

James Latham plc's trading subsidiary is Lathams Limited.

Lathams Limited is a specialist importer and distributor of panel products, of sawn and further-processed quality hardwoods and softwoods, and quality hardwood flooring, offering national coverage from nine depots.



Tropical timber awaiting shipment at Dovala, Cameroon

Financial Highlights

Year to 31 March	2006	2005	Increase/ (decrease)
Turnover	£115m	£108m	+6%
Operating profit	£5.0m	£4.1m**	+22%
Operating margin	4.3%	3.8%	+13%
Profit before taxation	£11.6m	£21.6m**	(40%)
Profit before taxation, excluding exceptional gains	£5.4m	£3.8m**	+42%
Earnings per share	48.7p	86.1p**	(44%)
Earnings per share, excluding exceptional gains	17.2p	13.4p**	+28%
Total ordinary dividend per share	13.0p*	12.7p*	+2%
Equity shareholders' funds	£39.9m	£32.8m**	+22%

* including a special dividend of 7.0p paid in January 2006 and of 7.5p paid in January 2005

** restated

Chairman's Statement



Results

Group turnover for the financial year to 31 March 2006 at £114,867,000 is 6.1% ahead of last year's £108,240,000.

Operating profit increased by 20.2% to £4,984,000 from £4,148,000 last year.

Net interest receivable was £439,000 against net interest payable of £360,000 last year.

Including disposals, pre-tax profit is £11,644,000 against £21,594,000 last year. Excluding this year's profit on the disposal of a subsidiary and last year's profit on the disposal of fixed assets, the pre-tax profit is £5,423,000 against £3,788,000, an increase of 43.2%.

Profit after tax is £9,728,000 compared with £17,312,000 previously.

Total net assets after the FRS17 pension liability (equity shareholders' funds) have risen to £39,902,000 from £32,752,000.

Cash flow from operating activities at £1,489,000 was after the initial payment of £4 million of the £9 million to be paid into the pension scheme as announced in the Interim Report.

The presentation of the figures reflects the introduction of new Accounting Standards FRS17, FRS21 and FRS25 and the previous year's figures have been restated.

Final dividend

The directors recommend a final dividend of 4.4p per ordinary share (2005: 3.7p). The final dividend will be paid on 21 August 2006 to shareholders on the register at the close of business on 21 July 2006. The shares will become ex-dividend on 19 July 2006.

The total dividend per ordinary share (including the special dividend of 7.0p paid in January 2006) of 13.0p for the year is covered 3.7 times by earnings of 48.3p. Excluding the special dividend and the profit on the sale of Nevill Long Limited, the total of 6p for the year is covered 2.8 times by earnings of 17.1p. This compares with a total dividend last year of 5.2p which was covered 2.8 times.

Financial year 2005/06

The overall trading result for the Group shows an improvement on last year.

Lathams Limited, the panel products and timber distributor achieved a 3% increase in turnover but after a small decline in gross margin percentage the net profit was lower than last year. Globally the availability of timber products was more than enough to satisfy demand with the resultant pressure on prices and margins. The third quarter at Lathams Limited was poor but trading picked up again in the fourth quarter.

Nevill Long Limited, the ceiling, drylining and partitioning distributor, had an excellent year. Prices of a number of the company's main product lines increased substantially and remained at the higher level. Sales were

20% higher than the previous year and, combined with an improved gross margin, resulted in a record profit of £1,990,000.

Nevill Long Limited's profits had been volatile in the past relying on a narrow customer range and synergy with the rest of the James Latham plc Group was negligible. The opportunity was taken to sell the company on 31 March 2006 realising a book profit of £6,229,000.

During the year and since the year end, substantial additional contributions have been paid into the pension scheme and by this time next year the funding situation should be much more healthy. There will now be no need to borrow the additional £5.5 million, which was mentioned in the Interim Report, to help finance the pension scheme.

After the sales of the Clapton site and Nevill Long Limited and with the pension scheme better funded, James Latham plc is in a strong financial position. The directors intend to develop Lathams Limited's core business of timber products distribution as and when opportunities arise.

Current financial year 2006/07

April and May taken together have achieved a satisfactory level of trading. The indications are that June will follow suit.

Availability and replacement prices are hardening for a number of the products we sell. This normally has a beneficial affect on sales and margins.

Health and safety

The handling of timber and panel products, both manually and mechanically, and the stacking and storage of these products, are not without dangers. We are, therefore, very active in assessing and minimising the risks in all areas of the business and educating the workforce to provide as safe a working environment as possible. We spend an increasing amount of time and money on this activity.

Environment

The environment is rightly a matter of great global interest and importance. The James Latham plc group policy recognises the need to behave responsibly in areas of purchasing timber products for resale and the efficient use of energy. If acquired and used responsibly, timber is the ultimate renewable resource for a multitude of applications.

Directors and staff

The success of the Group relies to a great extent on the people who man it.

I would like to thank the directors and staff for their commitment and hard work, sometimes under pressure, which has resulted in another profitable year.



Roger Latham

Chairman, James Latham plc

17 July 2006

Lathams Limited

Turnover: £90,650,000 (2005: £88,077,000)

Operating loss: £674,000 (2005 profit: £3,940,000)

Operating profit (before £4 million pension contribution): £3,326,000

Lathams Limited's result, an operating loss of £674,000, has been distorted by a contribution of £4 million to the pension scheme.

Disregarding the pension contribution, the operating profit was £3,326,000. This was disappointing after the high level achieved last year.

Turnover moved forward to £90,650,000, an increase of 3%. Demand from our wide range of customers during some months of the year was less buoyant than last year. The third quarter (October to December 2005) was poor and was affected by particularly strong competition but trading picked up again in the fourth quarter.

Although prices fluctuated throughout the year, overall price inflation was modest. As usual, supply of the products we sell outstripped demand with the consequent competitive pressure on sales and margins.

During the year we installed a new computer system at our depots. This is now providing benefits but at the time was a distraction while staff familiarised themselves with it.

Panel products trading accounted for 72% and hardwood and softwood 28% of total Lathams Limited turnover.

On a like for like basis, sales of panel products were slightly lower than last year, gross margins have been static and net profits have reduced. The pattern of global timber supply is continually changing and the emphasis on commodity plywood manufacture has recently shifted to China. In the absence of credible evidence regarding the legality and sustainability of their raw materials, we have generally declined to buy commodity plywood from China. This was the correct decision but cost us business. Following two visits to the Orient in the last six months, we are now working with some of the more reputable Chinese manufacturers to put in place procedures for tracing the source of their raw materials to enable us to do business with them.

Sales of HI-MACS, a natural acrylic stone solid surface, for which we became sole distributors in the UK a couple of years ago, are making good progress. This is an endorsement of our policy to sell more specialised products.

Hardwood and softwood achieved an increase in sales of 5.5% and an increase in the amount of gross profit earned. We are actively seeking to widen our product range to make our offering to customers more attractive.

Some of our nine depots produced excellent figures but a few were less good and we are working on the poorer performers to bring them up to scratch. We have depots at Dudley, Eastleigh, Gateshead, Hemel Hempstead, Ossett, Purfleet, Thurrock, Wigston and Yate.

Although there was a reduction in profit when compared with last year, the overall result could be described as a solid performance under the circumstances.

Roger Latham

Chairman, Lathams Limited

**Nevill Long Limited –
Suspended ceilings, dry lining systems
and partitioning**

Turnover: £24,217,000 (2005: £20,163,000)
Operating profit: £1,961,000 (2005: £773,000)

Nevill Long Limited distributes suspended ceilings, dry lining and partition systems and other interior building products from sites at Yate, Heston, Dagenham, Wigston, Leeds, Preston, Manchester, Birmingham and Washington. The company was sold to Wolseley UK Limited on 31 March 2006.

Sales for the year were 20% higher at £24,217,000 and the gross profit margin was improved a further 3% following last year's increase. Overheads were 10% higher, but were well below the increase in sales, so the operating profit rose from £773,000 to £1,961,000.

The increased turnover was the result of the continuing high level of spending on health and education infrastructure, improvements in the commercial office sector, particularly in the south east and consolidation of the higher price structure for steel products, although there was some weakening later in the year.

Prices were firmer across the product range including mineral fibre tiles which account for the majority of the UK ceiling market. Demand for dry lining systems, remained strong, with supply problems across the product range as manufacturers adjusted to demand for higher value acoustic and fire-rated boards which took capacity previously devoted to standard boards. Additional plasterboard manufacturing lines are due to come on stream later this year.



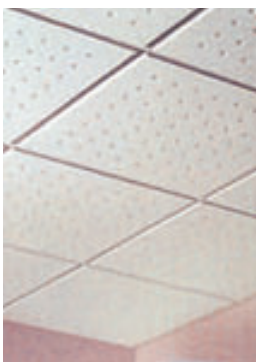
Peter Latham
Former Chairman

It appears that the company continued to gain market share in both the ceiling and drylining markets and all branches performed well.

The directors of James Latham plc have been aware that Nevill Long Limited has been a small player in a very consolidated industry dominated by two much larger competitors, both part of large general building product distribution companies. They have recognised that the business would prove very attractive to someone wishing to enter this market. On this basis, the decision was taken to dispose of the company. The sale was completed on 31 March 2006.

Nevill Long Limited staff at all levels have performed very well during the year. I would like to place on record my thanks to them all for the excellent results this year and wish them all the best for the future within the Wolseley Group.

Peter Latham
Former Chairman, Nevill Long Limited



A selection of Nevill Long products: Armstrong suspended ceilings, Longline Finesse Partitioning, Longline Finesse showing manifestations and vision panel options, and Longline Elite bardwood partitioning including Nevill Long lighting.

We are aware of our responsibility, particularly in the sphere of health and safety and environmental matters. A substantial amount of management time is devoted to CSR issues, environmental good practice and sustainable development. The Group seeks to minimise as far as is reasonably practicable the waste that it generates in areas such as product packaging. We have sought Carbon Trust funded reviews to minimise our use of electricity and fossil fuels.

Health and safety

It is a priority to provide a safe working environment for all employees and visitors at our sites. We employ a full-time Health and Safety Adviser who reports to the Board regularly and attends Board meetings twice a year. We have a 5 year action plan and all sites are subject to regular audits. Management and employee are actively involved and improving our safety record is high on the agenda.

Respecting the environment

We set out on the following page our Group Environmental Policy which we update regularly and which we, as a responsible organisation, seek to follow for the benefit of our customers, suppliers, employees and shareholders and, of course, for the benefit of the world's forests and forest industries.

We publish our commitment to the environment regularly in our literature and on our website, www.lathamtimber.co.uk.

The Group sets targets each year to increase the amount of timber and timber based products that are certified by recognised international organisations as coming from sustainable and well-managed forests. The figures for the relevant calendar years are given below.

		Legal and sustainable	3rd party verified legal
Panels	2004	60%	-
	2005	75%	3%
	2006 target	77%	5%
Timber	2004	15%	10%
	2005	24%	9%
	2006 target	27%	13%

As a member of the Timber Trades Federation ("TTF") we have signed and agreed to abide by the TTF Responsible Purchasing Policy, the TTF Code of Conduct and to apply the Environmental Code of Practice to all wood procurement activities. We assess all the high risk areas of supply to find out the source of their logs.

Environmental Policy 2006

The directors of James Latham plc recognise that the company has a responsibility to the environment, customers, suppliers and staff to base its commercial activities on well-managed forests.

The Group is committed to purchasing all timber from legal sources and seeks evidence of compliance from suppliers that they are operating in accordance with the laws of their country. The company unreservedly condemns illegal logging practices and keeps informed of processes and changes in international legislation.

The Group performs a risk assessment on all suppliers and seeks the clearest practicable information regarding the sources of raw materials. It recognises that the independent certification of the forests and the process chain is the best means of providing assurance that timber comes from legal and well-managed forests and will purchase certified material wherever possible.

Third party audited chain of custody is offered for timber supplied certified by the Programme for the Endorsement of Forest Certification schemes (PEFC) and the Forest Stewardship Council (FSC) and this will be extended to other schemes as they become established.

This document sets out James Latham plc's policy, aims to help customers meet the requirements of the Government's timber procurement policy and that of other environmentally concerned specifiers, and to list the materials that the company stocks that are third party certified.

Lathams helps customers meet government requirements for verified legal timber.

In recent years the position of timber as the renewable construction material has been overshadowed by concerns about the sustainability of forestry operations. There have been particular concerns about the destruction of forest areas in the tropics for agricultural use, resulting in the loss of natural habitats and damage to local ecosystems. While the introduction of certification schemes, notably by the FSC and the PEFC, have offered consumers a means of ensuring that the material they are using come from sustainably managed forests, these for the most part cover softwood and hardwood from temperate areas which have the infrastructure and governance to allow relatively easy adoption of the standards required.

Meeting government contract requirements

Government and government influenced contracts for timber and timber products have a minimum specification requirement that the timber has been legally logged and

traded. The contractor is required to ensure that the organisation that felled the trees used to meet the contract had legal use rights to the forest, holds a register of all national and local laws and codes of practice relevant to forestry operations, complied with all national and local laws including environmental, labour and health and safety laws and paid all relevant royalties and taxes. The contractor must before delivering timber or timber products obtain documentary evidence that the timber is both legal and legal traded. The authority can demand to see this evidence for a period up to six years after delivery. In addition, the timber must be traceable from its source in the forest and through the supply chain and verified by an appropriate third party organisation whose procedures conform to ISO Guide 65:1996.

There will be a variant specification for material from certified well-managed forests in accordance with ISO/IEC Guide 59: code of good practice and independently verified. This will be the preferred choice where 70% or more of the material comes from well-managed forests. It is recognised that this will be more expensive but it should be ordered where it is affordable and provides effective and efficient use of expenditure.

The Government has set up the Central Point of Expertise on Timber (CPET) to advise on whether particular certification schemes meet the "legal" or "legal and sustainable" definition under the 'category A criteria'. 'Category B' evidence sets out the requirements for timber not covered by one of the approved certification schemes, namely the source of material supplied has been or can be independently verified as such.

CEPT has assessed four schemes, including FSC and PEFC as legal and sustainable. Up-to-date information on scheme classification is available from our web site or from our sales staff.

Other environmentally concerned specifiers are modelling their requirement on the Government Timber Procurement Policy.

Customers should note that we can provide third party verified legal and third party legal and sustainable timber and timber based products across most of our product range. However it is essential that requirements are made clear at the time of order, so that chain of custody conditions can be met.

Lathams have been supporting and encouraging our trading partners in Africa and the Far East, where governance, land ownership, and infrastructure issues make sustainable certification so difficult.

Directors' biographies

Roger J. Latham *Group Executive Chairman*

Roger Latham, age 62, has worked in the Group for over 40 years. Roger was appointed to the Board in 1974. He is Chairman and Managing Director of Lathams Limited. Roger Latham is Chairman of the Trustees of the Timber Trades Federation ("TTF") Pension Scheme, and is on the Committees of the Top Ten contributors to the TTF, the National Panel Products Division and the National Hardwoods Division.



Roger Latham

Peter D.L. Latham BA FIWSc *Executive Director*

Peter Latham, age 55, has worked in the Company for 33 years and was appointed to the Board in 1983. He is a director of Lathams Limited and, until 31 March 2006, was Executive Chairman of Nevill Long Limited. He is Hon Treasurer of the Institute of Wood Science, Chairman of Forests Forever which is the environmental arm of the TTF and serves on the TTF's Governing Body. Peter has been appointed a director of the Programme for the Endorsement of Forest Certification schemes (PEFC), an independent non-governmental organisation, which is the world's largest supplier of certifiable forests.



Peter Latham

David A. Dunmow BSc FCA *Finance Director and Company Secretary*

David Dunmow, age 42, is a Fellow of the Institute of Chartered Accountants in England and Wales. He joined the Company in 1994 and was appointed to the Board as Finance Director in 2000. He is a Director of Lathams Limited, and Company Secretary of James Latham plc.



David Dunmow

Christopher D. Sutton *Executive Director*

Chris Sutton, age 48, has worked for James Latham plc for 28 years. He is Panel Products Sales Director for Lathams Limited and was appointed to the Board on 1 January 2005.



Chris Sutton

Malcolm R. Parkinson *Non-Executive Director*

Malcolm Parkinson has been a Non-Executive Director of the Company since 1993. He was previously Chief Executive of Woolworths Holdings plc and a director of B&Q Limited. He is a director of Malross Management Limited.



Malcolm Parkinson

Philippa A.J. Latham MA MBA ACIS FCMA *Non-Executive Director*

Pippa Latham, age 45, joined the Company in 1990 from a previous career in investment banking and management consulting. She was Company Secretary from 1994 to 2005 and was appointed to the Board as a Non-Executive Director on 1 September 2005. She is an investment manager for the Timber Trades Benevolent Society.



Pippa Latham

Registrars

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Bankers

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City Corporate Banking Group
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Stockbrokers and Nominated Adviser

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Corporate Synergy plc
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Colstone Street
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Independent Auditors

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Registered Office

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Registered Number 65619

Results for the year ended 31 March 2006

The Group's results for the year combine both strong trading results and the profit of £6,229,000 on the disposal of Nevill Long Limited. The disposal will raise approximately £10 million in cash of which £6,800,000 was received in April 2006. £1,665,000 is to be paid directly by Nevill Long Limited to James Latham Pension and Assurance Scheme in settlement of their s75 debt on ceasing to participate in the scheme. The balance of funds will be received over the next year once completion accounts are agreed, and warranty provisions are complied with.

No Corporation Tax is due on the sale of Nevill Long Limited, assuming that the funds are reinvested in the business. In the Interim Report, we announced that we would be taking advantage of the Group's healthy financial position and putting £9,000,000 into the pension scheme to reduce the deficit. Part of these funds were to be borrowed money, but now we will use the funds from the sale of Nevill Long Limited instead of taking on further borrowings. The balance of the funds from the sale of Nevill Long Limited will be used to strengthen and enhance our timber business.

Excluding the effect of the Nevill Long Limited disposal, the Group's earnings per ordinary share of 17.2p per share showed an increase of 28% compared with 13.4p per share for 2005. The Group's profit before taxation for 2006 is £11,644,000, £5,423,000 excluding Nevill Long Limited disposal. This profit shows an increase of 43% over the 2005 profit of £3,788,000. The taxation charge of £1,916,000 represents an effective tax rate of 16.5%. This is below the UK tax rate of 30% mainly due to tax exemptions claimed on the profit on disposal of Nevill Long Limited.

This increase in profits is due to record trading results at Nevill Long Limited and reasonable trading results in most areas of the timber business. A statement on the trading results of the individual segments of the business is set out in the Operating Review on pages 4 and 5.

Nevill Long Limited has contributed significantly to the results for the year. The company has had volatile profits, and indeed losses, in the last few years and has no strategic synergy with the core timber business. We have taken the opportunity to dispose of Nevill Long Limited at an ideal time for them and for us, and hope that with the advantages and synergies that Wolseley UK Limited can bring to Nevill Long, that they will continue their success.

Net debt decreased from £5,059,000 to £2,887,000 during the year. Net inflow of funds from operating activities totalled £1,489,000. This reduction in net debt is reflected in the net interest received in 2006 of £439,000 against the net interest paid of £360,000 in 2005. With further cash inflows from the sale of Nevill Long Limited and from Clapton to come this year, the Group will be in a positive cash position, whilst considering the best ways to invest this money on behalf of shareholders. When looking at investment opportunities, we look at returns on capital over a three year period, net profits achievable, and Group synergies and cost savings.



David Dunmow
Group Finance Director
and Company Secretary

Included in this net inflow of funds is a £4 million payment into the pension scheme, the first instalment of the £9 million announced in the Interim Statement. This payment, plus another reasonable year of equity returns have increased the assets of the scheme, but the liabilities continue to rise. We now account for pension costs using FRS17 and the net liability is shown on the face of the balance sheet. Actuarial assumptions and short term market conditions can have a major effect on the amount of this liability and so this could add a measure of volatility to our future balance sheets. This year our investments outperformed the actuarial assumptions by £4,978,000 however changes in the actuarial assumptions, mainly life expectancy rates and the discount rate caused the liabilities to increase by £5,242,000. Our plan of trying to reduce the deficit now, whilst the Group has cash resources to draw on, should help reduce the cash needed for the pension scheme in the future.

The timber importing business requires considerable working capital investment in stock and debtors. Control of cash and working capital are key performance indicators which are reviewed at every board meeting throughout the organisation. Debtor days have decreased further this year, resulting in a small overall decrease in trade debtors, ignoring Nevill Long Limited. Stocks have also decreased following the high levels seen at the previous year end.

The presentation of the figures in these accounts reflect the introduction of new accounting standards FRS17, as referred to above, now brings the liability of the pension scheme (as defined by FRS17) onto the balance sheet and requires different profit and loss account presentation. FRS21 changes the presentation of dividends from an accrued basis to a proposed basis. FRS25 changes the presentation of the preference shares and dividends to debt and interest respectively. The effect of these changes is shown in the note 22 to the accounts.

Next year we will be introducing FRS20 which will change the way we account for our share option schemes. The effect of this will not be material. We are also now actively working towards introducing International Financial Reporting Standards, which will be adopted for the year ended 31 March 2008.

David Dunmow
Group Finance Director

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The Group's principal activity is the importation and distribution of panel products, of sawn and further-processed quality hardwoods and softwoods, and quality hardwood flooring, offering national coverage from nine depots.

Principal changes to the Group

On 31 March 2006, The Group sold Nevill Long Limited, its suspended ceilings, dry lining and partition systems distribution business, to Wolseley UK Limited.

The reason for the sale was that Nevill Long Limited was not considered core to the Group's timber businesses and the directors believe that Wolseley UK Limited, with their resources, will establish Nevill Long Limited as a major player in the interior building products market. The proceeds of the sale will be used to strengthen and develop James Latham plc's timber business.

Performance and prospects

A review of the Group's performance and prospects is given in the Chairman's Statement on pages 2 and 3, in the Operating Review, on pages 4 and 5, and in the Financial Review on page 9. A review of the risks and uncertainties impacting on the Group's long term performance is included in the Corporate Governance Statement on pages 12 and 13.

Profits and dividends

The profit attributable to equity shareholders for the year amounts to £9,728,000. The directors recommend that this be dealt with as follows:

Ordinary dividends	£000
Special dividend paid, 7.0 pence per ordinary share	1,392
Interim dividend paid, 1.6 pence per ordinary share	318
Final dividend proposed, 4.4 pence per ordinary share	887
Total ordinary dividends, 13.0 pence per ordinary share	2,597

The directors recommend payment of the final dividend on Monday 21 August 2005 to shareholders on the register of members at the close of business on 21 July 2006.

Directors

The directors of the Company, who are shown on page 8, were directors throughout the year, with the exception of Miss P.A.J. Latham who was appointed on 1 September 2005 and will be standing for election at the forthcoming annual general meeting.

In compliance with the Articles of Association, Mr D.A. Dunmow will retire by rotation, and being eligible, offers himself for re-election.

Mr M.R. Parkinson was appointed as a non-executive director on 16 March 1993 and will retire by rotation, and being eligible, offers himself for re-election.

Other than their service contracts, no director has a material interest in a contract with the Company. Mr M.R. Parkinson and Miss P.A.J. Latham, as non-executive directors, do not have a service contract with the Company. Details of directors' emoluments, pension rights, service contracts and the directors' interests in the ordinary shares of the Company are included in the Directors' Remuneration Report on page 16.

The Company maintains directors' and officers' liability insurance cover throughout the year as permitted by section 310 of the Companies Act 1985. The cover was renewed on 1 August 2005.

Share capital

Resolutions concerning the ability of the Board to purchase the Company's own shares and to allot shares and to dis-apply pre-emption rights are again being proposed at the Annual General Meeting.

At 31 March 2006, 144,000 share were being held as treasury shares with a view to these being used for employee schemes or cancelled.

Savings related share option scheme ("SAYE")

On 4 August 1995, by ordinary resolution, shareholders approved the amendment of the permitted discount under this scheme to comply with the current limit for Savings Related Share Option Schemes set out in the Income & Corporation Taxes Act 1988. On 14 January 1997, at an Extraordinary General Meeting of the shareholders, by ordinary resolution, shareholders approved the extension of an amended SAYE Scheme for a further 10 years. A 3 year scheme commenced on 1 September 2005.

Substantial shareholdings

At 28 June 2006, the reported shareholdings of more than 3% of the issued ordinary share capital, apart from those of the directors, were as follows:

Sir Robert Mc Alpine Enterprises Limited, a holding of 1,352,000 shares, representing 6.71%; Nortrust Nominees Limited, a holding of 650,000 shares, representing 3.22%.

Shareholdings of other members of the Latham family, not included under the Latham directors' shareholdings, total 8,056,069 ordinary shares, representing 40%.

Employees

The Group's ability to achieve its commercial objectives and to service the needs of its customers in a profitable and competitive manner depends on the contribution of its employees. Employees are encouraged to develop their contribution to the business wherever they happen to work. The Group regularly keeps employees up to date with financial and other information. To encourage the

involvement of employees in the Group's performance, a savings related share option scheme is operated together with a profit sharing scheme linked to performance.

In accordance with statutory requirements, the Group has a designated stakeholder pension arrangement.

The Group's employment policies do not discriminate between employees, or potential employees, on the grounds of age, sex, sexual orientation, colour, creed, ethnic origin or religious belief. The sole criteria for selection or promotion is the suitability of any applicant for the job.

It is the policy of the Group to train and develop employees to ensure they are equipped to undertake the tasks for which they are employed, and to provide the opportunity for career development equally and without discrimination. Training and development is provided and is available to all levels and categories of staff.

The Group has continued to recognise its social and statutory obligations towards disabled persons, and to give full and fair consideration both to the applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, and to the employment needs of disabled employees.

Quality assurance ISO9001

The Group's main operating companies are registered under ISO9001 which reflects the quality of our systems.

Fixed assets

Changes in tangible fixed assets during the year are set out in note 12 on pages 28 and 29.

The freehold properties currently used for the Group's trade were valued as at 31 March 1997.

The directors have reviewed the carrying value at 31 March 2006 of Group freehold and long leasehold properties and have made provisions for impairment in value where these were considered necessary.

Environmental issues

The Board recognises the importance of environmental issues and when carrying out its business, the Group endeavours to make a positive contribution to the quality of life both for the present and the future. The 2006 Environmental Policy statement approved by the Board has been adopted by the trading company and is stated on page 7 in the Corporate Social Responsibility Report.

Payments to suppliers

Operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. The Group's average creditor days during the year were 43 (2005: 49 days).

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Charitable donations

During the year, the Group made no political contributions but made direct donations to various charitable organisations amounting to £2,450 (2005: £1,560). We also made small donations of our products to a number of good causes.

Capital Gains Tax

To allow shareholders to calculate their liability to capital gains tax from gains realised in the 2005-2006 tax year, the 31 March 1982 price of the ordinary shares was 13.6p and of the 8% cumulative preference shares 15.1p. The prices have been adjusted for scrip issues since April 1982 and the share division in 2005.

Audit information

In the case of each of the persons who are directors of the Company at the date when this report was approved:

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

Annual General Meeting

The Annual General Meeting of the Company will be held at the registered office of the Company on 17 August 2006 at 12.30pm. Full details of the meeting are contained in the enclosed notice of the Annual General Meeting on page 39.

Health and safety at work

The Group promotes all aspects of safety through its operations in the interests of staff and visitors. The Group Policy for Health and Safety is regularly reviewed and revised and is displayed prominently at all depots.

Auditors

Baker Tilly have confirmed their willingness to continue in office, and a resolution concerning their re-appointment and remuneration will be proposed at the Annual General Meeting.

By order of the Board of Directors

Roger Latham

Chairman

17 July 2006

Statement by the directors on compliance with the provisions of the Combined Code

Whilst, as an AIM company, it is not mandatory for the Company to fully comply with the combined code, the directors believe that it is appropriate to comply as far as is relevant for a company of this size.

The Board of Directors

The Board meets at least six times a year and has a formal schedule of matters referred to it for decision. All directors have access to independent professional advice, if required, at the Company's expense. The Board currently consists of the Chairman, three other executive directors and two non-executive directors. Each director has a vote and no individual or small group of individuals dominates the Board's decision making. Nominations to the Board are considered by the Board as a whole. Directors of the Company are in contact from time to time with representatives of the institutional shareholders to discuss matters of mutual interest relating to the company. The level and make-up of directors' remuneration is set out in the Directors' Remuneration Report on pages 14 to 16.

The Board has decided that the directors will retire by rotation and the executive directors will be re-elected over the coming few years. The manner in which the Company has applied the principles in the Combined Code is set out below.

The Audit Committee

The Audit Committee is chaired by Malcolm Parkinson and includes Pippa Latham and Peter Latham. As Finance Director, David Dunmow also attends the meetings of the Committee. The Committee meets at least three times a year to review, inter alia, in conjunction with the external auditors, internal controls within the Group. The duties of the audit committee include, on behalf of the Board, a review of effectiveness of the Group's financial reporting and internal control policies, and procedures for the identification, assessment and reporting of risk. It also keeps under review the scope and results of the external audit, its cost effectiveness and the independence and objectivity of the external auditors, including recommending their re-appointment and, subject to the approval of shareholders, their audit fee to the Board. The Audit Committee continues to review the work of the Group's internal auditor.

Financial reporting

The Directors have a commitment to best practice in the Group's external financial reporting in order to present a balanced and comprehensible assessment of the Group's financial position and prospects to its shareholders, employees, customers, suppliers and other third parties. This commitment encompasses all published information including but not limited to the year-end and interim financial statements, regulatory news announcements and other public information. A statement of the Directors' responsibilities for preparing the accounts may be found on page 17.

Internal controls

The Board (as far as appropriate for a company of this size) has established procedures necessary to implement the requirements of the Combined Code relating to internal control. The Group maintains extensive systems of internal control, including systems of financial control.

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. Procedures for identifying, quantifying and managing the risks faced by the Group have been in place throughout the year under review. The processes for identifying and managing the key risks to the business are communicated regularly to all staff who are made aware of the areas for which they are responsible. Such processes include strategic planning, the appointment of appropriately qualified staff, regular reporting and monitoring of performance against budgets and other performance targets, and effective control over capital expenditure. Any system of internal control can however only provide reasonable, but not absolute, assurance against material misstatement and loss.

Risks and uncertainties

There are a number of potential risks and uncertainties that could have an impact on the Group's long-term performance.

a) Cyclical nature of the timber trade.

Product shortages can lead to high prices which then leads to over-purchasing throughout the trade resulting in excess stock and falling prices.

To mitigate the risk from these pressures, the Group has a strict policy monitored by the Board, of centrally controlling the purchase of stocks and takes a Group view on the action to be taken to limit the Group's exposure to rapidly changing prices. The Board has set strict guidelines relating to purchases that are specific to a particular customer; and has control over policies in place to ensure that no individual can commit the Group to a purchase greater than his authorised limit.

b) political risks

Although far more of the Group's purchases do come from Europe and North American, the Group has significant dealings with countries where the political climate is less stable.

To mitigate the risk from these pressures, the Group's dealings are spread across a large number of countries of supply so no one particular country or region poses a strategic threat to the supply of product to the Group.

Risk assessment

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. As an integral part of planning and review, management from each business area and major projects identify their risks, the probability of the risks occurring, the impact on the business should the risks occur and the actions taken to manage the risks. The risks are assessed on a regular basis and could be associated with a variety of internal and external sources including regulatory requirements, disruption to information systems, industrial relations issues, control breakdowns and social, ethical and environmental issues.

Whistleblowing

The Group has established procedures whereby employees of the Group may, in confidence, raise concerns relating to matters of potential fraud or other improprieties. These procedures also cover other issues affecting employees including health and safety issues. The Audit Committee is confident that these 'whistleblowing' arrangements are satisfactory and will enable the proportionate and independent investigation of such matters and appropriate follow-up action to be taken.

Review of effectiveness of financial controls

The directors confirm that they have reviewed the effectiveness of the system of internal control for the year under review and to the date of approval of the Annual Report and Accounts through the monitoring process described above. In addition, the directors confirm that they have conducted a specific annual review of the effectiveness of the Group's internal audit function.

Relations with shareholders

The Company is committed to maintaining good communications with shareholders with any Stock Exchange announcements also posted on to our website, www.lathamtimber.co.uk. From the website a direct link is maintained to the London Stock Exchange for our daily share price. Shareholders (institutional and individual) have the opportunity to meet and question the Board at the Annual General Meeting.

Annual General Meeting

All shareholders have the opportunity to put questions to the Directors at the AGM, at which a brief report is made on the recent trading since the year end.

This report has been compiled by the Remuneration Committee.

Remuneration Committee

During the year ended 31 March 2006, the Remuneration Committee comprised the two non-executive directors, Malcolm Parkinson and Pippa Latham, and was attended by Roger Latham and Peter Latham.

The main function of the Remuneration Committee is to make recommendations to the Board regarding the Group's policy on the remuneration and conditions of employment of the executive directors of the Group and, where appropriate, senior management.

The Remuneration committee has access to professional remuneration advice from outside of the Company.

Remuneration policy

The remuneration policy aims to ensure that executive directors are fairly rewarded for their individual contributions to the performance of the Group, with due regard for the interests of shareholders.

The remuneration package consists of basic salary, benefits (comprising car and medical provision), pensions, annual bonus schemes and share options available through the Group Savings Related Share Option Scheme.

Performance related bonuses

Annual bonuses can be earned by executive directors for the achievement of specific financial performance targets set by the Board of Directors for the Group as a whole. The criteria on which the executive Directors' bonuses were based in 2006 was the achievement of £4,700,000 profit before taxation and bonuses. The criteria for the year ending 31 March 2007 will be based on a similar formula.

Service contracts

Following a review by the Board of Directors in 1996, the service contracts of executive directors were amended to incorporate a rolling 2 year notice period. This was considered by the Board of Directors to be a significant but reasonable reduction in their original 5 year contracts.

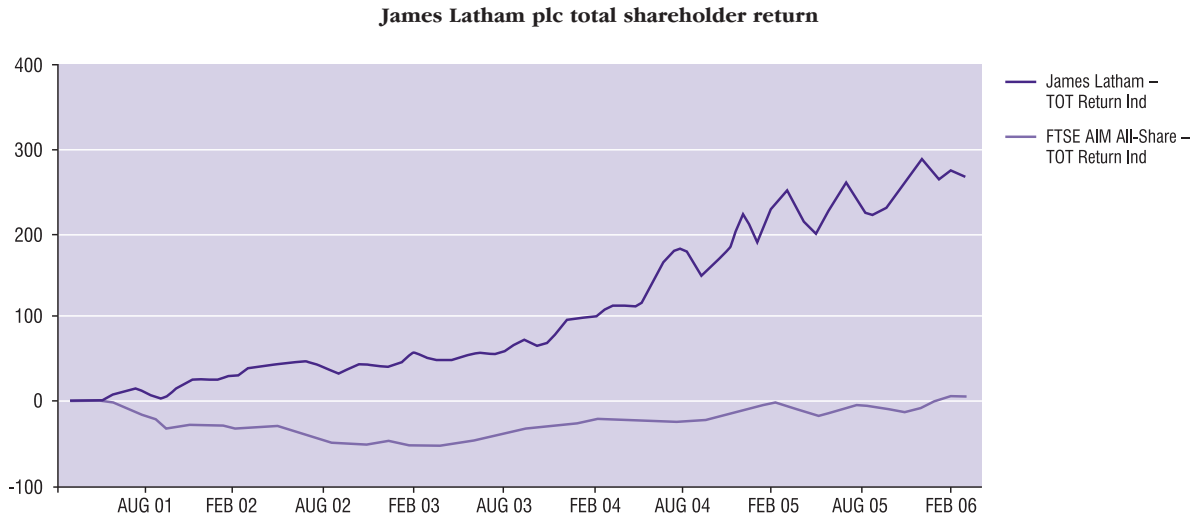
Executive directors' contracts have no provisions for pre-determined compensation on termination that exceeds two years' salary and benefits in kind.

Remuneration of the non-executive directors

The remuneration of the non-executive directors is determined by the Board. The non-executive directors do not receive a pension or other benefits from the Group.

Review of past performance

The graph below shows the Company's total shareholder return performance against the total shareholder return performance of the AIM All Share Index for the five years ended 31 March 2006.



The Remuneration Committee consider this to be the most appropriate graph against which to compare the Company's performance.

Directors' emoluments

Details of the individual directors' emoluments for the year (excluding pension benefits) were as follows:

	Salary and fees	Benefits	Bonus	Total emoluments excluding pensions	
	£000	£000	£000	2006 £000	2005 £000
Executive					
R.J. Latham	143	7	23	173	187
P.D.L. Latham	133	9	22	164	171
D.A. Dunmow	103	10	17	130	134
C.D. Sutton	87	8	15	110	48
<i>(from 1 January 2005)</i>					
Non-executive					
P.A.J Latham	11	-	-	11	-
<i>(from 1 September 2005)</i>					
M.R. Parkinson ¹	4	-	-	4	4
Total	481	34	77	592	544
2005	383	24	137	544	

¹ In addition, payments of £19,780 (2005: £17,417) were made to a company of which M.R. Parkinson is a director.

Directors' pensions

	Date of birth	Date pensionable service commenced	Increase in accrued pension £000 pa	Accrued pension at 31.03.06 £000 pa	Transfer value at 01.04.05 £000	Transfer value at 31.03.06 £000	Increase in transfer value during the year £000
R.J. Latham	16.12.43	01.12.62	2	103	1,599	1,856	257
P.D.L. Latham	06.02.51	25.06.73	5	84	911	1,142	231
D.A. Dunmow	24.04.64	01.04.94	3	23	129	187	58
C.D. Sutton	10.10.58	01.04.80	3	44	335	445	110

Accrued pensions shown are the amounts which would be paid annually on retirement based on service to the end of the year. Transfer values have been calculated in accordance with Actuarial Guidance Note GN11. Directors were required to contribute 8% of basic salary to the James Latham plc Pension & Assurance Scheme from 1 April 2003.

Pensions paid to widows of former directors amounted to £14,000 (2005: £13,000).

Directors' interests

There were no contracts with the company or its subsidiaries during the year in which any of the directors had a material interest, other than their service contracts. The directors' interests including family interests in the share capital at the end of the financial year were as follows:

		31 March 2006			31 March 2005 (or date of appointment if later)		
<i>Directors</i>		Ordinary shares of 25p	Savings related share options	Preference shares £1	Ordinary shares of 25p	Savings related share options	Preference shares £1
P.D.L. Latham	Beneficial owner	1,046,608	15,560	Nil	1,036,60	Nil	Nil
	Trustee	234,000	Nil	Nil	366,800	Nil	Nil
R.J. Latham	Beneficial owner	560,400	15,560	486	471,428	Nil	486
	Trustee	Nil	Nil	Nil	Nil	Nil	Nil
D.A. Dunmow	Beneficial owner	43,560	15,560	Nil	43,560	Nil	Nil
	Trustee	Nil	Nil	Nil	Nil	Nil	Nil
C.D. Sutton	Beneficial owner	5,000	15,560	Nil	5,000	Nil	Nil
	Trustee	Nil	Nil	Nil	Nil	Nil	Nil
M.R. Parkinson	Beneficial owner	24,000	Nil	Nil	24,000	Nil	Nil
	Trustee	Nil	Nil	Nil	Nil	Nil	Nil
P.A.J. Latham*	Beneficial owner	406,820	9,428	Nil	406,820	9,428	Nil
	Trustee	219,000	Nil	Nil	219,000	Nil	Nil

* Appointed 1 September 2005

R.J. Latham has acquired a further 5,000 ordinary shares of 25p since the year end.

M.R. Parkinson

Chairman of the Remuneration Committee

Statement of Directors' Responsibilities in respect of the Accounts

The directors are responsible for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that year. In preparing those accounts, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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

To the shareholders of James Latham plc

We have audited the accounts on pages 19 to 38.

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 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 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 accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the accounts 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 accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the accounts. We also 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 read other information contained in the Annual Report, and consider whether it is consistent with the audited accounts. This other information comprises only the Chairman's Statement, Operating Review, Financial Review, Corporate Social Responsibility Statement, Corporate Governance Statement and Directors' Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the parent Company and Group as at 31 March 2006 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the accounts.

BAKER TILLY

Registered Auditor

Chartered Accountants

2 Bloomsbury Street

London WC1B 3ST

17 July 2006

Consolidated Profit and Loss Account

For the year ended 31 March 2006

£'000s	Notes	2006	2005 (as restated)
Turnover			
Continuing operations	2	90,650	88,077
Discontinued operations	2	24,217	20,163
		114,867	108,240
Cost of sales		(94,937)	(89,811)
Gross profit		19,930	18,429
Selling and distribution costs		(9,272)	(8,322)
Administrative expenses		(5,876)	(6,141)
Other operating income		202	182
		(14,946)	(14,281)
Operating profit			
Continuing operations	3	3,435	3,726
Discontinued operations	3	1,549	422
		4,984	4,148
Profit on disposal of subsidiary company		6,229	-
(Loss)/profit on disposal of fixed assets		(8)	17,806
Interest receivable and similar income	7	1,411	764
Interest payable and similar charges	8	(972)	(1,124)
Profit on ordinary activities before taxation		11,644	21,594
Tax on profit on ordinary activities	9	(1,916)	(4,282)
Profit on ordinary activities after taxation		9,728	17,312
Dividends paid – ordinary	10	(2,449)	(2,426)
Retained profit		7,279	14,886
Earnings per ordinary share	11	48.7p	86.1p
Diluted earnings per ordinary share	11	48.7p	86.1p

The notes on pages 24 to 38 form part of these accounts. Movements on reserves are shown in note 21.

The consolidated statement of total recognised gains and losses is set out on page 23.

Consolidated Balance Sheet

At 31 March 2006

£'000s	Notes	2006	2005 (as restated)
Fixed assets			
Intangible fixed assets	13	362	740
Tangible fixed assets	12	11,438	11,823
		11,800	12,563
Current assets			
Stocks – goods for resale		13,746	18,645
Debtors: amounts falling due within one year	15.1	32,073	29,001
Debtors: amounts falling due after more than one year	15.2	5,919	7,753
Cash at bank and in hand		1,399	148
		53,137	55,547
Creditors: amounts falling due within one year	16	(17,623)	(21,628)
Net current assets		35,514	33,919
Total assets less current liabilities		47,314	46,482
Creditors: amounts falling due after more than one year	17	(2,208)	(4,497)
Provisions for liabilities and charges			
Deferred taxation	18	-	(62)
Other provisions	19	(277)	(339)
Net assets excluding pension liability		44,829	41,584
Net pension liability	26.2	(4,927)	(8,832)
Total net assets		39,902	32,752
Represented by:			
Capital and reserves			
Called up share capital	20	5,040	5,040
Investment in own shares	14	(244)	(300)
Capital reserve	21	3	3
Revaluation reserve	21	758	758
Profit and loss account	21	34,345	27,251
Equity shareholders' funds	22	39,902	32,752

These accounts were approved and authorised for issue by the Board of Directors on 17 July 2006 and signed on its behalf by:

R.J. Latham

} Directors

P.D.L. Latham

The notes on pages 24 to 38 form part of these accounts.

At 31 March 2006

£'000s	Notes	2006	2005 (as restated)
Fixed assets			
Tangible fixed assets	12	231	164
Investments	14	13,182	21,382
		13,413	21,546
Current assets			
Debtors: amounts falling due within one year	15.1	14,556	6,854
Debtors: amounts falling due after more than one year	15.2	5,919	7,753
Cash at bank and in hand		3,951	519
		24,426	15,126
Creditors: amounts falling due within one year	16	(3,210)	(5,965)
Net current liabilities		21,216	9,161
Total assets less current liabilities		34,629	30,707
Creditors: amounts falling due after more than one year	17	(2,058)	(4,271)
Provisions for liabilities and charges	19	(277)	(339)
Total net assets		32,294	26,097
Represented by:			
Capital and reserves			
Called up share capital	20	5,040	5,040
Investment in own shares	14	(244)	(300)
Profit and loss account	21	27,498	21,357
Shareholders' funds		32,294	26,097

These accounts were approved and authorised for issue by the Board of Directors on 17 July 2006 and signed on its behalf by:

R.J. Latham

} Directors

P.D.L. Latham

The notes on pages 24 to 38 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

£'000s	Notes	2006	2005 (as restated)
Cash flow from operating activities	23	1,489	(336)
Returns on investments and servicing of finance			
Interest received and similar income		1,488	493
Interest paid		(380)	(311)
Preference dividend paid		(79)	(79)
Net cash inflow from returns on investments and servicing of finance		1,029	103
Taxation		(2,345)	(2,020)
Capital expenditure and financial investment			
Purchase of intangible fixed assets		-	(395)
Purchase of tangible fixed assets		(417)	(1,235)
Proceeds of sale of tangible fixed assets		4,809	6,613
Net cash flow from capital expenditure and financial investment		4,392	4,983
Aquisitions and disposals			
Proceeds of sale of investment in subsidiary undertaking		-	-
Equity dividends paid		(2,449)	(2,416)
Cash inflow before management of liquid resources and financing		2,116	314
Financing			
Bank loans repaid during year		(714)	(714)
Finance lease repayments in the year		(25)	(26)
Bank loans obtained during the year		-	1,500
Purchase of own shares		(36)	(312)
Proceeds of sale of own shares		92	211
Net cash (outflow)/inflow from financing		(683)	659
Increase in cash for the year		1,433	973
Reconciliation of net cash flow to movement in net debt			
Increase in cash for the year		1,433	973
Finance lease capital obtained during the year		-	(66)
Movement in borrowings		739	(760)
Movement in net debt for the year		2,172	147
Net debt at 1 April 2005 (restated)	24	(5,059)	(5,206)
Net debt at 31 March 2006	24	(2,887)	(5,059)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 March 2006

£'000s	2006	2005 (as restated)
Profit for the year	9,728	17,312
Actual return less expected return on pension scheme assets	3,950	439
Experience gains and losses arising from pension scheme liabilities	1,028	75
Changes in assumptions underlying the present value of pension scheme liabilities	(5,242)	(676)
Movement in deferred tax relating to actuarial loss on pension scheme	79	48
Total recognised gains and losses relating to the period	9,543	17,198
Prior year adjustment		
- Financial Reporting Standard 17 <i>Retirement benefits</i> (note 22)	(9,720)	-
Total gains and losses recognised since the last annual report	(177)	17,198

Note of Historical Cost Profits and Losses

For the year ended 31 March 2006

£'000s	2006	2005
Profit on ordinary activities before taxation	11,644	21,594
Difference between the historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	(4)	(5)
Difference between historical cost profit on disposal of fixed asset and the actual profit on disposal calculated on the revalued amount	-	(609)
Historical cost profit on ordinary activities before taxation	11,640	20,980
Historical cost profit for the year after taxation and dividends	7,275	14,272

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain freehold and leasehold property.

(b) Basis of consolidation

The consolidated accounts include the Company and all its subsidiary undertakings (from the date of acquisition or to the date of disposal where applicable). Intra group sales and profits are eliminated on consolidation. The accounts of all subsidiary undertakings are made up to 31 March.

The Company does not present its own profit and loss account as permitted by Section 230 of the Companies Act 1985.

(c) Goodwill

Goodwill on consolidation, being the excess of the purchase price over the fair value of the net assets of subsidiary undertakings at the date of acquisition, for acquisitions completing after 1 April 1998 is capitalised and written off over its estimated useful life. This is considered to be 20 years where the acquired subsidiary remains an integral part of the Group's activities. The estimated useful life for each acquisition is reviewed annually. Goodwill on consolidation for acquisitions written off to reserves before the implementation of Financial Reporting Standard 10 *Goodwill and intangible assets* has been taken to the profit and loss account upon disposal during the year.

(d) Fixed assets

Depreciation is provided to write off the cost or valuation over the estimated useful lives of the assets on a straight line basis, being 4 - 20 years, except for freehold buildings which are written off over 50 years. No depreciation is provided on freehold land. The transitional provisions of Financial Reporting Standard 15 *Tangible fixed assets* are being followed and the revaluations of freehold land and buildings carried out in 1997 have not been updated.

(e) Stock

Stock is valued at the lower of cost, including attributable overheads, and estimated net realisable value.

(f) Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. Deferred taxation assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable against suitable taxable profits in the future.

Discounting has been applied using appropriate post-tax discount rates.

(g) Foreign currencies

Transactions in foreign currencies are translated at the agreed settlement rate or at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Any gains or losses arising from the transactions are taken to the profit and loss account.

(h) Operating leases

Operating lease rentals are charged to the profit and loss account in the year in which they fall due, except where provision has been made for future rents on unoccupied properties.

(i) Turnover

Turnover comprises net invoiced sales to external customers exclusive of Value Added Tax. Sales are recognised on the date of delivery to customers.

(j) Pension scheme costs

The Group has adopted the full provisions of Financial Reporting Standard 17 *Retirement benefits* for the first time in these financial statements. Full details of the basis of calculation of the net pension liability disclosed in the balance sheet at 31 March 2006, and of the amounts charged/credited to the profit and loss account and reserves, are set out in note 26.2 to the accounts. Prior year comparatives have been restated as disclosed in note 22 to the accounts.

Pension payments made into the Group's stakeholder scheme are charged to the profit and loss account as they arise.

(k) Finance leases

Assets acquired under finance leases are recorded in the balance sheet as tangible fixed assets at their equivalent capital value and are depreciated over the useful lives of the assets concerned or the anticipated lease term if shorter. The corresponding liability has been recorded as a creditor. The interest element is charged to the profit and loss account at a constant rate over the term of the agreement.

2. Turnover and profit on ordinary activities

2.1 Turnover, profit and net assets by class of business are analysed below:

	Turnover		Profit on ordinary activities before taxation		Net assets	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
						(As restated)
Timber importing	90,650	88,077	3,543	3,843	25,209	24,065
Ceilings and partitioning	24,217	20,163	1,990	732	-	3,188
	114,867	108,240	5,533	4,575	25,209	27,253
Net interest less discounts	-	-	(110)	(787)	-	-
Profit on sale of subsidiary	-	-	6,229	-	8,489	-
Profit on sale of fixed asset	-	-	(8)	17,806	9,298	13,130
Net debt	-	-	-	-	(2,887)	(5,059)
Unallocated liabilities (net)	-	-	-	-	(207)	(2,572)
	114,867	108,240	11,644	21,594	39,902	32,752

The unallocated liabilities consist of taxation, dividends and non trading provisions. Cash settlement discounts (see note 7) are allocated to the segment from which they arise.

The turnover figure disclosed above is net of inter-segment sales for timber importing of £133,000 (2005: £87,000) and for ceilings and partitioning of £nil (2005: £8,000).

Substantially all turnover originated in the United Kingdom.

Details of amounts in the profit and loss account attributable to discontinued operations (Nevill Long Limited) are as follows:

	2006			2005		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
						(As restated)
Cost of sales	75,754	19,183	94,937	88,300	1,511	89,811
Net operating expenses						
Selling and distribution costs	7,554	1,718	9,272	6,811	1,511	8,322
Administrative expenses	4,080	1,796	5,876	4,555	1,586	6,141
Other operating income	(202)	-	(202)	(182)	-	(182)
	11,432	3,514	14,946	11,184	3,097	14,281

3. Operating profit	2006		2005	
	£'000	£'000	£'000	£'000
Operating profit is stated after taking into account the following:				
Depreciation of fixed assets		510		471
Loss on disposal of fixed assets	-			45
Amortisation of goodwill		46		40
Operating lease rentals - vehicles and plant	1,304		1,265	
- property	998		1,001	
		2,302		2,266
Auditors' remuneration - as auditors		65		62
- other services		47		25

4. Exceptional items	2006		2005	
	£'000	£'000	£'000	£'000
Profit on disposal of subsidiary company		6,229		-
(Loss)/profit on disposal of fixed asset		(8)		17,806

5. Information regarding directors' emoluments	2006		2005	
	£'000	£'000	£'000	£'000
Emoluments		592		544

Emoluments for the highest paid director totalled £173,000 (2005: £187,000).

4 directors (2005: 4) are accruing pensions in a defined benefit scheme. The total accrued pension at 31 March 2006 was £254,000 per annum (2005: £238,000) and the transfer value of these funds at that date was £3,630,000 (2005: £2,974,000). The total accrued pension for the highest paid director was £103,000 per annum (2005: £100,000) and the transfer value of this fund was £1,856,000 (2005: £1,599,000).

The above disclosures exclude the amounts disclosed in note 28.

6. Information regarding employees

The average number of persons, including directors, employed by the Group during the year was as follows:

	2006 Number	2005 Number
Management and administration	72	72
Warehousing	104	97
Selling	114	106
Distribution	68	62
	358	337

The aggregate payroll costs of these employees were as follows:

	2006 £'000	2005 £'000 (as restated)
Wages and salaries	8,816	8,566
Social security costs	829	826
Pension costs	524	561
	10,169	9,953

7. Interest receivable and similar income

	2006	2005
	£'000	£'000 (as restated)
Cash settlement discounts	549	427
Other interest receivable and similar income	862	337
	<u>1,411</u>	<u>764</u>

8. Interest payable

	2006	2005
	£'000	£'000 (as restated)
On bank loans and overdrafts	303	317
On pension liability	567	710
On 8% Cumulative Preference shares	79	79
On finance lease agreements	3	3
Unwinding discount on provisions	20	15
	<u>972</u>	<u>1,124</u>

9. Tax on profit on ordinary activities

The charge for taxation on profit on ordinary activities comprises:	2006	2005
	£'000	£'000
Current taxation:		
UK corporation tax at 30% (2005: 30%)	1,434	3,872
Overprovision for corporation tax	(31)	(5)
	<u>1,403</u>	<u>3,867</u>
Deferred taxation	513	415
	<u>1,916</u>	<u>4,282</u>
Tax reconciliation		
Profit before taxation	<u>11,644</u>	<u>21,594</u>
Tax at 30%	3,493	6,478
Timing differences	(1,429)	(653)
Disallowable items	31	37
Difference in tax due to reliefs and indexation on capital gain	2	(2,067)
Effect of pensions accounting treatment	1,175	72
Non-taxable gain on disposal of subsidiary	(1,869)	-
Current year charge for taxation	<u>1,403</u>	<u>3,867</u>

10. Dividends

	2006	2005
	£'000	£'000
Ordinary dividends:		
Final 3.7p per share paid 15 August 2005 (2005: 3.125p)	739	630
Interim 1.6p per share paid 25 January 2006 (2005: 1.5p)	318	299
Special 7p per share paid 25 January 2006 (2005: 7.5p)	1,392	1,497
	<u>2,449</u>	<u>2,426</u>

11. Earnings per ordinary share

Earnings per ordinary share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	2006	2005
	£'000	£'000
Net profit attributable to ordinary shareholders	9,728	17,312
	Number	Number
	'000	'000
		(as restated)
Issued ordinary share capital	20,160	20,160
Less: average number of shares held in treasury investment	(170)	(50)
Less: average number of own shares held in ESOP Trust	(27)	(2)
Weighted average share capital	19,963	20,108
Add: dilutive effect of share options issued	-	-
Weighted average share capital for diluted earnings per ordinary share calculation	19,963	20,108

12. Tangible fixed assets**12.1 Group**

	Group				
	Freehold property £'000	Short leasehold property £'000	Long Leasehold property £'000	Plant, equipment and vehicles £'000	Total
At 1 April 2005	9,350	490	687	3,670	14,197
Additions	33	51	-	333	417
On disposal of subsidiary company	-	(211)	-	(506)	(717)
Other disposals	-	-	-	(158)	(158)
At 31 March 2006	9,383	330	687	3,339	13,739
At valuation, 31 March 1997	2,380	-	-	-	2,380
At cost	7,003	330	687	3,339	11,359
Depreciation:					
At 1 April 2005	397	171	9	1,797	2,374
On disposal of subsidiary company	-	(87)	-	(342)	(429)
Other disposals	-	-	-	(154)	(154)
Provision for the year	112	43	14	341	510
At 31 March 2006	509	127	23	1,642	2,301
Net book value					
At 31 March 2006	8,874	203	664	1,697	11,438
At 31 March 2005	8,953	319	678	1,873	11,823

12. Tangible fixed assets (cont'd)**12.2 Company**

	Plant, equipment and vehicles £'000
At 1 April 2005	260
Additions	123
Disposals	-
At 31 March 2006	383
At valuation, 31 March 1997	-
At cost	383
Depreciation:	
At 1 April 2005	96
Provision for the year	56
At 31 March 2006	152
Net book value	
At 31 March 2006	231
At 31 March 2005	164

Included in Group freehold property is land with a book value of £3,800,000 (2005: £3,800,000) which is not depreciated.

The freehold properties currently used by the Group were valued on 31 March 1997 by professional valuers on the basis of existing use value. The transitional provisions of Financial Reporting Standard 15 *Tangible fixed assets* are being followed and the revaluations of freehold land and buildings carried out in 1997 have not been updated.

The directors have reviewed where appropriate the carrying value at 31 March 2006 of the Group freehold properties and provisions for impairment in value. Further provisions were not considered necessary.

If the properties had not been revalued, the freehold and leasehold property would have been included as follows:

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Cost	9,806	9,801	-	-
Accumulated depreciation and impairment in value	(1,034)	(862)	-	-
	8,772	8,939	-	-

Net book value of plant, equipment and vehicles acquired under finance leases is as follows:

Cost	152	180	-	-
Accumulated depreciation	(138)	(141)	-	-
	14	39	-	-

13. Intangible fixed assets

	Group Goodwill £'000
Cost:	
At 1 April 2005	923
On disposal of subsidiary company	(528)
31 March 2006	<u>395</u>
Amortisation:	
At 1 April 2005	183
Charge for the year	46
On disposal of subsidiary company	(196)
At 31 March 2006	<u>33</u>
Net book value	
At 31 March 2006	<u>362</u>
At 31 March 2005	<u>740</u>

Prior to the introduction of Financial Reporting Standard 10 *Goodwill and intangible assets*, £183,000 of purchased goodwill was written off directly to reserves. This amount has been taken to the profit and loss account upon disposal during the year, and is included in profit on disposal of subsidiary company (see note 4).

14. Fixed asset investments and investments in own shares

	Group		Company		
	Own shares £'000	Treasury shares £'000	Own shares £'000	Subsidiary undertakings £'000	Treasury shares £'000
Shares:					
At 1 April 2005					
Cost	10	296	10	11,758	296
Less: impairment in value	(6)	-	(6)	-	-
	<u>4</u>	<u>296</u>	<u>4</u>	<u>11,758</u>	<u>296</u>
Movements during the year:					
Additions	37	-	37	-	-
Disposals	-	(92)	-	(2,145)	(92)
	<u>41</u>	<u>204</u>	<u>41</u>	<u>9,613</u>	<u>204</u>
Less: increase in impairment in value	(1)	-	(1)	-	-
At 31 March 2006	<u>40</u>	<u>204</u>	<u>40</u>	<u>9,613</u>	<u>204</u>
Loans: At 1 April 2005		-		9,624	
Additions		-		-	
Disposals		-		(6,055)	
		<u>-</u>		<u>3,569</u>	
Total at 31 March 2006					
Fixed asset investment		-		13,182	
Investment in own shares		244		244	
		<u>244</u>		<u>13,426</u>	
Total at 31 March 2005					
Fixed asset investment		-		21,382	
Investment in own shares		300		300	
		<u>300</u>		<u>21,682</u>	

The directors have reviewed the carrying value at 31 March 2006 of the Company's interests in its subsidiary undertakings and have made provisions for impairment in value where these were considered necessary.

The investment in own shares represents 93,704 25p Ordinary shares (2005: 2,404 25p Ordinary shares) held on behalf of the James Latham plc Employee Benefits Trust, a discretionary trust. Dividends have been waived and all income and expenditure of the trust has been dealt with through the Company's profit and loss account. None of these shares have been allocated to employees.

At 31 March 2006 140,000 (2005: 200,000) 25p Ordinary shares were held by the Company as Treasury Shares. Some of these shares will be transferred to the James Latham plc Employee Benefits Trust in order to provide shares for the 2008 Savings Related Share Option Scheme. Any shares that are surplus to requirement will be cancelled.

Details of subsidiary companies are given in note 25.

15.1 Debtors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Trade debtors	18,025	21,842	3	14
Amounts owed by subsidiary undertakings	-	-	2,573	877
Other debtors	12,168	5,731	11,883	5,834
Deferred taxation (note 18)	693	-	28	32
Prepayments and accrued income	1,187	1,428	69	97
	32,073	29,001	14,556	6,854

15.2 Debtors: amounts falling due after more than one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Other debtors due after one to two years	5,919	3,702	5,919	3,702
Other debtors due after two to five years	-	4,051	-	4,051
	5,919	7,753	5,919	7,753

£4,419,000 (2005: £7,753,000) of debtors falling due after one year are secured on bonds guaranteed by the Royal Bank of Scotland. Interest at the rate of 7% per annum is payable on the amounts outstanding. A further £1,000,000 is held in a retention account following the disposal of Nevill Long Limited during the year.

16. Creditors: amounts falling due within one year

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
		(as restated)		(as restated)
Bank overdrafts	-	182	-	-
Bank loans	2,214	714	2,214	714
Trade creditors	10,117	14,008	50	152
Bills payable	1,485	1,837	-	-
Amounts owed to subsidiary undertakings	-	-	-	3,529
Corporation tax	623	2,171	-	879
Other taxation and social security	1,704	1,026	314	258
Other creditors	509	530	240	210
Obligations due under finance leases	13	25	-	-
Accruals and deferred income	958	1,135	392	223
	17,623	21,628	3,210	5,965

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

	Group		Company	
	2006 £'000	2005 £'000 (as restated)	2006 £'000	2005 £'000 (as restated)
Bank loans	1,071	3,284	1,071	3,284
Obligations due under finance leases	2	15	-	-
Accruals	148	211	-	-
8% Cumulative Preference Shares of £1 each (note 20)	987	987	987	987
	2,208	4,497	2,058	4,271
Bank loans are analysed as follows:				
Due within one year (note 16)	2,214	714	2,214	714
Due after one to two years	714	2,214	714	2,214
Due after two to five years	357	1,070	357	1,070
	3,285	3,998	3,285	3,998

Bank loans, overdrafts and acceptance credits are secured by fixed and floating charges over the assets of the Company and its subsidiaries. Overdrafts of subsidiary companies amounting to £2,594,000 (2005: £985,000) are also secured on the assets of the Company. The interest rate applicable to the loan due after one year is 1.125% above the LIBOR rate applicable at the beginning of each quarter.

18. Provision for deferred taxation

	Group		Company	
	2006 £'000	2005 £'000 (as restated)	2006 £'000	2005 £'000 (as restated)
At 1 April 2005	62	-	-	-
Provided during the year	(62)	62	-	-
At 31 March 2006	-	62	-	-

Included in debtors (note 15.1) is a deferred taxation debtor for the Group of £693,000 (2005: £nil) and for the Company of £28,000 (2005 restated: £32,000).

The deferred taxation provision comprises:

	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Accelerated capital allowances	387	243	11	9
Other timing differences	(939)	(41)	(39)	(41)
Undiscounted provision for deferred tax	(552)	202	(28)	(32)
Discount	(141)	(140)	-	-
Discounted provision for deferred tax	(693)	62	(28)	(32)

Deferred taxation is provided at a rate of 30% (2005: 30%).

Some or all of the deferred taxation debtor may be recoverable after more than one year.

19. Other provisions for liabilities and charges

	Group			Company	
	Claims Provision £'000	Future rents £'000	Unfunded pensions £'000	Future rents £'000	Unfunded pensions £'000
At 1 April 2005	-	204	135	204	135
Provisions utilised	-	(60)	(21)	(60)	(21)
Additions to provisions	-	13	-	13	-
Unwinding discount	-	-	6	-	6
At 31 March 2006	-	157	120	157	120
Totals 2006:		277		277	277
2005:		339		339	339

Discounting of the liability for future rents and unfunded pensions has been undertaken using appropriate discount rates, on a basis consistent with the previous year.

20. Share capital

	2006		2005 (as restated)	
	Authorised £'000	Issued £'000	Authorised £'000	Issued £'000
8% Cumulative Preference Shares of £1 each	1,500	987	1,500	987
Cumulative Redeemable Preference Shares 2013 of £1 each	-	-	5,000	-
	1,500	987	6,500	987
Included in creditors: amounts falling due after more than one year (note 17)	(1,500)	(987)	(6,500)	(987)
Ordinary shares of 25 pence each	7,000	5,040	7,000	5,040
	7,000	5,040	7,000	5,040

The authorised share capital of the Company was reduced by the cancellation at the 2005 annual general meeting of the Cumulative Redeemable Preference Shares 2013 of £1 each.

21. Reserves

	Group			Company
	Capital reserve £'000	Revaluation reserve £'000	Profit and loss account £'000	Profit and loss account £'000
At 1 April 2005 (as previously reported)	3	758	36,235	23,272
Prior year adjustment (note 22)	-	-	(8,984)	(1,915)
At April 2005 (as restated)	3	758	27,251	21,357
Profit for the year	-	-	7,279	6,141
Other recognised gains and losses relating to the period	-	-	(185)	-
At 31 March 2006	3	758	34,345	27,498
		2006 £'000		2005 (as restated) £'000
Profit and loss account - excluding pension liability		39,272		36,083
Net pension liability		(4,927)		(8,832)
Profit and loss account - including pension liability		34,345		27,251

22. Reconciliation of movements in shareholders' funds

	2006	2005
	£'000	£'000
Profit for the financial year	9,728	17,312
Change in investment in own shares	56	(95)
Other recognised gains and losses relating to the year	(185)	(114)
Dividends	(2,449)	(2,426)
Net addition to shareholders' funds	<u>7,150</u>	<u>14,677</u>
Opening shareholders' funds - as previously stated	42,723	27,927
Change in accounting policies		
Financial Reporting Standard 21 - accounting for dividends on a "declared" basis	736	630
Financial Reporting Standard 25 - reclassification of preference shares	(987)	(987)
Financial Reporting Standard 17 - recognition of pension liability, including SSAP 24 adjustment	(9,720)	(9,495)
Opening shareholders' funds - restated	<u>32,752</u>	<u>18,075</u>
Closing shareholders' funds	<u>39,902</u>	<u>32,752</u>
Closing shareholders' funds - excluding pensions liability	44,829	41,584
Net pension liability	(4,927)	(8,832)
Closing shareholders' funds - including pensions liability	<u>39,902</u>	<u>32,752</u>

The accounts have been prepared using new accounting standards as detailed below:

- Financial Reporting Standard 17 *Retirement benefits*: this requires that the group pension liability be recognised in the financial statements.
- Financial Reporting Standard 21 *Events after the balance sheet date*: this requires that paid dividends are not accrued for in the accounts, but are recognised upon payment. Final dividends at 31 March are therefore not included in the above figures.
- Financial Reporting Standard 25 *Financial instruments: disclosure and presentation*: this requires that preference shares are disclosed as part of creditors: amounts falling due after more than one year, rather than as share capital.

All comparative figures have been restated to reflect these standards.

The effect of adopting these accounting standards have been as follows:

	2006	2005
	£'000	£'000
Profit and loss account		
Profit before adoption of new accounting standards	4,205	14,891
Decrease in pension costs	4,745	551
Increase in interest payable	(567)	(710)
Change in deferred taxation	(1,253)	48
Accounting for dividends on a "paid" basis	149	106
Restated profit after adoption of new accounting standards	<u>7,279</u>	<u>14,886</u>
Statement of total recognised gains and losses		
Recognition of change in pension liability during the period	(185)	(114)
Recognition of pension fund liability at 1 April 2005 including SSAP 24 adjustment	(10,100)	-
Change in other gains and losses after adopting new accounting standards	(10,285)	(114)
Balance sheet		
Net assets before adopting new standards	46,928	42,723
Recognition of pension liability, including SSAP 24 adjustment	(7,306)	(10,100)
Deferred tax on SSAP 24 adjustment	380	380
Accounting for dividends on a "paid" basis	887	736
Preference shares disclosed as a liability	(987)	(987)
Net assets as restated	<u>39,902</u>	<u>32,752</u>

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

	2006	2005
	£'000	£'000
Operating profit	4,984	4,148
Depreciation and amortisation	556	511
Loss on disposal of fixed assets	-	46
Decrease/(increase) in stocks	2,993	(3,977)
Increase in debtors	(1,207)	(2,393)
Decrease/(increase) in creditors	(938)	1,418
Decrease/(increase) in bills payable	(352)	484
Financial Reporting Standard 17 <i>Retirement Benefits</i> non cash amounts	(485)	(551)
Special contribution to pension fund	(4,000)	-
Decrease in provisions	(62)	(22)
Net cash inflow/(outflow) from operating activities	<u>1,489</u>	<u>(336)</u>

24. Analysis of net debt

	At 1 April 2005 (as restated)	Cash flow	Other changes	At 31 March 2006
	£'000	£'000	£'000	£'000
Cash at bank and in hand	148	1,251	-	1,399
Bank overdrafts	(182)	182	-	-
		<u>1,433</u>		
Debt due after more than one year	(3,284)	-	2,214	(1,070)
Debt due within one year	(714)	714	(2,214)	(2,214)
8% Cumulative Preference Shares of £1 each (note 20)	(987)	-	-	(987)
Finance leases due within one year	(25)	25	(13)	(13)
Finance leases due after more than one year	(15)	-	13	(2)
Total	<u>(5,059)</u>	<u>2,172</u>	<u>-</u>	<u>(2,887)</u>

25. Principal subsidiary undertakings

Name	Country of incorporation and operation	Class of shares	Percentage of ownership	Principal activity
Lathams Limited	England	£1 Ordinary	100%	Timber importing
Nevill Long Limited	England	£1 Ordinary	100%	Suspended ceilings and partitioning

Nevill Long Limited was disposed of on 31 March 2006.

26. Pension commitments

26.1 Group pension schemes

James Latham plc operates a group contributory pension scheme. The scheme is closed to new entrants. Benefits are provided based on earnings in the last twelve months before retirement, plus average bonuses received over the last three years. The assets of the scheme are held separately from those of the company. 65% of the assets are invested in equities, with 17% managed actively by Liontrust and 48% under passive management by Barclays Global Investors. The remaining 35% are held in bonds and gilts, managed by Aegon Asset Management UK plc.

For those employees not able to join the group contributory pension scheme, the Group has established a defined contribution Group Stakeholder Scheme.

The pension charge for the year was £524,000 (2005 as restated : £561,000).

Contributions are determined by a qualified actuary on a basis of triennial valuations using the projected unit funding method. The most recent available valuation was at 31 March 2005. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

It was assumed that the investment return would be 6.7% per annum pre-retirement and 5.2% per annum post-retirement, that the salary increases would average 4.5% per annum and that the present and future pensions would increase at the rate of 3% per annum in respect of service to 1 January 1991. Pensions accruing between 1 January 1991 and 28 February 1999 are required to increase at the greater of: (a) 4%, and (b) 3% on the GMP and 5% on the excess over the GMP. Pensions accruing after 1 March 1999 increase at Limited Price Indexation which has been assumed to average 2.75% in the future.

The actuarial valuation at 31 March 2005 showed that the market value of the scheme's assets was £22,908,000 and that the actuarial value of these assets represented 69% of the benefits that had accrued to members after allowing for expected future increases in earnings.

26.2 Financial Reporting Standard 17 (FRS17) Retirement benefits

The Group has adopted the full provisions of FRS17 for the first time in the accounts for the year ended 31 March 2006. Prior year comparatives have been restated (see note 22). The James Latham plc scheme is a multi employer scheme and no separate actuarial information is available on the amounts relating to subsidiary companies.

The Group operates a defined benefit scheme in the UK. A full actuarial valuation was carried out as at 31 March 2005 and updated to 31 March 2006 by a qualified independent actuary. The major assumptions used by the actuary were:-

	2006	2005	2004
Rate of increase in salaries	4.65%	4.65%	4.65%
Pension increase rate	2.90%	2.90%	2.90%
Discount rate	5.00%	5.40%	5.50%
Inflation assumption	2.90%	2.90%	2.90%

The assets in the scheme and the expected rate of return were:

	Long Term rate of return expected (net of expenses)			2006	2005 (as restated)	2004 (as restated)
	2006	2005	2004			
				£'000	£'000	£'000
Equities	6.65%	6.60%	6.50%	20,862	13,785	11,478
Bonds	4.00%	4.40%	4.40%	11,320	8,960	7,571
Other	3.85%	4.10%	3.30%	162	230	157
Total market value of assets				32,344	22,975	19,206
Present value of scheme liabilities				(41,047)	(35,592)	(33,359)
Deficit in the scheme				(8,703)	(12,617)	(14,153)
s75 receipt due (upon disposal of Nevill Long Limited)				1,665	-	-
Related deferred tax asset				2,111	3,785	4,246
Net pension liability				(4,927)	(8,832)	(9,907)

26.21 The following amounts have been reflected in the accounts:

Analysis of the amount charged to operating profit

	2006	2005 (as restated)	2004 (as restated)
Service cost	467	473	451
Past service cost	-	41	-
Total operating charge	<u>467</u>	<u>514</u>	<u>451</u>

£260,000 was credited to profit on disposal of subsidiary company in respect of the gain on curtailment (Nevill Long Limited).

Analysis of the amount credited/(charged) to interest receivable/(payable)

	2006	2005 (as restated)	2004 (as restated)
Expected return on pension scheme assets	1,360	1,119	839
Interest on pension liabilities	(1,927)	(1,829)	(1,714)
Net return	<u>(567)</u>	<u>(710)</u>	<u>(875)</u>

£260,000 was credited to profit on disposal of subsidiary company in respect of the gain on curtailment (Nevill Long Limited).

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)

	2006	2005 (as restated)	2004 (as restated)
Actual return less expected return on assets	3,950	439	1,886
Experience gains and losses on liabilities	1,028	75	(188)
Change in assumptions	(5,242)	(676)	116
Actuarial loss recognised in the STRGL	<u>(264)</u>	<u>(162)</u>	<u>1,814</u>

26.22 Movement in deficit during the year

	2006	2005 (as restated)	2004 (as restated)
At 1 April 2005	(12,617)	(14,153)	(15,718)
Movement in year:			
Current service cost	(467)	(473)	(451)
Contributions	4,952	2,922	1,077
Gain on curtailment (Nevill Long Limited)	260	-	-
Past service costs	-	(41)	-
Interest cost	(567)	(710)	(875)
Actuarial (loss)/gain	(264)	(162)	1,814
s75 receipt due (upon disposal of Nevill Long Limited)	1,665	-	-
As at 31 March 2006	<u>(7,038)</u>	<u>(12,617)</u>	<u>(14,153)</u>

26.23 History of experience gains and losses

	2006	2005	2004	2003
Difference between expected and actual return on scheme assets:				
Amount (£'000s)	3,950	439	1,891	(3,983)
Percentage of scheme assets	12%	2%	10%	(25%)
Experience gains and losses on scheme liabilities:				
Amount (£'000s)	1,028	75	(188)	(3,588)
Percentage of scheme assets	3%	0%	(1%)	(11%)
Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000s)	(264)	(162)	1,814	(9,397)
Percentage of scheme assets	-1%	0%	5%	(29%)

26.3 Stakeholder and other pension payments

The Group operates a defined contribution Stakeholder scheme managed by Royal and Sun Alliance. The Group has agreed to match contributions by employees up to a maximum of 5%.

Pensions paid to the stakeholder scheme for the year totalled £57,000 (2005: £47,000).

The cost of pensions to employees and the widows of former employees who retired before becoming eligible to be members of the Group pension scheme is being met out of the provision for unfunded pensions (note 19).

27. Leasing commitments

Leasing commitments under various operating lease contracts for vehicles, plant and property payable by the Group and the Company.

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Vehicles and plant:				
Leases expiring within one year	45	77	9	-
Leases expiring within two to five years	827	1,085	34	43
	872	1,162	43	43
Property:				
Leases expiring within one year	-	-	-	-
Leases expiring within two to five years	204	161	-	-
Leases expiring after five years	413	865	87	87
	617	1,026	87	87

28. Related party transactions

Payments of £19,780 (2005: £17,417) were made to a company of which Mr M.R. Parkinson, a director of James Latham plc, is a director.

29. Financial instruments

The Group's financial instruments comprise cash, bank loans, finance leases, preference shares, and various items arising directly from its operations, such as trade debtors and trade creditors. Trade debtors, trade creditors and other items arising directly from operations have been excluded from the following disclosures. Details of the repayment profile of bank loans and preference shares, together with applicable interest rates, are given in note 17. The main purpose of these financial instruments is to provide working capital and to assist with the purchase of capital assets for the Group.

The Group's policy is to obtain the highest rate of return on its cash balances, subject to having sufficient resources to manage the business on a day to day basis and not exposing the Group to unnecessary risk of default.

Approximately 20% of the Group's purchases are denominated in foreign currencies, and the Group manages this foreign exchange risk by a mixture of forward contracts and spot purchases. Forward currency contracts are taken out for a maximum of 3 months. At 31 March 2006 forward currency contracts of £294,000 (2005: £47,000) had been placed.

Included in Group cash at bank and in hand at 31 March 2006 was £17,000 in US Dollars (2005: £22,000), £400 in Canadian Dollars (2005: £1,000) and £23,000 in Euros (2005: £121,000), at variable interest rates.

The total borrowing facilities available to the Group (including undrawn borrowings) at 31 March 2006 were:-

Repayable on demand	£
Repaid in April 2006 in one instalment	5,750,000
Repayable by July 2008 in quarterly instalments	1,500,000
	<u>1,784,000</u>

The carrying value of all financial instruments is not materially different from their fair value.

Notice is hereby given that the one hundred and seventh Annual General Meeting of the Company will be held at Unit 3, Swallow Park, Finway Road, Hemel Hempstead, Herts HP2 7QU, on Thursday 17 August 2006 at 12.30pm for the following purposes:

Ordinary business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 March 2006 together with the Independent Auditors' report thereon.
2. To declare the final dividend recommended by the directors on the ordinary shares of the Company.
3. To re-elect Mr D.A. Dunmow as a director, who retires by rotation.
4. To re-elect Mr M.R. Parkinson as a director, who retires by rotation.
5. To elect Miss P.A.J. Latham as a director, who has been appointed since the last annual general meeting.
6. To re-appoint Messrs Baker Tilly, Chartered Accountants, as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company at a remuneration to be determined by the directors.

Special business

7. Directors authority to allot shares: To consider and, if thought fit, pass the following resolution as an Ordinary Resolution: "THAT in substitution for all existing authorities, to the extent unused, the directors be and they are generally and unconditionally authorised for the purposes of Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to aggregate nominal amount of £1,680,000 provided that this authority shall expire at the earlier of the conclusion of the Company's next annual general meeting or 15 months from the date of the passing of this resolution and that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred has expired."
8. Dis-application of pre-emption rights: To consider and, if thought fit, pass the following resolution as a Special Resolution: "THAT subject to the passing of the previous resolution the Directors be and are hereby empowered under Section 95 of the Companies Act 1995 to allot equity securities (as defined in Section 94 of that Act) for cash pursuant to the authority conferred by the previous Resolution to allot shares as if Section 89 (1) of that Act did not apply to any such allotment, provided that:
 - (a) this power shall be limited to:
 - (i) in connection or the subject of an offer or invitation, open for acceptance for a period fixed by the directors, to the holders of ordinary shares on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements which would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory or otherwise how so ever).
 - (ii) other allotments of equity securities for cash up to an aggregate nominal amount of £252,000; and
 - (b) this power shall expire at the earlier of the conclusion of the next annual general meeting of the Company or 15 months from the date after the passing of this Resolution except that the Directors may allot equity securities under this power after that date to satisfy an offer or agreement made before the power expired."
9. Authority for the Company to purchase its own shares: To consider and, if thought fit, pass the following resolution as a Special Resolution: "THAT (a) the Company be and is generally and unconditionally authorised for the purposes of Section 166 of the Companies Act 1985 to make market purchases (within the meaning of sub-Section 163 (3) of that Act) of its Ordinary Shares of 25p each provided that the maximum aggregate number of Ordinary Shares which may be purchased is 2,016,000, (b) the price at which Ordinary Shares may be purchased shall not be more than 105% of the average of the middle market quotations for the Ordinary Shares as derived from the London Stock Exchange Daily Official List for the ten business days preceding the date of purchase and shall not be less than 25p per Ordinary Share (in both cases exclusive of expenses), and (c) this power shall expire at the earlier of the conclusion of the next annual general meeting of the Company or 15 months from the date of the passing of this resolution."

By Order of the Board

D.A. Dunmow

Secretary

Registered Office: Unit 3, Swallow Park, Finway Road Hemel Hempstead, Hertfordshire HP2 7QU

17 July 2006

The Report and Accounts are sent to all members of the Company.

Holders of preference shares are not entitled to be present, either personally or by proxy, or to vote at any general meeting so long as the dividends on such preference shares are regularly paid or unless a resolution is to be proposed for winding up the Company, reducing its capital or selling its undertaking or adversely affecting the rights of the holders of preference shares.

A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote on his/her behalf. A proxy need not be a member of the Company.

Any instrument appointing a proxy, to be valid, must be lodged with the Company's Registrars at Computershare Investor Services plc, Registrars Department, PO Box 1075, The Pavilions, Bridgwater, Bristol, BS99 3ZZ, not later than 48 hours before the fixed time for the Meeting.

Copies of directors' contracts of service, the register of interests of directors, the Company's memorandum of association (as proposed to be amended pursuant to the Resolution 9) and the articles of association proposed to be adopted by Resolution 10 will be available for inspection at the Registered Office during normal business hours from the date of the above notice until the close of the meeting.

In accordance with Regulation 41 of the Uncertified Securities Regulations 2001, only those members eligible to vote and entered on the Company's register of members as at 12.30pm on Tuesday 15 August 2006 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

Telephone share dealing service for shareholders

We continue to operate a telephone share dealing service with our registrar, Computershare Investor Services Plc, which provides shareholders with a simple way of buying or selling James Latham plc ordinary shares on the London Stock Exchange. The commission is just 1%, subject to a minimum charge of £15. In addition stamp duty, currently 0.5% is payable on purchases. There are no forms to complete and the share price at which you deal will generally be confirmed to you whilst you are still on the telephone. The service is available from 8am to 4.30pm Monday to Friday excluding bank holidays on telephone number 0870 703 0084. Please ensure you have your Shareholder Reference Number (SRN) ready when making the call. The SRN appears on your share certificate. Detailed terms and conditions are available on request, please phone 0870 702 0000.

This is not a recommendation to buy, sell or hold shares in James Latham plc. If you are unsure of what action to take contact a financial advisor authorised under the Financial Services and Markets Act 2000. Please note that share values may go down as well as up, which may result in you receiving less than what you originally invested.

In so far as this statement constitutes a financial promotion for the share dealing service provided by Computershare Investor Services it has been approved by Computershare Investor Services plc for the purpose of Section 21 (2) (b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services plc is regulated by the Financial Services Authority.

Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.