

31942
SAMUEL HEATH & SONS PLC

Report and Accounts
for the year ended 31st March 2008

SAMUEL HEATH

WEDNESDAY



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DIRECTORS AND OFFICERS

Directors

Samuel B. Heath*
(Chairman)
David J. Pick
(Managing Director)
David J. Richardson, FCMA
(Financial Director)
Martin J. Legge*†
(Senior Non-executive)
David F. Coplestone*†
(Non-executive)
Neil Bosworth
(Manufacturing Director)

* Member of remuneration committee

† Member of audit committee

Secretary

John Park

Group Management Board

Martyn Whieldon
Roger Jeynes

Registered Office.

Cobden Works
Leopold Street
Birmingham, B12 0UJ
Registered No. 31942

Registrar.

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

Auditors

RSM Bentley Jennison
Charterhouse
Legge Street
Birmingham, B4 7EU

Nominated adviser and nominated broker

Evolution Securities Limited
100 Wood Street
London, EC2V 7AN

CHAIRMAN'S STATEMENT

The results for the year to 31st March 2008 were well down on the previous one, but not quite as much as anticipated. Turnover fell 4%, and operating profit was down from £1,469,000 to £1,182,000.

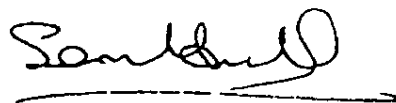
In March, Non-executive director Charles Flint died. His keen and probing mind and wise counsel will be very much missed by his colleagues.

Roger Jeynes will also be relinquishing his directorship of the Management Board, as he moves to much shorter working hours. He has been responsible for the development of two world patented and unique products, the Perkomatic and later the Perko-Powermatic door closers. Unbeknown to him, we did try to obtain recognition for this, and his work in Europe with C E N, on a more countrywide basis. We were told that he was almost certainly of the wrong ethnic background for such an award. What strange times we live in, when you might consider engineering innovation to be vital to this country. These remarks are, in no way, meant to show any lack of appreciation of the skills and hard work of the wide variety of people, with whom I have had the privilege to work, for over fifty years.

Your directors believe that a purchase of the Company's shares at the right price level could benefit the Company, and thereby its shareholders. Accordingly, your directors are seeking your approval for the purchase of up to 15% of the issued share capital, 380,298 shares, between Annual General Meetings.

The change in the product mix, which was foreseen for the previous year, is continuing. We have commodity prices through the roof, and by any standards difficult trading conditions practically everywhere. This is combined with the reluctance of the market to accept higher prices against any logical rationale. All this forces me to anticipate a significant further fall in profits for the coming year.

However, on the basis of the Company's strong balance sheet, your directors are recommending a same again final dividend of 12.5 pence per share.



Sam Heath
Chairman

3rd July 2008

DIRECTORS' REPORT

The directors present their annual report on the affairs of the Group, together with the financial statements and auditors' report, for the year ended 31st March 2008

Principal activities

The Group engages in the manufacture and marketing of a wide range of products in the builders' hardware and bathroom field

Business review and key performance indicators

A review of the business of the Group and future developments is set out in the Chairman's Statement on page 3

The Board consider that the key financial performance indicators are those that communicate the financial performance and strength of the Company

During the year revenue was 4.1% lower at £12,191,000 (2007 £12,712,000) and operating profit reduced by 19.5% to £1,182,000 (2007 £1,469,000). This resulted from high commodity prices and difficult trading conditions coupled with the change in product mix as highlighted in the Chairman's Statement

Cash in hand at the year end amounted to £1,728,000 (2007 £1,901,000), a fall of £173,000. Whilst cash generated from operating activities improved to £519,000 from £205,000, capital expenditure was lower than last year at £226,000 (2007 £490,000)

The balance sheet remains strong with net assets at 31st March 2008 amounting to £7,905,000 (2007 £7,614,000), an increase of 3.8%

Financial risk management

The Group's financial risk management policies are disclosed on page 29

Dividends

The directors recommend a final dividend of 12.5 pence per share which will be proposed as a resolution at the forthcoming Annual General Meeting

Directors

The directors who served throughout the year, and their interests, were as follows

		31st March 2008	31st March 2007
<i>Beneficial interests</i>			
S B Heath	Chairman	487,081	487,081
D F Coplestone	Non-executive	104,500	104,500
M J Legge	Senior Non-executive	30,000	30,000
D J Pick	Managing Director	4,500	4,500
D J Richardson	Financial Director	2,000	2,000
N Bosworth	Manufacturing Director	1,000	1,000
<i>Non-beneficial interests</i>			
M J Legge	Senior Non-executive	12,500	12,500

The directors retiring by rotation are Mr D F Coplestone and Mr M J Legge who offer themselves for re-election. Resolutions will be proposed that they be re-elected

DIRECTORS' REPORT

(continued)

Non-executives

Mr M J Legge has held a number of directorships in both public and private companies during his working life. He is the Senior Independent Director.

Mr D F Coplestone initially began working in the advertising agency field both in London and Birmingham. After a spell as a very successful independent selling agent, he worked for Samuel Heath & Sons PLC for 27 years.

Mr C J B Flint served as a Non-executive director until his death in March 2008.

None of the directors has a material interest in any contract of significance with the Company.

The directors confirm that there is no material relevant information that they know and of which they know the auditors are unaware.

Other major shareholdings

On 18th June 2008, the Company had been notified, in accordance with chapter 5 of Disclosures and Transparency Rules, of the following voting rights as a shareholder of the Company:

	Percentage of voting rights and issued share capital	Number of shares
C A Heath	14.9	378,710
G S Heath	14.9	378,710
S A Perkins (nee Heath)	10.8	272,810
Solid Brass AB	8.5	215,583

Employees

Full and fair consideration is given to applications for employment from disabled persons and to continuing the employment of those who become disabled while employed. The policy is to give equal opportunity for training, career development and promotion.

The awareness and involvement of employees in the Group's performance is achieved by consultation and negotiation in meetings involving employees at all levels. An active Works Committee has been in operation for many years.

Going concern

Having made appropriate enquiries and having examined the major areas which could affect the Group's financial position, the directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Information to shareholders

The Company has its own website (www.samuel-heath.com) for the purposes of improving information flow to shareholders as well as potential investors.

Corporate governance

The directors support high standards of corporate governance. As the Company is an AIM company, it is not required to comply with the provisions of the Combined Code on Corporate Governance issued in 2006 by the Financial Reporting Council (the "Code"). The Company aims to support the principles set out in the Code and complies in some areas where it considers it appropriate to do so given both the size and resources available to the Company.

DIRECTORS' REPORT

(continued)

Derivatives and other financial instruments

Financial Reporting Standards require us to explain the role that derivatives and other financial instruments play in the Group's activities

The Group is financed by operational cash flow and any surplus cash is placed short term on the money market

Some trading takes place in foreign currencies but exposure at any one time is at a level for the Board to consider the currency risk acceptable

Supplier payment policy

The policy for payment of suppliers is to make payment in accordance with the agreed terms and conditions of trade

At 31st March 2008 the creditor days compared to the value of supplier invoices received in the year was 30 (2007 35)

Disclosure of information to auditors

The directors who held office at the date of approval of the Directors' Report each confirm the following

- so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

RSM Bentley Jennison have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

On behalf of the Board

S. B. Heath
Chairman



3rd July 2008

— STATEMENT OF DIRECTORS' RESPONSIBILITIES —

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent, and
- state whether the financial statements comply with IFRSs as adopted by the European Union

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 1985, as amended. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

INDEPENDENT AUDITORS' REPORT

To the shareholders of Samuel Heath & Sons PLC

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Samuel Heath & Sons PLC for the year ended 31st March 2008 set out on pages 9 to 30. These Financial Statements have been prepared in accordance with the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company Financial Statements in accordance with applicable law and IFRSs are set out in the statement of directors' responsibilities on page 7.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and are 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.

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 with the Group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

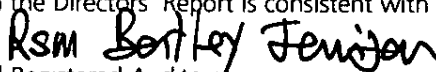
Opinion

In our opinion:

- the Group and the Parent Company's Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of affairs of the Group and the Parent Company as at 31st March 2008 and of the profit and cash flows for the year then ended,
- the Group and Parent Company's Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the Financial Statements.

RSM Bentley Jennison

Chartered Accountants and Registered Auditors
Charterhouse, Legg Street, Birmingham, B4 7EU



3rd July 2008

CONSOLIDATED INCOME STATEMENT

for the year ended 31st March 2008

	<i>Note</i>	2008 £000	2007 £000
Continuing operations			
Revenue	4	12,191	12,712
Cost of sales		5,355	5,702
Gross profit		6,836	7,010
Distribution costs		384	411
Administrative expenses		5,270	5,130
		5,654	5,541
Operating profit			
Net of contributions to pension deficit		672	964
Contributions to pension deficit		510	505
Operating profit	5	1,182	1,469
Finance income	7	778	787
Finance costs	8	568	523
		210	264
Profit before taxation		1,392	1,733
Taxation	9	345	349
Profit for the year		1,047	1,384
Basic and diluted earnings per ordinary share	11	41.3p	54 5p

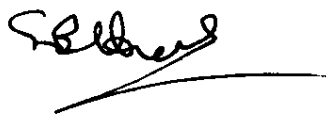
BALANCE SHEETS

31st March 2008

		Group		Company	
	Note	2008 £000	2007 £000	2008 £000	2007 £000
Non-current assets					
Property, plant and equipment	12	2,934	3,201	2,934	3,201
Investments	13	—	—	399	399
Deferred tax asset	16	101	235	101	235
		<u>3,035</u>	<u>3,436</u>	<u>3,434</u>	<u>3,835</u>
Current assets					
Inventories	14	2,787	2,645	2,787	2,645
Trade and other receivables	15	2,166	2,135	2,166	2,135
Cash and cash equivalents		1,728	1,901	1,728	1,901
		<u>6,681</u>	<u>6,681</u>	<u>6,681</u>	<u>6,681</u>
Total assets		<u>9,716</u>	<u>10,117</u>	<u>10,115</u>	<u>10,516</u>
Current liabilities					
Trade and other payables	17	986	1,183	986	1,183
Amounts owed to Group undertakings		—	—	1,052	1,052
Current tax payable		213	245	213	245
		<u>1,199</u>	<u>1,428</u>	<u>2,251</u>	<u>2,480</u>
Non current liabilities					
Pension scheme deficit	21	360	783	360	783
Deferred tax liability	16	252	292	252	292
		<u>612</u>	<u>1,075</u>	<u>612</u>	<u>1,075</u>
Total liabilities		<u>1,811</u>	<u>2,503</u>	<u>2,863</u>	<u>3,555</u>
Net assets		<u>7,905</u>	<u>7,614</u>	<u>7,252</u>	<u>6,961</u>
Equity					
Called up share capital	18	254	254	254	254
Capital redemption reserve		109	109	109	109
Retained earnings		7,542	7,251	6,889	6,598
		<u>7,905</u>	<u>7,614</u>	<u>7,252</u>	<u>6,961</u>
Equity shareholders' funds		<u>7,905</u>	<u>7,614</u>	<u>7,252</u>	<u>6,961</u>

Signed on behalf of the Board on 3rd July 2008

S. B. Heath
Chairman



— CONSOLIDATED STATEMENT OF CHANGES IN EQUITY —
for the year ended 31st March 2008

	Share capital £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 31st March 2006	255	108	6,733	7,096
Actuarial losses on defined benefit pension scheme	—	—	(301)	(301)
Deferred taxation on items taken to equity	—	—	90	90
Net loss recognised directly in equity	—	—	(211)	(211)
Profit for the period	—	—	1,384	1,384
Total recognised income and expense for the period	—	—	1,173	1,173
Purchase of own shares	(1)	1	—	—
Premium on purchase of own shares	—	—	(57)	(57)
Equity dividends paid	—	—	(598)	(598)
Balance at 31st March 2007	254	109	7,251	7,614
Actuarial loss on defined benefit pension scheme	—	—	(200)	(200)
Deferred taxation on items taken to equity	—	—	40	40
Net loss recognised directly in equity	—	—	(160)	(160)
Profit for the period	—	—	1,047	1,047
Total recognised income and expense for the period	—	—	887	887
Equity dividends paid	—	—	(596)	(596)
Balance at 31st March 2008	254	109	7,542	7,905

STATEMENT OF CHANGES IN EQUITY

(PARENT COMPANY)

for the year ended 31st March 2008

	Share capital £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 31st March 2006	255	108	6,080	6,443
Actuarial losses on defined benefit pension scheme	—	—	(301)	(301)
Deferred taxation on items taken to equity	—	—	90	90
Net loss recognised directly in equity	—	—	(211)	(211)
Profit for the period	—	—	1,384	1,384
Total recognised income and expense for the period	—	—	1,173	1,173
Purchase of own shares	(1)	1	—	—
Premium on purchase of own shares	—	—	(57)	(57)
Equity dividends paid	—	—	(598)	(598)
Balance at 31st March 2007	254	109	6,598	6,961
Actuarial loss on defined benefit pension scheme	—	—	(200)	(200)
Deferred taxation on items taken to equity	—	—	40	40
Net loss recognised directly in equity	—	—	(160)	(160)
Profit for the period	—	—	1,047	1,047
Total recognised income and expense for the period	—	—	887	887
Equity dividends paid	—	—	(596)	(596)
Balance at 31st March 2008	254	109	6,889	7,252

- CONSOLIDATED AND PARENT CASH FLOW STATEMENTS -
for the year ended 31st March 2008

	<i>Note</i>	2008 £000	2007 £000
Net cash inflow from operating activities	19	519	205
Cash flow from investing activities			
Purchases of property, plant and equipment		(226)	(490)
Proceeds from sale of property, plant and equipment		33	51
Interest received		97	99
Net cash outflow from investing activities		(96)	(340)
Net cash outflow from financing activities			
Purchase of own shares		—	(57)
Equity dividends paid	10	(596)	(598)
Net cash outflow from financing activities		(596)	(655)
Decrease in cash and cash equivalents		(173)	(790)
Cash and cash equivalents at beginning of period		1,901	2,691
Cash and cash equivalents at end of period		1,728	1,901

NOTES FORMING PART OF THE ACCOUNTS

31st March 2008

1 Adoption of new and revised Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1st April 2007. The adoption of the following IFRSs has not impacted the audited financial statements other than for disclosure.

IFRS 3 — Business Combinations

IFRS 7 — Financial Instruments — disclosure

IAS 1 — Presentation of Financial Statements

IAS 27 — Consolidated and Separate Financial Statements

At the date of authorisation of these financial statements, the following Standard which has not been applied in these financial statements was in issue but not yet effective.

IFRS 8 — Operating Segments

The other Standards and Interpretations are not expected to have any significant impact on the Group's financial statements, in their periods of initial application, except for the additional disclosures on operating segments when the relevant standard comes into effect for periods commencing on or after 1st January 2009.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

2 Accounting policies

Basis of Accounting

The financial statements, upon which this financial information is based, have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) for the first time. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 23.

The financial statements, upon which this financial information is based, have been prepared under the historical cost basis. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31st March each year. Control is achieved where the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of the exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any cost directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

Foreign currency

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Any differences arising are written off to the income statement.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profits for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all, or part, of the asset to be recovered.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

Defined benefit scheme

Funding surpluses or deficits that may arise in relation to the defined benefit scheme are taken directly to equity.

Defined contribution scheme

The costs of the defined contribution schemes are charged in the income statements as they fall due. Both employee and employer contributions are held in trust funds separately from the Group's finances.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged, except on freehold land, so as to write off the cost or valuation of assets over their estimated useful lives using the straight-line method, on the following bases:

Freehold buildings	2% per annum on cost
Plant and machinery	10% per annum on cost
Vehicles	25% per annum on cost
Computer equipment	25% per annum on cost

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated at actual price paid. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual agreements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recognised at the amount of proceeds received net of costs directly attributable to the transaction. To the extent that those proceeds exceed the par value of the shares issued they are credited to a share premium account.

Trade and other payables

Trade and other payables are not interest-bearing and are stated at their nominal value.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with a maturity of 90 days or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred

3 Critical accounting and key sources of estimation

Critical judgements in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described above, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements

Income taxes

The Group is subject to income taxes in the United Kingdom. Judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The recoverable amounts of the Group's deferred tax assets have been determined based on the Board's estimates of future taxable profits and income and tax rates.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Retirement benefit scheme deficit

The valuation of expected returns on assets and the present value of the liabilities of the scheme are determined by assumptions and estimates made by the directors based on the current information to hand. Therefore, amounts are open to fluctuations in the future due to unforeseen changes or additional factors that come to light following the year end. The assumptions and their sensitivity are disclosed in note 21.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

4. Revenue

Geographical segments

The Group's operations are located in the United Kingdom. The Group's primary activity is located in the United Kingdom, so only has one geographical segment.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods.

Sales revenue by geographical market

	2008 £000	2007 £000
Overseas	4,216	4,542
Home	7,975	8,170
	<u>12,191</u>	<u>12,712</u>

No detailed analysis of overseas revenue is given as, in the opinion of the directors, the disclosure of such information would be seriously prejudicial to the interests of the Group.

5 Profit for the year

Profit for the year has been arrived at after charging

	2008 £000	2007 £000
Depreciation of property, plant and equipment	468	451
Profit on disposal of property, plant and equipment	(8)	(2)
Net foreign exchange (gains)/losses	<u>(60)</u>	<u>74</u>

6 Auditors' remuneration

	2008 £000	2007 £000
Fees payable		
Audit services	22	21
Assurance services	3	—
Tax services	2	3
Total fees	<u>27</u>	<u>24</u>

NOTES FORMING PART OF THE ACCOUNTS

(continued)

7 Finance income

	2008 £000	2007 £000
Interest on bank deposits	97	99
Expected return on pension scheme assets	681	688
	<u>778</u>	<u>787</u>

8 Finance costs

	2008 £000	2007 £000
Interest on pension scheme liabilities	568	523

9 Income taxes

	2008 £000	2007 £000
Current taxes	211	256
Deferred taxes	134	93
Total income taxes	<u>345</u>	<u>349</u>

Corporation tax is calculated at 30% (2007 30%) of the estimated assessable profit for the year

Tax rate reconciliation

	2008 £000	2007 £000
Profit for the year	1,392	1,733
Corporation tax charge thereon at 30% (2007 30%)	<u>418</u>	<u>520</u>
Adjusted for the effects of		
Depreciation in excess of capital allowances	30	(15)
Marginal relief	(18)	(17)
Prior year adjustments	(2)	11
Research and development claim	(37)	(31)
Allowable payments to defined benefit pension scheme	(153)	(152)
Finance income on defined benefit scheme	(38)	(49)
Other adjustments	11	(11)
Current tax	<u>211</u>	<u>256</u>
Effective tax rate	<u>15.2%</u>	<u>14.8%</u>

NOTES FORMING PART OF THE ACCOUNTS

(continued)

10 Dividends

	2008 £000	2007 £000
Final dividend for the year ended 31st March 2007 of 12.5 pence per share (2006 12.5 pence per share)	317	319
Interim dividend for the year ended 31st March 2008 of 11.0 pence per share (2007 11.0 pence per share)	279	279
	596	598

In addition to the dividends paid during the year the directors are recommending a final dividend for 2008 of 12.5 pence per share amounting to £317,000. The proposed final dividend is subject to approval at the Annual General Meeting and has not been included as a liability in these accounts.

11. Earnings per share

The basic and diluted earnings per share are calculated by dividing the relevant profit after taxation of £1,047,000 (2007 £1,384,000) by the average number of ordinary shares in issue during the year being 2,535,000 (2007 2,538,700). The number of shares used in the calculation is the same for both basic and diluted earnings.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

12 Property, plant and equipment of the Group and of the Company

	Freehold land and buildings £000	Plant and equipment £000	Vehicles £000	Total £000
Cost				
At 31st March 2006	1,488	5,599	418	7,505
Additions	40	305	145	490
Disposals	—	(40)	(139)	(179)
At 31st March 2007	1,528	5,864	424	7,816
Additions	—	87	139	226
Disposals	—	—	(107)	(107)
At 31st March 2008	1,528	5,951	456	7,935
Depreciation				
At 31st March 2006	511	3,603	180	4,294
Charge for year	30	323	98	451
Disposals	—	(23)	(107)	(130)
At 31st March 2007	541	3,903	171	4,615
Charge for year	30	338	100	468
Disposals	—	—	(82)	(82)
At 31st March 2008	571	4,241	189	5,001
Net book value				
At 31st March 2008	957	1,710	267	2,934
At 31st March 2007	987	1,961	253	3,201

The net book value of freehold land and buildings includes £86,000 (2007 £86,000) in respect of land which is not depreciated

NOTES FORMING PART OF THE ACCOUNTS

(continued)

13. Investments

	2008 Company £000	2007 Company £000
Shares in subsidiaries		
Cost at 31st March 2008	852	852
Amounts written off	453	453
Net book value 31st March 2008	<u>399</u>	<u>399</u>

All subsidiary undertakings are incorporated in Great Britain, are wholly owned and are dormant

14 Inventories

	2008 Group and Company £000	2007 Group and Company £000
Raw materials	654	680
Work in progress	1,123	972
Goods for resale	1,010	993
	<u>2,787</u>	<u>2,645</u>

During the period, the Group consumed £5,355,000 (2007 £5,702,000) of inventories and recognised an increase in write-downs of £88,000 (2007 reduction of £17,000)

There are no inventories pledged as security for liabilities

NOTES FORMING PART OF THE ACCOUNTS

(continued)

15 Trade and other receivables

	2008 Group and Company £000	2007 Group and Company £000
Trade receivables	2,134	2,139
Allowance for doubtful receivables	(118)	(108)
	<u>2,016</u>	<u>2,031</u>
Prepayments and accrued income	150	104
	<u>2,166</u>	<u>2,135</u>

There is no material difference between the fair value of receivables and their book value

Trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience, and knowledge of the solvency of customers. No interest is charged on the receivables.

The Group provides for all trade receivables that are overdue at the reporting date. The Group does not hold any collateral over the balances that are overdue.

	2008 Group and Company £000	2007 Group and Company £000
Allowance for doubtful receivables		
Balance at 31st March 2007	108	108
Provision for the year	21	17
Utilised in the year	(12)	(18)
Reversed in the year on collection of receivables	1	1
	<u>118</u>	<u>108</u>
Balance at 31st March 2008		

The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful receivables above.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

16 Deferred tax Group and Company

	Asset £000	Liability £000
At 31st March 2006	346	400
Charge to income	(201)	(108)
Credit to equity	90	—
	<u>235</u>	<u>292</u>
At 31st March 2007	235	292
Charge to income	(174)	(40)
Credit to equity	40	—
	<u>101</u>	<u>252</u>
At 31st March 2008	101	252

The asset is in respect of the retirement benefit scheme and the liability in respect of accelerated tax allowances

17 Trade and other payables

	2008 Group and Company £000	2007 Group and Company £000
Trade payables	515	665
Accruals and deferred income	131	166
Social security and other taxes	340	352
	<u>986</u>	<u>1,183</u>

The directors consider that the carrying amount of trade payables approximates to their fair value

18 Share capital

	2008 £000	2007 £000
Authorised		
5,000,000 Ordinary shares of 10 pence each	500	500
Issued and fully paid		
2,535,322 (2007 2,535,322) Ordinary shares of 10p each	254	254

NOTES FORMING PART OF THE ACCOUNTS

(continued)

19 Notes to the cash flow statement

	2008 £000	2007 £000
Results from operating activities	1,182	1,469
Depreciation of property, plant and equipment	468	450
Gain on disposal of property, plant and equipment	(8)	(2)
Operating cash flows before movements in working capital	1,642	1,917
Increase in inventories	(142)	(454)
(Increase)/decrease in receivables	(31)	19
Decrease in payables	(197)	(572)
Pension contributions	(510)	(505)
Cash generated by operations	762	405
Income tax paid	(243)	(200)
Net cash flow from operating activities	519	205

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less

20 Particulars of staff

The average number of persons employed by the Company (including directors) was 175 (2007 182)

The total staff costs were as follows

	2008 £000	2007 £000
Wages and salaries	4,252	4,340
Social security costs	397	405
Pension scheme costs	335	321
	4,984	5,066
Directors' emoluments	496	500
The amounts paid in respect of the highest paid director were as follows		
Emoluments	162	165
Accumulated total accrued pension at the year end	43	43

NOTES FORMING PART OF THE ACCOUNTS

(continued)

21 Retirement benefit schemes

The Company operates a defined benefit pension arrangement called the Samuel Heath & Sons Plc Combined Pension Scheme (the Combined Scheme). The Combined Scheme is the result of the merger into the Samuel Heath & Sons Plc Combined Pension Scheme of the Samuel Heath & Sons Plc Staff Pension & Life Assurance Scheme which took place on 31st March 2006. Both schemes had previously closed to future benefit accrual from 30th April 2005.

The most recent valuation of the Combined Scheme was carried out as at 31st March 2007. The liabilities were calculated using the defined accrued benefits method and assumed:

- long-term investment returns of 7.5% p.a. for the period before a member retires and 5.5% p.a. for the period after a member has retired
- long-term future inflation rates of 3.0% p.a.
- mortality rates based on the PA1992 year of birth mortality tables with medium cohort future improvements, as published by the Continuous Mortality Investigation Bureau

The 2007 actuarial valuation showed the market value of the Combined Scheme's assets to be £10,324,000 (excluding Additional Voluntary Contributions), compared with the value of the accrued benefits of £9,224,000. There were, therefore, sufficient assets to cover 112% of the accrued benefits, based on the long-term funding assumptions.

The assets of these now combined schemes are held separately from those of the Company and Citigroup Quilter manage these assets.

The major assumptions used by the actuary were

	2008 %	2007 %	2006 %
Inflation	3.35	3.00	2.50
Rate of increase in pension payment	3.35	3.00	2.50
Discount rate	6.45	5.30	4.90

Equity returns are developed based on the selection of an equity risk premium above the risk-free rate, which is measured in accordance with the yield on UK government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

21 Retirement benefit schemes (continued)

Mortality assumptions

The mortality tables were reviewed as part of the actuarial valuation as at 31st March 2007. The current tables reflect expected future improvements in mortality rates. The assumed life expectations on retirement at age 65 are

	2008	2007	2006
Retiring today			
Males	22.0	20.1	20.1
Females	24.8	23.1	23.1
Retiring in 20 years:			
Male	23.1	20.1	20.1
Female	25.9	23.1	23.1

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

Assumption	Change in assumption	Impact on scheme liabilities £000
Discount rate	Decrease by 0.5%	Increase by 1,111
	Increase by 0.5%	Decrease by 938
Rate of inflation	Decrease by 0.5%	Decrease by 546
	Increase by 0.5%	Increase by 619
Rate of mortality	Decrease by 1 year	Decrease by 264
	Increase by 1 year	Increase by 261

Amounts recognised within finance income/costs are as follows:

	2008 £000	2007 £000
Expected return on pension scheme assets	(681)	(688)
Interest on pension scheme liabilities	568	523
	<u>(113)</u>	<u>(165)</u>

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit scheme is as follows:

	2008 £000	2007 £000
Deficit at 31st March 2007	783	1,152
Company contributions	(510)	(505)
Other finance income	(113)	(165)
Actuarial losses	200	301
Deficit at 31st March 2008	<u>360</u>	<u>783</u>

NOTES FORMING PART OF THE ACCOUNTS

(continued)

21 Retirement benefit schemes (continued)**Movements in the present value of defined benefit obligations are as follows**

	2008 £000	2007 £000
At 31st March 2007	10,846	10,820
Interest cost	568	523
Benefits paid	(261)	(631)
Actuarial (gain)/loss	(1,428)	134
At 31st March 2008	<u>9,725</u>	<u>10,846</u>

Movements in the fair value of the scheme assets were as follows:

	2008 £000	2007 £000
At 31st March 2007	10,063	9,668
Expected returns on assets	681	688
Employer contributions	510	505
Benefits paid	(261)	(631)
Actuarial loss on assets	(1,628)	(167)
At 31st March 2008	<u>9,365</u>	<u>10,063</u>

The analysis of the scheme assets is set out below:

	2008	2007	2006
Equity	61%	62%	66%
Corporate bonds/Gilts	13%	9%	7%
Property	10%	24%	15%
Cash	16%	5%	12%

History of experience gains and losses:

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Difference between the expected and actual return on scheme assets	(1,628)	(167)	1,312	260	(335)
Experience gains and losses on scheme liabilities	311	—	—	(111)	65
Total actuarial gains and losses recognised	(200)	(301)	677	(29)	236

NOTES FORMING PART OF THE ACCOUNTS

(continued)

22 Financial instruments: information on financial risks

Categories of financial instruments

	2008 Group and Company £000	2007 Group and Company £000
Financial assets		
Trade and other receivables	2,166	2,135
Cash and cash equivalents	1,728	1,901
	<u>3,894</u>	<u>4,036</u>
Financial liabilities		
Trade and other payables	986	1,183
	<u>986</u>	<u>1,183</u>

Financial risk management policies

The main market risks to which the Group is exposed are interest rates and foreign exchange. There is also exposure to credit risk and liquidity risk. The Group monitors these risks and will take appropriate action to minimise any exposure through the use of natural hedges.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008 £000	2007 £000	2008 £000	2007 £000
US dollar	—	—	302	337
Euro	6	—	314	233

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of US dollar and the euro.

In the opinion of the directors a 5% increase or decrease in sterling against the US dollar and euro would not have a material effect on the profit for the year and equity.

Credit risk

The Group controls its exposure to credit risk by setting limits on its exposure to individual customers and compliance is monitored by management. As part of the process of setting customer credit limits, different external credit reference agencies are used, according to the country of the customer. There are no significant concentrations of credit risk.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

NOTES FORMING PART OF THE ACCOUNTS

(continued)

23 Explanation of transition to IFRS

The Group has applied IFRS 1 "First Time Adoption of International Financial Reporting Standards" as a starting point for reporting under IFRS. The Group's date of transition is 1st April 2006 and comparative information has been restated to reflect the Group's adoption of IFRS except where otherwise required or permitted by IFRS 1.

IFRS 1 requires an entity to comply with each IFRS and IAS effective at the reporting date for its first financial statements prepared under IFRS. As a general rule, IFRS 1 requires such standards to be applied retrospectively. However, the standard allows several optional exemptions from full retrospective application.

The Group has elected to take advantage of the following exemption. Business combinations made prior to 1st April 2006 will not be accounted for under IFRS 3 "Business Combinations" and as such the value of goodwill in the balance sheet at that date will be the same amount under IFRS as that recorded in the UK GAAP financial statements, subject to the completion of an annual impairment review.

No adjustments were required in order for the Group to comply with IFRS.

NOTICE OF MEETING

Notice is hereby given that the one hundred and eighteenth Annual General Meeting of the Company will be held at the registered office of the Company, Leopold Street, Birmingham, on 15th August 2008 at 12 00 noon

The general business of the meeting will be to consider and, if thought fit, pass the following resolutions

1. That the Directors' report and audited accounts for the year ended 31st March 2008 be approved and adopted
2. That a final dividend for the year ended 31st March 2008 of 12 5 pence per share be declared payable on 22nd August 2008 to ordinary shareholders registered at the close of business on 25th July 2008
3. That Mr D F Coplestone who retires by rotation be re-elected a director
4. That Mr M J Legge who retires by rotation be re-elected a director
5. That RSM Bentley Jennison be reappointed as auditors and that the directors be authorised to determine their remuneration

As special business to consider and, if thought fit, to pass the resolutions, of which Resolutions 6 and 7 will be proposed as an Ordinary Resolution and Resolution 8 as a Special Resolution

6. That the Company be authorised, pursuant to Article 10 of the Articles of Association of the Company, to make market purchases (within the meaning of Section 163 of the Companies Act 1985) on the London Stock Exchange up to a cumulative maximum of 380,298 ordinary shares of 10 pence each in the capital of the Company at a price of not less than 10 pence per ordinary share and not more than 5% above the average of the middle market quotations of the ordinary shares as derived from the Stock Exchange Daily Official List on the 5 dealing days before the purchase

The prices specified above are exclusive of expenses

The authority hereby conferred shall expire at the next Annual General Meeting unless previously varied, revoked or renewed by the Company in General Meeting, provided that the Company shall be permitted to make any contract of purchase of any such shares which will or may be executed wholly or partly after the authority hereby conferred shall have expired

7. That the directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution for any authorities previously granted to the directors), pursuant to Section 80 of the Companies Act 1985 ("the Act"), to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £25,353 provided that this authority shall expire on 14th August 2013 save that the Company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the directors of the Company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired
8. That the directors of the Company be and they are hereby empowered pursuant to Section 95(1) of the Act to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred by Resolution 7 as if Section 89(1) of the Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to a) the allotment of equity securities in connection with or pursuant to an offer by way of rights issue or open offer to the holders of equity shares in the Company in proportion (as nearly as may be) to such holders' holdings of such shares but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas shareholders, fractional entitlements or otherwise and b) the allotment (otherwise than pursuant to (a) above) of equity securities for cash up to an aggregate nominal amount of £25,353 provided that this power shall expire at the conclusion of the next Annual General Meeting

NOTICE OF MEETING

of the Company or, if later, 15 months from the passing of this resolution, save that the Company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted after such expiry and so that the directors of the Company may allot equity securities in pursuance of such offers, agreements or arrangements as if the power conferred hereby had not expired

By order of the Board

J Park
Secretary

17th July 2008

Notes

- 1** A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. Forms of proxy, if used, must be lodged at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 10.30 a.m. on 13th August 2008.
- 2** 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 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 appointment letter if the Chairman is being appointed as described in (i) above.
- 3** A statement of the share transactions of each director for the twelve months to 30th June 2008 is available for inspection at the registered office during usual business hours on any weekday (excluding Saturdays and public holidays) until 14th August 2008 and will also be available at the Annual General Meeting from 11.45 a.m. until 15 minutes after the meeting is closed.

SAMUEL HEATH

SAMUEL HEATH & SONS PLC

Leopold Street, Birmingham, B12 0UJ, England