the financial statements of the company, the options granted are recognised as an investment in subsidiary undertakings with a corresponding increase in equity.

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, net of any tax effects is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings.

Revenue
Revenue from the sale of goods is measured at the fair value of the consideration, net of trade discounts and excludes intra-group sales and value added and similar taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods are transferred to the buyer, the amount of revenue can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the group.

Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net financing costs
Net financing costs comprise interest payable, finance charges on shares classified as liabilities, finance leases, interest receivable on funds invested, foreign exchange gains and losses and gains and losses on hedging instruments as outlined in the accounting policy relating to derivative financial instruments and hedging described above.

Interest income and interest payable is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

The expected return on assets of funded defined benefits pension plans, less administration expenses of pension plans are recognised in financial income. The interest accruing on defined benefit pension plan liabilities are recognised in financial expenses.

Taxation
Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Notes to the Financial Statements
continued

2. SEGMENT REPORTING

The group's activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering products. These activities are carried out from business centres located in both the UK and Continental Europe. The group's internal management structure and financial reporting systems treat the UK and Continental Europe as two separate segments because of the difference in reward arising from these two markets and this forms the basis for the geographical presentation of the primary segment information given below.

	UK		Continental Europe		Total	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Revenue						
External sales	**458,572**	463,671	**98,724**	81,047	**557,296**	544,718
Result						
Segment result	**39,164**	46,092	**3,324**	2,916	**42,488**	49,008
Unallocated corporate expenses					**(766)**	(2,995)
Operating profit					**41,722**	46,013
Finance income					**7,016**	6,321
Finance expense					**(8,618)**	(7,162)
Taxation					**(11,433)**	(13,534)
Profit for the year					**28,687**	31,638
Other information						
Segment assets	**302,805**	287,552	**58,878**	36,881	**361,683**	324,433
Unallocated assets					**5,372**	5,942
Consolidated total assets					**367,055**	330,375
Segment liabilities	**(146,327)**	(135,868)	**(31,548)**	(18,555)	**(177,875)**	(154,423)
Unallocated liabilities					**(28,046)**	(25,911)
Consolidated total liabilities					**(205,921)**	(180,334)
Capital expenditure	**5,949**	10,617	**4,715**	663	**10,664**	11,280
Depreciation	**4,218**	4,044	**786**	666	**5,004**	4,710
Amortisation	**44**	1,517	**257**	–	**301**	1,517

Each segment is a continuing operation.

Unallocated assets comprise deferred tax assets. Unallocated liabilities comprise income tax, deferred tax liabilities and employee benefits.

Management has access to information that provides details on sales and gross margin by principal product group and across the five principal business sectors which comprise Regional multi-product, National multi-product, Commercial regional, Residential specialist and Commercial specialist. However, this information is not provided as a secondary segment since the group's operations are not managed by reference to these sub classifications and the presentation would require an arbitrary allocation of overheads, assets and liabilities undermining the presentation's validity and usefulness.

Notes to the Financial Statements
continued

3. PROFIT BEFORE TAX

The following are included in profit before tax:

	2008 £000	2007 £000
Depreciation on property, plant and equipment	**5,004**	4,710
Amortisation of intangible assets	**301**	1,517
Profit on sale of property, plant and equipment	**337**	18
Share-based payment expenses	**426**	501
Operating lease rentals		
Plant and machinery	**8,992**	8,237
Land and buildings	**2,209**	2,021

Auditor's remuneration:

	2008 £000	2007 £000
Audit of these financial statements	**60**	57
Amounts received by the auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**145**	124
All other services	**16**	40
	221	221

Amounts paid to the company's auditor in respect of services to the company, other than the audit of the company's Financial Statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes to the Financial Statements
continued

4. STAFF NUMBERS AND COSTS

The average number of people employed, including directors, during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2008	2007	**2008**	2007
By sector:				
Floorcoverings	**2,178**	2,129	**–**	–
Central operations	**9**	9	**9**	9
	2,187	2,138	**9**	9
By function:				
Sales and distribution	**2,011**	1,960	**–**	–
Administration	**176**	178	**9**	9
	2,187	2,138	**9**	9

The aggregate payroll costs were as follows:

	£000	£000	**£000**	£000
Wages and salaries	**59,879**	56,561	**2,437**	2,595
Equity settled transactions	**426**	501	**128**	194
Social security costs	**7,705**	7,067	**302**	325
Pension costs	**3,195**	3,164	**494**	349
	71,205	67,293	**3,361**	3,463

5. DIRECTORS' EMOLUMENTS

	2008 £000	2007 £000
Directors' emoluments	**1,515**	2,305
Gains made on share options	**33**	–

Further details of directors' emoluments, share options and pension entitlement are given in the Remuneration Report on pages 35 to 40.

Notes to the Financial Statements

continued

6. FINANCE INCOME AND EXPENSE

	2008 £000	2007 £000
Interest income:		
Bank interest	**2,902**	2,641
Other	**209**	46
Return on defined benefit plan assets	**3,905**	3,634
Finance income	**7,016**	6,321
Interest expense:		
Bank loans, overdrafts and other financial expenses	**(4,543)**	(3,328)
Interest on defined benefit plan obligation	**(4,075)**	(3,827)
Finance leases and similar hire purchase contracts	**–**	(3)
Other	**–**	(4)
Finance expenses	**(8,618)**	(7,162)

7. TAXATION

Recognised in the income statement

	2008 £000	2007 £000
Current tax expense:		
Current year	**11,388**	13,333
Adjustments for prior years	**(1,411)**	(1,130)
	9,977	12,203
Deferred tax expense:		
Origination and reversal of temporary differences	**(229)**	1,276
Effect of change in UK tax law	**7**	(178)
Adjustments for prior years	**1,678**	233
	1,456	1,331
Total tax in income statement	**11,433**	13,534

	2008 £000	2007 £000
Tax relating to items credited/(charged) to equity		
Current tax:		
Current tax on income and expenses recognised directly in equity	**211**	(74)
Deferred tax:		
Deferred tax on share options	**(227)**	(494)
Deferred tax on income and expenses recognised directly in equity	**1,093**	(1,586)
Total tax reported directly in reserves	**1,077**	(2,154)

Notes to the Financial Statements
continued

7. TAXATION - CONTINUED

Reconciliation of effective tax rate

	2008 %	2008 £000	2007 %	2007 £000
Profit before tax		**40,120**		45,172
Tax using the UK corporation tax rate	**28.5%**	**11,433**	30%	13,552
Effect of change in UK tax law	**–**	**7**	(0.4%)	(178)
Non-deductible expenses	**0.3%**	**126**	3.1%	1,392
Effect of tax rates in foreign jurisdictions	**(1.0%)**	**(400)**	(0.7%)	(335)
Under/(over) provided in prior years	**0.7%**	**267**	(2.0%)	(897)
Total tax in income statement	**28.5%**	**11,433**	30%	13,534

On 1 April 2008 the current tax rate reduced from 30% to 28%. Therefore the current tax rate applying to the year ended 31 December 2008 is a blended rate of 28.5%.

8. CURRENT TAX LIABILITIES

The group current tax liability of £9,546,000 (2007: £10,747,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable. The company current tax liability of £5,752,000 (2007: £5,306,000) represents the amount of income tax payable in respect of current and prior year periods which exceed any amounts recoverable.

9. EARNINGS PER SHARE

	2008 £000	2007 £000
Earnings		
Earnings for the purposes of basic earnings per share being profit attributable to equity holders of the parent	**28,687**	31,638

	2008	2007
Number of shares		
Issued ordinary shares at 1 January	**85,363,743**	87,079,521
Effect of share movement during the period	**(2,223,206)**	(1,709,414)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**83,140,537**	85,370,107
Effect of diluted potential ordinary shares:		
Weighted average number of ordinary shares at 31 December	**83,140,537**	85,370,107
Share options	**433,308**	2,114,930
Number of shares that would have been issued at fair value	**(401,137)**	(1,471,286)
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**83,172,708**	86,013,751

At 31 December 2008, the company held 2,248,647 shares in treasury and these are excluded from the calculation of earnings per share.

Notes to the Financial Statements

continued

10. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

Group	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2007	77,267	21,070	722	99,059
Acquisition	27	239	–	266
Additions	6,487	3,265	1,528	11,280
Disposals	(246)	(1,162)	–	(1,408)
Effect of movements in foreign exchange	437	375	–	812
Reclassification	(52)	52	–	–
Balance at 31 December 2007	83,920	23,839	2,250	110,009
Balance at 1 January 2008	83,920	23,839	2,250	110,009
Additions	181	2,686	7,797	10,664
Disposals	(637)	(2,353)	(6)	(2,996)
Effect of movements in foreign exchange	2,765	1,791	906	5,462
Transfer to use	5,546	165	(5,711)	–
Balance at 31 December 2008	91,775	26,128	5,236	123,139
Depreciation				
Balance at 1 January 2007	6,757	7,270	–	14,027
Depreciation charge for the year	1,433	3,277	–	4,710
Disposals	(211)	(1,057)	–	(1,268)
Effect of movements in foreign exchange	160	283	–	443
Reclassification	(7)	7	–	–
Balance at 31 December 2007	8,132	9,780	–	17,912
Balance at 1 January 2008	8,132	9,780	–	17,912
Depreciation charge for the year	1,570	3,434	–	5,004
Disposals	(63)	(1,960)	–	(2,023)
Effect of movements in foreign exchange	1,150	1,355	–	2,505
Balance at 31 December 2008	10,789	12,609	–	23,398
Net book value				
At 1 January 2007	70,510	13,800	722	85,032
At 31 December 2007 and 1 January 2008	75,788	14,059	2,250	92,097
At 31 December 2008	**80,986**	**13,519**	**5,236**	**99,741**

Property, plant and equipment under construction

During the year ended 31 December 2008, a group subsidiary company acquired land in Zutphen, in the Netherlands and has now completed the construction of a new warehouse and distribution facility on the site. The costs incurred by 31 December 2008 in respect of this new facility were £5,236,000. The group completed various property projects which included extensions and re-modifications during the year ended 31 December 2008 and these have been transferred into use.

Notes to the Financial Statements

continued

10. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY - CONTINUED

Company	Land & buildings £000	Plant & equipment £000	Under construction £000	Total £000
Cost				
Balance at 1 January 2007	70,720	559	722	72,001
Additions	6,462	–	1,523	7,985
Disposals	(197)	–	–	(197)
Balance at 31 December 2007	76,985	559	2,245	79,789
Balance at 1 January 2008	76,985	559	2,245	79,789
Additions	112	38	3,466	3,616
Disposals	(516)	(3)	–	(519)
Transfer to group company	–	–	(165)	(165)
Transfer to use	5,546	–	(5,546)	–
Balance at 31 December 2008	82,127	594	–	82,721
Depreciation				
Balance at 1 January 2007	4,756	472	–	5,228
Depreciation charge for the year	1,133	29	–	1,162
Disposals	(197)	–	–	(197)
Balance at 31 December 2007	5,692	501	–	6,193
Balance at 1 January 2008	5,692	501	–	6,193
Depreciation charge for the year	1,249	30	–	1,279
Disposals	(26)	(3)	–	(29)
Balance at 31 December 2008	6,915	528	–	7,443
Net book value				
At 1 January 2007	65,964	87	722	66,773
At 31 December 2007 and 1 January 2008	71,293	58	2,245	73,596
At 31 December 2008	**75,212**	**66**	**–**	**75,278**

Notes to the Financial Statements
continued

11. INTANGIBLE ASSETS – GROUP

	Goodwill £000	Customer lists £000	Total £000
Cost			
Balance at 1 January 2007	13,210	2,362	15,572
Addition (note 23)	–	1,517	1,517
Balance at 31 December 2007	13,210	3,879	17,089
Balance at 1 January 2008	13,210	3,879	17,089
Addition (note 23)	–	263	263
Balance at 31 December 2008	13,210	4,142	17,352
Amortisation			
Balance at 1 January 2007	–	2,362	2,362
Amortisation for the year	–	1,517	1,517
Balance at 31 December 2007	–	3,879	3,879
Balance at 1 January 2008	–	3,879	3,879
Effect of movements in foreign exchange	–	(38)	(38)
Amortisation for the year	–	301	301
Balance at 31 December 2008	–	4,142	4,142
Net book value			
At 1 January 2007	13,210	–	13,210
At 31 December 2007 and 1 January 2008	13,210	–	13,210
At 31 December 2008	**13,210**	**–**	**13,210**

Cumulative impairment recognised in relation to goodwill is £nil.

Amortisation
The amortisation charge is recognised in administration expenses in the Consolidated Income Statement.

Impairment tests for cash-generating units containing goodwill
For the purpose of impairment testing, goodwill is attributable to the group's geographical segments being the UK and Continental Europe, which represent the lowest level within the group at which the goodwill is monitored for internal management purposes.

Goodwill is attributable to the geographical segments as follows:

	2008 £000	2007 £000
UK	**6,671**	6,671
Continental Europe	**6,539**	6,539
	13,210	13,210

Notes to the Financial Statements

continued

11. INTANGIBLE ASSETS – GROUP - CONTINUED

Impairment
An impairment test is a comparison of the carrying value of the assets of a business or cash generating unit ("CGU") to their recoverable amount. Where the recoverable amount is less than the carrying value, an impairment results. During the year, all goodwill was tested for impairment, with no impairment charge resulting.

The carrying value of goodwill has been assessed by reference to value in use which has been estimated using cash flow forecasts based on the approved planned operating objective for 2009. For the purpose of testing for impairment, the forecast cash flows for 2010 have assumed no growth, and then a growth rate of 16% has been applied to profit before tax for periods 2011 to 2013.

Key assumptions
The main assumptions within the operating cash flows used for 2009 include the achievement of future sales volumes and prices for all key product lines, control of purchase prices, achievement of budgeted operating costs and no significant adverse foreign exchange rate movements.

Management have estimated the discount rate by reference to the group's cost of capital and have included an appropriate risk factor to reflect current economic circumstances and the risk profile of the CGU's. A post tax weighted average cost of capital of 10.1% has been used for impairment testing, pre-tax 15.00%, adjusted to 11.1% for Continental Europe to reflect the differing risk profile of that operating segment.

The value of goodwill is recovered for each CGU within six years.

Sensitivity analysis
The group's estimate of impairments are most sensitive to increases in the discount rate and forecast cash flows. Sensitivity analysis has been carried out by reference to both of these assumptions and neither a 1% increase in the discount rate or 5% reduction in forecast cash flows would result in any impairment being required.

It is not considered possible, other than disclosed above that any reasonable change to the key assumptions would generate a different impairment test outcome to the one included in these Financial Statements.

12. INVESTMENTS IN SUBSIDIARIES

Summary information on investments in subsidiary undertakings is as follows:

	£000
Cost	
Balance at 1 January 2007	84,937
Share options granted to employees of subsidiary undertakings	306
Additions during the period	2,698
Balance at 31 December 2007	87,941
Balance at 1 January 2008	87,941
Share options granted to employees of subsidiary undertakings	298
Balance at 31 December 2008	88,239
Provisions	
Balance at 1 January 2007	690
Impairment during the period	1,470
Balance at 31 December 2007	2,160
Balance at 1 January 2008 and 31 December 2008	2,160
Carrying value	
At 1 January 2007	84,247
At 31 December 2007	85,781
At 31 December 2008	**86,079**

The principal trading subsidiaries are listed on page 91.

Notes to the Financial Statements
continued

13. DEFERRED TAX ASSETS AND LIABILITIES - GROUP

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Property, plant and equipment	**–**	–	**(3,698)**	(3,836)	**(3,698)**	(3,836)
Intangible assets	**–**	496	**(158)**	–	**(158)**	496
Employee benefits	**4,009**	4,155	**–**	–	**4,009**	4,155
Provisions	**1,321**	841	**–**	–	**1,321**	841
Other items	**42**	450	**–**	–	**42**	450
Tax assets/(liabilities)	**5,372**	5,942	**(3,856)**	(3,836)	**1,516**	2,106

Movement in deferred tax during the year

	1 January 2008 £000	**Recognised in income £000**	**Recognised in equity £000**	**31 December 2008 £000**
Property, plant and equipment	**(3,836)**	**138**	**–**	**(3,698)**
Intangible assets	**496**	**(654)**	**–**	**(158)**
Employee benefits	**4,155**	**(1,012)**	**866**	**4,009**
Provisions	**841**	**480**	**–**	**1,321**
Other	**450**	**(408)**	**–**	**42**
	2,106	**(1,456)**	**866**	**1,516**

Movement in deferred tax during the prior year

	1 January 2007 £000	Recognised in income £000	Recognised in equity £000	31 December 2007 £000
Property, plant and equipment	(3,665)	(171)	–	(3,836)
Intangible assets	551	(55)	–	496
Employee benefits	6,640	(405)	(2,080)	4,155
Provisions	1,265	(424)	–	841
Other	726	(276)	–	450
	5,517	(1,331)	(2,080)	2,106

Unrecognised deferred tax assets and liabilities
At the balance sheet date the group has unused capital losses of £9,266,000 (2007: £9,804,000) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the group does not anticipate the generation of significant chargeable gains in the foreseeable future.

Notes to the Financial Statements
continued

13. DEFERRED TAX ASSETS AND LIABILITIES - COMPANY

Recognised deferred tax assets and liabilities
Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Property, plant and equipment	**–**	–	**(2,865)**	(2,858)	**(2,865)**	(2,858)
Employee benefits	**3,594**	3,614	**–**	–	**3,594**	3,614
Provisions	**712**	676	**–**	–	**712**	676
Tax assets/(liabilities)	**4,306**	4,290	**(2,865)**	(2,858)	**1,441**	1,432

Movement in deferred tax during the year

	1 January 2008 £000	**Recognised in income £000**	**Recognised in equity £000**	**31 December 2008 £000**
Property, plant and equipment	**(2,858)**	**(7)**	**–**	**(2,865)**
Employee benefits	**3,614**	**(873)**	**853**	**3,594**
Provisions	**676**	**36**	**–**	**712**
	1,432	**(844)**	**853**	**1,441**

Movement in deferred tax during the prior year

	1 January 2007 £000	Recognised in income £000	Recognised in equity £000	31 December 2007 £000
Property, plant and equipment	(2,627)	(231)	–	(2,858)
Employee benefits	5,898	(569)	(1,715)	3,614
Provisions	582	94	–	676
	3,853	(706)	(1,715)	1,432

Unrecognised deferred tax assets and liabilities
At the balance sheet date the company has unused capital losses of £9,266,000 (2007: £9,804,000) available for offset against future chargeable gains. No deferred tax asset has been recognised in respect of this amount as the company does not anticipate the generation of significant chargeable gains in the foreseeable future.

Notes to the Financial Statements
continued

14. INVENTORIES

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Finished goods and goods held for resale	**107,597**	101,491	**–**	–

Cost of sales consists of the following:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Material cost	**375,955**	368,672	**–**	–
Processing cost	**4,133**	4,666	**–**	–
Other	**2,582**	2,652	**–**	–
	382,670	375,990	**–**	–

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade receivables	**81,696**	77,468	**–**	1
Prepayments and accrued income	**4,559**	3,613	**132**	123
Other receivables	**19,687**	19,749	**144**	433
Amounts due from subsidiary undertakings	**–**	–	**26,036**	19,909
	105,942	100,830	**26,312**	20,466

£2,359,000 (2007: £1,088,000) was recognised as an impairment loss in the Consolidated Income Statement in respect of trade receivables.

The impairment loss is attributable to the geographical segments as follows:

	2008	2007
	£000	£000
UK	**2,022**	850
Continental Europe	**337**	238
	2,359	1,088

16. CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Cash and cash equivalents per balance sheet	**35,193**	16,805	**46,048**	30,135
Bank overdrafts	**–**	(103)	**–**	–
Cash and cash equivalents per cash flow statements	**35,193**	16,702	**46,048**	30,135

Notes to the Financial Statements

continued

17. OTHER INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the group's and company's interest-bearing loans and borrowings. For more information about the group's and company's exposure to interest rate and foreign currency risk, see note 22.

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Current liabilities				
Interest bearing loan	**4,506**	–	**–**	–
	4,506	–	**–**	–
Non-current liabilities				
Interest bearing loan	**30,000**	–	**30,000**	–
	30,000	–	**30,000**	–

The group has undrawn borrowing facilities expiring in one year or less which, at 31 December 2008, amounted to £55,010,000 (2007: £81,877,000). The facility conditions for drawdown had been met during the period. The borrowing is unsecured and there is a cross guarantee in place between the company and its UK subsidiaries. There is a downstream guarantee from the company in relation to its borrowing facility in the Netherlands.

The undrawn borrowing facilities are as follows:

	Interest rate %	**2008 £000**	Interest rate %	2007 £000
UK	**1.5**	**45,000**	6.2	76,000
Netherlands	**3.75**	**2,262**	5.3	367
France	**3.25**	**4,350**	4.3	3,203
Switzerland	**1.75**	**3,398**	3.7	2,307
		55,010		81,877

All the borrowing facilities above bear interest at floating rates. The Swiss facility may be drawn as an overdraft or fixed rate loan with different terms depending on length of time and amount.

18. TRADE AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
Current	**£000**	£000	**£000**	£000
Trade payables	**106,228**	117,316	**198**	159
Taxation and social security	**10,466**	10,941	**1,416**	749
Derivatives used for hedging	**848**	-	**848**	-
Non-trade payables and accrued expenses	**25,827**	26,063	**5,167**	5,078
Amounts due to subsidiary undertakings	**-**	-	**32,524**	32,285
	143,369	154,320	**40,153**	38,271

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS

Pension plans
During the year, the group operated a UK and Swiss defined benefit plan and defined contribution plans in the UK, France and the Netherlands. The Headlam Group plc Staff Retirement Benefits Scheme is the principal defined benefit plan which provides benefits to group employees that have been admitted into the scheme. The scheme is self-administered and its assets are held independently of the company's finances. The scheme is funded partly by contributions from members and partly by contributions from the company at rates advised by professionally qualified actuaries. The latest actuarial valuation was carried out as at 31 March 2008 using the projected unit method. The main annual rate assumptions used by the actuary were, increase in salaries 4.7%, increase of pensions in payment 3.2%, discount rate before retirement 6.5%, discount rate after retirement 4.75% and inflation 3.2%. Assets were taken at their audited market value at the valuation date. This valuation also used revised mortality assumptions. These revised assumptions have been derived to take account of the characteristics of plan members and include a greater allowance for future increases in longevity compared with the assumptions previously adopted.

The total group cost of operating the plans during the year was £3,195,000 (2007: £3,164,000) and, at 31 December 2008, there was an amount of £290,000 (2007: £423,000) owed to the plans, being employer and employee contributions due for December 2008, which was paid in January 2009.

Included within the total staff costs as disclosed in note 4 are costs relating to the group's defined contribution plans. The pension cost for the year represents contributions payable by the group to the plans and amounted to £1,564,000 (2007: £1,361,000). Contributions amounting to £108,000 (2007: £95,000) in respect of December 2008 payroll were paid in January 2009.

In the UK there is no contractual agreement or stated group policy for allocating the net defined benefit liability between the participating subsidiaries and as such the full deficit is recognised by the company, which is the sponsoring employer. The participating subsidiary companies have recognised a cost equal to contributions payable for the period as advised by a professionally qualified actuary. The company recognises a cost equal to its contributions payable for the period net of amounts recharged in relation to the group deficit to the participating subsidiary companies.

	Group		**Company**	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Present value of funded defined benefit obligations	**(69,441)**	(71,350)	**(62,443)**	(66,953)
Fair value of plan assets	**55,139**	60,308	**49,534**	56,098
Net obligations	**(14,302)**	(11,042)	**(12,909)**	(10,855)
Recognised liability for defined benefit obligations	**(14,302)**	(11,042)	**(12,909)**	(10,855)
Other long term employee benefits (note 20)	**(342)**	(286)	**–**	–
Total employee benefits	**(14,644)**	(11,328)	**(12,909)**	(10,855)
Split:				
Current liabilities	**(2,428)**	(1,491)	**(2,428)**	(1,491)
Non-current liabilities	**(12,216)**	(9,837)	**(10,481)**	(9,364)
Total employee benefits	**(14,644)**	(11,328)	**(12,909)**	(10,855)

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Pension plans - continued
The employee benefits recognised as a current liability represent committed additional group and company contributions to be payable during the year ended 31 December 2009.

The group and company expect to contribute approximately £3,988,000 (2007: £2,845,000) to defined benefit plans in the next financial year.

Movements in present value of defined benefit obligation

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
At 1 January	**71,350**	73,160	**66,953**	69,736
Current service cost	**1,461**	1,610	**1,271**	1,477
Interest cost	**4,075**	3,827	**3,925**	3,725
Actuarial gains	**(7,553)**	(4,493)	**(7,660)**	(4,989)
Benefits paid	**(2,422)**	(3,315)	**(2,294)**	(3,252)
Contributions by members	**355**	334	**248**	256
Effect of movements in foreign exchange	**2,175**	227	**–**	–
At 31 December	**69,441**	71,350	**62,443**	66,953

Movements in fair value of plan assets

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
At 1 January	**60,308**	56,220	**56,098**	52,704
Expected return on plan assets	**3,905**	3,634	**3,713**	3,494
Actuarial (losses)/gains	**(11,798)**	507	**(10,785)**	313
Contributions by employer	**2,706**	2,699	**2,554**	2,583
Contributions by members	**355**	334	**248**	256
Benefits paid	**(2,422)**	(3,315)	**(2,294)**	(3,252)
Effect of movements in foreign exchange	**2,085**	229	**–**	–
At 31 December	**55,139**	60,308	**49,534**	56,098

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Pension plans - continued
Expense recognised in the income statement

	Group	
	2008	2007
	£000	£000
Current service cost	**1,461**	1,610
Interest on defined benefit plan obligation	**4,075**	3,827
Expected return on defined benefit plan assets	**(3,905)**	(3,634)
Total	**1,631**	1,803

The expense is recognised in the following line items in the Consolidated Income Statement:

	Group	
	2008	2007
	£000	£000
Administrative expenses	**1,461**	1,610
Net financing costs	**170**	193
	1,631	1,803

Actuarial gains and losses in the Statement of Recognised Income and Expense:

	Group	
	2008	2007
	£000	£000
Actuarial gains on defined benefit obligation	**7,553**	7,660
Actuarial loss on plan assets	**(11,798)**	(10,785)
	(4,245)	(3,125)

Cumulative actuarial gains and losses reported in the Statement of Recognised Income and Expenses since 1 January 2004, the transition date to IFRS, are £5,743,000 (2007: £1,498,000). Cumulative actuarial gains and losses reported in the company's Statement of Recognised Income and Expense are £4,409,000 (2007: £1,284,000).

The fair value of the plan assets and the return on those assets were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Equities	**28,202**	36,052	**27,227**	35,269
Government debt	**15,438**	14,689	**15,438**	14,689
Corporate bonds	**5,782**	4,771	**2,856**	2,670
Annuities	**3,909**	3,327	**3,909**	3,327
Other	**1,808**	1,469	**104**	143
	55,139	60,308	**49,534**	56,098
Actual return on plan assets	**(7,837)**	4,150	**(7,072)**	3,807

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Pension plans - continued
Principal actuarial assumptions, expressed as weighted averages, are as follows:

	Group		Company	
	2008 %	2007 %	**2008 %**	2007 %
Discount rate	**6.1**	5.7	**6.5**	5.9
Future salary increases	**4.2**	5.2	**4.5**	5.4
Future pension increases	**2.7**	3.2	**3.0**	3.4
Inflation rate	**2.8**	3.3	**3.0**	3.4
Expected rate of return on plan assets	**5.5**	6.4	**5.7**	6.6
Mortality table assumptions:				
UK pre-retirement	**AC00 (Ultimate) table**	A92 (Ultimate) table	**AC00 (Ultimate) table**	A92 (Ultimate) table
UK post-retirement – future-pensioners	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	PA92 C=2020	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	PA92 C=2020
UK post-retirement – current pensioners	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	PA92 C=2010	**103%(M)/110%(F) of the PCA00 tables with medium cohort projections**	PA92 C=2010
Swiss scheme	**EVK 2000**	EVK 2000	**–**	–

The mortality assumption implies the expected future lifetime from age 65 is as follows:

	Group		Company	
	2008 years	2007 years	**2008 years**	2007 years
Non-pensioner male	**23.3**	19.9	**23.3**	19.9
Pensioner male	**21.3**	19.0	**21.3**	19.0
Non-pensioner female	**25.1**	22.8	**25.1**	22.8
Pensioner female	**23.2**	22.0	**23.2**	22.0

19. EMPLOYEE BENEFITS – CONTINUED

Pension plans - continued

History of plans
The history of the plans for the current and prior periods is as follows:

Balance sheet

Group	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit obligation	**(69,441)**	(71,350)	(73,160)	(64,750)	(54,729)
Fair value of plan assets	**55,139**	60,308	56,220	44,524	36,815
Deficit	**(14,302)**	(11,042)	(16,940)	(20,226)	(17,914)

Company	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Present value of defined benefit obligation	**(62,443)**	(66,953)	(69,736)	(64,750)	(54,729)
Fair value of plan assets	**49,534**	56,098	52,704	44,524	36,815
Deficit	**(12,909)**	(10,855)	(17,032)	(20,226)	(17,914)

Experience adjustments

Group	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
On plan liabilities	**(7,553)**	(4,493)	1,688	6,711	4,786
On plan assets	**(11,798)**	507	1,518	4,134	1,030
As a percentage of plan liabilities	**(10.9%)**	(6.3%)	2.3%	10.4%	8.7%
As a percentage of plan assets	**(21.4%)**	0.8%	2.7%	9.3%	2.8%

Company	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
On plan liabilities	**(7,660)**	(4,989)	1,664	6,711	4,786
On plan assets	**(10,785)**	313	1,403	4,134	1,030
As a percentage of plan liabilities	**(12.3%)**	(7.5%)	2.4%	10.4%	8.7%
As a percentage of plan assets	**(21.8%)**	0.6%	2.7%	9.3%	2.8%

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Share-based payments – group and company
Executive directors and management currently participate in executive share option schemes. The option price may not be less than the greater of the mid-market value of the group's shares at the time when the options were granted or the nominal value. Options granted under the 1998 Inland Revenue approved scheme are normally exercisable between the third and tenth anniversaries of their date of grant, subject to the movement of the group's basic earnings per share exceeding RPI over the relevant period.

Options granted under the 1998 unapproved scheme are normally exercisable between the third and seventh anniversaries of their date of grant. Awards are subject to the movement of the group's basic earnings per share exceeding RPI between 3% and 5% per annum respectively over the relevant period.

Additionally, the group operates a savings related share option scheme ("sharesave scheme") which is open to employees subject to eligibility criteria determined by the directors prior to each option grant. The first grant under the current scheme was made on 28 October 2002 where employees with over one year's service were invited to participate. As this sharesave scheme was granted before 7 November 2002, the recognition and measurement principles in IFRS 2 have not been applied in accordance with the transitional provisions in IFRS 1 and IFRS 2. The most recent grant was on 8 May 2008 when employees with over one month's service were invited to participate. This sharesave scheme has been accounted for under IFRS 2.

The issue of the 2008 sharesave scheme has led to 192,812 options under the 2006 sharesave scheme being cancelled as employees have taken up options under the 2008 scheme.

The group also operates a 2008 HMRC approved scheme, a 2008 unapproved scheme, the Headlam Group Performance Share Plan 2008 and the Headlam Group Co-Investment Plan 2008. The group has not yet implemented any of these schemes or plans. Further details of these schemes and plans are given in the Remuneration Report on page 36.

Notes to the Financial Statements

continued

19. EMPLOYEE BENEFITS - CONTINUED

Share-based payments – group and company - continued
The terms and conditions of the options outstanding are as follows, whereby all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments 2008	2007	Vesting Conditions	Contractual life of options
Approved 1998 scheme grant to key management 10 January 2001	**10,000**	10,000	Movement of the group's basic earnings per share exceeding RPI over the relevant period	10/01/04 – 10/01/11
Five year sharesave scheme granted to other employees 28 October 2002	**–**	374,308	Continuous service	01/01/08 – 30/06/08
Approved 1998 scheme grant to key management 14 April 2003	**46,404**	46,404	Movement of the group's basic earnings per share exceeding RPI over the relevant period	14/04/06 – 14/04/13
Unapproved 1998 scheme grant to key management 14 April 2003	**2,596**	12,596	Movement of the group's basic earnings per share exceeding RPI over the relevant period	14/04/06 – 14/04/10
Unapproved 1998 scheme grant to key management 22 August 2005	**1,242,864**	1,242,864	Movement of the group's basic earnings per share exceeding RPI by 3%-5% pa over the relevant period	22/08/08 – 22/08/12
Approved 1998 scheme granted to key management 22 August 2005	**57,136**	57,136	Movement of the group's basic earnings per share exceeding that of RPI by 3% pa over the relevant period	22/08/08 – 22/08/15
Three year sharesave scheme granted to other employees 25 May 2006	**95,278**	217,059	Continuous service	01/07/09 – 01/01/10
Five year sharesave scheme granted to other employees 25 May 2006	**83,532**	154,563	Continuous service	01/07/11 – 01/01/12
Three year sharesave scheme granted to other employees 8 May 2008	**267,740**	–	Continuous service	01/07/11 – 01/01/12
Five year sharesave scheme granted to other employees 8 May 2008	**310,305**	–	Continuous service	01/07/13 – 01/01/14
Total share options	**2,115,855**	2,114,930		

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Share-based payments – group and company - continued
The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2008	**Number of options 2008**	Weighted average exercise price 2007	Number of options 2007
Outstanding at the beginning of the year	370.1	2,114,930	366.6	2,209,691
Exercised during the year	197.5	(380,306)	223.3	(43,275)
Granted during the year	303.2	626,609	–	–
Lapsed during the year	335.5	(245,378)	342.4	(51,486)
Outstanding at the end of the year	379.5	2,115,855	370.1	2,114,930
Exercisable at the end of the year	410.2	1,362,985	202.4	69,000

The weighted average share price for options exercised during the year was 396.7p (2007: 589.4p).

All of the 380,306 options exercised during the year were issued from treasury, giving a total exercise price of £751,000.

The options outstanding at the year end have an exercise price in the range of 128.0p to 420.0p and a weighted average contractual life of 5.4 years.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured using the Black-Scholes option pricing model.

It is expected that the options will be exercised as soon as they reach maturity.

There are no market conditions associated with the share option grants.

The expected volatility is based on historic volatility calculated over the weighted average remaining life of the share options.

Details of share options granted during 2008 are shown below:

2008	**3 year options**	**5 year options**
Number of options	288,076	338,533
Fair value at measurement date	117.7p	108.4p
Share price at 31 December	210.5p	210.5p
Exercise price	303.2p	303.2p
Expected volatility (expressed as weighted average volatility used in the modelling under the Black-Scholes model)	47.2	40.4
Option life (expressed as weighted average life used in the modelling under the Black-Scholes model)	3 years	5 years
Expected dividends	6.2%	6.2%
Risk-free interest rate (based on UK Gilts)	4.3%	4.3%

There were no share options granted during the year ended 31 December 2007.

Notes to the Financial Statements
continued

19. EMPLOYEE BENEFITS - CONTINUED

Share-based payments – group and company - continued
The total expenses recognised for the year arising from share based payments are as follows:

	Group		Company		Shareholders	
	2008 £000	2007 £000	**2008 £000**	2007 £000	**2008 £000**	2007 £000
Share options granted in 2005 under the approved 1998 scheme	**11**	17	**4**	6	**7**	11
Share options granted in 2005 under the unapproved 1998 scheme	**236**	369	**119**	187	**117**	182
Share options granted in 2006 under the SAYE 3 year scheme	**38**	77	**1**	1	**37**	76
Share options granted in 2006 under the SAYE 5 year scheme	**19**	38	**–**	–	**19**	38
Share options granted in 2008 under the SAYE 3 year scheme	**74**	–	**2**	–	**72**	–
Share options granted in 2008 under the SAYE 5 year scheme	**48**	–	**2**	–	**46**	–
Total expense recognised	**426**	501	**128**	194	**298**	307

20. OTHER LONG TERM EMPLOYEE BENEFITS – GROUP

During the year, the group operated an employment indemnity scheme in connection with a foreign subsidiary undertaking to provide for lump sum cash payments due to employees retiring on their normal retirement date. The present retirement indemnity obligation at 31 December 2008 is £342,000 (2007: £286,000).

Notes to the Financial Statements
continued

21. CAPITAL AND RESERVES

Reconciliation of movement in reserves – group

	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2007	4,345	53,428	–	(616)	–	–	95,846	153,012
Total recognised income and expense	–	–	–	1,090	–	–	34,978	36,068
Equity-settled share based payment transactions	–	–	–	–	–	–	501	501
Cancellation of own shares	(88)	–	88	–	–	–	(10,073)	(10,073)
Consideration for purchase of own shares	–	–	–	–	–	(11,614)	–	(11,614)
Share options exercised by employees	2	84	–	–	–	10	–	96
Deferred tax on Schedule 23 share options (pre November 2002)	–	–	–	–	–	–	(494)	(494)
Dividends	–	–	–	–	–	–	(17,455)	(17,455)
Balance at 31 December 2007	4,268	53,512	88	474	–	(11,604)	103,303	150,041
Balance at 1 January 2008	**4,268**	**53,512**	**88**	**474**	**–**	**(11,604)**	**103,303**	**150,041**
Total recognised income and expense	**–**	**–**	**–**	**6,631**	**(848)**	**–**	**25,746**	**31,529**
Equity-settled share based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**426**	**426**
Consideration for purchase of own shares	**–**	**–**	**–**	**–**	**–**	**(2,204)**	**–**	**(2,204)**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**751**	**–**	**751**
Deferred tax on Schedule 23 share options (pre November 2002)	**–**	**–**	**–**	**–**	**–**	**–**	**(227)**	**(227)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(19,182)**	**(19,182)**
Balance at 31 December 2008	**4,268**	**53,512**	**88**	**7,105**	**(848)**	**(13,057)**	**110,066**	**161,134**

21. CAPITAL AND RESERVES - CONTINUED

Reconciliation of movement in reserves – company

	Share capital £000	Share premium £000	Capital redemption reserve £000	Special reserve £000	Cash flow hedging reserve £000	Treasury reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2007	4,354	53,428	–	20,578	–	–	78,347	156,707
Total recognised income and expense	–	–	–	–	–	–	38,890	38,890
Equity-settled share based payment transactions	–	–	–	–	–	–	501	501
Cancellation of own shares	(88)	–	88	–	–	–	(10,073)	(10,073)
Consideration for purchase of own shares	–	–	–	–	–	(11,614)	–	(11,614)
Share options exercised by employees	2	84	–	–	–	10	–	96
Deferred tax on Schedule 23 share options (pre November 2002)	–	–	–	–	–	–	(74)	(74)
Dividends	–	–	–	–	–	–	(17,455)	(17,455)
Balance at 31 December 2007	4,268	53,512	88	20,578	–	(11,604)	90,136	156,978
Balance at 1 January 2008	**4,268**	**53,512**	**88**	**20,578**	**–**	**(11,604)**	**90,136**	**156,978**
Total recognised income and expense	**–**	**–**	**–**	**–**	**(848)**	**–**	**10,423**	**9,575**
Equity-settled share based payment transactions	**–**	**–**	**–**	**–**	**–**	**–**	**426**	**426**
Consideration for purchase of own shares	**–**	**–**	**–**	**–**	**–**	**(2,204)**	**–**	**(2,204)**
Share options exercised by employees	**–**	**–**	**–**	**–**	**–**	**751**	**–**	**751**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(19,182)**	**(19,182)**
Balance at 31 December 2008	**4,268**	**53,512**	**88**	**20,578**	**(848)**	**(13,057)**	**81,803**	**146,344**

Notes to the Financial Statements

continued

21. CAPITAL AND RESERVES - CONTINUED

Share capital

	Ordinary Shares 2008	2007
Number of shares		
On issue at 1 January	**85,363,743**	87,079,521
Allotted under share option scheme	**–**	40,700
Cancelled shares	**–**	(1,756,478)
On issue at 31 December – fully paid	**85,363,743**	85,363,743

	2008 £000	2007 £000
Authorised		
Ordinary shares of 5p each	**5,392**	5,392
5.6% cumulative preference shares of £1 each	**50**	50
	5,442	5,442
Allotted, called up and fully paid		
Ordinary shares of 5p each	**4,268**	4,268
5.6% cumulative preference shares of £1 each	**–**	–
	4,268	4,268
Shares classified as liabilities	**–**	–
Shares classified in shareholders funds	**4,268**	4,268
	4,268	4,268

During the year the company purchased 550,000 shares with a nominal value of £27,500 representing 0.6% of the issued share capital, for a consideration that amounted to £2,204,000. These shares are held as treasury shares. At 31 December 2008, there were 2,248,647 shares held in treasury. Dividends are not payable on these shares and they are excluded from the calculation of earnings per share. During the year 380,306 shares were utilised to satisfy the exercise of unapproved scheme and SAYE share option awards amounting to £751,000.

During the year, the maximum number of treasury shares held was 2,333,175, representing 2.7% of the issued share capital with a nominal value of £117,000.

In the period from 31 December 2008 to 30 March 2009 no shares have been purchased by the company.

Ordinary shares
The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Preference shares
The preference shares carry a fixed cumulative preferential dividend at the rate of 5.6% per annum. On a winding up they entitle the holders to repayment of the capital paid up on the shares, together with a premium of 7.50p per share and a sum equal to any arrears of the fixed dividend thereon.

21. CAPITAL AND RESERVES - CONTINUED

Preference shares - continued
The dividend will be calculated to the date of the return of capital and will be payable irrespective of whether such dividend has been declared or earned or not, in priority to any payment to the holders of any other shares. The preference shares do not entitle the holders to any further participation in the profits or assets of the company. The preference shares have no voting rights unless the fixed cumulative preference dividend is in arrears for a period of six months or a resolution is to be proposed to alter the provisions of the Memorandum of Association of the company with respect to its objects, or varying or abrogating any of the special rights or privilege attached to preference shares, or for winding up the company. There are currently no preference shares in issue.

Capital redemption reserve
The capital redemption reserve represents the nominal value of shares repurchased and cancelled during 2007.

Translation reserve
The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Cash flow hedging reserve
The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments relating to hedged transactions that have not yet occurred.

Treasury Reserve
The treasury reserve compromises the cost of the company's shares held by the group.

Special Reserve
The special reserve arose on the issuance of shares in connection with acquisitions made by the company in earlier years.

Dividends

	2008 £000	2007 £000
Interim dividend for 2007 of 5.35p paid 2 January 2008	**4,454**	–
Final dividend for 2007 of 17.75p paid 1 July 2008	**14,728**	–
Interim dividend for 2006 of 4.85p paid 3 January 2007	**–**	4,218
Final dividend for 2006 of 15.30p paid 3 July 2007	**–**	13,237
	19,182	17,455

The final proposed dividend of 14.10p per share (2007:17.75p per share) will not be provided for until authorised by shareholders at the forthcoming AGM.

Interim dividends of 5.60p per share (2007: 5.35p per share) are provided for when the dividend is paid.

The total value of dividends proposed but not recognised at 31 December 2008 is £16,354,000 (2007: £19,182,000).

Notes to the Financial Statements
continued

22. FINANCIAL INSTRUMENTS

The main financial risks arising in the normal course of the group's business are credit risk, liquidity risk, and market risks arising from interest rate risk and foreign currency risk. This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risks and the group's management of capital. Further quantitative disclosures are included throughout these financial statements.

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

The company and group have a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all new customers requiring credit cover over £1,000 and these are frequently reviewed by management to limit exposure. Businesses must obtain central approval for credit limits in excess of £10,000. The group does not require collateral in respect of financial assets.

At the balance sheet date, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The carrying amount of financial assets at the balance sheet date was:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade and other receivables (note 15)	**105,942**	100,830	**26,312**	20,466
Cash and cash equivalents (note 16)	**35,193**	16,805	**46,048**	30,135
	141,135	117,635	**72,360**	50,601

The fair values of the above financial assets at both 31 December 2008 and 2007, are deemed to approximate to carrying value due to the short term maturity of the instruments.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
UK	**63,774**	63,352	**–**	1
Continental Europe	**17,922**	14,116	**–**	–
	81,696	77,468	**–**	1

The ageing of trade receivables at the balance sheet date was:

	2008		2007	
	Gross	**Impairment**	Gross	Impairment
Group	**£000**	**£000**	£000	£000
Not past due	**77,054**	**–**	75,046	–
Past due 0-30 days	**3,410**	**–**	2,186	–
Past due 31-120 days	**4,310**	**(3,078)**	2,109	(1,873)
	84,774	**(3,078)**	79,341	(1,873)

The company had trade receivables of £nil (2007: £1,000) all of which are not past due.

Notes to the Financial Statements
continued

22. FINANCIAL INSTRUMENTS - CONTINUED

Credit risk - continued
The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Balance at 1 January	**1,873**	1,859	**–**	–
Movement in year	**1,205**	14	**–**	–
Balance at 31 December	**3,078**	1,873	**–**	–

The movement in the allowance for impairment loss during the year consists of an impairment loss recognised in the Consolidated Income Statement, net of the utilisation of the credit loss allowance and foreign exchange movements.

Based on historic default rates, the group believes that no general impairment allowance is necessary in respect of trade receivables, however, the group provides fully for specific debts when required. During the year the group's impairment loss as a percentage of revenue amounted to 0.42% (2007: 0.20%).

Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, with sufficient headroom to cope with abnormal market conditions. As at 31 December 2008 cash and cash equivalents covered the amounts of borrowings maturing in the next twelve months with a net positive liquidity of £30,687,000 (2007: £16,702,000). Details of the total facilities that the group has access to are given in note 17.

The following are the contractual maturities of financial liabilities:

31 December 2008

Group	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1-2 years £000**	**2-5 years £000**
Non-derivative financial liabilities					
Unsecured bank loans	**34,506**	**(37,171)**	**(5,388)**	**(713)**	**(31,070)**
Trade and other payables	**142,521**	**(142,521)**	**(142,521)**	**–**	**–**
Derivative financial liabilities					
Interest rate swaps used for hedging	**848**	**(848)**	**(848)**	**–**	**–**
	177,874	**(180,540)**	**(148,757)**	**(713)**	**(31,070)**

31 December 2007

Group	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Trade and other payables	154,320	(154,320)	(154,320)	–	–
Bank overdrafts	103	(103)	(103)	–	–
	154,423	(154,423)	(154,423)	–	–

Notes to the Financial Statements
continued

22. FINANCIAL INSTRUMENTS - CONTINUED

Liquidity risk – continued

31 December 2008

Company	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**1-2 years £000**	**2-5 years £000**
Non-derivative financial liabilities					
Unsecured bank loans	**30,000**	**(32,496)**	**(713)**	**(713)**	**(31,070)**
Trade and other payables	**39,305**	**(39,305)**	**(39,305)**	**–**	**–**
Derivative financial liabilities					
Interest rate swaps used for hedging	**848**	**(848)**	**(848)**	**–**	**–**
	70,153	**(72,649)**	**(40,866)**	**(713)**	**(31,070)**

31 December 2007

Company	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	2-5 years £000
Non-derivative financial liabilities					
Trade and other payables	38,271	(38,271)	(38,271)	–	–
	38,271	(38,271)	(38,271)	–	–

The value of the group's financial liabilities as detailed above at 31 December 2008 and 2007 were not materially different to the carrying value. Fair values were calculated using market rates, where available. Where market values are not available, fair values have been estimated by discounting expected future cash flows using prevailing interest rate curves. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date.

Interest rate risk
The company and group are exposed to interest rate fluctuations on their borrowings and cash deposits. Borrowings are principally in sterling and euros at both fixed and floating rates, deposits are in sterling, euros and Swiss francs at floating rates. During the year the group has drawn down in full a £30,000,000 floating rate term loan which is repayable in 2012. In order to manage the group's exposure to interest rates risk, interest rate swaps have been used to fix the interest rate on the term loan. The cash flow hedge relating to these swaps was 100% effective during the year to 31 December 2008 and therefore hedge accounting has been applied. Accordingly, the fair value of the interest rate swaps included in the balance sheet at 31 December 2008 is £848,000 (2007: Nil).

At the reporting date the interest rate profile of the group's interest-bearing financial instruments was:

	Group Carrying amount		**Company Carrying amount**	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Variable rate instruments				
Financial assets	**35,193**	16,805	**46,048**	30,135
Financial liabilities	**(34,506)**	(103)	**(30,000)**	–
	687	16,702	**16,048**	30,135

There were no fixed rate instruments held by the group at 31 December 2008 (2007: £nil).

22. FINANCIAL INSTRUMENTS - CONTINUED

Sensitivity analysis
Based on net debt balances that are not subject to an interest rate swap, a change of 100 basis points in the interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2007.

	Group				Company			
	Profit or loss		Equity		Profit or loss		Equity	
	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000	100bp increase £000	100bp decrease £000
31 December 2008								
Variable rate instruments	**307**	**(307)**	**–**	**–**	**460**	**(460)**	**–**	**–**
31 December 2007								
Variable rate instruments	167	(167)	–	–	301	(301)	–	–

Foreign currency risk
The company and group are exposed to movements in currency exchange rates arising from transaction currency cash flows and the translation of the results and net assets of overseas subsidiary operations. The currencies giving rise to this risk are primarily the euro and Swiss franc.

The company and group uses forward exchange contracts to hedge their foreign currency transactional risk. A future foreign currency contract would be entered into where there was a known requirement for the currency due to planned imports that are not invoiced in sterling. These forward exchange contracts would have a maturity of less than one year after the balance sheet date. The group also enters into foreign currency contracts at spot rate where the amounts are not frequent or material. Gains and losses on currency contracts recognised as a liability as at 31 December 2008 amounted to £79,000 (2007: £23,000).

For the year ended 31 December 2008, 8.0% (2007: 6.3%) of the group's operating profit was derived from overseas subsidiaries and at 31 December 2008, 14.8% (2007: 10.8%) of the group's operating assets related to overseas subsidiary operations. The company and group do not use derivatives other than as described above.

Notes to the Financial Statements
continued

22. FINANCIAL INSTRUMENTS - CONTINUED

Foreign currency risk - continued
The group's exposure to foreign currency risk was as follows based on notional amounts:

2008	**Group Euro amount £000**	**Group Other amount £000**	**Group Total £000**	**Company Euro amount £000**	**Company Other amount £000**	**Company Total £000**
Trade and other receivables	**57**	**19**	**76**	**88**	**19**	**107**
Cash and cash equivalents	**262**	**452**	**714**	**182**	**1**	**183**
Trade and other payables	**(1,837)**	**(282)**	**(2,119)**	**–**	**–**	**–**
	(1,518)	**189**	**(1,329)**	**270**	**20**	**290**

2007	Group Euro amount £000	Group Other amount £000	Group Total £000	Company Euro amount £000	Company Other amount £000	Company Total £000
Trade and other receivables	–	–	–	86	19	105
Cash and cash equivalents	586	26	612	417	1	418
Trade and other payables	(1,304)	(185)	(1,489)	–	–	–
	(718)	(159)	(877)	503	20	523

Sensitivity analysis
A 10 per cent strengthening of sterling against the following currencies at 31 December would have increased /(decreased) profit or loss by the amounts shown below, there is no equity effect. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	Group		**Company**	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Euro	**(152)**	(72)	**27**	50
Other	**19**	(16)	**2**	2

A 10 per cent weakening of sterling against the above currencies at 31 December would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements

continued

22. FINANCIAL INSTRUMENTS - CONTINUED

Capital management
The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board closely monitors its shareholder base, dividend yield and earnings per share.

The board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The board encourages employees of the group to hold the company's ordinary shares. The group operates a number of employee share option schemes. The company has acquired a number of its own shares under a share buy-back programme, some of these shares have been used for issuing shares under the group's various share option incentive schemes.

There were no changes to the group's approach to capital management in the year.

23. ACQUISITIONS OF SUBSIDIARIES

On 5 November 2008, a group subsidiary company acquired the trade and assets of Silvester, a supplier of residential products to independent retailers throughout the Netherlands for a cash consideration of £577,000. Since its acquisition the business has contributed profit of £60,000 to the consolidated profit for the year ended 31 December 2008 attributable to the equity shareholders. If the acquisition had occurred on 1 January 2008 group revenue would have been an estimated £559,760,000 and profit would have been an estimated £28,859,000.

On 18 March 2008, a group subsidiary company acquired the inventory and intellectual property rights of I-Floor for a cash consideration of £94,000.

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Intangible assets	–	263	263
Inventories	412	–	412
Trade and other receivables	318	–	318
Trade and other payables	(267)	–	(267)
Net identifiable assets and liabilities	463	263	726
Goodwill on acquisition			–
Consideration paid			(726)
Satisfied by:			
Cash			667
Acquisition costs capitalised			59
			726
Analysis of cash flows:			
On completion			(667)
Costs of acquisition			(59)
			(726)

No goodwill has arisen on the acquisition of the trade and assets of Silvester or I-Floor. The intangible assets on acquisition were attributed to customer lists.

Notes to the Financial Statements
continued

23. ACQUISITIONS OF SUBSIDIARIES - CONTINUED

On March 30 2007, the company acquired 3D Flooring Supplies Limited, a regional commercial floorcovering distributor located in South Wales and south west England, for a cash consideration of £1,377,500. On 27 April 2007, the company acquired Florprotec Limited for a cash consideration of £1,249,600. Florprotec is a leading supplier, throughout the UK, of floor protection products for the construction industry and refurbishment projects. On 27 July 2007, a group subsidiary company acquired the trade and assets of Plantation Rug Company for a cash consideration of £490,700. Plantation Rug Company is a supplier of rugs to independent retailers throughout the UK. Since their acquisition the businesses have contributed profit of £287,000 to the consolidated profit for the year ended 31 December 2007 attributable to the equity shareholders. If the acquisitions had occurred on 1 January 2007 group revenue would have been an estimated £548,535,000 and profit would have been an estimated £31,971,000.

	Acquiree's book value £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date:			
Intangible assets	–	1,517	1,517
Property, plant and equipment	293	(27)	266
Inventories	1,682	(8)	1,674
Trade and other receivables	1,756	–	1,756
Cash and cash equivalents	9	–	9
Short-term funding	(246)	–	(246)
Trade and other payables	(1,706)	–	(1,706)
Income tax payable	(67)	–	(67)
Deferred tax liabilities	(4)	–	(4)
Net identifiable assets and liabilities	1,717	1,482	3,199
Goodwill on acquisition			–
Consideration paid			(3,199)
Satisfied by:			
Cash			3,118
Acquisition costs capitalised			81
			3,199
Analysis of cash flows:			
On completion			(3,118)
Costs of acquisition			(81)
Cash and cash equivalents			9
			(3,190)

No goodwill has arisen on the acquisition of 3D Flooring Supplies Limited, Florprotec Limited or on the acquisition of the trade and assets of Plantation Rug Company. The intangible assets on acquisition were attributed to customer lists.

Notes to the Financial Statements

continued

23. ACQUISITIONS OF SUBSIDIARIES – CONTINUED

Following acquisition, it is the group's normal practice to implement its operational and financial procedures and standard IT systems.

Furthermore, acquired businesses gain access to the group's extensive product ranges and benefit from enhanced sales and marketing investment. These changes typically enable acquired businesses to enhance the service provided to their customers and ultimately, develop and grow.

Whilst acquired customer order books are a key component at the point of acquisition, this position quickly dissipates during the post acquisition period. The dynamic and renewable nature of this class of asset is the reason the group elects to amortise it over a period of one to twenty four months, the precise period being dependant upon the size of the acquired business.

During 2008, the intangible assets amounting to £301,000 were amortised in full.

24. OPERATING LEASES

The aggregate payments, for which there are commitments under non-cancellable operating leases as at the end of the year, fall due as follows:

Group	2008 Land and buildings £000	2008 Plant and machinery £000	2008 Total £000	2007 Land and buildings £000	2007 Plant and machinery £000	2007 Total £000
Less than one year	**893**	**7,614**	**8,507**	1,630	7,947	9,577
Between one and five years	**3,427**	**13,634**	**17,061**	4,965	9,833	14,798
More than five years	**2,135**	**258**	**2,393**	3,061	–	3,061
	6,455	**21,506**	**27,961**	9,656	17,780	27,436

Company	2008 Land and buildings £000	2008 Plant and machinery £000	2008 Total £000	2007 Land and buildings £000	2007 Plant and machinery £000	2007 Total £000
Less than one year	**16**	**7**	**23**	16	15	31
Between one and five years	**65**	**13**	**78**	65	1	66
More than five years	**1,259**	**–**	**1,259**	1,276	–	1,276
	1,341	**20**	**1,360**	1,357	16	1,373

The group leases the majority of its motor and commercial vehicles on terms that range between three and five years.

During the year ended 31 December 2008, £11,201,000 was recognised as an expense in the Consolidated Income Statement in respect of operating leases (2007: £10,258,000).

25. CAPITAL COMMITMENTS

Group
During the year ended 31 December 2008, the group entered into contracts to purchase property, plant and equipment for £629,000 (2007: £1,906,000). These commitments are expected to be settled in the following financial year.

Company
During the year ended 31 December 2008, the company entered into contracts to purchase property, plant and equipment for £16,000 (2007: £1,541,000). These commitments are expected to be settled in the following financial year.

Notes to the Financial Statements
continued

26. RELATED PARTIES

Group
Identity of related parties
The group has a related party relationship with its subsidiaries and with its directors and executive officers.

Transactions with key management personnel
As at 31 December 2008, directors of the company and their immediate relatives controlled 1.6 per cent of the voting shares of the company (2007:1.3 per cent).

The remuneration of the board of directors, who are the key managing personnel of the group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2008 £000	2007 £000
Short-term employee benefits	**1,515**	2,305
Share based payment	**116**	179
	1,697	2,484

Details of the directors remuneration is disclosed within the Remuneration Report on page 38.

Company
Identity of related parties
The company has a related party relationship with its subsidiaries and with its directors and executive officers.

Transactions with key management personnel
As at 31 December 2008, directors of the company and their immediate relatives control 1.6 per cent of the voting shares of the company (2007:1.3 per cent).

The remuneration of the directors of the company is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2008 £000	2007 £000
Short-term employee benefits	**1,515**	2,305
Share based payment	**116**	179
	1,697	2,484

The directors and their remuneration is fully disclosed within the Remuneration Report on page 38.

Notes to the Financial Statements
continued

26. RELATED PARTIES - CONTINUED

Transactions with other group companies

	Highest during the year £000	**Balance at 31 December 2008 £000**	Highest during the year £000	Balance at 31 December 2007 £000
Amounts due from subsidiary undertakings	**26,036**	**26,036**	19,909	19,909
Amounts due to subsidiary undertakings	**(32,524)**	**(32,524)**	(32,285)	(32,285)

The disclosure of the year end balance and the highest balance during the year is considered to provide a meaningful representation of transactions between the company and its subsidiaries in the year. The highest balance is generally at the start or close of the financial period since this is the time when the company levies its management charge.

Transactions reported in the income statement

	2008 £000	2007 £000
Rental income	**5,453**	5,265
Dividends received	**9,586**	33,629
Management charges	**2,375**	2,352
Interest income	**790**	483
Pension recharge	**260**	307

27. SUBSEQUENT EVENTS

There have been no events after the balance sheet date that require disclosure.

Principal Trading Subsidiaries

		Place of incorporation
*	HFD Limited	Great Britain
*	MCD Group Limited	Great Britain
	Headlam BV	Netherlands
	DFA SA	France
*	Belcolor AG	Switzerland

All of these subsidiaries are wholly owned and are principally engaged as a distributor of floorcoverings and associated products.

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

Financial Record

	2004 £000	2005 £000	2006 £000	2007 £000	**2008 £000**
Trading results					
Revenue	464,789	486,653	509,899	544,718	**557,296**
Operating profit	38,924	41,498	43,941	46,013	**41,722**
Profit before net financing costs	38,924	41,498	43,941	46,013	**41,722**
Net financing costs	(440)	(658)	(383)	(841)	**(1,602)**
Profit on ordinary activities before tax	38,484	40,840	43,558	45,172	**40,120**
Taxation	(11,738)	(12,352)	(13,067)	(13,534)	**(11,433)**
Profit on ordinary activities after taxation	26,746	28,488	30,491	31,638	**28,687**
Shareholder value					
Paid dividend per share	13.85p	16.25p	18.00p	20.15p	**23.10p**
Proposed dividend per share	16.25p	18.00p	20.15p	23.10p	**19.70p**
Earnings per share	31.3p	33.1p	35.1p	37.1p	**34.5p**
Net assets					
Non-current assets					
Property, plant and equipment	71,754	74,640	85,032	92,097	**99,741**
Intangible assets	14,046	13,210	13,210	13,210	**13,210**
Deferred tax assets	8,167	8,199	9,182	5,942	**5,372**
	93,967	96,049	107,424	111,249	**118,323**
Current assets					
Inventories	79,692	91,160	94,217	101,491	**107,597**
Trade and other receivables	85,550	84,275	91,284	100,830	**105,942**
Cash and cash equivalents	37,747	36,193	41,861	16,805	**35,193**
	202,989	211,628	227,362	219,126	**248,732**
Non-current assets classified as held for sale	203	3,471	–	–	**–**
Total assets	297,159	311,148	334,786	330,375	**367,055**
Current liabilities					
Bank overdraft	(279)	–	(1,010)	(103)	**–**
Other interest-bearing loans and borrowings	(1,124)	(471)	(267)	–	**(4,506)**
Trade and other payables	(142,028)	(141,529)	(149,422)	(154,320)	**(143,370)**
Employee benefits	(722)	(1,080)	(1,102)	(1,491)	**(2,428)**
Income tax payable	(11,053)	(11,139)	(10,184)	(10,747)	**(9,546)**
	(155,206)	(154,219)	(161,985)	(166,661)	**(159,849)**
Non-current liabilities					
Other interest-bearing loans and borrowings	(738)	(267)	–	–	**(30,000)**
Employee benefits	(17,643)	(19,432)	(16,124)	(9,837)	**(12,216)**
Deferred tax liabilities	(1,212)	(1,403)	(3,665)	(3,836)	**(3,856)**
	(19,593)	(21,102)	(19,789)	(13,673)	**(46,072)**
Total liabilities	(174,799)	(175,321)	(181,774)	(180,334)	**(205,921)**
Net assets	122,360	135,827	153,012	150,041	**161,134**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Headlam Group plc will be held at the group's distribution facility located at Gorsey Lane, Coleshill, Birmingham, B46 1LW on Friday 26 June 2009 at 10.00 a.m. for the following purposes.

As ordinary business

1. To receive, consider and adopt the Annual Report and Accounts, the Directors' Report and the Auditor's Report for the year ended 31 December 2008.

2. To declare a final dividend for the year ended 31 December 2008 of 14.10 pence per ordinary share.

3. To re-elect as a director Steve Wilson who is retiring by rotation in accordance with the company's articles.

4. To re-elect as a director Mike O'Leary who is retiring by rotation in accordance with the company's articles.

5. To re-appoint KPMG Audit Plc as auditor of the company from the conclusion of the meeting until the conclusion of the next general meeting at which accounts are laid before the shareholders.

6. To authorise the directors to determine the auditor's remuneration.

7. To approve the director's Remuneration Report for the year ended 31 December 2008.

As special business

To consider and, if thought fit, pass the following resolutions of which resolution 8 will be proposed as an ordinary resolution and resolutions 9 to 11 will be proposed as special resolutions:-

8. Authority to allot shares
That (in substitution for all subsisting authorities) 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 £1,122,500 for the period expiring on 30 June 2010 or at the conclusion of the next AGM of the company after the passing of this resolution, whichever first occurs (unless previously renewed, varied or revoked by the company in general meeting) but so 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 that offer or agreement as if the authority conferred by this resolution had not expired.

9. Dis-application of pre-emption rights
That, subject to the passing of resolution 8, the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of section 94(2) to section 94 (3A) of the Act) for cash pursuant to the authority conferred by resolution 8 as if section 89(1) of the Act did not apply to the allotment. This power is limited to:-

(a) the allotment of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the company (excluding holders of treasury shares) in proportion (as nearly as may be) to their existing holdings of ordinary shares but subject in either case to the directors having a right to make such exclusions or other arrangements in connection with the offering as they deem necessary or expedient:-
  (i) to deal with equity securities representing fractional entitlements; and
  (ii) to deal with legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

(b) the allotment of equity securities for cash otherwise than pursuant to paragraph (a) up to an aggregate nominal amount of £213,000 and will expire on 30 June 2010 or at the conclusion of the next AGM of the company after the passing of this resolution, whichever first occurs, but 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 that offer or agreement as if the power conferred by this resolution had not expired.

This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 8" were omitted.

Notice of Annual General Meeting

continued

10. Authority to purchase own shares

That the company be and is hereby generally and unconditionally authorised for the purposes of section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163(3) of the Act) of ordinary shares of 5 pence each in the company provided that:-

(a) the maximum number of ordinary shares which may be purchased is 12,467,000;

(b) the minimum price (exclusive of expenses) which may be paid for each ordinary share is 5 pence;

(c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is an amount equal to 105% of the average of the middle market quotations of an ordinary share of the company taken from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased;

(d) this authority shall expire at the conclusion of the AGM of the company to be held in 2010 or on 30 June 2010, whichever is earlier, (unless previously renewed, varied or revoked by the company in general meeting); and

(e) the company may, before such expiry, enter into one or more contracts to purchase ordinary shares under which such purchases may be completed or executed wholly or partly after the expiry of this authority and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

11. Shareholder rights directive

That the company be and is hereby generally and unconditionally authorised to hold general meetings (other than annual general meetings) on 14 days' clear notice from the date of the passing of this resolution, provided that the authority shall expire at the conclusion of the AGM of the company to be held in 2010 or 30 June 2010, whichever is the earlier.

By order of the board

Geoff Duggan
Company Secretary
30 March 2009

Registered office:
Gorsey Lane
Coleshill
Birmingham
B46 1LW

Notice of Annual General Meeting

continued

Notes

1. A member entitled to attend and vote at the meeting is also entitled to appoint a proxy or proxies to attend, speak and vote instead of him. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not be a member of the company. Appointment of a proxy will not preclude a member from attending and voting in person at the meeting. To appoint more than one proxy, complete a photocopy of the enclosed proxy card or obtain additional forms from Capita Registrars, tel 0871 6640300 (call cost 10p per minute plus network charges). Please also indicate by ticking the relevant box if the proxy appointment is one of multiple appointments being made. Multiple proxy appointments should be returned together in the same envelope. Enter in the box provided the number of shares in relation to which your proxy is authorised or leave box blank to authorise your proxy to act in relation to your full voting entitlement.

2. To be effective, the instrument appointing a proxy and any power of attorney or other authority under which it is executed (or a notarially certified copy of such power or authority) must reach Capita Registrars, Proxies Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this Notice.

3. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("Euroclear UK & Ireland") specifications and must contain the information required for such instructions, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time for the receipt of proxy appointments specified in note 2 above. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK and Ireland does not make available special procedures in CREST for any particular message. Normal system timing and limitations will, therefore, apply in relation to the input of CREST proxy instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST systems and timing.

The company may treat as invalid a CREST proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertified Securities Regulations 2001.

4. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names of the holders stand in the register of members in respect of the joint holding.

5. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the AGM is 6.00 p.m. on 24 June 2009 or, if the meeting is adjourned, 6.00 p.m. on the date two days before the date for the adjourned meeting. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting.

6. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy nomination rights (a "Nominated Person") you may, under an agreement between you and the member of the company who has nominated you, have a right to be appointed (or have someone else appointed) as a proxy for the meeting. If you do not have such a proxy appointment right, or you do but do not wish to exercise it, you may have a right to give instructions to the member who has appointed you as to the exercise of voting rights.

Notice of Annual General Meeting

continued

7. If you are a Nominated Person, the statement of the rights of members in relation to the appointment of proxies above does not apply. Such rights can only be exercised by registered member of the company.

8. As at 30 April 2009 the company's issued share capital, including treasury shares, consisted of 85,363,743 ordinary shares of 5p ("shares"). Of these 2,248,647 shares were held in treasury, the voting rights and entitlement to dividend of which were automatically suspended. Accordingly, the total number of voting rights in the company as at that date was 83,115,096.

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

10. Under section 527 Companies Act 2006, members of the company representing at least 5% of the total voting rights of the company or at least 100 members who have a right to vote and hold shares in the company on which there has been paid up an average sum per member of at least £100, may require the company to publish on its website a statement setting out any matter relating to the audit of the company's accounts or any circumstances connected with KPMG Audit Plc ceasing to hold office since the last AGM that the members propose to raise at the meeting. Where the company is required to publish such a statement on its website, it may not require the members making the request to pay its expenses in complying with the request. The company must forward the statement to the company's auditor not later than the time when it makes the statement available on its website. The business of the meeting includes any such statement that the company has been required to publish on its website.

11. Persons who are not shareholders in the company will not be admitted to the meeting unless prior arrangements are made with the company.

12. Should any shareholder with special needs wish to attend the meeting, please contact the company so that appropriate arrangements can be made.

13. You may not use any electronic address provided within this notice or any related documents (including the form of proxy) to communicate with the company other than as expressly stated.

14. Copies of the directors' service contracts and, where appropriate, letters of appointment, a summary of the directors' transactions in the company's shares during the year and the written terms of reference for each of the Remuneration, Audit and Nomination committees will be available for inspection at the registered office of the company during normal business hours on any weekday (Saturday, Sundays and public holidays excluded) from the date of this Notice until the close of business on the business day preceding the AGM and will also be available for inspection for at least 15 minutes prior to the meeting and throughout the meeting. There are no service agreements between any director and any subsidiary of the company.

Shareholder Information

Shareholder helpline
Headlam's shareholder register is maintained by Capita Registrars ("Capita"), who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses and purchases or sales of Headlam shares. If you have a question about your shareholding in Headlam you should contact: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, HD8 0LA, telephone +44 (0)871 664 0300 (calls cost 10p plus network extras), email: ssd@capitaregistrars.com

Frequent shareholder enquiries
If you change your address
Please notify Capita in writing. If shares are held in joint names, the notification must be signed by all named shareholders.

If you change your name
Please notify Capita in writing and enclose a copy of any marriage certificate or change of name deed as evidence.

Lost Headlam share certificate
If your share certificate is lost or stolen, you should call Capita immediately. A letter of indemnity will be sent to you to sign. Capita will charge for this service.

Duplicate shareholder accounts
If you receive more than one copy of Headlam communications you may have your shares registered inadvertently in at least two accounts. This happens when the registration details of separate transactions differ slightly. If you wish to consolidate such multiple accounts, call Capita to request the accounts are consolidated.

Buying and selling shares in the UK
If you wish to trade in Headlam shares, you can do so at Capita's website, www.capitadeal.com or alternatively use a stockbroker or high street bank which trades on the London Stock Exchange.There are many telephone and online services available. If you are selling, you will need to present your share certificate at the time of sale.

Transferring Headlam shares
Transferring shares to someone else requires the completion of a stock transfer form. This form, and details of the procedure you need to follow, is available from Capita's website. Stamp duty is not normally payable if the transfer is to a relative or if there is no money being paid in exchange for the shares.

Share prices information
Shareholders can find share prices listed in most national newspapers. Ceefax and Teletext pages also display share prices that are updated regularly throughout the trading day. For a real-time buying or selling price, you should contact a stockbroker. Additionally there is a link to the London Stock Exchange on the Headlam website.

The Headlam website
The Headlam website at www.headlam.com provides news and details of the company's activities, plus information on the share price. The investor information section of the website contains up-to-date information for shareholders including the company's latest results and key dates such as dividend payment dates.

ShareGift
ShareGift, the charity share donation scheme, is a free service for shareholders wishing to give shares to charitable causes. It may be especially useful for those who wish to dispose of a small parcel of shares which would cost more to sell than they are worth. There are no capital gains tax implications (i.e. no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information can be obtained at www.sharegift.org

The Unclaimed Assets Register
The Unclaimed Assets Register is a unique search service that helps individuals to find their lost assets and re-establish contact with financial institutions. It has a database of unclaimed life policies, pensions, unit trust holdings, and share dividends drawn from many companies and can search for lost assets and entitlements.The Unclaimed Assets Register charges a small fixed fee for each search, 10% of which goes to charity. For further information, visit www.uar.co.uk

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