JAMES HALSTEAD plc

Report and Accounts 2009

Contents

Chairman's Statement

Once again I am able to report a record set of results to shareholders. Revenue at £169.3 million (2008: £158.7 million) is 6.6% ahead of last year and our profit before taxation is £33.0 million (2008: £29.9 million) representing an increase of 10.5%.

There was an increase in operating profit to £32.8 million (2008: £29.1 million) representing an increase of 12.7%.

The year has been a challenging one with significant uncertainties in the earlier part of the second half of the year as the banking crisis extended into the wider economy. It is clear that many of our markets slowed down for a period as credit restrictions and deferred spending became a feature of the economic climate. Our management teams focused on cost control and credit appraisal, in addition to maximising sales opportunities in what seemed to be unprecedented conditions.

Notable projects in our global marketplace included significant work in the Bayern Munich Allianz Arena, the new Commonwealth Games Stadium in Mumbai, the Globe Inn (frequented by Robert Burns and home of the first Burns Supper), and IKEA restaurants in Germany, Austria and Belgium.

Our cash reserves continued to be a major advantage in the turmoil caused by the loss of faith in the banking community.

Dividend

The board proposes to increase the final dividend to 17.0p (2008: 14.50p) an increase of 17.2%. This, combined with the interim paid in May 2009 of 7.25p (2008: 6.25p), brings the annual dividend to 24.25p (2008: 20.75p) an increase of 16.9%. Having regard to these annual results and our healthy cash balances the board feel this level is prudent.

Acknowledgements

I extend to our customers, our employees and management the congratulations and thanks of the board.

Outlook

Though major projects and new builds are always welcome, our business model is founded on the supply of resilient floorcoverings into refurbishment and repair work in the commercial sector. We have always found in previous economic downturns that the refurbishment market has been robust and, in these difficult times, the focus on value for money brings resilient vinyl floorcoverings increasingly to the forefront of the short list of suppliers prepared by specifiers. Our strength in day to day business serves us well.

The general economic climate is fragile and we remain cautious as to the outlook but I can report that trading since the year end continues to hold up well and we look forward to progressing our worldwide business in the coming year.

G Halstead
Chairman

Chief Executive's Review

The results for the year are creditable with our group once again achieving record turnover and profits. The growth in sales and profit has been more modest than in previous years but this has been achieved against a very challenging backdrop with adverse conditions in many of our key markets.

In terms of geographical revenue most markets reported record results which in summary were: UK – up 5.2%; Europe & Scandinavia – up 11.2%; Australasia and Asia – up 2.7%; and other territories (principally the Americas, the Middle East and Africa) showing a less than 1% decline.

Operating profit is at a record £32.8 million (2008: £29.1 million). Of this increase £0.8 million represents the profit on disposal of premises in Brisbane. These were premises occupied by our former subsidiary Driza Bone, which we had leased out for the last decade.

There has been a slowdown in the rate of growth in the year to June 2009. It was clear that for a period of three to four months during the middle part of the financial year there was a global contraction of credit and, as the world's financial institutions faced crisis, many companies found bank facilities restricted and projects were consequently deferred. Given the enhancements to productivity and capacity in recent years, with sales growth slowed, we have had the time to use our production facilities for further product development.

I would note a significant fall in finance income on bank deposits to £0.87 million (2008: £1.28 million) as interest rates fell considerably during the year. The interest rates prevailing are, however, beyond our control and returns in the coming year will most likely be lower still. The tax charge for the year is 24.7% (2008: 31.8%) as the result of several open tax years being cleared leading to a downward revision of our tax charge. This represents a one off benefit rather than any fundamental change in our tax profile, but nevertheless tax refunds are always welcome.

Polyflor, the UK based operation

New product launches and renewal of our ranges are ever important and during the year we established Polysafe Wood FX Acoustic, a pioneering world-first in combining a wood effect floor with sustainable slip resistance, which also achieves a 19db noise rating reduction. The revamp of the Expona Design collection in March is also noteworthy. With the designs being well received and high performance of the product established in the market, sales have continued to expand.

In January we acquired a 200,000ft² warehouse facility in Oldham and our fragmented finished goods warehousing (five facilities in three locations) is now being centralised to offer better customer service and more efficient operations.

There has been significant investment in plant and equipment with Polytred (the safety flooring line) upgraded for faster running speed and to facilitate new products that will be placed in the market very shortly.

Environmental performance continues to be a key selling feature and Polyflor has a unique offer in the UK market with 13 ranges of homogeneous and safety vinyl flooring that achieve a BRE (British Research Establishment) A+ environmental rating. This is a key factor in supplying to public bodies in particular, especially in areas such as health and education.

Our recycling initiatives continue to expand, not only further enhancing our environmental credentials but offering substitution of expensive virgin raw material. Just one example of this is that Polyflor is a founder member of the Recofloor Vinyl Take Back Scheme, which is designed to facilitate the collection of waste flooring. Around 200 collection sites are now registered around the country, from distribution outlets to large projects and commercial waste transfer stations and individual contractors. Waste flooring is returned to our factory in Manchester where it is recycled into new flooring, or where this is not possible, it is down-cycled into products such as curb stones or traffic calming devices.

Recycling has become an increasingly important part of product selection and project management; vinyl lends itself to recycling better than any other flooring material and Polyflor are at the vanguard of encouraging, facilitating and actually undertaking this recycling.

On the site in Manchester we have set up our own in house recycling facility to significantly reduce the level of waste going to landfill. Wood, cardboard, paper, liquid waste and plastics are all segregated for recycling, wherever possible. In addition, the average recycled content of products we manufacture is 25% and rising.

Packaging of our products has been completely updated to offer better protection in transit and reduce quality problems whilst at the same time replacing the previous packaging material with paper that is more readily recyclable or biodegradable.

Investment in the reduction of energy consumption continues and there has been a 36% reduction in energy consumption in manufacturing at our Manchester facility over the last eight years. In addition, there has been a 13,000 tonne reduction in carbon emissions which is independently audited by the Carbon Trust and we are working with UMIST to measure and analyse our overall carbon footprint to better target further reductions.

Polyflor Pacific, encompassing Australia and New Zealand

In the two main territories of this region the general economic climates were very different. The New Zealand economy has continued to be in recession with very low business confidence and market conditions not seen for a generation. Australia, in contrast, has been fairly solid and generally the economy has been robust.

Looking first at the far larger territory, Australia, sales exceeded the prior year by 4.3%, with all major product groups achieving the level of the previous record year. Sales in all the federal states showed growth. The slow down in the resources sector had an effect on turnover but our business achieved growth in other market sectors that offset the down-turn in mining and ensured the momentum of the last five years was maintained.

Polyflor Australia made positive moves in the healthcare market, supplying several large aged care and hospital developments with the core homogeneous range. In addition, the company was very active in the education sector as the Federal stimulus package BER (Building Education Revolution) led to many schools fitting Polyflor vinyl sheet, sports flooring and Polysafe. This is anticipated to continue into the forthcoming year.

Inevitably, as the value of the Australian currency fell against the US Dollar imported product was more costly and there was a degree of margin erosion in percentage terms, although this was offset by extra sales volume.

In contrast, the New Zealand business struggled, with the recession hitting the flooring industry in a manner not seen in the rest of our group. In part this is explained by the most noticeable feature of New Zealand's poor performance (relative to other subsidiaries) being in the area of domestic product, with cushion vinyl, domestic carpet and underlay sales below last year. These three product categories were responsible for the majority of the shortfall in sales compared to the previous year.

Commercial resilient sales were 98% of the previous year which was encouraging in the light of prevailing conditions. With the mix of sales biased to commercial products, margins improved but despite reductions in overheads a small loss ensued. We are in no doubt that we maintained market share and efforts have been refocused for the new year. Whilst any loss is of concern we have traded successfully in New Zealand for 40 years and are confident of improvements.

Objectflor Art & Design and Karndean International, our German based businesses

Our European businesses recorded another fine year with turnover 3.6% ahead of the prior year. The core German market increased sales 7.7% although there were small falls in Belgium, Austria and the Netherlands. The general market conditions during the year, particularly the second half, were difficult with market statistics suggesting a general downturn in the flooring sector. Against this back drop it was a good year.

Clearly the recessionary conditions put prices under pressure and although there was a fall in the gross margin, close control of overheads meant that net operating profit as a percentage improved.

The re-launch of the Expona Design collection in January was well received and combined with a new Expona Commercial collection invigorated demand during the second half. Customer service and product availability remained key to our success.

Towards the year end our new Expona Clic range was launched, being our market leading Expona luxury vinyl tile (LVT) married to a high density fibreboard quick fitting "click" system. In addition, work has commenced on updating both the Expona Domestic collection of LVT and the Performa resilient sheet collection.

During the previous year, a site adjacent to our distribution facility in Cologne was acquired and a new facility constructed to augment existing warehousing. This has now been completed and was opened in January 2009, increasing our warehousing by 200%. As well as eliminating the use of third party space this expansion allows for growth and enabled us to build a bespoke training facility. During the last year over a thousand people attended training courses with us, broadening the core skill base at installer level.

Objectflor has also commenced its largest ever programme of presentations of the Halstead portfolio to architects. To date there have been six events throughout Germany with an average attendance at each of 150. The combination of focus on specifiers and installers in conjunction with strong relationships with local distributors has been a key reason for our continued expansion, notwithstanding the economic climate.

Chief Executive's Review
continued

Polyflor Nordic, comprising Polyflor Norway based in Oslo and Falck Design based in Gothenberg

Our previous financial year was largely one of consolidation, but the current year has seen the Scandinavian region return to growth.

Polyflor Norway has seen its market position strengthen. The business has grown its market share in the period for all of the sheet products that are in its portfolio. In difficult market conditions sales of Polyflor products have increased both in real terms and in proportionate terms relative to the market.

Falck Design has continued to increase sales of Polyflor-produced product. Projects using Polyflor product include a number of hospitals in Stockholm, the University Hospital in Linkopping and the Horda Stans chain of shops. Falck compete in homogeneous flooring against product manufactured locally by two competitors. Its market share remains small but continues to grow. Arrangements are being made in the first quarter of the next financial year to better service the market with greater locally held stocks and a second warehouse facility in Stockholm. Not only will this enable quicker customer response which, it is anticipated, will facilitate further growth, but in addition it should lower distribution costs as a percentage of sales.

The launch of the Artigo range of products mentioned in my report last year, has been particularly successful in both the Swedish and Norwegian businesses. These products have been very well received into the market place and are being used in a wide range of applications including schools, hospitals and retail outlets.

With the current world financial climate continuing to deter investment in the retail sector, the market for luxury vinyl tiles has been relatively depressed in the year. This has had an impact on both businesses, in particular Falck Design which is a market leader in this sector. The new Kudos and Expona ranges have supported sales, but competition from new entrants into the market continues to put pressure on margins.

Both businesses have continued a strategy of looking for new products to complement the portfolio. For example, a range of carpets manufactured by Dura has been introduced in the latter part of this financial year.

With the actions being taken to underpin the growth obtained so far and easing market conditions in the latter half of the current financial year, it is anticipated that the growth experienced for these businesses will continue.

Polyflor Hong Kong , servicing our Asian and Far Eastern markets

Sales in this region were 20% ahead of the previous year, which is most encouraging. Our sales in some of the markets that we serve were below the previous year but this was more than offset by the increased market penetration we have seen in mainland China. In addition, our sales into South Korea have progressed well.

The breadth of our business in terms of application continues with our core strength in hospital and healthcare remaining the firm bedrock for the business. Our brand has continued to have success in shipping applications and transport in general.

As ever, availability of stock is crucial to distribution markets and our policy of holding stock locally has continued to support our business at the grass roots whilst key projects across the region continue to be won by the sales team.

In addition to the role of our Hong Kong office in sales activities it is also supporting our sourcing activities in respect of flooring and this is expected to continue.

Phoenix Distribution (NW) Ltd, distributors of motorcycle accessories

The motorcycle market, in general, faced a tough year, being exposed to the retail market within the leisure sector. Nevertheless, the company reported increased turnover of both the Arai range of motorcycle and car helmets as well as its other brands (Abus locks, Kappa luggage and Yoshimura exhausts). These premier brands have all fared well and seemed to avoid the recessionary effects of the high street in a market where the headline for the year was a 14% decline in motorbike registrations.

There was, however, a material increase in cost of product due to the strengthening value of the Japanese Yen relative to Sterling, which inevitably affected margins. Forward hedging, stock holdings, price increases and supplier support mitigated some of the effects but inevitably there was a significant effect on gross margins which translated into a reduced level of profit in the company.

As a consequence, cost control and containment of overheads was a key focus but throughout Phoenix has maintained its dealer support, race support and sales focus. We could not allow this sudden change in product cost to affect the key areas that drive success over time and we were given tangible support in this from our long term suppliers. Examples of this were Arai backed riders winning every race at the North West 200 (attended by 125,000 spectators) and five out of six races at the Isle of Man TT.

Phoenix launched into the market the RX7-GP the first major helmet to achieve European (EC22.05) and the new USA (Snell SA2010) accreditation. In addition, Arai launched the GP6-RC which complies with the latest FIA regulations, and is now worn by 13 drivers on the Formula 1 grid.

Diversification into flooring distribution was instigated from the start of the financial year and has been successful. Initially focusing on direct sale to key retailers initially of an "Italian styled" range of luxury vinyl tile, we have already broadened the offering with new products. Phoenix is also focusing on niche sales such as workshop floors and specialist portable floorcoverings for retail display and exhibition areas initially in the motorcycle sector.

Investment and the future outlook

Underlying demand remains positive, and with the contacts and relationships built up around the world over two generations, we have continued to invest and indeed have committed to increased investment in the coming months. Among the major projects we have undertaken or are in process of finalising are:

- the new build of expanded warehousing in Cologne;
- the purchase and major refurbishment of expanded and centralised warehousing in Oldham;
- brand new automated packaging for each of our major production lines;
- new Banbury mixers on two of Polyflor's major homogeneous production lines;
- updated coating plant for directional flooring;
- brand new coating plant for safety flooring products.

The one year enhancement to tax allowances, announced by the government, is a welcome enhancement to cash flow, but has no profit implication due to the effects of deferred tax. Obviously, this level of capital spend adds to the ongoing overhead but the returns over the next few years should more than outweigh this.

Consistent high service levels and reputation for quality of product remain crucial to our brand and set us apart from our competitors and I can only be positive that we can continue to move forward as business confidence returns.

M Halstead
Chief Executive

Financial Director's Review

These accounts have been prepared, as usual, in accordance with the fundamental principles of going concern, matching of costs and revenues, consistency and prudence, as the basis for our accounting policies.

Profit before tax at £33.0 million (2008: £29.9 million) shows an increase of 10.5%. The gross margin increased by around half of one percent. The reasons for the increase were several and to a degree offset each other. In our favour were exchange rates on international sales, some reduced raw material prices, and lower energy costs whilst against this were adverse exchange rates on purchase of finished goods, adverse prices on raw material purchases from Europe, and competitive pressure. On balance it would be accurate to say that overseas earnings were the key to increased margin, though the increase was not large.

Some of the key statistics are:

- Group turnover of £169.3 million (2008: £158.7 million) – up 6.6% of which around 4% is the effect of favourable foreign exchange translation changes;
- Underlying earnings per share at 48.3p (2008: 39.7p) – up 21.7%;
- Trade debtors at the year end were £22.2 million (2008: £21.0 million) – up 5.5%;
- Cash (net of borrowings) at the year end of £27.4 million (2008: £29.3 million) – down 6.7% but after £9.4 million of fixed asset additions (2008: £3.4 million), and after £11.2 million of dividends paid (2008: £8.9 million).

As a manufacturer faced with a difficult period, as the financial markets neared collapse, we have managed working capital with some vigilance and with inventories reduced to £28.4 million (2008: £30.6 million) we have not raised stock levels, as is so often the case when demand slackens.

The Chief Executive has noted the effect of lowered interest rates on finance income. The figures he quotes are not immediately apparent from the face of the Consolidated Income Statement as finance income and finance costs are distorted by the formulaic insertion of the academically based charges dictated by International Accounting Standard 19. With the drastic lowering of interest paid on deposits we have instigated a plan to offer key suppliers earlier payment terms in exchange for a discount. With the wide disparity between the commercial deposit rates available and the UK banks' view of corporate overdraft rates this may well offset some of the reductions.

Defined Benefit Pension Scheme

The notes to these accounts detail the full IAS 19 analysis of the scheme and whilst this seems to be the main focus of attention for analysts and shareholders, it gives only a snapshot of the scheme and the creditor in the balance sheet is very fluid. It is sensitive to gilt yields and other assumptions and is at best a rough guide to the ongoing liability.

Our IAS 19 deficit, excluding tax offset is £15.6 million (2008: £12.5 million), though the benefit of using this as a measure is debatable. The pensioner protection fund deficit is not dissimilar in quantum and is also broadly at the level of our last actuarial valuation. These, however, fall well short of a 'buy-out' figure.

As actuaries and accountants continue to experiment with accounting for the long term cost of such funds, with the worst of short term assumptions dressed up as prudence, there is one measure of a scheme that uses best estimates of reality over time – the transfer value. Based on transfer values our deficit is around 40% lower than shown by the other measures.

It is important to appreciate that whilst the scheme is closed to new members and future accrual rates for benefits have been reduced, the liabilities of the scheme are not capped, but will continue to be determined not just by investment returns, but also by longevity of pensioners. Consequently, the defined benefit scheme remains an area of risk and uncertainty for the group.

Treasury

The group operates internationally and is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than Sterling. The group's policy is to use forward exchange contracts to hedge its known and certain forecast transaction exposures based principally on historical experience and projections.

The group's UK cash and bank balances are managed centrally at the group's head office and deposits are held with various UK banks, a policy which we believed was risk averse. Subsequent to the financial crisis that affected the UK banks we have reassessed this policy and intend to continue.

Where appropriate, overseas subsidiaries have local borrowing facilities. At 30 June 2009 all overseas subsidiaries had positive bank balances.

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

Key Performance Indicators

The group's subsidiaries are measured against detailed budgets and prior year comparatives. Monthly reports to the group's executive directors and senior management are required from their function directors.

In terms of key performance indicators for the group as a whole the board considers growth in profit before tax and growth in dividend levels to be of most importance.

Levels of stock, debtors and creditors are collated and reported to the board on a monthly basis. Our focus is on stock availability, stock turn and appropriate credit being given to and received from our customers and suppliers respectively, rather than performance indicators associated with cash flow directly. However, since dividend payments require sales to be translated into cash, control of working capital is closely monitored.

No individual key performance indicator is regarded so highly that it can replace the informed background knowledge, at board level, of our individual businesses, which underpins the way our group is managed.

Principal Business Risks and Uncertainties

The board constantly assesses risks. To the extent risk is insurable the board is risk averse and is widely insured. A comprehensive insurance appraisal takes place annually to mitigate exposure to risks, such as business interruption and fire but obviously key risks such as escalating raw material prices and energy costs fall outside any insurable event.

The risks identified beyond insured events include foreign exchange risk, credit risk, liquidity risk and key management. There are, additionally, key customers and key suppliers which create dependencies. Sales and purchasing policies are under regular review to assess these dependencies. In the main risk and control are measured and assessed from a financial perspective, but this is not to the exclusion of non-financial risks and uncertainties and it is clear that scenarios can be envisaged where the group's activities may be disrupted and little could be done to mitigate the negative effects.

In respect of foreign exchange risk, the group operates internationally and is exposed to foreign exchange risk on both sales and purchases that are denominated in currencies other than Sterling. Those giving rise to the most significant risk are US Dollar, Euro, Australian Dollar and Yen. To mitigate risk associated with exchange rate fluctuations the group's policy is to hedge known and forecast transaction exposures (having netted exposures in the same currency) based on historical experience. This hedging is at least 25% and on occasion, albeit rarely, more than 100% of the next 12 months' anticipated exposure. Events such as the dramatic slide in the value of Sterling during the year are not eliminated but managed.

In respect of deposits and cash, these are managed centrally and are held with recognised major institutions, often UK high street clearing banks. The disruption to UK markets and the near failure of the UK banking system have led to a re-assessment of this policy but due to the UK government support for certain institutions, it remains unchanged given the current government backing. I would note that our risk analysis had not identified the risk of failure of a major UK clearing bank and although we may have thought, as others, that the likes of RBS and others were "too big to fail" the reality was chastening. The assurances, given by key relationship managers at these banks, were both inaccurate and unhelpful, as indeed has been their approach to client relationship subsequently.

Several external factors can be envisaged that would affect operating activities. These include technical failures, labour disputes outside our businesses, availability of raw materials, and import or customs delays. Given the spread of our operating activities there is a reduced risk of any single event being catastrophic but external factors are an area of risk that continues to be monitored. Certain suppliers would be difficult to replace or their products to substitute and delays could be of several weeks duration which would not be coped with by our current levels of stock holding.

G R Oliver
Finance Director

Directors and Advisers

Directors
G Halstead
M Halstead
G R Oliver ACA MCT
J A Wild FCA
E K Lotz (appointed 24 September 2008)

Secretary
M L Shilton ACMA

Registered office
Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Company registration No.
140269

Website
www.jameshalstead.com

Bankers
The Royal Bank of Scotland plc
6th Floor
1 Spinningfields Square
Manchester
M3 3AP

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

Nominated adviser
Altium Capital Limited
30 St James's Square
London
SW1Y 4AL

Stockbrokers
Altium Capital Limited
30 St James's Square
London
SW1Y 4AL

Auditors
PKF (UK) LLP
Sovereign House
Queen Street
Manchester
M2 5HR

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2009.

The audited financial statements of the group are set out on pages 16 to 46 and the audited financial statements of the company are set out on pages 48 to 57.

Principal activities and review of the business

The principal activities and a review of the business and outlook of the group are described in the chairman's statement, the chief executive's review and the financial director's review. Also contained in the financial director's review is a summary of the principal business risks and uncertainties and the group's use of financial instruments.

Results and dividends

The group results for the year and the financial position at 30 June 2009 are shown in the consolidated income statement on page 16 and the consolidated balance sheet on page 18.

The directors are recommending a final dividend of 17.0p per share on the ordinary share capital for payment on 4 December 2009 to those shareholders whose names appear on the register at 6 November 2009. This final dividend together with the interim dividend paid on 22 May 2009 makes a total of 24.25p per share (2008: 20.75p).

Directors

Mr G Halstead, the director retiring by rotation, offers himself for re-election at the annual general meeting. The interests of the directors and their families in the share capital of the company were as follows:

	30 June 2009		30 June 2008 or date of appointment if later	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	2,078,872	220,802	2,078,015	220,802
G R Oliver	51,866	–	51,241	–
M Halstead	3,393,700	2,832,272	3,393,075	2,797,272
E K Lotz	–	–	–	–
J A Wild	47,000	3,204,772	47,000	3,204,772
Preference shares				
G Halstead	86,405	–	86,405	–
J A Wild	–	8,750	–	8,750

Details of the directors' options under the terms of the executive share option scheme are set out in note 25.

Substantial interests

As at 16 September 2009 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
J Halstead and Ms G Halstead	9,089,030	17.65
Rulegale Nominees	2,849,483	5.53
J Halstead and A Halstead	2,598,300	5.05

Share capital

Ordinary shares

On 22 July 2008, 10,388 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

Share buy back

At the annual general meeting held on 10 December 2008, members renewed the company's authority to make market purchases on the London Stock Exchange of up to 15% of the ordinary shares of the company at not more than 5% above their average middle market quotation in the London Stock Exchange Daily Official List (AIM) on the five dealing days prior to the date of purchase. The company has made no purchases in the financial year ended 30 June 2009. However, the directors believe that it is in the best interests of the company for the authority to be renewed at a similar level at the forthcoming annual general meeting for a period of twelve months to expire at the next annual general meeting. Accordingly, it is intended to propose as special business, at the forthcoming annual general meeting, a special resolution to renew the directors' existing authority to purchase shares in the company which shall be limited to 15% of the ordinary share capital of the company at 30 June 2009.

Report of the Directors
continued

Special business at the annual general meeting

Resolution 5 invites shareholders to adopt the new articles of association of the company.

Resolution 6 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2010.

Resolution 7 authorises the directors to allot relevant securities pursuant to section 551 of the Companies Act 2006 for a further period of twelve months from the date of the annual general meeting in 2009.

Resolution 8 invites shareholders to renew for a further period of five years the board's authority to issue shares for cash to other than existing shareholders.

Resolution 9 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 15% of the issued capital at prices not exceeding 5% of the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Employment policies and involvement

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

Environmental policy

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

Health and safety

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

Research and development

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

Policy and practice on payment of creditors

Operating businesses are responsible for agreeing the terms and conditions under which business transactions are conducted. It is group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. At 30 June 2009 there were 28 (2008: 44) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £10,172 (2008: £12,735) for charitable purposes. There were no political contributions.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the group financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- state, with regard to the parent company financial statements, whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Going concern

After making enquiries the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Auditors' remuneration – non-audit related fees

Our auditors may undertake non-audit related work. This work would be tendered for separately from audit work.

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

Auditors

A resolution to re-appoint the auditors will be proposed at the forthcoming annual general meeting.

As at 28 September 2009, so far as each director is concerned, there is no relevant audit information of which the auditors are unaware. Each director has taken all the steps expected of him as a director to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

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

M L Shilton
Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester, M26 1JN
28 September 2009

Board Report on Remuneration

Remuneration committee

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

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

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

Remuneration policy

The remuneration policy is to provide terms of employment such that the recruitment, motivation and retention of high calibre personnel is achieved and maintained to the mutual benefit of shareholders and employees. The committee is assisted from time to time by data supplied by independent professional remuneration consultants as to comparable companies, although identical circumstances are rarely found. Details of the directors' remuneration are given in note 9 on page 30 and an analysis of directors' share options is given in note 25 on page 41.

Basic salary and bonus payments

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

Share option schemes

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

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

Additional options over 262,500 shares were granted in the financial year ended 30 June 2009, and options over 10,388 shares were exercised during this period.

Pensions

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

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

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

Service agreements

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

J A Wild
Chairman of the Remuneration Committee

Statement of Corporate Governance

The Board

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

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

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

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

Attendance at the six board meetings was as follows:

	Possible	Actual
G Halstead	6	6
M Halstead	6	6
G R Oliver	6	6
E K Lotz	5	4
J A Wild	6	6

Board committees

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

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

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

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

Internal control

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

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

- the group directors are responsible for establishing, maintaining and reviewing the group's system of internal control and meet regularly to consider group financial performance, business development and management issues, and to review these against predetermined objectives;
- the group board establishes corporate strategy and business objectives. Management of subsidiary companies integrate these objectives into their business strategies for presentation to the group board with supporting financial objectives;
- subsidiary company budgets, containing financial and operating targets, capital expenditure proposals and performance/profitability indicators, are presented to and reviewed by the group executive directors. The consolidated group budget is approved by the group board;
- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. These risks are appraised and evaluated by responsible executives and endorsed by subsidiary and group management. This process has been in place throughout the year and up to the date of approval of the annual accounts;
- as part of the regular monitoring and review, the group executive directors hold regular meetings with the management of the subsidiary companies at which reports covering such areas as forecasts, business development, strategic planning, risk exposure and performance against budget, are presented and discussed. These are then reported to the group board, on a quarterly basis;

James Halstead

Statement of Corporate Governance
continued

- the group board reviews and considers any major problem which may have occurred and assesses how the risks have changed in the period under review;
- there is a group-wide policy governing appraisal and approval of capital expenditure and asset disposals;
- to underpin the effectiveness of controls, it is the group's policy to recruit management and staff of high calibre, integrity and appropriate disciplines. High standards of integrity, business ethics and compliance with laws, regulations and internal policies are demanded from staff at all levels;
- the audit committee keeps under review the effectiveness of the system of internal control and reports its conclusions to the full board;
- the board also conducts an assessment of the effectiveness of the internal control system. This assessment consists of a review of all the significant areas of internal control, including risk assessment, the control environment, control activities, information and communication, and monitoring.

Relations with shareholders

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

Independent Auditors' Report to the Members of James Halstead plc

We have audited the financial statements of James Halstead plc for the year ended 30 June 2009 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and parent company balance sheets, the consolidated cash flow statement, and the related notes except for the ten year summary on page 47. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial accounting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Timothy Entwistle (Senior statutory auditor)
for and on behalf of PKF (UK) LLP, Statutory auditors

Manchester
28 September 2009

Consolidated Income Statement

for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Revenue	5	169,263	158,740
Cost of sales		(95,510)	(90,110)
Gross profit		73,753	68,630
Selling and distribution costs		(31,714)	(29,798)
Administration expenses		(9,253)	(9,744)
Operating profit	5	32,786	29,088
Finance income	10	4,154	4,290
Finance cost	10	(3,943)	(3,521)
Profit before income tax	7	32,997	29,857
Income tax expense	11	(8,146)	(9,502)
Profit for the year attributable to equity shareholders	27	24,851	20,355
Earnings per ordinary share of 5p			
– basic	13	48.3p	39.7p
– diluted		48.2p	39.5p

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in note 12.

Consolidated Statement of Recognised Income and Expense

for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Net of tax			
Foreign currency translation differences	28	1,204	2,053
Actuarial loss on the pension scheme	24	(2,842)	(4,683)
Fair value movements on hedging instruments	28	916	(169)
Net expense recognised directly in equity		(722)	(2,799)
Profit for the year		24,851	20,355
Total recognised income for the period		24,129	17,556
Attributable to:			
Equity holders of the company		24,129	17,556

Consolidated Balance Sheet
as at 30 June 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Property, plant and equipment	15	26,091	19,671
Intangible assets	16	3,232	3,232
Deferred tax assets	17	6,772	5,737
		36,095	28,640
Current assets			
Inventories	18	28,424	30,641
Trade and other receivables	19	24,485	23,034
Derivative financial instruments	20	989	149
Cash and cash equivalents	21	27,561	29,521
		81,459	83,345
Current liabilities			
Trade and other payables	22	34,586	40,064
Derivative financial instruments		583	1,153
Current income tax liabilities		2,753	7,414
		37,922	48,631
Net current assets		43,537	34,714
Non-current liabilities			
Retirement benefit obligations	24	15,602	12,505
Deferred tax liabilities	17	992	992
Borrowings	23	200	200
Other payables	22	547	350
		17,341	14,047
Net Assets		62,291	49,307
Equity			
Equity share capital	25	2,574	2,574
Equity share capital (B shares)	25	160	160
		2,734	2,734
Share premium account	26	1,738	1,708
Retained earnings	27	47,289	36,455
Other reserves	28	10,530	8,410
Total equity attributable to shareholders of the parent		62,291	49,307

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2009.

M Halstead
Director

G R Oliver
Director

Consolidated Cash Flow Statement

for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Cash inflow from operations	29	29,130	27,298
Interest received		918	1,261
Interest paid		(185)	(243)
Taxation paid		(12,820)	(8,081)
Cash inflow from operating activities		17,043	20,235
Purchase of property, plant and equipment		(9,421)	(3,370)
Proceeds from disposal of property, plant and equipment		1,433	205
Cash outflow from investing activities		(7,988)	(3,165)
Equity dividends paid		(11,197)	(8,946)
Shares issued		30	924
Interest paid		–	(117)
Repayment of debt		–	(2,653)
Cash outflow from financing activities		(11,167)	(10,792)
Net (decrease)/increase in cash and cash equivalents		(2,112)	6,278
Effect of exchange differences		152	487
Cash and cash equivalents at start of year		29,521	22,756
Cash and cash equivalents at end of year	21	27,561	29,521

Notes to the Group Accounts

1. General information

James Halstead plc ("the company" or "the parent company") is a limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is Beechfield, Hollinhurst Road, Radcliffe, Manchester M26 1JN. The accounts of the company are presented on pages 48 to 57.

The group financial statements presented by the company on pages 16 to 46 consolidate the accounts of the company and its subsidiaries (together referred to as "the group"). The group financial statements are presented in pounds sterling.

2. Accounting policies

Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the applicable provisions of the Companies Act 2006.

Basis of consolidation

The group financial statements consolidate the accounts of the parent company and all its subsidiaries, drawn up to 30 June each year. Subsidiaries are entities controlled by the group. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. This is normally achieved by a majority shareholding. At 30 June 2009, the company, directly or through an intermediate subsidiary owned 100% of the share capital of all of its subsidiaries. The results of subsidiaries acquired are consolidated from the date on which control passes to the group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the group.

All intra-group transactions and balances and any unrealised profit arising therefrom are eliminated on consolidation.

Recent accounting developments

The following IFRS amendments and IFRIC interpretations have been issued by the International Accounting Standards Board during the year but are not yet effective and have not been early adopted by the group:

IAS 39 "Financial instruments: Recognition and measurement" – Clarifies what are eligible hedged items and how the existing principles underlying hedge accounting should be applied in the designation of a one-sided risk in a hedged item, and inflation in a financial hedged item. It is required to be implemented by the group from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

IAS 27 "Consolidated and separate financial statements" – Includes guidance on accounting for changes in non-controlling interests ('minority interests') where there is no effect on control. It is required to be implemented by the group from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRS 3 "Business combinations" – Addresses the guidance for applying the acquisition method of accounting. It is required to be implemented prospectively by the group from 1 July 2009. This would be expected to impact the accounting for any future acquisitions of the group.

IFRS 8 – "Operating segments" may require changes in the way the group discloses information about its operating segments. The group will apply IFRS 8 from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

IAS 1 "Presentation of Financial Statements" – Affects the presentation of owner changes in equity and of comprehensive income. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRS. It is required to be implemented by the group from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

IFRS 2 "Share-based payment; Vesting conditions and cancellations" – The group will apply the amendment to IFRS 2 from 1 July 2009 but it is not expected to have a material impact on the consolidated financial statements.

2. Accounting policies (continued)

Recent accounting developments (continued)

IFRS 7 "Financial Instruments- Disclosure" – Introduces a three-level hierarchy for fair value measurement disclosures and requires companies to provide additional disclosures about the relative reliability of fair value measurements.

Other IFRS amendments and IFRIC interpretations which have been issued by the International Accounting Standards Board are not considered relevant to the group's financial statements.

Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment), or in providing products or services within a particular economic environment (geographic segment), which is subject to risks and rewards that are different from those of other segments. Based on the risks and rewards of the group's products and services, the directors consider that the primary reporting format is by business segment and the secondary reporting format is geographical.

Foreign currencies

Functional and presentation currency – the group's consolidated financial statements are presented in pounds sterling, the functional currency of the parent company, being the currency of the primary economic environment in which the parent company operates.

Transactions and balances – transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are reported at the rates of exchange prevailing at the balance sheet date. Exchange differences on retranslating monetary assets and liabilities are recognised in the income statement except where they relate to qualifying cash flow hedges, in which case the exchange differences are deferred in equity.

Foreign subsidiaries – the results of foreign subsidiaries (none of which has the currency of a hyperinflationary economy), that have a functional currency different from the group's presentation currency, are translated at the average rates of exchange for the year.

Assets and liabilities of foreign subsidiaries, that have a functional currency different from the group's presentation currency, are translated at the exchange rates prevailing at the balance sheet date. Exchange differences arising from the translation of the results of foreign subsidiaries and their opening net assets are recognised as a separate component of equity.

When a foreign subsidiary is sold the cumulative exchange differences relating to the retranslation of the net investment in that foreign subsidiary are recognised in the income statement as part of the gain or loss on disposal. This applies only to exchange differences recorded in equity after 1 July 2006. Exchange differences arising prior to 1 July 2006 remain in equity on disposal as permitted by IFRS 1.

Intangible assets

Goodwill – goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired, and is recognised as an asset and reviewed for impairment at least annually. For the purpose of impairment review, goodwill is allocated to the relevant cash generating unit (CGU) within the group. An impairment loss is recognised if the carrying value of the goodwill or its CGU exceeds its recoverable amount. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the calculation of the profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the UK GAAP value as at that date having been reviewed for impairment at that date and subsequently at least annually.

Other intangible assets – other intangible assets that are acquired by the group are stated at cost less accumulated amortisation. Amortisation is charged to the income statement on a straight line basis in order to allocate the cost over the estimated useful life. The residual values and useful lives of the assets are reviewed at each group balance sheet date for continued appropriateness and impairment and adjusted if necessary.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

Taxation

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities based on tax rates and laws that are enacted at the balance sheet date. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their corresponding book values as recorded in the group's financial statements with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised;
- deferred income tax is not provided on unremitted earnings of foreign subsidiaries where there is no commitment to remit the earnings.

Deferred income tax assets and liabilities are not discounted and are based on tax rates and laws that are enacted at the balance sheet date.

Share-based payments

The group grants share options to certain of its employees. Excepting those granted prior to 7 November 2002, an expense in relation to such options based on their fair value at the date of grant, is recognised over the vesting period. The group uses the Black Scholes model for the purpose of computing fair value.

Inventories

Inventories are measured at the lower of cost and net realisable value on a weighted average cost basis. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of finished and partly finished goods, cost represents the cost of raw materials, direct labour, other direct costs and related production overheads on bases consistently applied from year to year. In all cases provision is made for obsolete, slow-moving or defective items where appropriate and for unrealised profits.

Trade and other receivables

Trade and other receivables are non-interest bearing and are stated at their nominal amount less provisions made for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience together with specific amounts that are not expected to be collectible. Individual amounts are written off when management deems them not to be collectible.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, short-term (with an original maturity of three months or less) deposits and bank overdrafts. Bank overdrafts are disclosed as current liabilities except where the group participates in offset arrangements with certain banks whereby cash and overdraft amounts are offset against each other.

Pension scheme arrangements

The group operates several defined contribution pension schemes and a defined benefit pension scheme for certain of its United Kingdom domiciled employees.

A defined contribution scheme is a scheme in which the group pays contributions into publicly or privately administered schemes on a voluntary, statutory or contractual basis. The group has no further payment obligations once the contributions have been made. The amount charged to the income statement is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as receivables or payables in the balance sheet.

2. Accounting policies (continued)

Pension scheme arrangements (continued)

A defined benefit scheme is a scheme in which the amount of pension benefit that an employee will receive on retirement is defined. For the defined benefit scheme, pension costs and the costs of providing other post retirement benefits are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement unless the changes are dependent on the employees remaining in service for a particular period in which case the costs are recognised on a straight line basis over that period. The retirement benefit obligations recognised on the balance sheet represent the difference between the fair value of the scheme's assets and the present value of the scheme's defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

Ongoing actuarial gains and losses are recognised in the period in which they arise in the statement of recognised income and expense.

Property, plant and equipment

Property, plant and equipment is recorded at cost less subsequent depreciation and impairment except for land which is shown at cost less any impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. The group has taken advantage of the exemption under IFRS 1 not to restate property previously revalued under UK GAAP and to treat these earlier revaluations as deemed cost. Depreciation is calculated on the depreciable amount (being cost less the estimated residual value) on a straight line basis over the estimated useful lives of the assets as follows:

Freehold buildings 40 to 50 years
Long and short leasehold property over period of lease
Plant and machinery 2 to 20 years
Fixtures and fittings 3 to 10 years
Motor vehicles 2 to 5 years

Residual values and useful lives are reviewed at each group balance sheet date for continued appropriateness and indications of impairment and adjusted if appropriate.

Trade and other payables

Trade and other payables are non-interest bearing and are stated at their nominal value.

Revenue recognition

Revenue comprises the amounts received or receivable in respect of the sale of goods and services provided in the normal course of business, net of trade discounts, rebates, VAT and other sales related taxes.

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Development expenditure not meeting all the criteria for capitalisation contained in IAS 38 – Intangible Assets, is recognised in the income statement as an expense as incurred.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the shareholders.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under such leases are charged to the income statement on a straight line basis over the period of the lease.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

Derivative financial instruments and hedging

The group uses derivative financial instruments to hedge its exposure to foreign currency transactional risk. In accordance with its treasury policy the group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recorded at fair value on the date the derivative contract is entered into and are subsequently remeasured at fair value at each group balance sheet date.

The method by which any gain or loss arising from remeasurement is recognised depends on whether the instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. The group recognises an instrument as a hedging instrument by documenting at the inception of the transaction the relationship between the instrument and the hedged items and the objectives and strategy for undertaking the hedging transaction. To be designated as a hedging instrument, an instrument must also be assessed, at inception and on an ongoing basis, to be highly effective in offsetting changes in cash flows of hedged items.

For derivatives not used in hedging transactions, the gain or loss on remeasurement of fair value is recognised immediately in the income statement.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or of a highly probable forecast future transaction, the gain or loss on remeasurement which relates to the portion of the hedge which is deemed effective is recognised directly in equity, with the balance of the gain or loss, relating to the ineffective portion, being recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

3. Financial risk management

Financial risk and treasury policies

The group's activities expose it to a number of financial risks as detailed below. These risks are managed, with the objective of limiting adverse effects, from the group's head office in accordance with policies determined by and decisions made by the group board.

There have been no changes in financial risks from the previous year.

Market risks

Market risk is the risk that changes in market prices, such as currency exchange rates and interest rates will affect the group's results. The objective of market risk management is to control it within suitable parameters.

(a) Foreign exchange risk

The group operates internationally and is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than sterling. There are a range of currencies giving rise to this risk, but most significant are the US dollar and the Euro. To mitigate risks associated with future exchange rate fluctuations, the group's policy is to use forward exchange contracts to hedge its known and certain forecast transaction exposures based on historical experience and projections. The group hedges at least 25% but rarely more than 100% of the next twelve months' anticipated exposure.

(b) Interest rate risk

The group does not use derivative financial instruments to mitigate its exposure to interest rate risk. The main element of interest rate risk concerns sterling deposits which are made on floating market based rates and short-term overdrafts in foreign currencies which are also on floating rates.

3. Financial risk management (continued)

Credit risk

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

With regard to trade receivables, the group is not subject to significant concentration of credit risk. Exposure is spread across a large number of companies and the underlying local economic and sovereign risks vary across the world. Trade receivable exposures are managed locally in the individual operating units where they arise and credit limits are set as deemed appropriate. Where practicable and deemed necessary the group endeavours to minimise credit risks by the use of trade finance instruments such as letters of credit and insurance.

The group controls credit risk in relation to counterparties to other financial instruments by dealing only with highly rated financial institutions.

The group's maximum credit exposure on financial assets is represented by their book value.

Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

With the exception of its issued preference shares the maturity of all of the group's financial liabilities is within one year of the balance sheet date.

Capital risk

The group's objectives in managing capital are to safeguard the ability of all entities within the group to continue as going concerns, whilst maximising the overall return to shareholders over time. The capital structure of the group consists of equity attributable to equity holders of the parent company less cash and cash equivalents.

The group will only take on borrowings where those borrowings would be financed by the cash expected to be generated by the related investment opportunity and where the borrowing would not significantly increase the group's exposure to risk.

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates and associated assumptions that affect the application of policies, the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on a regular and ongoing basis.

The estimates and judgements that have had the most significant effect on the amounts included in these consolidated financial statements are as follows:

Notes to the Group Accounts
continued

4. Critical accounting estimates and judgements (continued)

Allowance for doubtful debts

Provision is made against accounts that in the estimation of management may be impaired. Within each of the operating units, assessment is made locally of the recoverability of trade receivables based on a range of factors including the age of the receivable and the creditworthiness of the customer. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment. If the group is cautious as to the financial condition of the customer the group may provide for accounts that are subsequently recovered. Similarly, if the group is optimistic as to the financial condition of the customer, the group may not provide for an account that is subsequently determined to be irrecoverable. In recent years the group has not experienced significant variation in the amount charged to the income statement in respect of doubtful accounts, when compared to sales.

Inventories

For financial reporting purposes the group evaluates its inventory to ensure it is carried at the lower of cost or net realisable value. Provision is made against slow moving, obsolete and damaged inventories. Damaged inventories are identified and written down through the inventory counting procedures conducted within each business. Provision for slow moving and obsolete inventories is assessed by each business as part of their ongoing financial reporting. Obsolescence is assessed based on comparison of the level of inventory holding to the projected likely future sales. Future sales are assessed based on historical experience, and adjusted where the market conditions are known to have changed. To the extent that future events impact the saleability of inventory these provisions could vary significantly. For example, changes in specifications or regulations may render inventory, previously considered to have a realisable value in excess of cost, obsolete and require such inventory to be fully written off.

Income taxes

In determining the group's provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases, and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligations recognised. Further details on these estimates are provided in note 24.

Goodwill

Each year the group carries out impairment tests of its goodwill balances. This requires estimates to be made of the value in use of the relevant cash generating units (CGU's). These value in use calculations are dependent on estimates of the future cash flows and long-term growth rates of the relevant CGU's.

Fair value of intangible assets acquired in a business combination

On the acquisition of a business it is necessary to attribute fair values to any intangible assets acquired (provided they meet the criteria to be recognised).

The fair values of these intangible assets are dependent on estimates of attributable future revenues, margins and cash flows.

Share-based payments

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the instruments on the date on which they are granted. Estimating fair value requires determining the most appropriate valuation model and making assumptions regarding the inputs to it, including the expected life of the instrument, volatility and dividend yield.

5. Segmental information

The primary format used for segmental reporting is by business segment as this reflects the internal management structure and reporting of the group. Disclosures relating to business segments include those items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment assets and liabilities exclude cash and cash equivalents, taxation, borrowings and retirement benefit obligations.

The group has one reportable business segment as defined by IAS 14, that being the manufacture and distribution of flooring products "Flooring". The disclosures under the category of "Other" within the analysis by business segment include amounts in relation to non-reportable business segments and other items which cannot reasonably be allocated between business segments.

The secondary format for segmental reporting is geographical.

(a) Primary reporting format – by business segment

	Flooring 2009 £'000	Other 2009 £'000	Total 2009 £'000
Revenue	161,116	8,147	169,263
Operating profit	30,139	2,647	32,786
Finance income			211
Income tax expense			(8,146)
Profit for the year			24,851
Segment assets	79,075	4,146	83,221
Segment liabilities	28,168	7,548	35,716
Depreciation	2,865	107	2,972
Purchase of property, plant and equipment	9,387	34	9,421

	Flooring 2008 £'000	Other 2008 £'000	Total 2008 £'000
Revenue	151,038	7,702	158,740
Operating profit	28,234	854	29,088
Finance income			769
Income tax expense			(9,502)
Profit for the year			20,355
Segment assets	72,542	4,185	76,727
Segment liabilities	32,808	8,759	41,567
Depreciation	2,740	178	2,918
Purchase of property, plant and equipment	3,254	116	3,370

The segment assets above exclude unallocated corporate assets of £34,333,000 (2008: £35,258,000). The segment liabilities above exclude unallocated corporate liabilities of £19,547,000 (2008: £21,111,000).

Notes to the Group Accounts
continued

5. Segmental information (continued)

(b) Secondary reporting format – by geographic segment

	2009 £'000	2008 £'000
(i) Revenue from external customers by location of customer		
United Kingdom	70,948	67,441
Europe and Scandinavia	63,656	57,252
Australasia and Asia	25,157	24,485
Rest of the World	9,502	9,562
	169,263	158,740
(ii) Segment assets by location of assets		
United Kingdom	44,720	41,840
Europe and Scandinavia	27,660	23,137
Australasia and Asia	10,841	11,750
	83,221	76,727
(iii) Segment purchase of property, plant and equipment by location of assets		
United Kingdom	6,750	419
Europe and Scandinavia	2,368	2,662
Australasia and Asia	303	289
	9,421	3,370

6. Employee profit share

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

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

	2009	2008
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	493,157	604,585
As a percentage of shares in issue	0.96%	1.17%

7. Profit before income tax

Profit before tax is stated after charging the following:

	2009 £'000	2008 £'000
Depreciation of property, plant and equipment (see note 15)	2,972	2,918
Hire of plant and machinery	40	44
Operating lease rentals – land and buildings	1,265	1,333
Operating lease rentals – other	879	798
Research and development	1,554	1,705
Gain on disposal of property, plant and equipment	(847)	(43)
Fees payable to the group's auditors for the audit of the parent company and consolidated financial statements	28	28
Fees payable to the group's auditors and their associates for other services:		
the audit of the group's subsidiaries pursuant to legislation	103	100
taxation services	40	50
other services	12	15

8. Staff costs and numbers

	2009 £'000	2008 £'000
Staff costs comprised:		
Wages and salaries	24,685	23,504
Social security costs	2,703	2,620
Pension costs – defined benefit scheme	553	526
– defined contribution schemes	332	276
	28,273	26,926

The average monthly number of employees during the year was:

	2009 Number	2008 Number
Manufacturing, selling and distribution	654	673
Administration	123	127
	777	800

Notes to the Group Accounts
continued

9. Emoluments of directors of James Halstead plc

The aggregate amount of directors' emoluments excluding pension contributions was £1,325,464 (2008: £940,984) of which £593,730 (2008: £326,016) relates to performance. Pension contributions amounted to £52,804 (2008 £41,908). The emoluments of the highest paid director, excluding pension contributions were £426,584 (2008: £336,191). Pension contributions for the highest paid director were £27,722 (2008: £21,699). The performance related element of directors' remuneration has been a significant proportion of total remuneration in accordance with corporate governance best practice. Given the current issues surrounding final salary related schemes, the Remuneration Committee concurs with the executive directors' decision to specifically exclude performance related pay from pensionable earnings.

Benefits are accruing to two directors (2008: two) under the defined benefit pension scheme.

No share options were exercised during the year therefore aggregate gains on the exercising of share options by directors in the year amounted to £Nil (2008: £229,303); of these £Nil (2008: £139,678) related to the highest paid director.

10. Finance income

	2009 £'000	2008 £'000
Interest receivable and similar income:		
On bank deposits	874	1,284
Other	1	5
	875	1,289
Expected return on pension scheme assets	3,279	3,001
Finance income	4,154	4,290
Preference share dividend	(11)	(11)
C share dividend	–	(106)
Interest on short-term borrowing and other financing costs	(162)	(217)
Interest on pension scheme liabilities	(3,701)	(3,084)
Other	(69)	(103)
Finance cost	(3,943)	(3,521)
Net finance income	211	769

11. Income tax expense

	2009 £'000	2008 £'000
Current tax		
Current tax – current year	9,962	9,532
Current tax – adjustments in respect of prior years	(1,901)	517
	8,061	10,049
Deferred tax		
Deferred tax – current year	(91)	46
Deferred tax – adjustments in respect of prior years	176	(593)
	85	(547)
Total taxation	8,146	9,502

The effective rates for both years are higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2009 £'000	2008 £'000
Profit before tax	32,997	29,857
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28% (2008: 29.5%)	9,239	8,808
Effects of:		
Adjustments to tax in respect of prior periods	(1,725)	(76)
Adjustments in respect of tax rates	254	59
Permanent differences	378	617
Remeasurement of deferred tax due to change in UK tax rate	–	94
Total taxation	8,146	9,502

During the previous year, as a result of the change in the UK tax rate, deferred tax balances were remeasured.

Notes to the Group Accounts
continued

12. Dividends

	2009 £'000	2008 £'000
Equity dividends		
Interim dividend for current year of 7.25p (2008: 6.25p)	3,732	3,195
Final dividend for previous year of 14.5p (2008: 11.25p)	7,465	5,751
Amounts recognised as distributions to equity holders in the year	11,197	8,946

A final dividend of 17.0p per share, amounting to a total dividend of £8,751,918 for the year ended 30 June 2009 will be proposed at the Annual General Meeting. This dividend is not reflected in these financial statements as it is not approved at the balance sheet date.

13. Earnings per share

	2009 Pence per share	2008 Pence per share
– Basic	48.3	39.7
– Diluted	48.2	39.5

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £24,851,000 (2008: £20,355,000) by 51,481,246 (2008: 51,305,038) shares, being the weighted average number of shares in issue throughout the year.

Diluted earning per share is calculated by dividing the profit for the year attributable to equity shareholders of £24,851,000 (2008: £20,355,000) by 51,601,783 (2008: 51,519,840) shares, being the weighted average number of shares in issue throughout the year, adjusted for the effect of all potentially dilutive shares. All potentially dilutive shares relate to outstanding share options.

14. Profit of parent company

The consolidated profit attributable to the shareholders of James Halstead plc includes a profit, after dividends received, of £16,804,884 (2008: £16,230,515) which has been dealt with in the accounts of that company. James Halstead plc, which prepares its accounts in accordance with UK GAAP, has taken advantage of the legal dispensations contained in Section 408 of the Companies Act 2006 allowing it not to publish either a separate profit and loss account or a separate statement of recognised gains and losses.

15. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 July 2007	11,437	46,177	57,614
Additions	2,324	1,046	3,370
Disposals	(10)	(525)	(535)
Exchange differences	986	332	1,318
At 30 June 2008	14,737	47,030	61,767
Additions	7,209	2,212	9,421
Disposals	(691)	(758)	(1,449)
Exchange differences	514	135	649
At 30 June 2009	21,769	48,619	70,388
Depreciation			
At 1 July 2007	3,267	36,013	39,280
Charge for the year	351	2,567	2,918
Disposals	(10)	(363)	(373)
Exchange differences	94	177	271
At 30 June 2008	3,702	38,394	42,096
Charge for the year	398	2,574	2,972
Disposals	(294)	(569)	(863)
Exchange differences	21	71	92
At 30 June 2009	3,827	40,470	44,297
Net book value			
At 1 July 2007	8,170	10,164	18,334
At 30 June 2008	11,035	8,636	19,671
At 30 June 2009	17,942	8,149	26,091

Included in freehold land and buildings is land with a cost of £4,338,000 (2008: £2,375,000) which is not depreciated.

16. Intangible assets

Intangible assets consist entirely of goodwill. There were no additions to goodwill in the year and no impairment write-downs were required.

Notes to the Group Accounts
continued

17. Deferred tax assets and liabilities

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Property revaluation £'000	Other timing differences £'000	Total £'000
At 1 July 2007	1,929	(1,368)	(1,063)	2,936	2,434
Credited/(charged) to income statement	(70)	343	–	274	547
Credited to equity	1,642	–	71	–	1,713
Exchange differences	–	–	–	51	51
At 30 June 2008	3,501	(1,025)	(992)	3,261	4,745
Credited/(charged) to income statement	(237)	599	–	(447)	(85)
Credited to equity	1,105	–	–	–	1,105
Exchange differences	–	–	–	15	15
At 30 June 2009	4,369	(426)	(992)	2,829	5,780

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same tax authority. The balances after allowing for such offsets are as follows:

	Asset £'000	Liability £'000	Total £'000
At 1 July 2007	3,497	(1,063)	2,434
At 30 June 2008	5,737	(992)	4,745
At 30 June 2009	6,772	(992)	5,780

All deferred tax assets and liabilities are analysed as non-current.

18. Inventories

	2009 £'000	2008 £'000
Raw materials	1,346	1,171
Consumable stores	319	255
Work in progress	716	516
Finished goods	26,043	28,699
	28,424	30,641

An amount of £1,253,000 (2008: £1,363,000) has been charged in the year in respect of inventory write-downs.

19. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	22,202	21,050
Other receivables	1,306	1,051
Prepayments and accrued income	977	933
	24,485	23,034

All amounts within trade and other receivables are due within one year. The fair value of amounts included trade and other receivables approximates to book value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable. The group does not hold any collateral as security.

The group's trade receivables are stated after a provision for impairment of £2,668,000 (2008: £2,888,000). Other balances within trade and other receivables do not contain impaired assets. The provision for impairment against trade receivables is based on specific risk assessments taking into account past default experience and is analysed as follows:

	2009 £'000	2008 £'000
At 1 July	2,888	2,763
Exchange movements	18	54
(Credit)/charge to income statement (selling and distribution expenses)	(238)	71
	2,668	2,888

As at 30 June 2009, trade receivables of £5,540,000 (2008: £6,284,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2009 £'000	2008 £'000
Up to three months	5,379	6,116
Over three months	161	168
Total	5,540	6,284

The maximum exposure to credit risk for trade and other receivables by currency was:

	2009 £'000	2008 £'000
Sterling	9,375	7,109
Euro	6,712	7,952
Australian Dollars	2,291	2,631
New Zealand Dollars	666	882
Norwegian Krone	723	708
US Dollars	1,619	1,574
Hong Kong Dollars	936	487
Other currencies	1,186	758
Total	23,508	22,101

Notes to the Group Accounts
continued

20. Derivative financial instruments

The Group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the entity concerned. The currencies giving rise to this risk are various, but the most significant are US Dollar and Euro. Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates.

The Group hedges, using forward exchange contracts, transactions denominated in a foreign currency which are not matched against other transactions in the same currency within the group. Most of the forward exchange contracts have maturities of less than one year after the balance sheet date. The group buys or sells foreign currency at spot where necessary to address any short-term imbalances.

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value.

The fair values have been calculated by applying (where relevant), for equivalent maturity profiles, the rate at which forward currency contracts with the same principal amounts could be acquired at the balance sheet date.

Changes in the fair value of forward exchange contracts for which no hedge accounting is applied or where the hedge is considered ineffective are recognised in the income statement.

Other than the use of forward exchange contracts as detailed above, the group does not make use of derivative financial instruments.

21. Cash and cash equivalents

The fair values of cash and cash equivalents approximate to book value due to their short maturities.

The currency analysis of cash and cash equivalents is as follows:

	2009 £'000	2008 £'000
Sterling	23,252	27,454
Euro	2,397	1,098
Australian Dollars	1,130	801
New Zealand Dollars	238	87
Norwegian Krone	618	385
US Dollars	(150)	(394)
Other currencies	76	90
Total	27,561	29,521
Cash and cash equivalents consist of:		
Cash at bank and in hand (net of overdrafts)	16,442	29,521
Short-term deposits	11,119	–
Total	27,561	29,521

22. Trade and other payables

	2009 £'000	2008 £'000
Amounts falling due within one year		
Trade payables	17,037	20,808
Value added, payroll and other taxes	2,144	1,536
Other payables	2,976	3,494
Accruals	12,429	14,226
	34,586	40,064
Amounts falling due after more than one year		
Other payables	547	350

The fair value of amounts included trade and other payables approximates to book value.

23. Borrowings

	2009 £'000	2008 £'000
Non-current liabilities		
Preference shares	200	200

All items included within borrowings are denominated in pounds sterling.

The cumulative preference shares have no fixed repayment date. They are not listed and therefore no market price is available. At 30 June 2009 and 30 June 2008 the fair value of the preference shares was not materially different from their book value.

Notes to the Group Accounts
continued

24. Retirement benefit obligations

Within the UK the group operates a pension scheme of the defined benefit type which was closed to new members with effect from April 2002. The assets of the scheme are held in separate trustee administered funds. In addition some employees both in the UK and overseas are provided with retirement benefits through defined contribution arrangements.

Disclosures relating to defined benefits are as follows:

	2009	2008
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)		
Discount rate at end of year	6.40%	6.90%
Expected return on plan assets at end of year	8.00%	7.85%
Future salary increases	2.80%	3.50%
Future pension increases	2.80%	3.80%
Rate of inflation	2.90%	4.00%
Future expected lifetime of current pensioner at age 65:		
Male born in 1944	21.2 years	21.2 years
Female born in 1944	24.1 years	24.1 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1964	22.2 years	22.2 years
Female born in 1964	25.0 years	25.0 years

The expected return on plan assets is based on market expectations at the beginning of the year for returns over the entire life of the benefit obligations.

	2009 £'000	2008 £'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(50,790)	(54,333)
Fair value of scheme assets	35,188	41,828
Net liability before deferred taxation	(15,602)	(12,505)
Related deferred tax asset	4,369	3,501
Net liability after deferred taxation	(11,233)	(9,004)

	2009 £'000	2008 £'000
Amounts recognised in the income statement		
Current service cost	(553)	(526)
Interest on obligations	(3,701)	(3,084)
Expected return on scheme assets	3,279	3,001
	(975)	(609)

	2009 £'000	2008 £'000
Amounts recognised in the statement of recognised income and expense		
Actual return less expected return on scheme assets	(9,814)	(7,382)
Changes in assumptions underlying the present value of the scheme liabilities	5,867	1,057
	(3,947)	(6,325)
Deferred tax	1,105	1,642
	(2,842)	(4,683)

24. Retirement benefit obligations (continued)

	2009 £'000	2008 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	41,828	47,390
Expected return on scheme assets	3,279	3,001
Actuarial losses	(9,814)	(7,382)
Employer contributions	1,825	860
Employee contributions	370	352
Benefits paid	(2,300)	(2,393)
	35,188	41,828

	2009 £'000	2008 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	54,333	53,821
Service cost	553	526
Interest cost	3,701	3,084
Employee contributions	370	352
Actuarial gains	(5,867)	(1,057)
Benefits paid	(2,300)	(2,393)
	50,790	54,333

Major categories of scheme assets as a percentage of total scheme assets

	2009	2008
Equities	79.1%	83.3%
Bonds	10.8%	4.8%
Property	2.7%	5.3%
Cash	7.4%	6.6%

History of scheme:

	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
Defined benefit obligation	(50,790)	(54,333)	(53,821)	(53,875)	(50,291)
Fair value of scheme assets	35,188	41,828	47,390	41,474	36,305
Net deficit	(15,602)	(12,505)	(6,431)	(12,401)	(13,986)
Experience adjustments on scheme assets	(9,814)	(7,382)	3,246	2,925	2,716
Experience adjustments on scheme liabilities	5,867	1,057	2,697	(1,379)	(4,464)

Notes to the Group Accounts
continued

25. Share capital

Ordinary shares	2009	2008
	£'000	£'000
Authorised		
100,000,000 ordinary shares of 5p each	5,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
51,481,872 (2008: 51,471,484) ordinary shares of 5p each	2,574	2,574
16,042,530 B ordinary deferred shares of 1p	160	160
	2,734	2,734

The group also has preference shares in issue as detailed below which are required, under accounting rules, to be disclosed as financial instruments within creditors. Full details of these are given in note 8 of the James Halstead plc company accounts on page 53.

Preference shares	2009	2008
	£'000	£'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200
	200	200

25. Share capital (continued)

Issue of ordinary shares and number of ordinary shares under option

Under the terms of the executive share option scheme approved on 3 December 1998, options were exercised on 10,388 shares during the year. Further options were granted over 262,500 shares during the year and details of these together with those options still outstanding are as follows:

Director's name	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.08	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.09
G Halstead	24 May 04	23 May 07	23 May 14	221.000	18,000	–	–	18,000
	4 May 05	3 May 08	3 May 15	256.250	30,000	–	–	30,000
	9 Jan 06	8 Jan 09	8 Jan 16	354.250	20,000	–	–	20,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	40,000	–	–	40,000
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	–	–	15,000	15,000
G R Oliver	9 Jan 06	8 Jan 09	8 Jan 16	354.250	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	40,000	–	–	40,000
	30 Jan 08	29 Jan 11	29 Jan 18	486.170	50,000	–	–	50,000
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	–	–	20,000	20,000
M Halstead	9 Jan 06	8 Jan 09	8 Jan 16	354.250	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	40,000	–	–	40,000
	30 Jan 08	29 Jan 11	29 Jan 18	486.170	50,000	–	–	50,000
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	–	–	20,000	20,000
E K Lotz	9 Jan 06	8 Jan 09	8 Jan 16	354.250	10,000	–	–	10,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	8,000	–	–	8,000
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	–	–	15,000	15,000
Total – directors					386,000	–	70,000	456,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.08	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.09
	25 Oct 02	24 Oct 05	24 Oct 12	129.665	16,612	–	–	16,612
	24 May 04	23 May 07	23 May 14	221.000	4,950	–	–	4,950
	17 Jul 05	16 Jul 08	16 Jul 15	288.750	10,388	(10,388)	–	–
	09 Jan 06	08 Jan 09	08 Jan 16	354.250	334,000	–	–	334,000
	24 Oct 06	23 Oct 09	23 Oct 16	354.250	10,000	–	–	10,000
	4 Jul 07	3 Jul 10	3 Jul 17	578.850	161,500	–	–	161,500
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	–	–	192,500	192,500
Total – employees					537,450	(10,388)	192,500	719,562
Grand total					923,450	(10,388)	262,500	1,175,562

The market price of the shares at 30 June 2009 was 430.00p (2008: 498.75p).

The share price during the year ranged from 375.00p to 514.00p.

Notes to the Group Accounts
continued

25. Share capital (continued)

Issue of ordinary shares and number of ordinary shares under option (continued)

The share price at the date on which options were exercised in the year was £4.85.

At 30 June 2009 there were 513,562 (2008: 69,562) share options exercisable at a weighted average price of £3.35 (2008: £2.14)

A summary of movements in numbers of share options is as follows:

	Number of options	Average exercise price (£)
At 1 July 2007	919,362	3.02
Exercised in the year	(365,412)	2.53
Issued in the year	389,500	5.55
Lapsed in the year	(20,000)	3.05
At 30 June 2008	923,450	4.28
Exercised in the year	(10,388)	2.89
Issued in the year	262,500	4.21
At 30 June 2009	1,175,562	4.27

Share based payments

The group's equity settled share based payments comprise the grant of share options to certain employees under the group's executive share option scheme. Details of such options are given above. The group has calculated the fair value of the options at the date of grant using the Black Scholes model. The following table lists the inputs into the model for the years ended 30 June 2009 and 30 June 2008:

Expected life of option	3 years
Expected share price volatility	18.0%-21.8%
Expected dividend yield	5.8%-8.7%
Risk free interest rate	2.0%-4.4%
Exercise prices	221.0p-578.85p

An expense based on the fair value calculated at the date of grant as detailed above is recognised in the profit and loss account over the vesting period of the options.

26. Share premium account

	2009 £'000	2008 £'000
At 1 July	1,708	803
Share options exercised	30	905
At 30 June	1,738	1,708

27. Retained earnings

	2009 £'000	2008 £'000
At 1 July	36,455	32,289
Profit for the year	24,851	20,355
Share-based payment expense	22	22
Actuarial loss (net of deferred tax)	(2,842)	(4,683)
Deferred taxation – change of rate	–	71
Transfer to capital reserve	–	(2,653)
Equity dividends paid	(11,197)	(8,946)
At 30 June	47,289	36,455

28. Other reserves

	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total £'000
At 1 July 2007	3,626	(37)	284	3,873
Transfer from retained earnings	2,653	–	–	2,653
Fair value adjustments	–	(169)	–	(169)
Exchange rate adjustments	–	–	2,053	2,053
At 30 June 2008	6,279	(206)	2,337	8,410
Fair value adjustments	–	916	–	916
Exchange rate adjustments	–	–	1,204	1,204
At 30 June 2009	6,279	710	3,541	10,530

29. Cash inflow from operations

	2009 £'000	2008 £'000
Operating profit	32,786	29,088
Depreciation	2,972	2,918
Profit on sale of property, plant and equipment	(847)	(43)
Decrease/(increase) in inventories	2,814	(5,294)
Increase in trade and other receivables	(831)	(638)
(Decrease)/increase in trade and other payables	(6,297)	1,539
Share-based payment expense	22	22
Retirement benefit obligations	(1,272)	(334)
Changes in fair value of financial instruments	(217)	40
	29,130	27,298

Notes to the Group Accounts
continued

30. Commitments

	2009 £'000	2008 £'000
Capital commitments		
Contracted for but not incurred – property plant and equipment	837	302

Operating lease commitments

The group leases various warehouses and items of plant and equipment under non-cancellable leases over various periods. The future minimum aggregate lease payments under non-cancellable operating leases are as follows:

	2009 Land and buildings £'000	2009 Other £'000	2008 Land and buildings £'000	2008 Other £'000
Not later than one year	774	797	1,003	791
Later than one year and not later than five years	2,025	937	2,257	1,076
Later than five years	1,144	25	1,425	69
	3,943	1,759	4,685	1,936

31. Financial instruments

For cash and cash equivalents and trade and other payables and receivables the fair value approximates to their book value due to the short maturity profile of these financial instruments. On receivables, allowances are made within the book value for credit risk. The fair value of forward exchange contracts is determined by reference to spot rates adjusted for the forward points to the contract value date.

The book values and fair values of financial instruments are set out below:

	2009 Book value £'000	2009 Fair value £'000	2008 Book value £'000	2008 Fair value £'000
Current:				
Trade and other receivables	23,508	23,508	22,101	22,101
Forward exchange contracts (see note 20)	989	989	149	149
Cash and cash equivalents	27,561	27,561	29,521	29,521
Trade and other payables	(32,442)	(32,442)	(38,528)	(38,528)
Forward exchange contracts (see note 20)	(583)	(583)	(1,153)	(1,153)
Total	19,033	19,033	12,090	12,090
Non-currrent:				
Borrowings	(200)	(200)	(200)	(200)

Other than forward exchange contracts which are categorised as hedging instruments, all financial assets are categorised as loans and receivables and all financial liabilities are categorised as financial liabilities measured at amortised cost.

31. Financial instruments (continued)

Sensitivity analysis

The group's principal exposures in relation to market risks are to changes in the Euro exchange rate against sterling and to changes in UK interest rates. The group does not fix the interest rate receivable on its sterling balances, and based on balances held at the year end, a 1% increase or decrease in sterling interest rates would lead to an increase or decrease in post-tax earnings of £167,000 (2008: £194,000). The table below details the notional impact of changes in the Euro exchange rate against sterling on the group's post-tax profit and equity. The gains and losses arise from the translation of receivables, payables, cash and forward exchange contracts which are denominated in currencies other than each subsidiary's reporting currency.

	2009 Post-tax profits £'000	2009 Equity £'000	2008 Post-tax profits £'000	2008 Equity £'000
Euro 5% stronger against sterling	3	(200)	(23)	(40)
Euro 5% weaker against sterling	(2)	180	21	36

32. Group companies

The following information is not a complete listing of all group companies as at 30 June 2009, but includes only those companies principally affecting the profits or assets of the group.

Name of subsidiary	Country of incorporation and operation	Proportion owned by the group (%)
*Polyflor Limited	England	100
Halstead Flooring International Limited	England	100
*Phoenix Distribution (N.W.) Limited	England	100
Halstead Flooring Concepts Pty Limited	Australia	100
*Polyflor Australia Pty Limited	Australia	100
*James Halstead Flooring New Zealand Limited	New Zealand	100
*Objectflor Art und Design Belags GmbH	Germany	100
*Karndean International GmbH	Germany	100
*Falck Design AB	Sweden	100

* The activities of these trading subsidiaries are described in the chief executive's review on page 2.

Notes to the Group Accounts
continued

33. Exchange rates

The most significant sterling exchange rates used in the accounts under the group's accounting policies are:

	2009 Average	2009 Closing	2008 Average	2008 Closing
Euro	1.17	1.17	1.37	1.26
Australian dollars	2.17	2.04	2.24	2.07
New Zealand dollars	2.66	2.54	2.61	2.61
Swedish Krona	12.12	12.76	12.75	11.97

34. Related parties

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The group's contributions to the defined benefit pension scheme are disclosed in note 24 on page 38.

The key management of the group comprises the executive and non-executive directors. Details of their terms of employment are contained in the Board Report on Remuneration on page 12. Details of their emoluments, pension contributions and gains on the exercise of share options for the year are given in note 9. Details of outstanding share options are given in note 25.

Ten Year Summary

	2000 UK GAAP	2001 UK GAAP	2002 UK GAAP	2003 UK GAAP	2004 UK GAAP	2005 UK GAAP	2006 UK GAAP	2007 IFRS	2008 IFRS	2009 IFRS
Revenue	92,821	93,541	93,033	99,775	104,703	112,353	126,024	137,252	158,740	169,263
Profit (before exceptional items)	9,946	10,689	11,275	12,211	13,699	13,760	17,481	23,499	29,857	32,997
Exceptional items*	–	–	–	–	10,396	–	–	–	–	–
Profit before income tax	9,946	10,689	11,275	12,211	24,095	13,760	17,481	23,499	29,857	32,997
Income tax	(3,205)	(3,538)	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)	(9,502)	(8,146)
Profit after income tax	6,741	7,151	7,810	8,565	18,157	9,484	11,834	15,842	20,355	24,851

Unless otherwise stated all amounts are in £ thousands.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Underlying/headline earnings per 5p share**	11.10p	12.33p	14.42p	16.81p	17.47p	19.20p	23.80p	31.10p	39.70p	48.30p
Net dividends paid per ordinary share of 5p***	5.59p	6.05p	6.55p	7.05p	8.00p	9.38p	10.63p	13.25p	17.50p	21.75p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	1.99	2.04	2.20	2.38	2.18	2.05	2.24	2.35	2.27	2.22

* Relates the sale of Belstaff International Limited plus a number of brands and trademarks in the year ended 30 June 2004.

** For 2000 to 2006, underlying/headline earnings per share is as defined in the notes to the accounts for the relevant year. For 2007, 2008 and 2009 underlying/headline earnings per share and basic earning per share are the same. Figures for previous years have been restated to take account of the two for one share issue in the year ended 30 June 2006.

*** Net dividends per ordinary share have been restated for previous years on a paid basis in accordance with FRS 21 and to take account of the two for one share issue in the year ended 30 June 2006.

The figures for 2005 and 2006, but not for prior years have been adjusted for the effects of FRS 17 and FRS 25.

Figures for years ended 30 June 2000 to 30 June 2006 have not been restated to reflect the impact of IFRS. Had this exercise been undertaken the major changes would have been the re-allocation of settlement and volume discounts to revenue, with no impact on profit before income tax and the removal of the amortisation of goodwill.

Company Balance Sheet
as at 30 June 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible fixed assets	2	4,132	4,370
Investments	3	20,093	20,093
		24,225	24,463
Current assets			
Debtors	4	26,630	19,345
Cash at bank, in hand and on short-term deposit	12	16,584	18,484
		43,214	37,829
Creditors – amounts falling due within one year	5	(17,381)	(17,894)
Net current assets		25,833	19,935
Total assets less current liabilities		50,058	44,398
Creditors – amounts falling due after more than one year	6	(200)	(200)
		49,858	44,198
Capital and reserves			
Equity share capital		2,574	2,574
Equity share capital (B shares)		160	160
Called up share capital	8	2,734	2,734
Share premium account	9	1,738	1,708
Capital redemption reserve	10	6,279	6,279
Profit and loss account	11	39,107	33,477
Total shareholders' funds		49,858	44,198

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2009.

M Halstead
Director

G R Oliver
Director

Notes to the Financial Statements of the Company

1. Accounting policies

Basis of preparation

The financial statements for the company have been prepared under the historical cost convention (as modified by the calculations of the charge for share-based payments which are based on fair value) and in accordance with the Companies Act 2006. The company continues to prepare its financial statements in accordance with United Kingdom Generally Accepted Accounting Principles (UK GAAP). The directors consider that the accounting policies set out below are applicable, are supported by reasonable judgements and estimates and have been consistently applied. The financial statements have been prepared on the going concern basis.

Profit and recognised gains and losses of the company

The Company has taken advantage of the legal dispensation contained in Section 408 of the Companies Act 2006 allowing it not to publish a separate profit and loss account and related notes.

Dividends

Interim dividends are recognised when they are paid. Final dividends are recognised when they are approved by the company's shareholders.

Share based payments

The company grants share options to certain James Halstead group employees. An expense in relation to such options, based on their fair value at the date of grant, is recognised over the vesting period. The company uses the Black Scholes model for the purpose of computing fair value.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are accounted for as operating leases. Payments made under such leases are charged to the income statement on a straight line basis over the period of the lease.

Tangible fixed assets

Fixed assets are stated at cost, which includes the costs of transport, installation and commissioning. Interest is not capitalised. Depreciation of freehold buildings has been calculated at a rate of 2% of cost or valuation. No depreciation has been provided in respect of the company's interests in land or for assets in the course of construction. Depreciation of plant, machinery and equipment is provided mainly on the straight line method and has been calculated at appropriate rates varying between 5% and 40% as determined by reference to the anticipated life of each asset.

Investments

Investments in subsidiaries are stated at cost less provision for impairment in value.

Notes to the Financial Statements of the Company
continued

1. Accounting policies (continued)

Deferred taxation

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

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

Pension scheme arrangements

The company operates a defined benefit scheme (which was closed to new members with effect from April 2002). The company also operates a defined contribution scheme for those employees who prefer this option or who are unable to join the defined benefit scheme. As the company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme on a consistent and reasonable basis, the company accounts for the scheme as though it were a defined contribution scheme. Accordingly the amount charged to the profit and loss account is the contribution payable in the year to both the defined benefit and defined contribution schemes. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

2. Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2008	6,798	400	7,198
Additions	–	13	13
Disposals	–	(13)	(13)
At 30 June 2009	6,798	400	7,198
Depreciation			
At 30 June 2008	2,506	322	2,828
Charge for the year	203	37	240
Disposals	–	(2)	(2)
At 30 June 2009	2,709	357	3,066
Net book value			
At 30 June 2009	4,089	43	4,132
At 30 June 2008	4,292	78	4,370

3. Investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost			
At 30 June 2008 and 30 June 2009	28,233	1,260	29,493
Provision for impairment			
At 30 June 2008 and 30 June 2009	9,400	–	9,400
Net book value			
At 30 June 2008 and 30 June 2009	18,833	1,260	20,093

At 30 June 2009, the company held directly and indirectly equity and voting rights of the following undertakings:

Name of subsidiary	Country of incorporation and operation	Proportion owned by the parent company (%)	Shares at cost £'000
Polyflor Limited	England	100	3,000
Halstead Flooring International Limited	England	100	–
JHL Limited	England	100	–
Titan Leisure Group Limited	England	100	15,200
Titan CPL Limited	England	–	–
Phoenix Distribution (N.W.) Limited	England	–	–
Halstead Flooring Concepts Pty Limited	Australia	100	6,176
Polyflor Australia Pty Limited	Australia	–	–
James Halstead Flooring New Zealand Limited	New Zealand	–	–
Objectflor Art und Design Belags GmbH	Germany	100	3,857
Karndean International GmbH	Germany	–	–
Falck Design AB	Sweden	–	–
			28,233

Notes to the Financial Statements of the Company
continued

4. Debtors

	2009 £'000	2008 £'000
Trade debtors	84	290
Current accounts with subsidiary undertakings	23,717	16,734
Other debtors	2,563	1,958
Prepayments and accrued income	266	363
	26,630	19,345

5. Creditors – amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	1,688	1,497
Current accounts with subsidiary undertakings	10,156	9,255
Corporation tax payable	–	844
Other taxation and social security	74	70
Other creditors	2,692	2,893
Accruals and deferred income	2,771	3,335
	17,381	17,894

6. Creditors – amounts falling due after more than one year

	2009 £'000	2008 £'000
Preference shares	200	200

7. Deferred taxation

	2009 £'000	2008 £'000
Accelerated capital allowances	(8)	(17)
Short-term timing differences	(1,029)	(1,195)
	(1,037)	(1,212)
Opening balance	(1,212)	(240)
Credit to profit and loss account	175	(972)
Balance at 30 June	(1,037)	(1,212)

The deferred tax debtor is included within other debtors in note 4.

8. Share capital

Ordinary shares	2009	2008
	£'000	£'000
Authorised		
100,000,000 ordinary shares of 5p each	5,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
51,481,872 (2008: 51,471,484) ordinary shares of 5p each	2,574	2,574
16,042,530 B ordinary deferred shares of 1p	160	160
	2,734	2,734

The group also has preference shares as detailed below which are required, under accounting rules to be disclosed as financial instruments within creditors.

Preference shares	2009	2008
	£'000	£'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200
	200	200

Shareholders approved a proposal for the return of capital ("return of capital") at an extraordinary general meeting on 6 December 2004. This resulted in the creation of the 1 pence B ordinary shares ("B shares") and the 60 pence C preference shares ("C shares") as described below.

The B shares were issued on 14 January 2005 on the basis of 1 B share for every ordinary share held on the record date by those shareholders who either (a) elected to receive B shares or (b) elected to receive C shares, but whose allocation was scaled back according to the restriction on the number of C shares available for issue. Following the issue of the B shares, holders received a single dividend of 60p for every B share held, after which all B shares were automatically converted into deferred shares. These shares are not listed, have extremely limited rights and are of negligible value.

The 5.5% (2008: 5.5%) cumulative preference shares of £1 shall confer on the holders thereof the right to receive in priority to all other shares in the capital of the company out of the profits of the company which it shall be determined to distribute, a fixed cumulative preferential dividend at the rate of 5.5% (2008: 5.5%) per annum on the capital for the time being paid up thereon and the right in the event of a winding up, in priority to all other shares in the capital of the company, to repayment of the capital paid up thereon together with a premium of 5p per share and a sum equivalent to any arrears and accruals of the said fixed cumulative preferential dividend thereon (whether earned or declared or not) calculated up to the date of such repayment of capital but shall not confer any further right to participate in profits or assets of James Halstead plc.

Notes to the Financial Statements of the Company
continued

8. Share capital (continued)

The company shall not be at liberty to create or issue any further share ranking in priority to or pari passu with the preference shares without the consent in writing of the holders of three-fourths of the issued preference shares or the sanction of an extraordinary resolution of the holders of such preference shares passed at a separate general meeting of such holders. The preference shares shall not confer upon the holders thereof the right to attend or vote at any general meeting of the company or to receive notice thereof, unless either:

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

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

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

9. Share premium account

	2009 £'000	2008 £'000
At 1 July	1,708	803
Share options exercised	30	905
At 30 June	1,738	1,708

10. Capital redemption reserve

	2009 £'000	2008 £'000
At 1 July	6,279	3,626
Redemption of C shares	–	2,653
At 30 June	6,279	6,279

11. Profit and loss account

	2009 £'000	2008 £'000
At 1 July	33,477	28,823
Profit for the year	16,805	16,231
Share-based payment transactions	22	22
Transfer to capital reserve	–	(2,653)
Equity dividends paid	(11,197)	(8,946)
At 30 June	39,107	33,477

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The company's profit for the financial year was £16,804,884 (2008: £16,230,515).

12. Financial instruments

A full description of the James Halstead plc group's treasury policy is contained in the financial director's review on page 6.

FRS 13 "Derivatives and Other Financial Instruments: disclosures" requires certain disclosures in respect of financial assets and liabilities and these are set out below.

The company has taken advantage of the exemption available under FRS 13 and accordingly details in respect of short-term debtors and creditors are excluded from all the following disclosures.

(i) Preference shares

The preference shares in issue are fully described in note 8 on page 53. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2009 was £200,000 (2008: £200,000). At 30 June 2009 and 30 June 2008 the fair value of the preference shares was not materially different to their book value. Under the requirements of FRS 25 the preference shares are included in creditors.

(ii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits, balances and cash in hand	
	2009 £'000	2008 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	16,584	18,484

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

For the purposes of managing the James Halstead group's currency exposures, the company operates bank accounts in certain foreign currencies with its UK clearing banks some of which are generally operated as overdrafts. Cash at bank and in hand in the company balance sheet is shown net of overdrafts in line with the company's arrangements with its bankers.

Notes to the Financial Statements of the Company
continued

12. Financial instruments (continued)

(iii) The management of the currency risk for the James Halstead plc group as a whole is undertaken by the company. The group uses foreign currency bank accounts and fixed forward currency exchange contracts to manage its exposure to risk from fluctuations in forward exchange rates. The vast majority of the group's forward contracts and all of its foreign currency bank accounts used for this purpose are managed by and are in the name of the holding company, James Halstead plc. The vast majority of the transactions the value of which are exposed to exchange rate fluctuations are not those of the company but of its subsidiaries. Hence the disclosures below relate almost entirely to bank accounts and fixed forward contracts as at the year end.

Net foreign currency monetary financial assets/(liabilities) within the balance sheet at book and fair value

	2009 £'000	2008 £'000
Australian Dollars	254	(320)
Canadian Dollars	31	(243)
Euro	46	(350)
Hong Kong Dollars	136	219
New Zealand Dollars	92	(165)
Norwegian Krone	–	(115)
US Dollars	(150)	(394)
Japanese Yen	(17)	92
Others	(158)	(67)
	234	(1,343)

The value of forward exchange contracts outstanding at the year end, recorded at year end rates was as follows:

	2009 £'000	2008 £'000
Contracts to sell:		
Australian Dollars	3,698	3,957
Canadian Dollars	783	565
Euro	6,135	3,952
Hong Kong Dollars	2,139	1,515
New Zealand Dollars	812	573
Norwegian Krone	1,426	1,419
US Dollars	2,216	2,208
Others	1,898	1,375
	19,107	15,564
Contracts to buy:		
US Dollars	7,571	10,374
Japanese Yen	807	1,632
Euro	509	–
	8,887	12,006

12. Financial instruments (continued)

The fair value of forward exchange contracts outstanding at the year end was as follows:

	2009 Asset/(liability) £'000	2008 Asset/(liability) £'000
Contracts to sell:		
Australian Dollars	(174)	(146)
Canadian Dollars	56	14
Euro	442	(159)
Hong Kong Dollars	173	7
New Zealand Dollars	(13)	21
Norwegian Krone	94	(30)
US Dollars	165	37
Others	(64)	20
	679	(236)
Contracts to buy:		
US Dollars	(212)	(740)
Japanese Yen	(12)	(41)
Euro	11	–
	(213)	(781)

13. Reconciliation of movements in shareholders' funds

	2009 £'000	2008 £'000
Profit for the financial year	16,805	16,231
Equity dividends paid	(11,197)	(8,946)
	5,608	7,285
Other recognised gains and losses relating to the financial year:		
FRS 20 share option charge	22	22
New share capital subscribed	30	924
Net increase in shareholders' funds for the financial year	5,660	8,231
Opening equity shareholders' funds	44,198	35,967
Closing equity shareholders' funds	49,858	44,198

Shareholder Information

Financial calendar

Annual general meeting	4 December 2009 (see notice of meeting on pages 60 to 62).

Announcement of results

For the half year	March
For the full year	September/October

Dividend payments

Ordinary shares – interim	May
– final	December
Preference shares	June and December

Share dealing information

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

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

Shareholder analysis*

	Number of holders	Number of shares
By size of holding		
1-10,000	2,942	6,573,455
10,001-50,000	257	5,587,958
50,001-250,000	66	7,671,901
250,001 and over	31	31,648,558
	3,296	51,481,872

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	849	13,975,732	27.15
Other limited companies/corporate bodies	51	625,580	1.21
Miscellaneous bodies/pension funds	12	33,703	0.07
Private individuals	2,377	36,778,143	71.44
Investment trusts and funds	7	68,714	0.13
	3,296	51,481,872	100.00

*as at 16 September 2009

Boiler Room Information

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'.

If you receive any unsolicited investment advice:

Make sure you get the correct name of the person and organisation;

Check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/register;

Report the matter to the FSA either by calling 0845 606 1234 or visiting www.moneymadeclear.fsa.gov.uk;

If the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/overseas.shtml.

Details of any sharedealing facilities that the Company endorses will only be included in company mailings. More detailed information can be found on the FSA website: www.moneymadeclear.fsa.gov.uk.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY FOURTH ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street. Bolton, on 4 December 2009 at 12.00 for the following purposes:

Ordinary Business

1 To receive and adopt the report of the directors and the statement of accounts for the year ended 30 June 2009 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

4 To re-appoint PKF (UK) LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

Special Business

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

5 That the articles of association produced to the meeting and initialled by the chairman for the purposes of identification be and are hereby adopted as the new articles of association of the company with immediate effect, in substitution for and to the exclusion of all existing articles of association.

6 That, subject to the passing of the ordinary and special resolutions numbered 7 and 8 below, the directors be and they are hereby authorised, pursuant to article 35.13 of the company's articles of association:

(i) to exercise the power contained in article 35.13 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 5p each in the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and

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

7 That the directors be and they are hereby generally and unconditionally authorised to exercise all powers of the company to allot shares (pursuant to Section 551 of the Companies Act 2006) up to an aggregate nominal amount of £772,228 provided that this authority shall expire on the date falling one year after the date of this resolution, save that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

8 That subject to the passing of the previous resolution the directors be and they are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 subsection (1) of the said Act) for cash pursuant to the authority conferred by the previous resolution as if Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited:

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

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

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

9 That the company is hereby generally and unconditionally authorised for the purposes of section 693 and 701 of the Companies Act 2006 to make one or more market purchases (within the meaning of section 693(4) of the said Act) on the London Stock Exchange Limited of fully paid ordinary shares of 5 pence each in the capital of the company ("ordinary shares") provided that:

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

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

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

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

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

(vi) the directors may elect to hold shares purchased under this authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital of the company at any one time).

By order of the board
M L Shilton

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester
M26 1JN

23 October 2009

Notes

1 It is proposed in resolution 5 to adopt new articles of association (the "New Articles") in order to update the Company's current articles of association (the "Current Articles"), primarily to take account of changes in English company law brought about by the Companies Act 2006 (the "Act").

The principal changes introduced in the New Articles are summarised in Appendix 1. Other changes, which are of a minor, technical or clarifying nature and also more minor changes that merely reflect changes made by the Act have not been noted in Appendix 1. The New Articles showing all the changes to the Current Articles are available for inspection, as noted on page 62 of this document.

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

3 A holder of ordinary shares is entitled to appoint a proxy to attend and, on a poll, vote instead of himself/herself. A proxy need not be a member of the company. To be effective the instrument appointing a proxy must reach the registrar's office by noon on 2 December 2009 and the white form of proxy enclosed is for the use of ordinary shareholders. The appointment of a proxy need not preclude a member from attending and voting at the annual general meeting if he/she so desires.

Notice of Annual General Meeting

continued

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

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

(i) the memorandum and articles of association of the company and the articles of association amended to reflect the changes proposed by resolution 5;

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

and

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

6 Warrants for the final dividend, if approved, will be posted on 4 December 2009 to shareholders on the register as at 6 November 2009.

Appendix 1

Explanatory notes of principal changes to the company's articles of association

1. Articles which duplicate statutory provisions

Provisions in the Current Articles that replicate provisions in the Act are in the main amended to bring them into line with the Act. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2. Form of resolution

The Current Articles are to be amended as the concept of extraordinary resolutions has not been retained under the Act; so that where an extraordinary resolution is currently required a special resolution would in future be effective.

3. Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice require to convene general meetings are being amended to conform to new provisions in the Act. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. Shareholder meetings formerly called extraordinary general meetings will now be called general meetings.

4. Votes of members

Under the Act proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Act so that any provision in a company's articles that require proxy appointments to be received more than 48 hours before the meeting (or, in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time appointed for the taking of the poll) are void, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed. The New Articles reflect all of these new provisions.

5. Conflicts of interest

The Act sets out directors' general duties which largely codify the existing law but with some changes. Under the Act, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Act allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interests to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

Appendix 1
continued

6. Electronic and web communications

Provisions of the Act which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and to continue website communications. However, the New Articles use revised definitions, such as communication in or by "electronic copy", "electronic means" and "electronic form" as these are all terms that are defined in the Act.

Before the company can communicate with a member by means of website communication, the relevant member must be asked individually by the company to agree that the company may send or supply documents or information to him by means of a website, and the company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

7. Directors' indemnities and loans to fund expenditure

The Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

JAMES HALSTEAD PLC

2006 2007

JAMES HALSTEAD plc

Beechfield
Hollinhurst Road
Radcliffe
Manchester M26 1JN

Tel: +44 (0)161 767 2500
Fax: +44 (0)161 766 7499
www.jameshalstead.com

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