James Halstead

Report & Accounts 2011

Contents

James Halstead

Chairman's Statement

I have great pleasure in announcing these results in a year in which we have increased revenue beyond £200 million to achieve a new record level of £213.9 million (2010: £186.4 million), an increase of 14.8%.

Our profit before tax at £38.5 million (2010: £35.8 million) is also a record achievement, and 7.6% ahead of the comparative.

Notwithstanding these figures, it was a difficult year. The UK economy and the construction sector in particular faced an austere backdrop. Additional challenges were the price, and at times availability, of basic raw materials. This resulted in an inevitable degree of margin erosion. Having said this, the UK turnover progressed by 2.7%.

Our success in overseas markets was impressive with a 22% increase in revenue over the prior year and some 66% of our turnover is now outside the UK.

Investment continued throughout the year. Polyflor has completed a major refurbishment and upgrade to its production lines in Manchester and in Oldham our marketing and distribution facilities were completed with a showroom facility that has welcomed many of our partners.

In addition to this, Polyflor Australia has extended its warehouse facilities and Phoenix has relocated a short distance to modern premises. In addition, Riverside Flooring (Teesside) has successfully brought our newest facility into production.

I am proud to report that once again we received recognition for our export achievements in receiving the Queen's Award, our third award. In addition, our industry not only voted us as supplier of the year (for the fifth consecutive year) but, uniquely, selected the entire Polyflor range as the flooring product of the year.

Once again I can report that we have been associated with landmark installations across the world. These include the event centre at the famous Nürburgring F1 grand prix circuit, the Niagara Falls Convention Centre in Canada and the Kokura Railway Station in Kitakyushu Japan.

The diversity and global geographic spread of our product penetration is further evidenced by projects such as the Wuxi Grand Theatre in Jiangsu, China, the Indian Naval Ship Vikramaditya and the Gorgan Gas project on Barrow Island, Western Australia. I can also report that our more usual hospital and education projects continue to be supplied.

Dividend

For the 35th consecutive year the Board proposes to increase the final dividend. The final dividend of 9.8p (2010: 9.375p) represents an increase of 4.5% and combined with the interim dividend, paid in May 2011 of 4.5p (2010: 4.0p), makes a total of 14.30p (2010: 13.375p) for the year, an increase of 6.9%.

Acknowledgements

On behalf of the Directors I would like to give thanks to our staff and customers for their contribution to these results.

Outlook

Although the prevailing challenge of this year was the increasing cost of raw materials and energy we remain vigilant to the fragile state of our home market. The coming year will be testing as our competitors look to our volume growth and seek to take back market share. I am, however, of the firm belief that as a result of the key structural investments that we have made and our worldwide experience we will continue to progress in the coming year.

G Halstead
Chairman

Chief Executive's Review

The year to 30 June 2011 was creditable. Once again we have achieved record turnover and profits. With over a 20% increase in international sales we continued to expand our global operations. The 2.7% growth in the UK is more modest but the market has been challenging.

Looking at the geographical split of revenue we have seen growth in all our major markets. The most notable of these are revenue increases in Australia (28%), Germany (25%), France (18.7%) and Scandinavia (16.6%).

Operating profit has risen to £38.3 million (2010: £35.9 million) an increase of 6.9%. The profit before tax is slightly higher as a result of net finance income in the year of £167,000 (2010: a net finance cost of £102,000).

There was a drop in the overall margin on sales to 40.2% (2010: 42.6%) which was caused by a combination of keenly priced export projects, persistent raw material price increases and the start-up costs of production at Riverside, in Teesside. Raw material cost increases have been largely passed on through selective price increases. I am pleased to say Riverside is now fully operational and indeed, by the close of the year Riverside was supplying Polyflor UK, Objectflor and Polyflor Pacific with new contract flooring collections. This objective was achieved quickly but Teesside's latent value is considerable in terms of both its capacity and its capability and in August 2011 there were significant plant modifications and capital expenditure that will allow us to access new markets.

We anticipate consistent expansion at Teesside in the coming years.

In the fragile economic climate I think we have successfully balanced the defence of margin against the need for growth and I expect that the investments in productivity made this year will underpin ongoing competitiveness.

Recycling and environmental issues continue to be a major area of focus. In recent years specifiers have taken these criteria into account when assessing potential suppliers. Our experience is that often environmental credentials are no more than 'green-washing', i.e. glossy marketing and web site presentations that present an overall green impression. However, our credentials, which are often market leading, are substantiated by independent bodies. Examples of this are:

- Over 25 of our ranges feature the highest (A+) rating in the BRE Global verification system.
- Our Recofloor vinyl take back system continues to grow and not only lowers landfill usage but delivers to us raw materials. Consequently, the recycled content of our products continues to grow.
- The amount of energy required per square metre of product continues to fall and since 2000 has reduced by 43%, which of course aids competitiveness.

Cash stands at £34.0 million (2010: £33.4 million) even after the payment of £14.4 million in dividends, £9.7 million in tax and £9.7 million of capital expenditure. The cash inflow from operations remains strong at £32.9 million (2010: £36.5 million) obviously lower because of the absorption of an extra £10.3 million into inventories.

Stock levels have risen and stand at £48.9 million (2010: £35.9 million) and this 36% increase is larger than the growth in turnover but it reflects the larger value of stock due to raw material price rises and some significant stock for key infrastructure projects that will be delivered after the year end. It is certainly true that with interest rates on our cash deposits at less than 1% and raw material price inflation in double digits the building of stock offered a very real return. The physical volume of stock is 18% higher than last year.

James Halstead plc is focused almost entirely on the manufacture and distribution of flooring and operates through separate legal entities across the globe. In order to provide information in a structured manner to shareholders the following gives an overview of the year at the subsidiary level. We do not regard these as business segments.

Polyflor, based in Oldham and Manchester

Product update and design are crucial to maintaining our market position and during the year we have had several key initiatives. In January 2011 we launched 'Pearlazzo' featuring a distinctive and bold colour palette which is not only targeted at specifiers for its look but also its extremely hard wearing capabilities. In addition, Polysafe 'Hydro-Evolve' (with its raised emboss surface, designed to reduce slip risk in barefoot and continually wet areas) has been extremely well received.

During the year there have been key developments in our production plants. The 'Polysafe' production line has been extensively refurbished concluding a 2 year programme of improvements. Our technical staff met the challenge of accomplishing these changes whilst production was maintained, almost continuously. The project included replacement ovens (which improve line speed and reduce energy costs), continuous in-line inspection (to reduce manning levels), totally automated packaging and new coating equipment. Factory finish coatings are important to end users. Our PUR (polyurethane reinforced) coatings give a strong cross linked surface coat which has been progressively added across our product offering. It was inevitable that output and efficiency were affected during this major series of projects but our ingenuity at preventing a plant closure was commendable.

Objectflor and Karndean, our European based organisation, based in Cologne

Last year I reported 19% growth in our German and central European organisation and I am pleased to report further progress. Looking at the currency on a like for like basis, our businesses have achieved a further 27.3% increase in revenue, with all the territories reporting in excess of 20% growth. A good year and a commendable achievement. The record sales translated into a record level of profitability for our German business.

The year was a busy one for the business. The Expona Art & Design collection (Objectflor's flagship range) was augmented with a focused design collection ("Flooring Trends") which sold well. In addition, we enjoyed the full year benefit of last year's extremely successful launch of the Expona Domestic collection. During the year the Polyflor Performa collection of sheet vinyl was re-launched and the Polyflor Pearlazzo range was launched. As the financial year drew to a close, Objectflor previewed the Riverside collections of Ligno FX (a wood design heterogeneous range) and Mineral FX (a stone design sheet vinyl). All of these have been well received.

During the year there was a major focus on project sales with the creation of a dedicated project team created to look at larger projects. Often these are national shop-chains or institutions that require a longer review of the flooring options.

Examples of the projects delivered in the year were the new ADAC headquarters in Munich (Europe's largest automobile association), the refurbishment of the Bank Nationale de Paris in the Opéra District of Paris and the new Rolex headquarters in Cologne.

Polyflor Nordic, comprising our Norwegian and Swedish operations

A year of progress, with a 16.6% growth in revenue over the previous year.

Across the region there was noticeable growth in the shop fitting sector with examples such as the Team Sportia shop chain and the Em Möbler furniture stores in Sweden. The Polyflor collection also had its successes with examples such as the new Pearlazzo being installed in the Lidköpings Hospital and the Lernia School in Malmö. The Norwegian business also had its share of key projects with a major involvement in the refurbishment of the Dressman retail chain and the Gmax sports retailers.

It is clear that some of the best designed installations are by Scandinavian architects. Overall there was a marked uplift in the sales of design floorings with the consequent beneficial effect on margins and improved profitability.

Polyflor Pacific, encompassing Australia and New Zealand

Both our businesses in this region have shown positive growth with Australia in particular winning many projects. As the year progressed the mining sector, in particular, further added to the growth of our business which achieved 14% like for like increase (which is further enhanced when translated into sterling).

A customised colour was created for one major project, Liverpool Hospital in New South Wales and this helped us secure the Royal North Shore Hospital which is one of the largest resilient sheet flooring projects in Australia over the last 25 years.

Many buyers in our market look to environmental credentials and Polyflor Pacific has achieved the maximum 'Green Tag' ™ accreditation rating, making it the only vinyl flooring to achieve this status with the Green Building Councils of both Australia and New Zealand. In addition, our Recofloor vinyl take back scheme won a recycling sustainability award in Western Australia. These factors are important in many new build projects but price competitiveness and customer service remain key to specifiers and Polyflor's competitive edge remains firm on both these fronts.

Performance in the early part of the year was assisted by a government initiative for investment in all major schools to refurbish the education infrastructure under the Building Education Revolution (BER) programme. As Polyflor Australia has stock located in six warehouses across the country we were well placed to service this widespread increase in demand.

Phoenix Distribution, the motorcycle accessories business

It has been a difficult year for Phoenix. The retail motorcycle trade has suffered and Phoenix is focused on high end sales which are problematic in a fragile consumer economy. A measure of the market conditions is that one of the largest of Phoenix's competitors, Frank Thomas Group, went into administration and exited the marketplace. Furthermore, against the backdrop of a weak value of sterling and almost all of the brands imported we expected a tough period of trading. Nevertheless, despite an 18% decline in turnover, Phoenix remains profitable.

Phoenix continues to have a solid product range, principally the Arai range of helmets. Its brand leading status was confirmed with Arai taking the JD Power Award for customer satisfaction for the 12th consecutive year and Phoenix awarded the Wholesaler of the Year (by Motorcycle News) for the fifth time.

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Chief Executive's Review
continued

In these difficult times Phoenix has been, and remains, focused on cost control, but it is encouraging to see the prominence of Arai continuing with high profile customers such as Tom Cruise and Cameron Diaz (on Top Gear) and the Duke of Cambridge in the run up to the Royal wedding widely photographed in this iconic helmet.

Outlook

The three key features of the year were the continued effectiveness and success of our sales strategy, a major focus on the re-equipping and opening of the Teesside production facility and the constant pressure of raw material and energy cost increases. In combination these factors led us to focus on production, productivity and the growth of stock holdings throughout the year.

As the new financial year commences we have the sales structures, the production capabilities, trusted brands and the stock availability to continue our progress and I look forward to 2011/12 with confidence.

M Halstead
Chief Executive

Financial Director's Review

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

Profit before tax at £38.48 million (2010: £35.75 million) shows an increase of 7.6%.

Our gross margins reduced as a percentage but increased in absolute terms. The main reasons were relentless increases in raw material prices over the course of the year with a lag effect on the application of consequent price increases. Notwithstanding this there were large mitigating offsets in foreign currency gains on transactional exposures as a result of the low value of sterling and the comparative strength of the Euro.

Some key statistics:

- Group turnover at £213.9 million (2010: £186.4 million) was 14.8% higher of which 0.8% was the effect of translation at more favourable exchange rates. Whilst the translation effect was minimal the transaction exposures were hedged at more favourable rates.
- Net finance income (excluding the effects of IAS19 accounting for pensions) fell to £0.1 million (2010: £0.4 million) as rates on deposit accounts remain very low.
- Selling and distribution costs were 10.7% higher as a result of the turnover increase but at 17.7% of turnover show a reduction relative to the 18.3% of last year.
- Trade debtors increased to £29.6 million (£26.3 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 £31.3 million (2010: £25.7 million).
- Stock levels have risen and stand at £48.9 million (2010: £35.9 million) and this 36% increase is larger than the growth in turnover but it reflects the larger value of stock due to raw material price rises and some significant stock for key infrastructure projects that will be delivered after the year end. It is certainly true that with interest rates on our cash deposits at less than 1% and raw material price inflation in double digits the building of stock offered a very real return.
- Cash stands at £34.0 million (2010: £33.4 million) even after the payment of £14.4 million in dividends, £9.7 million in tax and £9.7 million of capital expenditure. The cash inflow from operations remains strong at £32.9 million (2010: £36.5 million) obviously lower because of the absorption of an extra £10.3 million into inventories.

Key Performance Indicators

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 appraised on all significant issues 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. Obviously sales, margin and profitability are monitored as well as cash which is the final result of our economic activities. Appropriate summaries of 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.

Over the past 18 months the price and availability of raw materials has been a business risk with certain raw materials in very short supply as several manufacturers faced problems. This had not been identified in prior years as a principal business risk as there are several suppliers of these commodities. We have broadened our supplier base as a result but the situation, though eased, remains under scrutiny.

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Financial Director's Review
continued

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 denominated in currencies other than Sterling. Those giving rise to the most significant risk are US Dollar, Euro, Australian Dollar and Yen. To mitigate risk associated with exchange rate fluctuations the Group's policy is to hedge known and forecast transactions. This hedging is at least 25% and on occasion, albeit rarely, more than 100% of the next 12 months' anticipated exposure. The continued strength of the Japanese yen is affecting competitiveness in certain areas but is not material in the context of the group as a whole.

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 be 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 Comprehensive Income. Inevitably 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 the 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 in the value of our overseas assets are as follows:

	£'000
2011	3,219
2010	530
2009	1,204
2008	2,053
2007	284

Defined Benefit Pension Scheme

In common with other long established businesses we have the complications and uncertainty associated with having a "final salary" pension scheme. The scheme has been closed to new entrants since 2000 and was only offered to UK based employees; of our UK based work force around 30% of employees are members of this scheme. At this moment in time we are considering closure of the scheme to future accrual.

The scheme comprises active members (existing employees), deferred members (past employees not yet in retirement) and pensioners. Under the current accounting standard for pensions the changes in cost associated with active members are dealt with in the profit and loss account with the costs associated with deferred members and pensioners dealt with through the Consolidated Statement of Comprehensive Income. This year there is a net actuarial gain of £2.7 million against a net actuarial loss in 2010 of £2.3 million which is largely the effect of better than forecast asset growth. It is of note that since the adoption of the pension scheme into the balance sheet (2006) the deficit has had the effect of improving the return on capital employed (since it is a deficit and a liability) and for this reason it is excluded from any performance measure (or related bonus remuneration) internally.

In an effort to offer some perspective by which to view the pension scheme deficit 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 (based on the share price at 30 June) are:

- The net deficit to market capitalisation is 1.8% (2010: 3.8%);
- The total liabilities to market capitalisation is 11.5% (2010: 17%); and,
- The deficit to operating profit is 32.2% (2010: 48%).

I pass no comment on the merits of these ratios but note that with the assumptions changing annually (despite the long term nature of the liability) there does not seem to be a consistent long term measure of the deficit. The above merely give some idea of the "affordability" of the deficit to the company.

G R Oliver
Finance Director

Directors and Advisers

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M Halstead
G R Oliver FCA MCT
J A Wild FCA
E K Lotz

Secretary
M L Shilton ACMA

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Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2011.

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

Principal activities and review of the business

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

Results and dividends

The group results for the year and the financial position at 30 June 2011 are shown in the consolidated income statement on page 16 and the consolidated balance sheet on page 18.

The directors are recommending a final dividend of 9.8p per share on the ordinary share capital for payment on 2 December 2011 to those shareholders whose names appear on the register at 4 November 2011. This final dividend together with the interim dividend paid on 20 May 2011 makes a total of 14.3p per share (2010: 13.375p*).

Directors

Mr E K Lotz and Mr J A Wild, 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 2011		30 June 2010	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares*				
G Halstead	4,204,370	441,604	4,203,360	441,604
G R Oliver	105,564	–	104,780	–
M Halstead	6,789,482	5,664,544	6,788,698	5,664,544
E K Lotz	–	–	–	–
J A Wild	94,000	6,409,544	94,000	6,409,544
Preference shares				
G Halstead	86,405	–	86,405	–

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.

*Reflects the effect of the one for one bonus issue on 14 January 2011.

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

Substantial interests

As at 14 September 2011 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
John Halstead Settlement	18,178,060	17.44
Rulegale Nominees	7,420,648	7.12

Share capital

Ordinary shares*

On 26 August 2010, 10,000; on 27 September 2010, 6,962; on 5 October 2010, 3,038; on 22 October 2010, 40,000; on 21 December 2010, 80,000; on 7 March 2011, 3,600; on 8 March 2011, 6,400; on 1 April 2011, 30,000; on 4 April 2011, 30,000; on 5 April 2011, 28,936; on 13 April 2011, 16,000 and on 15 April 2011, 4,240 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised.

Special business at the annual general meeting

Resolution 6 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the annual general meeting in 2012.

Resolution 7 authorises the directors to allot relevant securities pursuant to section 551 of the Companies Act 2006 for a further period of twelve months from the date of the annual general meeting in 2011.

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

Resolution 9 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 10% 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 2011. 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).

Report of the Directors
continued

Employment policies and involvement

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

Environmental policy

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

Health and safety

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

Research and development

We remain totally committed to the continuing development of our processes and our products to both satisfy the needs of our customers and ensure that we remain at the forefront of our 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 2011 there were 44 (2010: 26) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £2,836 (2010: £29,142) for charitable purposes. There were no political contributions.

Directors' responsibilities statement

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; and

- 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, to 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.

Auditor's remuneration – non-audit related fees

Our auditor 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 auditor does 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 auditor.

Auditor

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

As at 30 September 2011, so far as each director is concerned, there is no relevant audit information of which the auditor is 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 auditor is 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
30 September 2011

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.

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 £100,000 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	5
G R Oliver	6	6
E K Lotz	6	3
J A Wild – non-executive	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 auditor is 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 Auditor's Report to the Members of James Halstead plc

We have audited the financial statements of James Halstead plc for the year ended 30 June 2011 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 47. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial accounting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on 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 of the financial statements

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. In addition, we read all the financial and non-financial information in the report and accounts 2011 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 auditor

Manchester, UK
30 September 2011

Consolidated Income Statement
for the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Revenue	5	213,944	186,424
Cost of sales		(127,857)	(107,052)
Gross profit		86,087	79,372
Selling and distribution costs		(37,846)	(34,190)
Administration expenses		(9,931)	(9,329)
Operating profit		38,310	35,853
Finance income	9	3,304	3,209
Finance cost	9	(3,137)	(3,311)
Profit before income tax	7	38,477	35,751
Income tax expense	10	(11,012)	(10,072)
Profit for the year attributable to equity shareholders	26	27,465	25,679
Earnings per ordinary share of 5p*			
– basic	12	26.4p	24.8p
– diluted	12	26.3p	24.8p

All amounts relate to continuing operations.

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

*Comparatives have been restated to reflect the effect of the one for one bonus issue on 14 January 2011.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Profit for the year		27,465	25,679
Other comprehensive income net of tax:			
Foreign currency translation differences	27	3,219	530
Actuarial gain/(loss) on the defined benefit pension scheme	23	2,710	(2,314)
Deferred taxation – change of rate	26	71	–
Fair value movements on hedging instruments	27	(911)	–
Other comprehensive income for the year net of tax		5,089	(1,784)
Total comprehensive income for the year		32,554	23,895
Attributable to:			
Equity holders of the company		32,554	23,895

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 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	14	33,631	26,120
Intangible assets	15	3,232	3,232
Deferred tax assets	16	5,911	7,837
		42,774	37,189
Current assets			
Inventories	17	48,862	35,926
Trade and other receivables	18	32,119	28,561
Derivative financial instruments	19	18	1,230
Cash and cash equivalents	20	34,031	33,364
		115,030	99,081
Current liabilities			
Trade and other payables	21	50,722	45,706
Derivative financial instruments	19	1,824	188
Current income tax liabilities		5,655	4,806
		58,201	50,700
Net current assets		56,829	48,381
Non-current liabilities			
Retirement benefit obligations	23	12,338	17,170
Deferred tax liabilities	16	921	992
Borrowings	22	200	200
Other payables	21	493	366
		13,952	18,728
Net Assets		85,651	66,842
Equity			
Equity share capital	24	5,200	2,594
Equity share capital (B shares)	24	160	160
		5,360	2,754
Share premium account	25	1,084	3,031
Retained earnings	26	65,839	49,997
Other reserves	27	13,368	11,060
Total equity attributable to shareholders of the parent		85,651	66,842

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 September 2011.

M Halstead
Director

G R Oliver
Director

Consolidated Statement of Changes in Equity
for the year ended 30 June 2011

	Share capital £'000	Share premium £'000	Retained earnings £'000	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total equity £'000
Balance at 1 July 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
Changes In equity							
Profit for the year	–	–	27,465	–	–	–	27,465
Foreign currency translation differences	–	–	–	–	–	3,219	3,219
Actuarial gain on the pension scheme	–	–	2,710	–	–	–	2,710
Fair value movements on hedging instruments	–	–	–	–	(911)	–	(911)
Deferred taxation – change of rate	–	–	71	–	–	–	71
Total comprehensive income for the year	–	–	30,246	–	(911)	3,219	32,554
Share based payments	–	–	7	–	–	–	7
Dividends	–	–	(14,411)	–	–	–	(14,411)
Issue of share capital	2,606	(1,947)	–	–	–	–	659
Balance at 30 June 2011	5,360	1,084	65,839	6,279	(201)	7,290	85,651

Consolidated Cash Flow Statement
for the year ended 30 June 2011

	Note	2011 £'000	2010 £'000
Cash inflow from operations	28	32,944	36,472
Interest received		238	537
Interest paid		(107)	(111)
Taxation paid		(9,734)	(8,038)
Cash inflow from operating activities		23,341	28,860
Purchase of property, plant and equipment		(9,696)	(4,014)
Proceeds from disposal of property, plant and equipment		252	289
Cash outflow from investing activities		(9,444)	(3,725)
Equity dividends paid		(14,411)	(20,674)
Shares issued		659	1,313
Cash outflow from financing activities		(13,752)	(19,361)
Net increase in cash and cash equivalents		145	5,774
Effect of exchange differences		522	29
Cash and cash equivalents at start of year		33,364	27,561
Cash and cash equivalents at end of year	20	34,031	33,364

Notes to the Group Accounts

1. General information

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

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

2. Accounting policies

Basis of preparation

The group financial statements have been prepared on the historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the profit and loss account, 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 2011, 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, as required by UITF Abstract 48, the group has replaced the Retail Prices Index with the Consumer Prices Index as the inflation measure used in the calculation of retirement benefit scheme liabilities.

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.

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.

Notes to the Group Accounts
continued

2. Accounting policies (continued)

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 excess of the aggregate of the fair value of the consideration transferred, the fair value of any previously held interests, and the recognised value of the non-controlling interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is reviewed for impairment at least annually and when there are indications that the carrying amount may not be recoverable. 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. 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 is 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 usually 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.

At the year end the group had preference shares classified as debt of £200,000 and no other debt.

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:

	2011 Revenue £'000	2011 Total assets £'000
United Kingdom	72,631	62,048
Europe and Scandinavia	86,493	37,298
Australasia and Asia	39,538	18,516
Rest of the World	15,282	–
Total operations	213,944	117,862
Deferred tax assets		5,911
Cash and cash equivalents		34,031
Total		157,804

	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

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 executive directors, with the exception of Mr E Lotz, 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.

	2011	2010
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	921,817	470,260
As a percentage of shares in issue	0.89%	0.91%

7. Profit before income tax

Profit before tax is stated after charging the following:

	2011 £'000	2010 £'000
Depreciation of property, plant and equipment (see note 14)	3,283	3,528
Hire of plant and machinery	55	59
Operating lease rentals – land and buildings	1,132	1,056
Operating lease rentals – other	952	940
Research and development	1,477	1,594
Gain on disposal of property, plant and equipment	(52)	(79)
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	33	30
Fees payable to the group's auditor and its associates for other services:		
the audit of the group's subsidiaries pursuant to legislation	156	123
taxation services	69	45
other services	50	10

Notes to the Group Accounts
continued

8. Staff costs and numbers

	2011 £'000	2010 £'000
Staff costs comprised:		
Wages and salaries	27,517	26,391
Social security costs	3,071	2,994
Pension costs – defined benefit scheme	642	460
– defined contribution schemes	426	394
	31,656	30,239

The average monthly number of employees during the year was:

	2011 Number	2010 Number
Manufacturing, selling and distribution	693	661
Administration	118	125
	811	786

9. Finance income/(cost)

	2011 £'000	2010 £'000
Interest receivable and similar income:		
On bank deposits	233	316
Other	6	197
	239	513
Expected return on pension scheme assets	3,065	2,696
Finance income	3,304	3,209
Preference share dividend	(11)	(11)
Interest on short-term borrowing and other financing costs	(94)	(98)
Interest on pension scheme liabilities	(3,032)	(3,202)
Finance cost	(3,137)	(3,311)
Net finance income/(cost)	167	(102)

10. Income tax expense

	2011 £'000	2010 £'000
Current tax		
Current tax – current year	11,397	10,379
Current tax – adjustments in respect of prior years	(990)	(254)
	10,407	10,125
Deferred tax		
Deferred tax – current year	217	(159)
Deferred tax – adjustments in respect of prior years	388	106
	605	(53)
Total taxation	11,012	10,072

The effective rate for the year to 30 June 2011 is higher (2010: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2011 £'000	2010 £'000
Profit before tax	38,477	35,751
Profit before tax multiplied by the standard rate of corporation tax in the UK of 27.5% (2010: 28%)	10,581	10,010
Effects of:		
Adjustments to tax in respect of prior periods	(602)	(148)
Adjustments in respect of tax rates	683	344
Permanent differences	199	(134)
Remeasurement of deferred tax due to change in UK tax rate	151	–
Total taxation	11,012	10,072

In addition to the amounts debited and credited to the consolidated income statement £1,417,000 has been debited (2010: £900,000 credited) directly to reserves in respect of the actuarial gain (2010: loss) on the pension scheme.

Notes to the Group Accounts
continued

11. Dividends

	2011 £'000	2010 £'000
Equity dividends		
Interim dividend for current year of 4.5p (2010: 4.0p)	4,680	4,148
Special dividend for previous year	–	7,774
Final dividend for previous year of 9.375p (2010: 8.5p)	9,731	8,752
Amounts recognised as distributions to equity holders in the year	14,411	20,674

Comparatives have been restated to reflect the effects of the one for one bonus issue on 14 January 2011.

A final dividend of 9.8p per share, amounting to a total of £10,213,472 for the year ended 30 June 2011 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

	2011 Pence per share	2010 Pence per share
– Basic	26,4	24.8
– Diluted	26.3	24.8

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £27,465,000 (2010: £25,679,000) by 103,856,972 (2010: 103,391,436) 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 £27,465,000 (2010: £25,679,000) by 104,347,570 (2010: 103,606,570) 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.

Comparatives have been restated to reflect the effects of the one for one bonus issue on 14 January 2011.

13. Profit of parent company

The consolidated profit attributable to the shareholders of James Halstead plc includes a profit, after dividends received, of £28,303,910 (2010: £21,729,244) 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 £1,034,139 of which the highest paid director's emoluments were £365,586.

14. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 July 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
Additions	4,212	5,692	9,904
Disposals	(447)	(928)	(1,375)
Exchange differences	942	561	1,503
At 30 June 2011	26,108	57,294	83,402
Depreciation			
At 1 July 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
Charge for the year	608	2,675	3,283
Disposals	(447)	(728)	(1,175)
Exchange differences	101	312	413
At 30 June 2011	4,734	45,037	49,771
Net book value			
At 1 July 2009	17,942	8,149	26,091
At 30 June 2010	16,929	9,191	26,120
At 30 June 2011	21,374	12,257	33,631

Included in freehold land and buildings is land with a cost of £4,620,000 (2010: £4,270,000) 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. An impairment review was undertaken as at 30 June 2011 using cash flow projections, based on current levels of profitability and assumed growth of 0%-5% and a discount rate of 6%. The result of the review indicated that no impairment is necessary.

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 2009	4,369	(426)	(992)	2,829	5,780
(Charged)/credited 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
(Charged)/credited to income statement	(183)	39	–	(461)	(605)
(Charged)/credited to equity	(1,417)	–	71	–	(1,346)
Exchange differences	–	–	–	96	96
At 30 June 2011	3,208	(163)	(921)	2,866	4,990

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 2009	6,772	(992)	5,780
At 30 June 2010	7,837	(992)	6,845
At 30 June 2011	5,911	(921)	4,990

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

17. Inventories

	2011 £'000	2010 £'000
Raw materials	3,115	1,470
Consumable stores	463	379
Work in progress	847	523
Finished goods	44,437	33,554
	48,862	35,926

An amount of £112,000 has been credited (2010: £424,000 credited) in the year in respect of inventory write-downs.

18. Trade and other receivables

	2011 £'000	2010 £'000
Trade receivables	29,631	26,318
Other receivables	725	1,046
Prepayments and accrued income	1,763	1,197
	32,119	28,561

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 £3,079,000 (2010: £2,645,000). 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:

	2011 £'000	2010 £'000
At 1 July	2,645	2,668
Exchange movements	37	24
Charged/(credited) to income statement (selling and distribution expenses)	397	(47)
	3,079	2,645

As at 30 June 2011, trade receivables of £6,390,000 (2010: £6,641,000) 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:

	2011 £'000	2010 £'000
Up to three months	6,118	6,629
Over three months	272	12
Total	6,390	6,641

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

	2011 £'000	2010 £'000
Sterling	7,850	9,674
Euro	11,787	8,356
Australian Dollars	4,247	3,777
New Zealand Dollars	882	881
Norwegian Krone	906	974
US Dollars	1,922	1,636
Hong Kong Dollars	874	630
Other currencies	1,888	1,436
Total	30,356	27,364

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:

	2011 £'000	2010 £'000
Sterling	25,825	30,529
Euro	5,866	3,013
Australian Dollars	1,555	1,023
New Zealand Dollars	126	162
Norwegian Krone	550	250
US Dollars	657	(1,092)
Other currencies	(548)	(521)
Total	34,031	33,364

Cash and cash equivalents consist of:		
Cash at bank and in hand (net of overdrafts)	34,031	33,364
Short-term deposits	–	–
	34,031	33,364

21. Trade and other payables

	2011 £'000	2010 £'000
Amounts falling due within one year		
Trade payables	31,333	25,677
Value added, payroll and other taxes	2,081	1,924
Other payables	2,003	2,635
Accruals	15,305	15,470
	50,722	45,706
Amounts falling due after more than one year		
Other payables	493	366

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

22. Borrowings

	2011 £'000	2010 £'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 2011 and 30 June 2010 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 £80,079 and the transfer value of these accrued benefits as at 30 June 2011 is £0.86 million.

Disclosures relating to defined benefits are as follows:

	2011	2010
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)		
Discount rate at end of year	5.70%	5.45%
Expected return on plan assets at end of year	7.95%	7.90%
Future salary increases	2.70%	2.80%
Future pension increases	3.15%	2.80%
Rate of inflation – RPI	3.20%	2.90%
– CPI	2.70%	n/a
Future expected lifetime of current pensioner at age 65:		
Male born in 1946	21.4 years	21.4 years
Female born in 1946	24.3 years	24.2 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1966	22.5 years	22.4 years
Female born in 1966	25.2 years	25.2 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.

	2011 £'000	2010 £'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(57,307)	(56,181)
Fair value of scheme assets	44,969	39,011
Net liability before deferred taxation	(12,338)	(17,170)
Related deferred tax asset	3,208	4,808
Net liability after deferred taxation	(9,130)	(12,362)

	2011 £'000	2010 £'000
Amounts recognised in the income statement		
Current service cost	(642)	(460)
Interest on obligations	(3,032)	(3,202)
Expected return on scheme assets	3,065	2,696
Gain on settlement	–	1,464
	(609)	498

	2011 £'000	2010 £'000
Amounts recognised in the statement of comprehensive income		
Actual return less expected return on scheme assets	3,324	4,183
Changes in assumptions underlying the present value of the scheme liabilities	(38)	(7,397)
Gain due to automatic change to CPI for statutory revaluation	841	–
	4,127	(3,214)
Deferred tax	(1,417)	900
	2,710	(2,314)

23. Retirement benefit obligations (continued)

	2011 £'000	2010 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	39,011	35,188
Expected return on scheme assets	3,065	2,696
Actuarial gains	3,324	4,183
Employer contributions	1,314	1,148
Employee contributions	328	340
Benefits paid	(2,073)	(2,309)
Assets distributed on settlements	–	(2,235)
	44,969	39,011

	2011 £'000	2010 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	56,181	50,790
Service cost	642	460
Interest cost	3,032	3,202
Employee contributions	328	340
Actuarial losses	38	7,397
Benefits paid	(2,073)	(2,309)
Liabilities extinguished on settlements	–	(3,699)
Gain due to automatic change to CPI for statutory revaluation	(841)	–
	57,307	56,181

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

	2011	2010
Equities	80.8%	81.1%
Bonds	12.2%	11.0%
Property	2.7%	2.8%
Cash	4.3%	5.1%

History of scheme:

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Defined benefit obligation	(57,307)	(56,181)	(50,790)	(54,333)	(53,821)
Fair value of scheme assets	44,969	39,011	35,188	41,828	47,390
Net deficit	(12,338)	(17,170)	(15,602)	(12,505)	(6,431)
Experience adjustments on scheme assets	3,324	4,183	(9,814)	(7,382)	3,246
Experience adjustments on scheme liabilities	803	(7,397)	5,867	1,057	2,697

The cumulative amount (net of tax) recognised in the statement of comprehensive income since 1 July 2006 is £2,969,000 loss (2010: £5,679,000 loss).

Normal company contributions of £1,230,000 are expected to be paid into the scheme during the year ended 30 June 2012.

Notes to the Group Accounts
continued

24. Share capital

Ordinary shares	2011	2010
	£'000	£'000
Authorised		
200,000,000 (2010: 100,000,000) ordinary shares of 5p each	10,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
104,002,044 (2010: 51,871,434) ordinary shares of 5p each	5,200	2,594
16,042,530 B ordinary deferred shares of 1p	160	160
	5,360	2,754

Allotted, issued and fully paid	2011	2010
	£'000	£'000
At 1 July 2010 51,871,434 ordinary shares of 5p each	2,594	2,574
Bonus issue of 51,941,434 ordinary shares of 5p each	2,597	–
Other ordinary shares of 5p each issued	9	20
At 30 June 2011 104,002,044 ordinary shares of 5p each	5,200	2,594
160,042,530 ordinary B shares of 1p each at 1 July 2010 and 30 June 2011	160	160
Total allotted, issued and fully paid	5,360	2,754

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

Preference shares	2011	2010
	£'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

Following the passing of special resolution 6 at the annual general meeting on 3 December 2010, the authorised ordinary share capital was increased from £5,000,000 (100,000,000 ordinary shares of 5p each) to £10,000,000 (200,000,000 ordinary shares of 5p each).

Following the passing of ordinary resolution 7 at the annual general meeting on 3 December 2010, the issued share capital was increased by a bonus issue of one fully paid ordinary share for each fully paid ordinary share held on the register at 13 January 2011.

All share numbers and share prices, including comparatives, throughout the remainder of this note have been adjusted to reflect the effects of this bonus issue.

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 259,176 shares 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) (Note 1)	Number b/fwd at 01.07.10 (Note 1)	Exercised in year (Note 1)	Issued/ (lapsed) in year	Number c/fwd at 30.06.11
G Halstead	4 May 05	3 May 08	3 May 15	128.125	60,000	–	–	60,000
	9 Jan 06	8 Jan 09	8 Jan 16	177.125	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	289.425	80,000	–	–	80,000
	6 Oct 08	5 Oct 11	5 Oct 18	210.500	30,000	–	–	30,000
M Halstead	9 Jan 06	8 Jan 09	8 Jan 16	177.125	80,000	(80,000)	–	–
	4 Jul 07	3 Jul 10	3 Jul 17	289.425	80,000	–	–	80,000
	30 Jan 08	29 Jan 11	29 Jan 18	243.085	100,000	–	–	100,000
	6 Oct 08	5 Oct 11	5 Oct 18	210.500	40,000	–	–	40,000
G R Oliver	4 Jul 07	3 Jul 10	3 Jul 17	289.425	80,000	–	–	80,000
	30 Jan 08	29 Jan 11	29 Jan 18	243.085	100,000	–	–	100,000
	6 Oct 08	5 Oct 11	5 Oct 18	210.500	40,000	–	–	40,000
E K Lotz	4 Jul 07	3 Jul 10	3 Jul 17	289.425	16,000	(16,000)	–	–
	6 Oct 08	5 Oct 11	5 Oct 18	210.500	30,000	–	–	30,000
Total – directors					776,000	(96,000)	–	680,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence) (Note 1)	Number b/fwd at 01.07.10 (Note 1)	Exercised in year (Note 1)	Issued/ (lapsed) in year	Number c/fwd at 30.06.11
	9 Jan 06	8 Jan 09	8 Jan 16	177.125	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	289.425	313,000	(163,176)	–	149,824
	6 Oct 08	5 Oct 11	5 Oct 18	210.500	360,000	–	–	360,000
Total – employees					713,000	(163,176)	–	549,824
Grand total					1,489,000	(259,176)	–	1,229,824

Note 1 Exercise price and shares under option adjusted for bonus issue on 14 January 2011 of one ordinary share for each ordinary share held.

The market price of the shares at 30 June 2011 was 478.38p (2010: 318.75p).

The share price during the year ranged from 306.00p to 485.00p.

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 £2.55.

At 30 June 2011 there were 729,824 (2010: 110,000) share options exercisable at a weighted average price of £2.51 (2010: £1.64).

Aggregate gains on the exercising of share options by directors in the year amounted to £196,392 (2010: £101,110) of which £169,900 related to the highest paid director. Options were exercised over 68,000 shares in the year to 30 June 2010.

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

	Number of options	Average exercise price (£)
At 1 July 2009	2,351,124	2.14
Exercised in the year	(779,124)	1.69
Lapsed in the year	(83,000)	2.01
At 30 June 2010	1,489,000	2.38
Exercised in the year	(259,176)	2.55
At 30 June 2011	1,229,824	2.35

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 2011 and 30 June 2010:

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	128.125p-289.425p

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

	2011 £'000	2010 £'000
At 1 July	3,031	1,738
Share options exercised	650	1,293
Bonus issue	(2,597)	–
At 30 June	1,084	3,031

26. Retained earnings

	2011 £'000	2010 £'000
At 1 July	49,997	47,289
Profit for the year	27,465	25,679
Share based payment expense	7	17
Actuarial gain/(loss) (net of deferred tax)	2,710	(2,314)
Deferred taxation – change of rate	71	–
Equity dividends paid	(14,411)	(20,674)
At 30 June	65,839	49,997

27. Other reserves

	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total £'000
At 1 July 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
Fair value adjustments	–	(911)	–	(911)
Exchange rate adjustments	–	–	3,219	3,219
At 30 June 2011	6,279	(201)	7,290	13,368

28. Cash inflow from operations

	2011 £'000	2010 £'000
Operating profit	38,310	35,853
Depreciation	3,283	3,528
Profit on sale of property, plant and equipment	(52)	(79)
Increase in inventories	(10,305)	(6,940)
Increase in trade and other receivables	(1,123)	(3,634)
Increase in trade and other payables	3,472	9,969
Share-based payment expense	7	17
Retirement benefit obligations	(672)	(2,152)
Changes in fair value of financial instruments	24	(90)
	32,944	36,472

Notes to the Group Accounts
continued

29. Commitments

	2011 £'000	2010 £'000
Capital commitments		
Contracted for but not incurred – property plant and equipment	450	2,483

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:

	2011 Land and buildings £'000	2011 Other £'000	2010 Land and buildings £'000	2010 Other £'000
Not later than one year	1,077	720	950	642
Later than one year and not later than five years	2,741	1,634	2,487	750
Later than five years	678	–	940	18
	4,496	2,354	4,377	1,410

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:

	2011 Book value £'000	2011 Fair value £'000	2010 Book value £'000	2010 Fair value £'000
Current:				
Trade and other receivables	30,356	30,356	27,364	27,364
Forward exchange contracts (see note 19)	18	18	1,230	1,230
Cash and cash equivalents	34,031	34,031	33,364	33,364
Trade and other payables	(48,641)	(48,641)	(43,782)	(43,782)
Forward exchange contracts (see note 19)	(1,824)	(1,824)	(188)	(188)
Total	13,940	13,940	17,988	17,988
Non-currrent:				
Borrowings	(200)	(200)	(200)	(200)

Other than forward exchange contracts which are categorised as derivative 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.

	2011 £'000	2010 £'000
Forward exchange contracts at fair value through profit and loss account	(166)	75
Forward exchange contracts at fair value through hedging reserve	(1,640)	967
	(1,806)	1,042

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 £187,000 (2010: £220,000). 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.

	2011 Post-tax profits £'000	2011 Equity £'000	2010 Post-tax profits £'000	2010 Equity £'000
Euro 5% stronger against sterling	27	(49)	66	(12)
Euro 5% weaker against sterling	(24)	44	(60)	11

31. Group companies

The following information is not a complete listing of all group companies as at 30 June 2011, 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
*Riverside Flooring 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:

	2011 Average	2011 Closing	2010 Average	2010 Closing
Euro	1.17	1.11	1.14	1.22
Australian dollars	1.61	1.50	1.80	1.77
New Zealand dollars	2.10	1.94	2.26	2.18
Swedish Krona	10.65	10.13	11.49	11.64

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 38.

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)

	2002 UK GAAP	2003 UK GAAP	2004 UK GAAP	2005 UK GAAP	2006 UK GAAP	2007 IFRS	2008 IFRS	2009 IFRS	2010 IFRS	2011 IFRS
Revenue	93,033	99,775	104,703	112,353	126,024	137,252	158,740	169,263	186,424	213,944
Profit (before exceptional items)	11,275	12,211	13,699	13,760	17,481	23,499	29,857	32,997	35,751	38,477
Exceptional items*	–	–	10,396	–	–	–	–	–	–	–
Profit before income tax	11,275	12,211	24,095	13,760	17,481	23,499	29,857	32,997	35,751	38,477
Income tax	(3,465)	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)	(9,502)	(8,146)	(10,072)	(11,012)
Profit after income tax	7,810	8,565	18,157	9,484	11,834	15,842	20,355	24,851	25,679	27,465

Unless otherwise stated all amounts are in £ thousands.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Underlying/headline earnings per 5p share**	7.21p	8.41p	8.74p	9.60p	11.90p	15.55p	19.85p	24.15p	24.84p	26.44p
Net dividends paid per ordinary share of 5p***	3.28p	3.53p	4.00p	4.69p	5.32p	6.63p	8.75p	10.88p	12.50p	13.88p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	2.20	2.38	2.18	2.05	2.24	2.35	2.27	2.22	1.99	1.90

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

** For 2002 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 and the one for one share issue in the year ended 30 June 2011.

*** 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 and the one for one share issue in the year ended 30 June 2011. 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 2002 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 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible fixed assets	2	5,462	3,921
Investments	3	20,093	20,093
		25,555	24,014
Current assets			
Debtors	4	34,377	23,905
Cash at bank, in hand and on short-term deposit	12	18,788	17,874
		53,165	41,779
Creditors – amounts falling due within one year	5	(11,718)	(13,350)
Net current assets		41,447	28,429
Total assets less current liabilities		67,002	52,443
Creditors – amounts falling due after more than one year	6	(200)	(200)
		66,802	52,243
Capital and reserves			
Equity share capital		5,200	2,594
Equity share capital (B shares)		160	160
Called up share capital	8	5,360	2,754
Share premium account	9	1,084	3,031
Capital redemption reserve	10	6,279	6,279
Profit and loss account	11	54,079	40,179
Total shareholders' funds		66,802	52,243

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 September 2011.

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 nil. 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 2010	6,798	287	7,085
Additions	1,747	24	1,771
Disposals	–	(99)	(99)
At 30 June 2011	8,545	212	8,757
Depreciation			
At 30 June 2010	2,912	252	3,164
Charge for the year	205	18	223
Disposals	–	(92)	(92)
At 30 June 2011	3,117	178	3,295
Net book value			
At 30 June 2011	5,428	34	5,462
At 30 June 2010	3,886	35	3,921

3. Investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost			
At 30 June 2010 and 30 June 2011	28,233	1,260	29,493
Provision for impairment			
At 30 June 2010 and 30 June 2011	9,400	–	9,400
Net book value			
At 30 June 2010 and 30 June 2011	18,833	1,260	20,093

At 30 June 2011, 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
Riverside Flooring Limited	England	100	–
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

	2011 £'000	2010 £'000
Trade debtors	81	66
Amounts owed by group undertakings	33,445	22,048
Other debtors	663	1,769
Prepayments and accrued income	188	22
	34,377	23,905

5. Creditors – amounts falling due within one year

	2011 £'000	2010 £'000
Trade creditors	723	861
Amounts due to group undertakings	6,115	6,651
Corporation tax payable	384	34
Other taxation and social security	100	43
Other creditors	398	546
Accruals and deferred income	3,998	5,215
	11,718	13,350

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

	2011 £'000	2010 £'000
Preference shares	200	200

7. Deferred taxation

	2011 £'000	2010 £'000
Accelerated capital allowances	(13)	(24)
Short-term timing differences	(575)	(1,087)
	(588)	(1,111)
Opening balance	(1,111)	(1,037)
Charge/(credit) to profit and loss account	523	(74)
Balance at 30 June	(588)	(1,111)

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

8. Share capital

	2011 £'000	2010 £'000
Authorised		
200,000,000 (2010: 100,000,000) ordinary shares of 5p each	10,000	5,000
25,000,000 B ordinary deferred shares of 1p each	250	250
Allotted, issued and fully paid		
104,002,044 (2010: 51,871,434) ordinary shares of 5p each	5,200	2,594
16,042,530 B ordinary deferred shares of 1p	160	160
	5,360	2,754

Allotted, issued and fully paid	2011 £'000	2010 £'000
At 1 July 2010 51,871,434 ordinary shares of 5p each	2,594	2,574
Bonus issue of 51,941,434 ordinary shares of 5p each	2,597	–
Other ordinary shares of 5p each issued	9	20
At 30 June 2011 104,002,044 ordinary shares of 5p each	5,200	2,594
160,042,530 ordinary B shares of 1p each at 1 July 2010 and 30 June 2011	160	160
Total allotted, issued and fully paid	5,360	2,754

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	2011 £'000	2010 £'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

Following the passing of special resolution 6 at the annual general meeting on 3 December 2010, the authorised ordinary share capital was increased from £5,000,000 (100,000,000 ordinary shares of 5p each) to £10,000,000 (200,000,000 ordinary shares of 5p each).

Following the passing of ordinary resolution 7 at the annual general meeting on 3 December 2010, the issued share capital was increased by a bonus issue of one fully paid ordinary share for each fully paid ordinary share held on the register at 13 January 2011.

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.

Notes to the Financial Statements of the Company
continued

8. Share capital (continued)

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% (2010: 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% (2010: 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.

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

	2011 £'000	2010 £'000
At 1 July	3,031	1,738
Share options exercised	650	1,293
Bonus issue	(2,597)	–
At 30 June	1,084	3,031

10. Capital redemption reserve

	£'000	£'000
At 30 June 2011 and 30 June 2010	6,279	6,279

11. Profit and loss account

	2011 £'000	2010 £'000
At 1 July	40,179	39,107
Profit for the year	28,304	21,729
Share-based payment transactions	7	17
Equity dividends paid	(14,411)	(20,674)
At 30 June	54,079	40,179

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 £28,303,910 (2010: £21,729,244). Charged against this profit are the salaries of Mr G Halstead, £190,000; Mr M Halstead, £261,000; Mr G R Oliver, £237,500; 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 5.

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

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

(i) Preference shares

The preference shares in issue are fully described in note 8 on page 53. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2011 was £200,000 (2010: £200,000). At 30 June 2011 and 30 June 2010 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	
	2011 £'000	2010 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	18,788	17,874

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 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:

	2011 £'000	2010 £'000
Australian Dollars	43	(251)
Canadian Dollars	(264)	(162)
Euro	893	(658)
Hong Kong Dollars	(29)	(228)
New Zealand Dollars	(159)	(90)
Norwegian Krone	(126)	(414)
US Dollars	521	(1,198)
Others	(611)	(536)
	268	(3,537)

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

	2011 £'000	2010 £'000
Contracts to sell:		
Australian Dollars	10,203	7,303
Canadian Dollars	1,267	1,799
Euro	4,428	327
Hong Kong Dollars	1,441	1,769
New Zealand Dollars	1,550	1,511
Norwegian Krone	1,405	1,525
US Dollars	1,059	–
Others	2,493	2,180
	23,846	16,414
Contracts to buy:		
US Dollars	27,102	10,814
Euro	671	267
	27,773	11,081

12. Financial instruments (continued)

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

	2011 Asset/(liability) £'000	2010 Asset/(liability) £'000
Contracts to sell:		
Australian Dollars	(531)	94
Canadian Dollars	(26)	(11)
Euro	(121)	21
Hong Kong Dollars	12	(33)
New Zealand Dollars	(121)	(15)
Norwegian Krone	(61)	62
US Dollars	(11)	–
Others	(69)	(36)
	(928)	82
Contracts to buy:		
US Dollars	(871)	965
Euro	(1)	(4)
	(872)	961

13. Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	28,304	21,729
Equity dividends paid	(14,411)	(20,674)
	13,893	1,055
FRS 20 share option charge	7	17
New share capital subscribed	659	1,313
Net increase in shareholders' funds for the financial year	14,559	2,385
Opening equity shareholders' funds	52,243	49,858
Closing equity shareholders' funds	66,802	52,243

Shareholder Information

Financial calendar

Annual general meeting	2 December 2011 (see notice of meeting on pages 60 to 62).

Announcement of results

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

Dividend payments

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

Share dealing information

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

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

Shareholder analysis*

	Number of holders	Number of shares
By size of holding		
1-10,000	2,338	6,785,789
10,001-50,000	483	9,942,901
50,001-250,000	116	11,961,718
250,001 and over	59	75,528,700
	2,996	104,219,108

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	755	31,226,193	29.96
Other limited companies/corporate bodies	44	687,710	0.66
Miscellaneous bodies/pension funds	14	366,171	0.35
Private individuals	2,175	71,871,226	68.96
Investment trusts and funds	8	67,808	0.07
	2,996	104,219,108	100.00

*as at 14 September 2011

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 SIXTH ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, BL1 2EW on 2 December 2011 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 2011 together with the report of the auditors.

2. To declare a final dividend on the ordinary shares in the capital of the company for the year ended 30 June 2011.

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

4. To re-elect Mr J. A. Wild 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 6 and 7 shall be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

6. That, subject to the passing of the ordinary and special resolutions numbered 7 and 8 below, the directors be and they are hereby authorised, pursuant to article 35.14 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 falling to be allotted pursuant to any elections made as aforesaid out of profits, or sums standing to the credit of any share premium account or capital reserves of the company, to apply such sums in paying up such new ordinary shares and to allot such new ordinary shares to the members of the company making such elections in accordance with their respective entitlements.

7. That in substitution for all existing and unexercised authorities and powers, the directors of the company be and they are hereby generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the "Act") to exercise all or any of the powers of the company to allot shares of the company or to grant rights to subscribe for, or to convert any security into, shares of the company (such shares and rights being together referred to as "Relevant Securities") up to an aggregate nominal value of £1,736,811 to such persons at such times and generally on such terms and conditions as the directors may determine (subject always to the articles of association of the company) PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the company (if earlier) save that the directors of the company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the directors of the company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

8. That subject to the passing of the ordinary resolution numbered 7 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 resolution numbered 7 above as if Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited to:

Notice of Annual General Meeting
continued

(i) 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) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of £260,548, representing approximately 5 per cent. of the current ordinary share capital of the company;

and shall expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the company (if earlier) save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

9 That the company is hereby generally and unconditionally authorised for the purposes of section 693 and 701 of the Companies Act 2006 to make one or more market purchases (within the meaning of section 693(4) of the said Act) 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 10% 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 plc for the five business days immediately preceding the day on which the ordinary share is purchased;

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

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

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

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

By order of the board
M L Shilton

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester
M26 1JN

21 October 2011

Notice of Annual General Meeting
continued

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, PXS, 34 Beckenham Road, Beckenham BR3 4TU, in each case no later than 12 noon on 30 November 2011. Any power of attorney or other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form.

4 If you wish to attend the meeting in person, please attend at the address set out at the beginning of this notice on 2 December 2011 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 30 November 2011.

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.

8 Warrants for the final dividend, if approved, will be posted on 2 December 2011 to shareholders on the register as at 4 November 2011.

JAMES HALSTEAD PLC

2007 2011

JAMES HALSTEAD plc

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THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2011

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