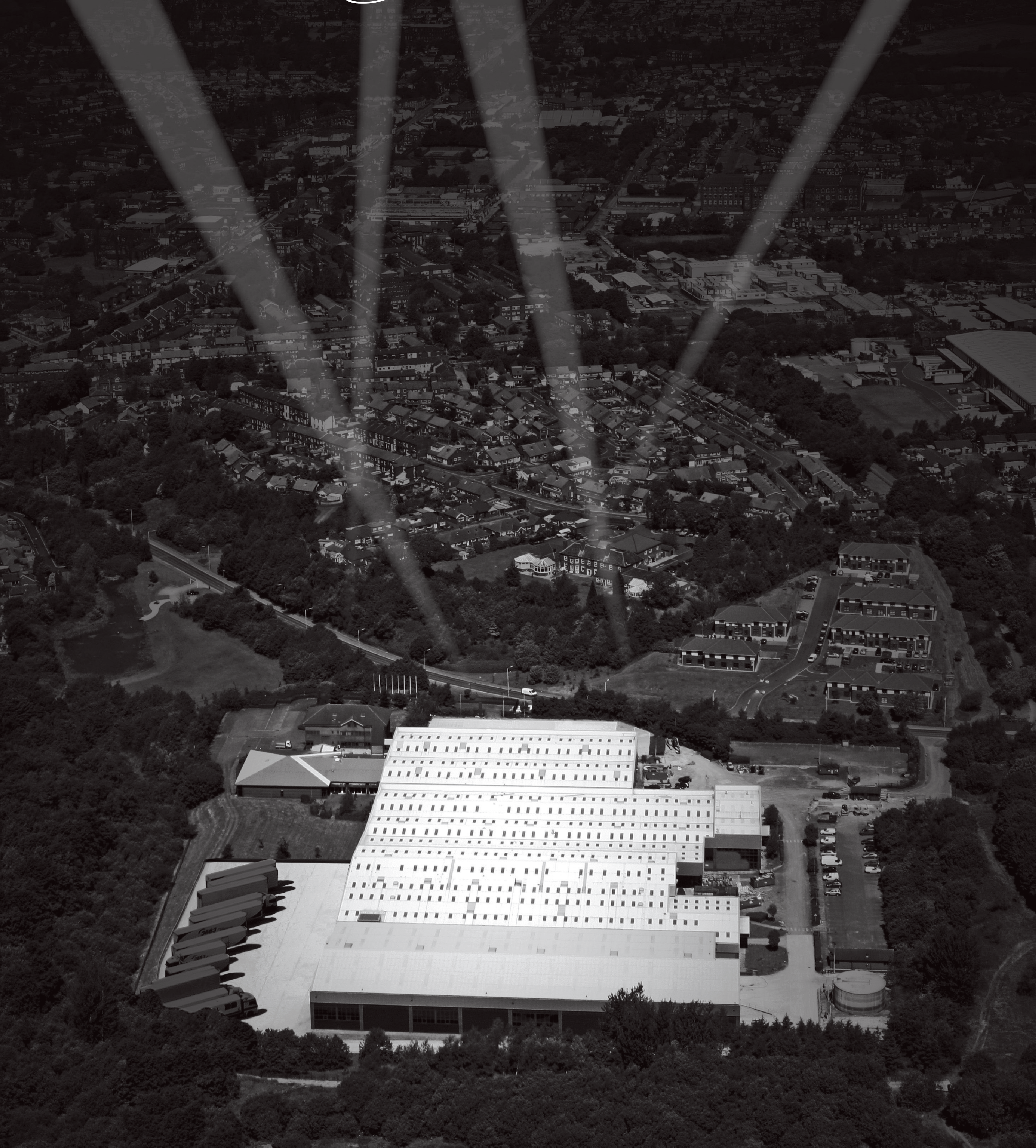
JAMES HALSTEAD PLC

REPORT & ACCOUNTS 2010



Contents

Chairman's Statement

It is satisfying, yet again, to announce record results.

Revenue at £186.4 million (2009: £169.3 million) is 10.1% ahead of last year. In difficult times this is a commendable achievement.

The operating profit for the year at £35.9 million (2009: £32.8 million) is 9.4% ahead but I would note that if the gain made from a one off sale of property in the 2009 comparative (of some £0.8 million) is excluded the year on year growth in operating profit is 12%.

The backdrop to the year was of general nervousness and apprehension in many markets against which our positive trading, continued product development and capital investment was welcomed by customers, distributors and specifiers. The Contract Flooring Association awarded our UK company, Polyflor, the title of "Manufacturer of the Year" and, in addition, rather than one of our ranges being selected for individual merit the Polyflor ranges in their entirety were voted "Best Vinyl Products". Though it may be a cliché, we are heartened by these awards which are voted for by our target audience – the contract flooring layers. Examples of recent projects include the Sylvia Young Theatre School in London, the Abu Dhabi Police Academy in the UAE, the new Big Brother house and the Media City in Salford.

As ever the breadth of projects across the globe was epic; from the Tashkent Hotels in Uzbekistan and the Aga Khan Academy in Mombasa, to the Zine el Abidine Ben Ali airport in Tunisia. We continue to see a broadening of the range of end markets for our portfolio of products. Healthcare and education applications of our flooring are core strengths and many nations continue to invest in infrastructure projects such as the Paarl Hospital in South Africa, the Ministry of Education Schools in Turkey, the Lovech Mathematics School in Bulgaria and the Narayan Hospitals in India. Our export performance, built upon a premier reputation, is well established after half a century of continuous trade.

We added to our tally of premiership football clubs with installations at West Bromwich Albion and Blackpool FC, as well as at several of the facilities built for the World Cup and our range of sports floors is increasing its penetration in the area of school refurbishment.

Despite market conditions the UK remains our largest market and has proven robust. Focus on working capital and cash has remained centre stage and I can report that, even after the special dividend (of £7.8 million) which was paid in January 2010, additional capital expenditure and plant refurbishment, our year end cash stands at £33.4 million (2009: £27.6 million).

Notwithstanding record results and the 34th consecutive year of dividend growth, it was not an easy performance to achieve. Many infrastructure projects were put on hold and there was a constant upward trend in raw material prices. These cost increases were not small. The increase for plasticisers was 55% year on year and in polymers some 20%. I applaud the collective creativeness of our sourcing, manufacturing, sales and marketing personnel.

Dividend

The Board proposes to increase the final dividend to 18.75p (2009: 17.0p), an increase of 10.3%. This combined with the interim dividend paid in March 2010 of 8.0p (2009: 7.25p) makes a total of 26.75p (2009: 24.25p) for the year, an increase of 10.3%.

Bonus Issue

The Board, having regard to the increase in the share price over the last few years will propose, at the forthcoming Annual General Meeting, a one for one capitalisation issue. This will give each shareholder one additional fully paid up 5p ordinary share for each one held. This company has a history of such issues having undertaken similar exercises in 2005, 1992, and 1973. I believe this can only increase the marketability of our shares.

Acknowledgements

The Directors give their thanks to our distributors and end users for continuing to support our products.

Outlook

Our plans for this year were largely met, though there were several plot twists that were not envisaged in the script of our budget. For example, in addition to the increasing raw material prices throughout the year, the latter months of the financial year suffered from the lack of certain critical raw materials which were not available in Europe at all. However, we were able to source these from other regions and the situation is returning to a more normal pattern. This noted, sterling remains relatively weak, which given the international footprint of the business, has helped our competitive edge throughout the year.

Whilst UK infrastructure expenditure may face pressure, we have confidence that our long standing strengths in the repair and refurbishment markets combined with our reputation and reliability will put us at the top of the "A list" for those projects that continue.

In conclusion, we look forward to another year of progress whilst remaining vigilant to any problems that may lie in the wings.

G Halstead
Chairman

Chief Executive's Review

We can be satisfied with the progress made in the year with a worthy trilogy to report of increased sales in our major markets, increased group profit and strong cash flow.

We have a track record of performance and though recent years have seen greater growth, in the context of the performance of the wider commercial flooring market, this was a 5-star result. It was achieved against a backdrop of low business confidence, rising raw material prices and inflationary pressures. There is no doubt it has been a tough year for commercial flooring in general.

In the UK the government sector represents a very significant part of the contract flooring market and it has been a difficult year in our home territory. Perhaps the most reliable source of UK market intelligence is the Palmer Market Research report, and from their 2010 report there is a clear view that the UK contract flooring market has seen the biggest two year fall for three decades. The magnitude of this two year drop is estimated by Palmer to be 20%. Over the same period I am pleased to note that we have seen 5% growth.

Our focus on repair and renewal, our durable products and our support of the contractor in areas of service, availability, technical back up and training are key strengths. Polyflor, as a product, has not been historically in the limelight: it is fitted on stairs, in corridors and toilet areas in most commercial buildings avoiding the glamour and attention of the expensive floor coverings in the lobby, or executive areas and this is a key strength. As budgets are trimmed Polyflor has retained its core market and we have taken market share from alternative, and more expensive, floor coverings in the front of house not just on the grounds of affordability but increasingly because of our designs. Whilst vinyl flooring has its commercial roots firmly in functional locations and its durability is incredible, the 21st century ranges are extremely attractive and do not look out of place in the Trocadero Entertainment Complex in London's Leicester Square, where "Expona" luxury vinyl has recently been installed nor indeed in the Qantas Executive Lounge at Sydney Airport and even in the Vice President of Nigeria's residence in Abuja.

The UK represents 38% of our group turnover (2009: 42%) and this year's UK turnover is 99.6% of that achieved last year. At the interim reporting stage, in the six months to December 2009, UK sales were 3.2% below the comparative period making it clear that the six months from January to June 2010 have seen some improvements in the market.

International revenue continues to increase, and the year on year growth of around 18% is a new record level.

Overall gross margins fell by just under 1%. The positive effects on our exports through the weakness of sterling have been offset, to a degree, by raw material prices which increased steadily throughout the financial year.

Increasingly we have focused on loyalty incentives and rebates for our customers and end users to secure ongoing business and to incentivise increased volume. Just one example has been the "Objectflor Goes Vegas" promotion that incentivised growth above predetermined targets by offering customers who were successful the reward of a trip to the USA, with 75 people making the journey in March 2010.

The taxation charge for the year was £10.1 million, being 28.2% of profit (2009: £8.1 million, 24.7%). The reason for the increase, apart from increased profits, is that the tax charge for last year had a one of benefit of £1.9 million for prior year adjustments as several open tax years were closed with rebates in our favour.

I shall review the various operations in turn in more detail.

Polyflor Ltd, the UK based operation

Sales year on year were relatively flat with 3.7% growth.

Given our focus on commercial flooring coverings with significant government sector users, this was a better performance than most observers would have expected. It seems very clear that it is a better performance than many of our competitors achieved. With less project business our strength in the refurbishment sector, which is driven by need and is less susceptible to major spending decisions, was underlined. Flooring is a very small part of the total cost of a newly built hospital or school but a very large part of the cost of the refurbishment of an old building. Whilst this might suggest that the latter type of business is more difficult we have a secure presence and there is less distraction from large volume projects tendered at marginal prices. There is no doubt the market place as a whole was reduced but we were well placed to consolidate our position and to increase our market penetration.

UK turnover was less than 1% down whilst we achieved growth in export territories of 10.5%. Our target markets are worldwide and on balance the positives more than outweighed those markets that fell. It was clear last year that we would face some difficulties. Markets such as Ireland, Italy, Scandinavia and Eastern Europe declined with sales 15-20% lower. Notwithstanding this, exports have increased overall with greater growth in Australia, China, Argentina, Spain and Singapore. In particular, there was exceptional growth in markets such as Canada (up 30%), South Africa (up 50%) and the USA (up 13%).

Even though the market backdrop was very challenging, our UK turnover had an air of disappointment as it has been many years since there has been anything other than strong growth. Factory output was maintained but the operational benefits of recent investment in productivity were frustrated by the relatively flat demand.

The new warehouse facility at Royton, acquired last year, became fully operational in January 2010 with a capacity of 4.5 million m^2 of flooring and nearly four miles of roll and pallet racking. Fully customised with the latest picking and stock control systems and with an onsite samples department and modern showroom facilities, Royton is already contributing positively to our customer service.

Investment continues with a £3.8 million investment in refurbishment and upgrade of our "Polysafe" safety flooring production facility. We expect a resultant improvement in output yield early in the new financial year.

Mixing capacity of homogenous vinyl has been increased following £500,000 of investment and this should increase our productivity in the coming years.

These and other technical projects have given us improved product specification on Polysafe PUR and Supratec PUR ranges as well as an improved decorative appearance with the "Pearlazzo" range that is soon to be launched.

Automated packaging facilities have been upgraded on each of the main production lines which have streamlined our process.

Objectflor, our European organisation based in Cologne

Germany and Central European flooring markets were affected by the recession and the commercial market is widely reported as being 15-18% down. I can report that our business had sales growth upward of 19% in the year. A truly commendable achievement.

Profits showed an encouraging move upwards, though there was a degree of pricing pressure in what is a very competitive market and a decline the value of the Euro relative to other currencies which affected the margin for several months. In addition, there were new launches that involved up front marketing costs.

The launch of Expona Domestic which was pioneered in January at the "Domotex" exhibition has been critically acclaimed and these new designs will be in the collection for the next three years. The range has won a number of awards and the sales support and presentation package offered to customers, combined with stunning designs, made for one of the most successful launches we have had.

Playing a supporting role the Karndean collections were re-mastered with some unique new designs. These collections offer a lower budget option to the main featured "Expona" range and complement its archetype by extending our market share.

Strong direction and focus were key features of the team's performance. Among the projects were Intersport sports outlets and the "Just Fit" chain of gyms. The major German flooring magazine BTH, together with BBE (a market research firm), published its annual consumer survey and in eight out of 16 rating points Objectflor was named in first place. In a depressed marketplace this was indicative of the confidence that customers have in our ranges.

Polyflor Pacific, encompassing Australia and New Zealand

Australia reported like for like sales growth of 14%. Whilst this country somewhat escaped the recessionary effects suffered by most developed world economies following the global banking crisis, it is nevertheless clear this was a good performance and that we achieved market share increases. There was, however, a negative effect on margins as the value of the Australian dollar fell against the US dollar affecting several ranges being sourced from suppliers in that currency. This, together with investment in sales personnel and infrastructure, had an overall negative effect on the amelioration of net profit, though it must be noted the prior year was itself a record.

New South Wales has been a major area of focus and with an extended sales team and expansion into new premises late in the financial year, we now have the service and support in place for expansion in the Sydney metropolitan area.

In summary we have stocking points and representation in Perth, Brisbane, Melbourne, Sydney and Hobart and a product offering of luxury vinyl tiles, carpet tile, screeds, adhesives and cushion vinyl all augmenting the comprehensive Polyflor collection. Our countrywide distribution makes our business the only truly national flooring distributor and the stage is set for continued growth.

New Zealand sales were static in the year in a difficult market, which was a laudable performance. Our long standing distribution of linoleum and third party sheet vinyl ended during the year. The market sentiment for "old style" products such as linoleum has consistently waned over the years and though it still had a positive attraction for some customers it is very clear that in comparison to our core sheet vinyl's environmental benefits, greater durability, ease of laying and price it was time to change. With the core

Chief Executive's Review
continued

Polyflor collection showing 9% growth, luxury vinyl tile 13% and underlay 40%, we believe the focus on our own brands has already started to show benefits.

There were some modest restructuring costs associated with the cessation of third party representation but stock turn has improved and working capital reduced as a result. Warehousing capacity is noticeably higher than required but manageable.

Several buying groups awarded our New Zealand business "Supplier of the Year" which confirmed our determination to focus on service in difficult market conditions. It was pleasing to note Polyflor being supplied to the major hospital project in the year (Waikato) as well as institutions such as the Fiji Institute of Technology and the King of Tonga's palace.

Polyflor Nordic comprising Polyflor Norway based in Oslo and Falck Design based in Sweden

Last year I noted that the Scandinavian region was beginning to return to growth, however the current financial year has seen a retrenchment in sales in these markets.

The global financial crisis has had a significant impact on the level of investment by the ultimate end users of our products. Our Scandinavian users of hot pressed tiles in particular are in sectors where investment over the last 12 to 18 months has been slashed across the board. This process began part way through the previous financial year, was noted in my report last year and has continued throughout 2009/10. This has had a significant negative effect on both turnover and profitability for these businesses albeit they remain profitable.

Polyflor Norway has seen sales fall by more than 10% compared to the previous year. This fall has seen Norway follow the market which has also fallen significantly, although we have increased market share. During the year we have maintained a very high level of control over discretionary overheads.

A number of competitors have cut back significantly on their direct selling resources and in some cases effectively withdrawn from the market. Polyflor Norway's key strengths are service, stock availability and working closely with its customers which means the business is well placed to further increase sales and market share as and when the recovery materialises.

Falck Design (Sweden) has also suffered significantly with the shutting off of much investment in areas such as shop fitting.

In early 2010 the company's warehousing arrangements were moved from Gothenburg to Stockholm, an area where the majority of our sales take place. Additional stocks of Polyflor product were placed here at the same time along with service facilities to allow for a cutting service. This has enabled the company to better service the day to day business for the Swedish market and as a consequence, in spite of the general market conditions, sales of sheet vinyl have increased compared to the previous year, against the overall market trend.

For both businesses the product portfolio has been enhanced in the current financial year with the addition of carpet tiles which were launched early in 2010 and are anticipated to add to growth in the forthcoming year.

In both Norway and at Falck we have detected that the levels of enquiries from customers are beginning to increase which suggests we may be emerging from the doldrums of the previous financial year, allowing the businesses to return to growth.

Projects to note in Scandinavia include Oslo's Gardermoen Airport, the Skagerak football arena and the Norwegian furniture chain, Bo Hus.

Polyflor Hong Kong, servicing Asia and the Far East

Our Asian sales show a very healthy 29% increase over last year which itself was 20% higher than in 2008. There is no doubt that the increase in the value of the US dollar has assisted our competitiveness and provided stimulus to the volume growth. There was considerable margin improvement and with overheads materially the same the bottom line result was a good one.

Mainland China continues to be the main driver of continued growth with a 59% increase in the volumes sold in this market. Major government infrastructure projects have been a feature of our success in Asia for 20 years but increasingly we are benefiting from refurbishment and day to day trade based on the stock held in the region. Increasingly we are able to win business, such as HSBC branches that were initially specified to a competitor that has no local stock.

Phoenix Distribution, the motorcycle accessories business

Turnover in this business increased by 4%. Having said this, if price increases are excluded there was a reduction in sales of around 8% which is not unexpected given the company trades in the high end leisure sector. The reduction is somewhat less than the fall off in new bike registrations (some 18%).

With the entire product ranges sold by Phoenix being imported and Sterling remaining weak margins, as reported last year, are affected. However, with the support of suppliers and sales price increases the company has continued to be profitable.

In the new financial year Phoenix will add to its portfolio with a second helmet brand aimed at price points below the unique Arai. This brand, Nolan, is very well known in the marketplace and has the kudos of Italian styling. It was previously distributed by Phoenix in the 1990s.

M Halstead
Chief Executive

Financial Director's Review

As is usual, we have prepared these accounts by reference to consistent application of standards, matching costs and revenues with due accrual for subjective costs at the year-end whilst always trying to take a prudent approach.

Profit before tax at £35.75 million (2009: £33.0 million) has increased. The prior year included a £0.8 million profit on the sale of property which at one time would be a "below the line" item. The underlying growth in pre tax profit was approximately 11%.

Our gross margins slightly reduced as a percentage but increased in absolute terms.

Some key statistics:

- Group turnover at £186.4 million (2009: £169.3 million) was 10.1% higher of which 3.7% was the effect of translation at more favourable exchange rates.
- Net finance income (excluding the effects of IAS19 accounting for pensions) fell to £0.4 million (2009: £0.63 million) as rates on deposit accounts remain very low.
- Selling and distribution costs were 7.8% higher as a result of the turnover increase but at 18.3% of turnover show a reduction relative to the 18.7% of last year. With the administrative overhead growth contained at below 1% the operating profit as a percentage is largely unchanged.
- Trade debtors increased to £26.3 million (£22.2 million) reflecting sales growth and the increase in export activity on longer terms than domestic activity. In offset to this absorption of working capital trade creditors were £25.7 million (2009: £17.0 million). Stock levels have risen to reflect new ranges that are currently in the launch phase and stand at £35.9 million (2009: £28.4 million), the comparative being lower than normal as the group took a cautious approach to stock levels last year whilst in the trough of market confidence.
- Cash stands at £33.4 million (2009: £27.6 million) even after the payment of £20.7 million in dividends (2009: £11.2 million) which included a special dividend of £7.8 million (2009: £nil). The cash inflow from operations was £36.5 million (2009: £29.1 million), an increase of 25%.

Key Performance Indicators

As in previous years, the Board considers growth in profit before tax and growth in dividend key targets in line with the task of delivering shareholder value. Control of working capital continues to be important and the level of cash is monitored. Rather than focus on individual working capital targets or ratios, the board are advised directly by subsidiary management by means of monthly reports on the key decisions and influences on working capital. Our focus at subsidiary level is on stock availability and appropriate credit given to and received from customers and suppliers respectively. Overall these statistics are collated into monthly group reports.

No individual key performance indicator, or group thereof, is regarded as more important than informed background knowledge of the underlying businesses. Subsidiaries present key performance indicators on debtor days, stock turn and creditor days but the consolidation of these for the whole Group offers no extra benefit as the component of mix can mask underlying effects.

Principal Business Risks and Uncertainties

The board constantly assesses risks. To the extent risk is insurable the board is risk averse and the group 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 exchange risk, the group operates internationally and is exposed to foreign exchange risk on both sales and purchases that are dominated 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. During the year the drastic fall in the value of the Japanese Yen could not be avoided but its effects were mitigated, for a time, and the business effects considered and appropriate actions taken.

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.

IFRS7 dictates several disclosures on risk and we have undertaken a market risk sensitivity analysis on fluctuations in our major currency exposure and the effects on the financial assets and liabilities in the balance sheet (which is included in the notes to the accounts in the Annual Report). I would note that we have overseas subsidiaries with significant profit and assets which are translated at average exchange rates (in the case of profit and loss items) and at year end rates (in the case of balance sheet items). The effect of this is shown annually in the Consolidated Statement of Recognised Income and Expense. Inevitability there is a translational exposure on these items and since they are not necessarily cash flows (excepting dividend payments) the consolidated net worth of the group will inevitably vary over time We do not hedge this translational exposure though we have in past hedged overseas assets with matching gearing. At present the cost and complexity in terms of arranging facilities and complying with local taxation rules would seem to outweigh the benefits.

The last five years of these exposures in terms of increase /(decrease) in the value of our overseas assets is as follows:

	£'000
2010	530
2009	1,204
2008	2,053
2007	284
2006	(438)

Defined Benefit Pension Scheme

Defined benefit pension schemes are inherently risky. Liabilities are affected by the rate of inflation, life expectancies and by reference to bond yields. The growth of the assets was in excess of the assumptions as global equity markets recovered. With bond yields low and a firming up of assumptions as to mortality there was inevitably an increase in the net (of tax credit) deficit to £12.4 million (2009: £11.2 million), equivalent to 0.8 years of dividend (based on the average dividend paid over the last two years). Unwelcome, but manageable.

With significant time focused in this area we looked to alleviate some of the long term exposure and during the year we undertook a deferred member liability reduction exercise with the company offering an incentive for transfers out of our scheme. The Board felt this was a valid exercise in mitigating the ongoing risk of such liabilities. Around £3.7 million of liabilities were extinguished. Owing to the IAS19 rules the result of this exercise is a profit and loss credit of £634,000.

In an effort to offer some perspective by which to view the pension scheme deficit in the morass of jargon and muddled theory surrounding this topic the following statistics are used by some investors:

- the comparison of scheme deficit to market capitalisation as a percentage;
- the comparison of scheme liabilities to market capitalisation; and,
- the comparison of the deficit to operating profit.

These ratios for this group are:

- the net deficit to market capitalisation is 3.8%;
- the total liabilities to market capitalisation is 17.3%; and,
- the deficit to operating profit is 48%.

I pass no comment on the merits of these ratios but I would comment that market capitalisation and operating profit are easy to calculate and understand but the numerator in each case is very dependent on the many assumptions. With these assumptions changed annually (despite the long term nature of the liability) there is not a consistent long term measure and although there is a degree of conformity at any point in time about the assumptions the adage comes to mind that "assumption is often the mother to a fine mess". The value of the analysis is in all probability its use to compare companies at a point in time rather than a particular company over time; as a "Z Score" for pension deficits.

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

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
3 Hardman Street
Spinningfields
Manchester
M3 3HF

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2010.

The audited financial statements of the group are set out on pages 18 to 48 and the audited financial statements of the company are set out on pages 50 to 59.

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 2010 are shown in the consolidated income statement on page 18 and the consolidated balance sheet on page 20.

The directors are recommending a final dividend of 18.75p per share on the ordinary share capital for payment on 3 December 2010 to those shareholders whose names appear on the register at 5 November 2010. This final dividend together with the interim dividend paid on 31 March 2010 makes a total of 26.75p per share (2009: 24.25p).

Directors

Mr M Halstead and Mr G R Oliver, being the directors retiring by rotation, offer themselves 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 2010		30 June 2009	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	2,101,680	220,802	2,078,872	220,802
G R Oliver	52,390	–	51,866	–
M Halstead	3,394,349	2,832,272	3,393,700	2,832,272
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

The directors consider that the Board of Directors include key management for all areas of the business and that there are no other key management which require disclosure.

Details of the directors' options under the terms of the executive share option scheme are set out in note 24.

Substantial interests

As at16 September 2010 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	17.52
Rulegale Nominees	3,224,174	6.22
J Halstead and A Halstead	2,598,300	5.01

Share capital

Ordinary shares

On 6 November 2009, 57,562; on 20 November 2009, 10,000; on 23 November 2009, 10,000; on 24 November 2009, 10,000; on 26 November 2009, 2,852; on 7 December 2009, 50,000; on 8 December 2009, 34,000; on 9 December 2009, 84,000; on 10 December 2009, 21,700; on 11 December 2009, 67,148; on 3 February 2010, 20,000; on 15 February 2010, 4,000 and on 31 March 2010, 18,300 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

Bonus Issue

The Board proposes that the group should initiate a Bonus Issue of fully paid Ordinary Shares to the holders of Ordinary Shares on the register at the close of business on the record date of 13 January 2011 (the "Bonus Issue"), equating to 1 new Ordinary Share for every 1 Ordinary Share then held. The proposal is subject to shareholder approval at the Annual General Meeting of the company to be held on 3 December 2010. The Bonus Issue is intended to increase the marketability and liquidity of the company's Ordinary Shares.

It is proposed that an amount equal to the aggregate nominal value of the ordinary shares of 5p each in the company in issue at close of business on 13 January 2011, being part of the amount now standing to the credit of the share premium account of the company, will be utilised in paying up at par the new Ordinary Shares to be issued pursuant to the Bonus Issue (the "Bonus Shares").

Terms of Issue of the Bonus Shares

The rights and restrictions attaching to the Bonus Shares will be as currently set out in the Articles in relation to the existing Ordinary Shares. The Bonus Shares will rank *pari passu* in all respects with the existing Ordinary Shares, save that they will not rank for any dividend declared prior to the record date or for the proposed final dividend of the Company in respect of the financial period ended 30 June 2010 referred to in resolution number 2 proposed for consideration at the Annual General Meeting of the company convened for 3 December 2010.

Report of the Directors
continued

The Bonus Shares, which will be capable of being held in either certificated or uncertificated (CREST) form as appropriate, will be issued to each shareholder and are not being marketed.

Where Ordinary Shares are held in certificated form on the record date, shareholders will receive non-renounceable share certificates, which will be posted at the risk of the shareholders, in respect of their entitlements to Bonus Shares. Where Ordinary Shares are held in uncertificated form on the record date, the appropriate CREST accounts will be credited with the relevant number of Bonus Shares, save that the Company reserves the right to issue the Bonus Shares in certificated form in exceptional circumstances, such as for example, in the event of any failure or breakdown of CREST. No temporary or renounceable documents of title will be issued.

Definitive certificates for the Bonus Shares will be posted to shareholders no later than 28 January 2011 and stock accounts in CREST will be credited with the new Ordinary Shares on 14 January 2011.

Taxation

For the purposes of United Kingdom taxation of chargeable gains, the Bonus Issue will be treated as a re-organisation of the Company's share capital. This means that the issue of the Bonus Shares will not itself give rise to any liability to tax. The Bonus Shares and the existing Ordinary Shares will be treated as part of the same asset, acquired at the time of the acquisition of existing Ordinary Shares. Any sale by shareholders of some or all of their Bonus Shares will, however, constitute a disposal for the purposes of United Kingdom taxation of chargeable gains and may, depending on shareholders' individual circumstances, give rise to a tax liability.

Under current United Kingdom legislation, no withholding tax applies on dividends paid by the Company.

An individual shareholder who is resident for tax purposes in the United Kingdom who receives a dividend is entitled to a tax credit of an amount equal to 1/9th of the dividend received.

1. If the shareholder is liable to basic rate income tax only, then there will be no further liability to income tax on the dividend.

2. If the shareholder is liable to higher rate income tax, they will be subject to tax on the total dividend and associated tax credit at a rate of 32.5% but the amount of tax credit may be set off against this leaving an effective rate of tax of 25% of the net dividend.

3. If the shareholder is liable to income tax at the additional rate, they will be subject to tax on the total dividend and associated tax credit at a rate of 42.5% but the amount of tax credit may be set off against this leaving an effective rate of tax of approximately 36.1% of the net dividend.

A corporate shareholder who is resident in the United Kingdom for tax purposes will not normally be liable to United Kingdom corporation tax on any dividend paid on the company's ordinary shares.

Subject to certain exceptions, a shareholder not resident in the United Kingdom is not normally entitled to claim any part of a tax credit. A shareholder who is not resident in the United Kingdom should consult his tax adviser concerning his tax liabilities on dividends received.

The comments in this section are intended only as a general guide to the current position. Shareholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should obtain their own professional advice.

Annual General Meeting

The Bonus Issue is conditional on resolutions 6 and 7 set out in the Notice being passed at the Annual General Meeting and upon Admission. The Directors also reserve the right to elect not to proceed with the Bonus Issue in the event of a change of circumstances such that, in the Directors' opinion, the Bonus Issue is no longer in the best interests of the Company and/or shareholders as a whole.

At present the Company has insufficient authorised but unissued ordinary share capital to implement the Bonus Issue. Therefore, resolution 6 set out in the Notice of Annual General Meeting proposes to double the Company's total authorised ordinary share capital from £5,000,000 to £10,000,000 by the creation of 100,000,000 new Ordinary Shares. Of these new Ordinary Shares, on the basis of the current issued share capital of the Company, it is expected that 3,752,868 would be issued in connection with the Bonus Issue and the balance would be unissued immediately following Admission.

Resolution 7 authorises the Directors to apply an amount (which on the basis of the current issued ordinary share capital of the Company would be approximately £2,593,822), being part of the total amount standing to the credit of the share premium account of the Company, in paying up in full the Bonus Shares at par value for the purposes of the Bonus Issue.

Special business at the Annual General Meeting

Resolution 8 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 2011.

Resolution 9 authorises the Directors, in place of all existing authorities, to allot relevant securities up to a maximum nominal amount of £1,729,042. This figure represents approximately 33.33% of the total ordinary share capital in issue as at the close of business on 22 October 2010 plus 51,876,434 Bonus Shares which is the number of Bonus Shares which would be issued on the basis of the current issued share capital of the Company. Based on the total ordinary share capital in issue as at the close of business on 22 October 2010, following the Bonus Issue, the remaining authority given by this resolution will be in respect of unissued Ordinary Shares representing approximately 33.33% of the enlarged issued ordinary share capital. The authority will expire at the next Annual General Meeting of the Company to be held in 2011 or 15 months from the passing of the resolution (whichever is the earlier).

Except for the issue of shares under the Bonus Issue and the allotment of shares to satisfy the exercise of share options granted under the share schemes, the Board has no present intention of issuing any part of the authorised but unissued ordinary share capital of the Company. As at the date of this document, the Company holds no treasury shares.

Resolution 10 will give the Board authority, in place of all existing authorities, to allot shares for cash without first being required to offer them pro rata to existing shareholders. The proposed authority will terminate at the next Annual General Meeting of the Company to be held in 2011 or 15 months from the passing of the resolution (whichever is earlier). The authority is limited to equity securities up to an aggregate nominal amount of 5% of the Company's issued ordinary share capital as enlarged by the Bonus Issue. The resolution also contains provisions to enable the Directors to deal with fractional entitlements and other practical difficulties which could arise in the event of a rights issue or similar pre-emptive offer.

Resolution 11 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 company made no purchases in the year to 30 June 2010. 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).

Resolution 12 seeks to amend the rules of the James Halstead plc Share Option Plan that was adopted by the company in 1998. Pursuant to this resolution the plan will be renewed for a further ten years as it will otherwise not be possible to grant further options to employees under the plan due to the expiry of its original ten year life. The amendments to the plan so far as they relate to approved options will be subject to the approval of HM Revenue & Customs.

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.

Report of the Directors
continued

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 industry.

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 2010 there were 26 (2009: 28) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £29,142 (2009: £10,172) 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 IFRSs 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 29 September 2010, 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
29 September 2010

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. During the year company cars were withdrawn from the group chief executive and group finance director. Mr E K Lotz continues to be provided with a car. The executive directors retain private health insurance paid for by the company.

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. Performance bonuses of £110,000 to the chairman and £220,000 to each of the group chief executive and group finance director were paid during the year.

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.

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.

Pensions

The company operates Inland Revenue Approved defined benefit and defined contribution pension schemes. The group chief executive and group finance director are members of the defined benefit scheme. Pension entitlements are calculated on basic salary only.

All members of the schemes are required to contribute a percentage of their pensionable earnings. Several years ago pensionable salary was restricted to the growth in the consumer price index.

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	6	5
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;

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 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes except for the ten year summary on page 49. 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 chapter 3 of part 16 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 statement of directors' responsibilities, 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 2010 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.

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

Manchester, UK
29 September 2010

Consolidated Income Statement
for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Revenue	5	186,424	169,263
Cost of sales		(107,052)	(95,510)
Gross profit		79,372	73,753
Selling and distribution costs		(34,190)	(31,714)
Administration expenses		(9,329)	(9,253)
Operating profit		35,853	32,786
Finance income	9	3,209	4,154
Finance cost	9	(3,311)	(3,943)
Profit before income tax	7	35,751	32,997
Income tax expense	10	(10,072)	(8,146)
Profit for the year attributable to equity shareholders	26	25,679	24,851
Earnings per ordinary share of 5p			
– basic	12	49.7p	48.3p
– diluted	12	49.6p	48.2p

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in note 11.

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Profit for the year		25,679	24,851
Other comprehensive income net of tax:			
Foreign currency translation differences	27	530	1,204
Actuarial loss on the defined benefit pension scheme	23	(2,314)	(2,842)
Fair value movements on hedging instruments	27	–	916
Other comprehensive income for the year net of tax		(1,784)	(722)
Total comprehensive income for the year		23,895	24,129
Attributable to:			
Equity holders of the company		23,895	24,129

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

Consolidated Balance Sheet

as at 30 June 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Property, plant and equipment	14	26,120	26,091
Intangible assets	15	3,232	3,232
Deferred tax assets	16	7,837	6,772
		37,189	36,095
Current assets			
Inventories	17	35,926	28,424
Trade and other receivables	18	28,561	24,485
Derivative financial instruments	19	1,230	989
Cash and cash equivalents	20	33,364	27,561
		99,081	81,459
Current liabilities			
Trade and other payables	21	45,706	34,586
Derivative financial instruments		188	583
Current income tax liabilities		4,806	2,753
		50,700	37,922
Net current assets		48,381	43,537
Non-current liabilities			
Retirement benefit obligations	23	17,170	15,602
Deferred tax liabilities	16	992	992
Borrowings	22	200	200
Other payables	21	366	547
		18,728	17,341
Net Assets		66,842	62,291
Equity			
Equity share capital	24	2,594	2,574
Equity share capital (B shares)	24	160	160
		2,754	2,734
Share premium account	25	3,031	1,738
Retained earnings	26	49,997	47,289
Other reserves	27	11,060	10,530
Total equity attributable to shareholders of the parent		66,842	62,291

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2010.

M Halstead
Director

G R Oliver
Director

Consolidated Statement of Changes in Equity

for the year ended 30 June 2010

	Share capital £'000	Share premium £'000	Retained earnings £'000	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total equity £'000
Balance at1 July 2008	2,734	1,708	36,455	6,279	(206)	2,337	49,307
Changes in equity							
Profit for the year	–	–	24,851	–	–	–	24,851
Foreign currency translation differences	–	–	–	–	–	1,204	1,204
Actuarial loss on the pension scheme	–	–	(2,842)	–	–	–	(2,842)
Fair value movements on hedging Instruments	–	–	–	–	916	–	916
Total comprehensive income for the year	–	–	22,009	–	916	1,204	24,129
Share based payments	–	–	22	–	–	–	22
Dividends	–	–	(11,197)	–	–	–	(11,197)
Issue of share capital	–	30	–	–	–	–	30
Balance at 30 June 2009	2,734	1,738	47,289	6,279	710	3,541	62,291
Changes In equity							
Profit for the year	–	–	25,679	–	–	–	25,679
Foreign currency translation differences	–	–	–	–	–	530	530
Actuarial loss on the pension scheme	–	–	(2,314)	–	–	–	(2,314)
Fair value movements on hedging instruments	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	23,365	–	–	530	23,895
Share based payments	–	–	17	–	–	–	17
Dividends	–	–	(20,674)	–	–	–	(20,674)
Issue of share capital	20	1,293	–	–	–	–	1,313
Balance at 30 June 2010	2,754	3,031	49,997	6,279	710	4,071	66,842

Consolidated Cash Flow Statement
for the year ended 30 June 2010

	Note	2010 £'000	2009 £'000
Cash inflow from operations	28	36,472	29,130
Interest received		537	918
Interest paid		(111)	(185)
Taxation paid		(8,038)	(12,820)
Cash inflow from operating activities		28,860	17,043
Purchase of property, plant and equipment		(4,014)	(9,421)
Proceeds from disposal of property, plant and equipment		289	1,433
Cash outflow from investing activities		(3,725)	(7,988)
Equity dividends paid		(20,674)	(11,197)
Shares issued		1,313	30
Cash outflow from financing activities		(19,361)	(11,167)
Net increase/(decrease) in cash and cash equivalents		5,774	(2,112)
Effect of exchange differences		29	152
Cash and cash equivalents at start of year		27,561	29,521
Cash and cash equivalents at end of year	20	33,364	27,561

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 50 to 59.

The group financial statements presented by the company on pages 18 to 48 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 ("IFRSs") 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 2010, 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.

Changes in accounting policies

In the current financial year the group has adopted the following:

- lAS 1 (revised) "Presentation of Financial Statements", requires the presentation of a statement of changes in equity as a primary statement separate from the income statement and the statement of comprehensive income.
- IFRS 7 "Improving Disclosures about Financial Instruments", now requires that an entity should classify its financial instruments using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The additional disclosures are contained in note 30.
- IFRS 8 "Operating Segments", requires operating segments to be identified based on the group's internal reporting structure. As detailed fully in note 5, under IFRS 8 the group has one reportable segment, which is the group as a whole.

Recent accounting developments

The financial statements are prepared in accordance with International Financial Reporting Standards and interpretations in force at the reporting date. The group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that the adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

Segment reporting

Operating segments are those segments for which results are reviewed by the group's chief operating decision maker ("CODM") to assess performance and make decisions about resources to be allocated. The CODM is the group board which meets regularly throughout the year to discuss the performance and results of the group as a whole. The business of the group is focussed almost entirely on the manufacture and distribution of flooring products. The group operates through separate legal entities in certain areas of the world and in order to provide information in a structured manner to readers of the accounts who are unfamiliar with the internal management reporting of the group, these operations are discussed by the chief executive in his report. However, having carefully considered the criteria in IFRS 8, the directors have concluded that the results of these operations are one segment. This is consistent with the core principle of IFRS 8, which is to disclose information to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the group engages and the economic activities in which it operates.

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.

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.

Notes to the Group Accounts
continued

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.

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.

Notes to the Group Accounts
continued

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.

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:

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 23.

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 (CGUs). These value in use calculations are dependent on estimates of the future cash flows and long-term growth rates of the relevant CGUs.

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.

Notes to the Group Accounts
continued

5. Segmental information

Operating segments are those segments for which results are reviewed by the group's chief operating decision maker ("CODM") to assess performance and make decisions about resources to be allocated. The CODM is the group board which meets regularly throughout the year to discuss the performance and results of the group as a whole. The business of the group is focussed almost entirely on the manufacture and distribution of flooring products. The directors consider that under the definitions contained within IFRS 8 there is, therefore, only one reportable segment, which is the group as a whole. This is consistent with the core principle of IFRS 8, which is to disclose information to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the group engages and the economic activities in which it operates. Therefore the majority of the disclosures required under IFRS 8 have already been given in these financial statements.

Segment assets include property, plant and equipment, intangibles, inventories, receivables and derivative financial instruments. Cash and taxation are not included. Entity wide disclosures in respect of revenues from external customers, total segment assets and non-current assets are provided below:

	2010 Revenue £'000	2010 Total assets £'000
United Kingdom	70,699	50,016
Europe and Scandinavia	70,920	31,223
Australasia and Asia	33,487	13,830
Rest of the World	11,318	–
Total operations	186.424	95,069
Deferred tax assets		7,837
Cash and cash equivalents		33,364
Total		136,270

	2009 Revenue £'000	2009 Total assets £'000
United Kingdom	70,948	44,720
Europe and Scandinavia	63,656	27,660
Australasia and Asia	25,157	10,841
Rest of the World	9,502	–
Total operations	169,263	83,221
Deferred tax assets		6,772
Cash and cash equivalents		27,561
Total		117,554

Revenue from external customers is by location of customer. Assets are by location of asset.

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. As members of the scheme, the three UK executive directors of the parent company each received shares to the value of £3,000.

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.

	2010	2009
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	470,260	493,157
As a percentage of shares in issue	0.91%	0.96%

7. Profit before income tax

Profit before tax is stated after charging the following:

	2010 £'000	2009 £'000
Depreciation of property, plant and equipment (see note 14)	3,528	2,972
Hire of plant and machinery	59	40
Operating lease rentals – land and buildings	1,056	1,265
Operating lease rentals – other	940	879
Research and development	1,594	1,554
Gain on disposal of property, plant and equipment	(79)	(847)
Fees payable to the group's auditors for the audit of the parent company and consolidated financial statements	30	28
Fees payable to the group's auditors and their associates for other services:		
the audit of the group's subsidiaries pursuant to legislation	123	103
taxation services	45	40
other services	10	12

Notes to the Group Accounts
continued

8. Staff costs and numbers

	2010 £'000	2009 £'000
Staff costs comprised:		
Wages and salaries	26,391	24,685
Social security costs	2,994	2,703
Pension costs – defined benefit scheme	460	553
– defined contribution schemes	394	332
	30,239	28,273

The average monthly number of employees during the year was:

	2010 Number	2009 Number
Manufacturing, selling and distribution	661	654
Administration	125	123
	786	777

9. Finance income

	2010 £'000	2009 £'000
Interest receivable and similar income:		
On bank deposits	316	874
Other	197	1
	513	875
Expected return on pension scheme assets	2,696	3,279
Finance income	3,209	4,154
Preference share dividend	(11)	(11)
Interest on short-term borrowing and other financing costs	(98)	(162)
Interest on pension scheme liabilities	(3,202)	(3,701)
Other	–	(69)
Finance cost	(3,311)	(3,943)
Net finance (cost)/income	(102)	211

10. Income tax expense

	2010 £'000	2009 £'000
Current tax		
Current tax – current year	10,379	9,962
Current tax – adjustments in respect of prior years	(254)	(1,901)
	10,125	8,061
Deferred tax		
Deferred tax – current year	(159)	(91)
Deferred tax – adjustments in respect of prior years	106	176
	(53)	85
Total taxation	10,072	8,146

The effective rate for the year to 30 June 2010 is higher (2009: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2010 £'000	2009 £'000
Profit before tax	35,751	32,997
Profit before tax multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%)	10,010	9,239
Effects of:		
Adjustments to tax in respect of prior periods	(148)	(1,725)
Adjustments in respect of tax rates	344	254
Permanent differences	(134)	378
Total taxation	10,072	8,146

In addition to the amounts debited and credited to the consolidated income statement £900,000 (2009: £1,105,000) has been credited directly to reserves in respect of the actuarial loss on the pension scheme.

Notes to the Group Accounts
continued

11. Dividends

	2010 £'000	2009 £'000
Equity dividends		
Interim dividend for current year of 8.0p (2009: 7.25p)	4,148	3,732
Special dividend for current year of 15.0p (2009: Nil)	7,774	–
Final dividend for previous year of 17.0p (2009: 14.5p)	8,752	7,465
Amounts recognised as distributions to equity holders in the year	20,674	11,197

A final dividend of 18.75p per share, amounting to a total of £9,726,831 for the year ended 30 June 2010 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.

12. Earnings per share

	2010 Pence per share	2009 Pence per share
– Basic	49.7	48.3
– Diluted	49.6	48.2

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £25,679,000 (2009: £24,851,000) by 51,695,718 (2009: 51,481,246) 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 £25,679,000 (2009: £24,851,000) by 51,803,285 (2009: 51,601,783) 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.

13. Profit of parent company

The consolidated profit attributable to the shareholders of James Halstead plc includes a profit, after dividends received, of £21,729,244 (2009: £16,804,884) 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 total recognised gains and losses. The aggregate amount of directors' emoluments excluding pension contributions was £1,340,172 of which the highest paid director's emoluments were £466,297.

14. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 July 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
Additions	–	4,014	4,014
Disposals	–	(901)	(901)
Exchange differences	(368)	237	(131)
At 30 June 2010	21,401	51,969	73,370
Depreciation			
At 1 July 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
Charge for the year	687	2,841	3,528
Disposals	–	(691)	(691)
Exchange differences	(42)	158	116
At 30 June 2010	4,472	42,778	47,250
Net book value			
At 1 July 2008	11,035	8,636	19,671
At 30 June 2009	17,942	8,149	26,091
At 30 June 2010	16,929	9,191	26,120

Included in freehold land and buildings is land with a cost of £4,270,000 (2009: £4,338,000) which is not depreciated.

Notes to the Group Accounts
continued

15. Intangible assets

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

16. 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 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
Credited/(charged) to income statement	(461)	224	–	290	53
Credited to equity	900	–	–	–	900
Exchange differences	–	–	–	112	112
At 30 June 2010	4,808	(202)	(992)	3,231	6,845

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 2008	5,737	(992)	4,745
At 30 June 2009	6,772	(992)	5,780
At 30 June 2010	7,837	(992)	6,845

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

17. Inventories

	2010 £'000	2009 £'000
Raw materials	1,470	1,346
Consumable stores	379	319
Work in progress	523	716
Finished goods	33,554	26,043
	35,926	28,424

An amount of £424,000 has been credited (2009: £1,253,000 charged) in the year in respect of inventory write-downs.

18. Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	26,318	22,202
Other receivables	1,046	1,306
Prepayments and accrued income	1,197	977
	28,561	24,485

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 £2,645,000 (2009: £2,668,000). 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:

	2010 £'000	2009 £'000
At 1 July	2,668	2,888
Exchange movements	24	18
Credit to income statement (selling and distribution expenses)	(47)	(238)
	2,645	2,668

As at 30 June 2010, trade receivables of £6,641,000 (2009: £5,540,000) 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:

	2010 £'000	2009 £'000
Up to three months	6,629	5,379
Over three months	12	161
Total	6,641	5,540

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

	2010 £'000	2009 £'000
Sterling	9,674	9,375
Euro	8,356	6,712
Australian Dollars	3,777	2,291
New Zealand Dollars	881	666
Norwegian Krone	974	723
US Dollars	1,636	1,619
Hong Kong Dollars	630	936
Other currencies	1,436	1,186
Total	27,364	23,508

Notes to the Group Accounts
continued

19. 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.

20. 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:

	2010 £'000	2009 £'000
Sterling	30,529	23,252
Euro	3,013	2,397
Australian Dollars	1,023	1,130
New Zealand Dollars	162	238
Norwegian Krone	250	618
US Dollars	(1,092)	(150)
Other currencies	(521)	76
Total	33,364	27,561
Cash and cash equivalents consist of:		
Cash at bank and in hand (net of overdrafts)	33,364	16,442
Short-term deposits	–	11,119
	33,364	27,561

21. Trade and other payables

	2010 £'000	2009 £'000
Amounts falling due within one year		
Trade payables	25,677	17,037
Value added, payroll and other taxes	1,924	2,144
Other payables	2,635	2,976
Accruals	15,470	12,429
	45,706	34,586
Amounts falling due after more than one year		
Other payables	366	547

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

22. Borrowings

	2010 £'000	2009 £'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 2010 and 30 June 2009 the fair value of the preference shares was not materially different from their book value.

Notes to the Group Accounts
continued

23. 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. The accumulated total accrued pension for the highest paid director is £84,784 and the transfer value of these accrued benefits as at 30 June 2010 is £1.19 million.

Disclosures relating to defined benefits are as follows:

	2010	2009
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)		
Discount rate at end of year	5.45%	6.40%
Expected return on plan assets at end of year	7.90%	8.00%
Future salary increases	2.80%	2.80%
Future pension increases	2.80%	2.80%
Rate of inflation	2.90%	2.90%
Future expected lifetime of current pensioner at age 65:		
Male born in 1945	21.4 years	21.2 years
Female born in 1945	24.2 years	24.1 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1965	22.4 years	22.2 years
Female born in 1965	25.2 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.

	2010 £'000	2009 £'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(56,181)	(50,790)
Fair value of scheme assets	39,011	35,188
Net liability before deferred taxation	(17,170)	(15,602)
Related deferred tax asset	4,808	4,369
Net liability after deferred taxation	(12,362)	(11,233)

	2010 £'000	2009 £'000
Amounts recognised in the income statement		
Current service cost	(460)	(553)
Interest on obligations	(3,202)	(3,701)
Expected return on scheme assets	2,696	3,279
Gain on settlement	1,464	–
	498	(975)

	2010 £'000	2009 £'000
Amounts recognised in the statement of comprehensive income		
Actual return less expected return on scheme assets	4,183	(9,814)
Changes in assumptions underlying the present value of the scheme liabilities	(7,397)	5,867
	(3,214)	(3,947)
Deferred tax	900	1,105
	(2,314)	(2,842)

23. Retirement benefit obligations (continued)

	2010 £'000	2009 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	35,188	41,828
Expected return on scheme assets	2,696	3,279
Actuarial gains/(losses)	4,183	(9,814)
Employer contributions	1,148	1,825
Employee contributions	340	370
Benefits paid	(2,309)	(2,300)
Assets distributed on settlements	(2,235)	–
	39,011	35,188

	2010 £'000	2009 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	50,790	54,333
Service cost	460	553
Interest cost	3,202	3,701
Employee contributions	340	370
Actuarial losses/(gains)	7,397	(5,867)
Benefits paid	(2,309)	(2,300)
Liabilities extinguished on settlements	(3,699)	–
	56,181	50,790

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

	2010	2009
Equities	81.1%	79.1%
Bonds	11.0%	10.8%
Property	2.8%	2.7%
Cash	5.1%	7.4%

History of scheme:

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Defined benefit obligation	(56,181)	(50,790)	(54,333)	(53,821)	(53,875)
Fair value of scheme assets	39,011	35,188	41,828	47,390	41,474
Net deficit	(17,170)	(15,602)	(12,505)	(6,431)	(12,401)
Experience adjustments on scheme assets	4,183	(9,814)	(7,382)	3,246	2,925
Experience adjustments on scheme liabilities	(7,397)	5,867	1,057	2,697	(1,379)

The cumulative amount (net of tax) recognised in the statement of comprehensive income since 1 July 2006 is £5,679,000 loss (2009: £3,365,000 loss).

Normal company contributions of £860,000 are expected to be paid into the scheme during the year ended 30 June 2011.

Notes to the Group Accounts
continued

24. Share capital

Ordinary shares	2010	2009
	£'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		
51,871,434 (2009: 51,481,872) ordinary shares of 5p each	2,594	2,574
16,042,530 B ordinary deferred shares of 1p	160	160
	2,754	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 55.

Preference shares	2010	2009
	£'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

24. 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 389,562 shares and options over 41,500 shares lapsed during the year. No further options were granted during the year. Details of 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 30.06.09	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.10
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
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
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
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					456,000	(68,000)	–	388,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 30.06.09	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30.06.10
	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)	–	–
	09 Jan 06	08 Jan 09	08 Jan 16	354.250	334,000	(290,000)	(24,000)	20,000
	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	–	(5,000)	156,500
	6 Oct 08	5 Oct 11	5 Oct 18	421.000	192,500	–	(12,500)	180,000
Total – employees					719,562	(321,562)	(41,500)	356,500
Grand total					1,175,562	(389,562)	(41,500)	744,500

The market price of the shares at 30 June 2010 was 637.50p (2009: 430.00p).

The share price during the year ranged from 410.00p to 640.00p.

Notes to the Group Accounts
continued

24. Share capital (continued)

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

The average share price at the date on which options were exercised in the year was £5.39.

At 30 June 2010 there were 110,000 (2009: 513,562) share options exercisable at a weighted average price of £3.28 (2009: £3.35).

Aggregate gains on the exercising of share options by directors in the year amounted to £101,110 (2009: £nil) of which £nil related to the highest paid director. There were no share options exercised by the directors in the year to 30 June 2009.

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

	Number of options	Average exercise price (£)
At 1 July 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
Exercised in the year	(389,562)	3.37
Lapsed in the year	(41,500)	4.01
At 30 June 2010	744,500	4.76

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 2010 and 30 June 2009:

Expected life of option	3 years
Expected share price volatility	18%-20%
Expected dividend yield	5.8%-8.7%
Risk free interest rate	2.0%-4.4%
Exercise prices	256.25p-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.

25. Share premium account

	2010 £'000	2009 £'000
At 1 July	1,738	1,708
Share options exercised	1,293	30
At 30 June	3,031	1,738

26. Retained earnings

	2010 £'000	2009 £'000
At 1 July	47,289	36,455
Profit for the year	25,679	24,851
Share based payment expense	17	22
Actuarial loss (net of deferred tax)	(2,314)	(2,842)
Equity dividends paid	(20,674)	(11,197)
At 30 June	49,997	47,289

27. Other reserves

	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total £'000
At 1 July 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
Fair value adjustments	–	–	–	–
Exchange rate adjustments	–	–	530	530
At 30 June 2010	6,279	710	4,071	11,060

28. Cash inflow from operations

	2010 £'000	2009 £'000
Operating profit	35,853	32,786
Depreciation	3,528	2,972
Profit on sale of property, plant and equipment	(79)	(847)
(Increase)/decrease in inventories	(6,940)	2,814
Increase in trade and other receivables	(3,634)	(831)
Increase/(decrease) in trade and other payables	9,969	(6,297)
Share-based payment expense	17	22
Retirement benefit obligations	(2,152)	(1,272)
Changes in fair value of financial instruments	(90)	(217)
	36,472	29,130

Notes to the Group Accounts
continued

29. Commitments

	2010 £'000	2009 £'000
Capital commitments		
Contracted for but not incurred – property plant and equipment	2,483	837

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:

	2010 Land and buildings £'000	2010 Other £'000	2009 Land and buildings £'000	2009 Other £'000
Not later than one year	950	642	774	797
Later than one year and not later than five years	2,487	750	2,025	937
Later than five years	940	18	1,144	25
	4,377	1,410	3,943	1,759

30. 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:

	2010 Book value £'000	2010 Fair value £'000	2009 Book value £'000	2009 Fair value £'000
Current:				
Trade and other receivables	27,364	27,364	23,508	23,508
Forward exchange contracts (see note 19)	1,230	1,230	989	989
Cash and cash equivalents	33,364	33,364	27,561	27,561
Trade and other payables	(43,782)	(43,782)	(32,442)	(32,442)
Forward exchange contracts (see note 19)	(188)	(188)	(583)	(583)
Total	17,988	17,988	19,033	19,033
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.

30. Financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. IFRS 7 requires that these be grouped into Levels 1 to 3 based on the degree to which the fair value is observable. All items in the table below are categorised as Level 1 which, as defined by IFRS 7, refers to those items whose fair value measurement is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

	2010 £'000	2009 £'000
Forward exchange contracts at fair value through profit and loss account	75	26
Forward exchange contracts at fair value through hedging reserve	967	380
	1,042	406

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 £220,000 (2009: £167,000). 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.

	2010 Post-tax profits £'000	2010 Equity £'000	2009 Post-tax profits £'000	2009 Equity £'000
Euro 5% stronger against sterling	66	(12)	3	(200)
Euro 5% weaker against sterling	(60)	11	(2)	180

31. Group companies

The following information is not a complete listing of all group companies as at 30 June 2010, 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

32. Exchange rates

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

	2010 Average	2010 Closing	2009 Average	2009 Closing
Euro	1.14	1.22	1.17	1.17
Australian dollars	1.80	1.77	2.17	2.04
New Zealand dollars	2.26	2.18	2.66	2.54
Swedish Krona	11.49	11.64	12.12	12.76

33. 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 23 on page 40.

Details of other related party transactions for the group are shown in the Directors' Report, Board Report on Remuneration and in the notes to the financial statements.

Ten Year Summary (Unaudited)

	2001 UK GAAP	2002 UK GAAP	2003 UK GAAP	2004 UK GAAP	2005 UK GAAP	2006 UK GAAP	2007 UK GAAP	2008 IFRS	2009 IFRS	2010 IFRS
Revenue	93,541	93,033	99,775	104,703	112,353	126,024	137,252	158,740	169,263	186,424
Profit (before exceptional items)	10,689	11,275	12,211	13,699	13,760	17,481	23,499	29,857	32,997	35,751
Exceptional items*	–	–	–	10,396	–	–	–	–	–	–
Profit before income tax	10,689	11,275	12,211	24,095	13,760	17,481	23,499	29,857	32,997	35,751
Income tax	(3,538)	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)	(9,502)	(8,146)	(10,072)
Profit after income tax	7,151	7,810	8,565	18,157	9,484	11,834	15,842	20,355	24,851	25,679

Unless otherwise stated all amounts are in £ thousands.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Underlying/headline earnings per 5p share**	12.33p	14.42p	16.81p	17.47p	19.20p	23.80p	31.10p	39.70p	48.30p	49.70p
Net dividends paid per ordinary share of 5p***	6.05p	6.55p	7.05p	8.00p	9.38p	10.63p	13.25p	17.50p	21.75p	25.00p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	2.04	2.20	2.38	2.18	2.05	2.24	2.35	2.27	2.22	1.99

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

** For 2001 to 2006, underlying/headline earnings per share is as defined in the notes to the accounts for the relevant year. For 2007 onwards 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. Special dividends are not included.

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 2001 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 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible fixed assets	2	3,921	4,132
Investments	3	20,093	20,093
		24,014	24,225
Current assets			
Debtors	4	23,905	26,630
Cash at bank, in hand and on short-term deposit	12	17,874	16,584
		41,779	43,214
Creditors – amounts falling due within one year	5	(13,350)	(17,381)
Net current assets		28,429	25,833
Total assets less current liabilities		52,443	50,058
Creditors – amounts falling due after more than one year	6	(200)	(200)
		52,243	49,858
Capital and reserves			
Equity share capital		2,594	2,574
Equity share capital (B shares)		160	160
Called up share capital	8	2,754	2,734
Share premium account	9	3,031	1,738
Capital redemption reserve	10	6,279	6,279
Profit and loss account	11	40,179	39,107
Total shareholders' funds		52,243	49,858

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2010.

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. Executive directors Mr M Halstead and Mr G R Oliver are members of the defined benefit scheme and total company pension contributions in the year were respectively £38,205 and £34,346. 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 2009	6,798	400	7,198
Additions	–	25	25
Disposals	–	(138)	(138)
At 30 June 2010	6,798	287	7,085
Depreciation			
At 30 June 2009	2,709	357	3,066
Charge for the year	203	17	220
Disposals	–	(122)	(122)
At 30 June 2010	2,912	252	3,164
Net book value			
At 30 June 2010	3,886	35	3,921
At 30 June 2009	4,089	43	4,132

3. Investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost			
At 30 June 2009 and 30 June 2010	28,233	1,260	29,493
Provision for impairment			
At 30 June 2009 and 30 June 2010	9,400	–	9,400
Net book value			
At 30 June 2009 and 30 June 2010	18,833	1,260	20,093

At 30 June 2010, 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

	2010 £'000	2009 £'000
Trade debtors	66	84
Current accounts with subsidiary undertakings	22,048	23,717
Other debtors	1,769	2,563
Prepayments and accrued income	22	266
	23,905	26,630

5. Creditors – amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	861	1,688
Current accounts with subsidiary undertakings	6,651	10,156
Corporation tax payable	34	–
Other taxation and social security	43	74
Other creditors	546	2,692
Accruals and deferred income	5,215	2,771
	13,350	17,381

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

	2010 £'000	2009 £'000
Preference shares	200	200

7. Deferred taxation

	2010 £'000	2009 £'000
Accelerated capital allowances	(24)	(8)
Short-term timing differences	(1,087)	(1,029)
	(1,111)	(1,037)
Opening balance	(1,037)	(1,212)
(Credit)/charge to profit and loss account	(74)	175
Balance at 30 June	(1,111)	(1,037)

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

8. Share capital

Ordinary shares	2010	2009
	£'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		
51,871,434 (2009: 51,481,872) ordinary shares of 5p each	2,594	2,574
16,042,530 B ordinary deferred shares of 1p	160	160
	2,754	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	2010	2009
	£'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% (2009: 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% (2009: 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

	2010 £'000	2009 £'000
At 1 July	1,738	1,708
Share options exercised	1,293	30
At 30 June	3,031	1,738

10. Capital redemption reserve

	£'000	£'000
At 30 June 2010 and 30 June 2009	6,279	6,279

11. Profit and loss account

	2010 £'000	2009 £'000
At 1 July	39,107	33,477
Profit for the year	21,729	16,805
Share-based payment transactions	17	22
Equity dividends paid	(20,674)	(11,197)
At 30 June	40,179	39,107

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 £21,729,244 (2009: £16,804,884). Charged against this profit are the salaries of Mr G Halstead, £178,002; Mr M Halstead, £232,668; Mr G R Oliver, £210,280; Mr J A Wild, £25,800 and Mr E K Lotz, £100,000.

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 55. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2010 was £200,000 (2009: £200,000). At 30 June 2010 and 30 June 2009 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	
	2010 £'000	2009 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	17,874	16,584

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 are:

	2010 £'000	2009 £'000
Australian Dollars	(251)	254
Canadian Dollars	(162)	31
Euro	(658)	46
Hong Kong Dollars	(228)	136
New Zealand Dollars	(90)	92
Norwegian Krone	(414)	–
US Dollars	(1,198)	(150)
Others	(536)	(175)
	(3,537)	234

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

	2010 £'000	2009 £'000
Contracts to sell:		
Australian Dollars	7,303	3,698
Canadian Dollars	1,799	783
Euro	327	6,135
Hong Kong Dollars	1,769	2,139
New Zealand Dollars	1,511	812
Norwegian Krone	1,525	1,426
US Dollars	–	2,216
Others	2,180	1,898
	16,414	19,107
Contracts to buy:		
US Dollars	10,814	7,571
Japanese Yen	–	807
Euro	267	509
	11,081	8,887

12. Financial instruments (continued)

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

	2010 Asset/(liability) £'000	2009 Asset/(liability) £'000
Contracts to sell:		
Australian Dollars	94	(174)
Canadian Dollars	(11)	56
Euro	21	442
Hong Kong Dollars	(33)	173
New Zealand Dollars	(15)	(13)
Norwegian Krone	62	94
US Dollars	–	165
Others	(36)	(64)
	82	679
Contracts to buy:		
US Dollars	965	(212)
Japanese Yen	–	(12)
Euro	(4)	11
	961	(213)

13. Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Profit for the financial year	21,729	16,805
Equity dividends paid	(20,674)	(11,197)
	1,055	5,608
FRS 20 share option charge	17	22
New share capital subscribed	1,313	30
Net increase in shareholders' funds for the financial year	2,385	5,660
Opening equity shareholders' funds	49,858	44,198
Closing equity shareholders' funds	52,243	49,858

Shareholder Information

Financial calendar

Annual general meeting	3 December 2010 (see notice of meeting on pages 62 to 64).

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	2,849	6,307,454
10,001-50,000	262	5,523,349
50,001-250,000	64	7,057,374
250,001 and over	34	32,988,257
	3,209	51,876,434

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	942	14,762,961	28.46
Other limited companies/corporate bodies	47	568,632	1.09
Miscellaneous bodies/pension funds	14	58,299	0.11
Private individuals	2,200	36,435,828	70.24
Investment trusts and funds	6	50,714	0.10
	3,209	51,876,434	100.00

*as at 16 September 2010

Boiler Room Information

WARNING TO SHAREHOLDERS – BOILER ROOM SCAMS

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. 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'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. 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 **0300 500 5000** 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 share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the CFEB website **www.moneymadeclear.fsa.gov.uk**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY FIFTH ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, BL1 2EW on 3 December 2010 at 12 Noon 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 2010 together with the report of the auditors.

2 To declare a final dividend on the ordinary shares.

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

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

5 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 7, 8, 9 and 12 shall be proposed as ordinary resolutions and resolutions 6, 10 and 11 will be proposed as special resolutions:

6 That the authorised ordinary share capital of the company be increased from £5,000,000 to £10,000,000 by the creation of 100,000,000 new ordinary shares of 5p each, such shares to form one class with the existing ordinary shares of 5p each in the capital of the company.

7 That, subject to the passing of the special resolution numbered 6 above, the directors be and are hereby authorised, pursuant to article 35.14 of the articles of association of the company, to capitalise an amount, being part of the amount standing to the credit of the share premium account of the company, equal to the aggregate nominal value of the ordinary shares of 5p each in the company in issue at close of business on 13 January 2011 ("Record Date"), and accordingly that the directors be authorised and directed to appropriate such sum to the members who are, at the Record Date, registered as the holders of the issued ordinary shares of 5p each in the capital of the company in the same proportions in which such sum would have been divisible amongst them if it were distributed by way of dividend and to apply such sum on their behalf in paying up in full new ordinary shares of 5p each and allot such ordinary shares credited as fully paid to those members in the proportion of one new ordinary share for each existing ordinary share held on such date and so that such new ordinary shares shall rank pari passu in all respects with the existing ordinary shares of 5p each but shall not rank for the proposed final dividend of the company of 18.75p per ordinary share in respect of the financial year ended 30 June 2010 or for any other dividend declared prior to the Record Date.

8 That, subject to the passing of the ordinary and special resolutions numbered 9 and 10 below, the directors be and they are hereby authorised, pursuant to article 35.14 of the company's articles of association:

(i) to exercise the power contained in article 35.14 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 failing 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.

Notice of Annual General Meeting
continued

9 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 £1,729,042 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.

10 That subject to the passing of the ordinary resolution numbered 9 above 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 immediately after the allotment of the new ordinary shares of 5p each to be allotted to the members of the company pursuant to the ordinary resolution numbered 7 above;

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.

11 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).

Notice of Annual General Meeting
continued

12. That, subject to the approval of HM Revenue & Customs and taking into account any additional or alternative amendments necessary to obtain HM Revenue & Customs approval, the rules of the James Halstead plc Share Option Plan (the "Plan") be amended to allow options to be granted under the Plan for a further ten years from the date of the ordinary resolution by shareholders.

    Copies of the rules of the Plan showing the proposed amendments in blackline are available upon request to the company's registered office.

By order of the board
M L Shilton

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester
M26 1JN

22 October 2010

Notes

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

2 Members entitled to attend and to speak and vote at the AGM are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you require additional forms, please contact the company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

3 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand by the company's registrars, Capita Registrars, Proxy Department, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, in each case no later than 12 noon on 1 December 2010.

4 If you wish to attend the meeting in person, please attend at the address set out at the beginning of this notice on 3 December 2010 bringing either your attendance card or other appropriate identification so that you can be identified by the company's registrars. It is recommended that you arrive at least 15 minutes before the time appointed for the meeting to begin.

5 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be registered in the register of members of the company at 6 pm on 1 December 2010.

6 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

7 The following documents will be available for inspection at the company's registered office during normal business hours from the date of this notice until the time of the meeting and at the address set out at the beginning of this notice from 15 minutes before the meeting until it ends:

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

    (ii) copy of the service contract of Mr G. R. Oliver.

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

THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2006

THE QUEEN'S AWARDS FOR ENTERPRISE: INNOVATION 2007