JAMES HALSTEAD PLC

Covering the World

Report and Accounts 2017

Directors and Advisers

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

Secretary
D W Drillingcourt ACA

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Contents

Chairman's Statement

Results

It is gratifying to report turnover of £240.8 million (2016: £226.1 million) - a record. Just as satisfying to report as the sales is the record profit before tax at £46.6 million (2016: £45.5 million). There was clearly a boost to our export activities given the general weakness of Sterling aiding competitiveness and margins. This was tempered by a 5.2% fall in UK sales and turmoil in the supply chain of raw materials. The drop in UK sales is entirely accounted for by de-stocking at two of the larger distributor chains. We are satisfied that the actual purchases of Polyflor ranges by end users increased and we are encouraged that other independent distributors increased sales.

Strategy

Our businesses are totally flooring focused and our strategy is designed to enhance our brand identity thereby generating goodwill and customer satisfaction with the aim of continued repeat business. This approach is designed to increase revenue, and consequently profitability, which then creates wealth for our shareholders in the form of dividend as reward for their investment in our company. It also underpins job security for our employees and benefits all stakeholders in the business.

Over many years our strategy has also included a policy of continual investment in both process improvement and in product development to improve output efficiency and product offering.

The strategy evolves over time, but our focus on sustainable growth is undiminished. Indeed sustainability in general is a key strategy and, from our award winning recycling initiatives through to our environmental policies, we are recognised as leaders in this area.

Dividend

Profit and earnings per share have increased and our cash reserves continue to be healthy. Cash flows from operating activities are £47.5 million and our cash balances stand 19.1% ahead of last year, even after dividends paid in the last year, which amounted to £25.4 million.

It is pleasing to report that the Board proposes, once again, an increased final dividend. The final dividend will be 9.25p (2016: 8.5p) representing an 8.8% increase which combined with the interim dividend, paid in June 2017, of 3.75p (2016: 3.5p) makes a total of 13.0p (2016: 12.0p) for the year, an increase of 8.3%. It is pleasing to have reported a record dividend as I have done now each year for over 40 years.

Acknowledgements

As we close this year I would like to express the gratitude of the Board to our customers and employees for their part in our success. I would especially like to extend our gratitude to Mr Eberhard Lotz who at the upcoming AGM will step down as a director of the Group after nine years on the Group Board having been one of the founders of Objectflor Art & Design Belags GmbH which was acquired in 1996 and which has been such an important part of our flooring operations for many years.

It is with sadness that I report the passing of our former director Mr Arthur Halstead in July of this year who was employed by the Group for 50 years, 36 of these as director of James Halstead plc. Always a trusted and loyal colleague, friend and family member – he will be greatly missed.

Outlook

I have been Chairman for 17 years and a director of James Halstead plc for 55 years and it is time for me to step down from the Board at the AGM. In doing so I leave a strong team and a business solidly built and not only capable of continued growth, but achieving this growth.

Trading since our year-end has been strong, particularly in the UK. In addition, both our antipodean and French colleagues reported record sales in the first two months. Taking current trading into account I can only be confident of progress in the coming year.

On behalf of the board

Geoffrey Halstead
Chairman

29 September 2017

Chief Executive's Review

The major benefit to the year was the positive effects of exchange rates on our export margins and our competitiveness. Turnover at £240.8 million (2016: £226.1 million) was ahead by some 6.5% but the exchange rate benefits were offset to a large degree by raw material costs increasing.

Raw material price increases noted in the first half year continued into the second half as a result of an explosion at the BASF site in Germany followed by a fire at a Shell refinery in the Netherlands which interrupted supply of PVC from Shin-Etsu's Dutch PVC plant and then a fire at Vinnolit's plant in Germany. These events resulted in greater demand for raw materials from other manufacturers who struggled to fulfil the demand. In addition we saw the withdrawal of one US supplier from the European markets and the currency cost increases, as Sterling fell in value after the Brexit vote. In mitigation we visited Asia and established extended relationships with three Asian suppliers. Moreover, by utilising bulk storage tanks located at Seal Sands in Teesside we reduced some of the cost effects and most of the shortages associated with the turmoil.

We make significant purchases of finished goods denominated in US dollars and the strength of that currency has been far from helpful. In mitigation product sourced from Korea has increased (free of import tariffs) and we are investigating opportunities for supply from Europe. More significant are plans for our own UK manufacture of these sourced items at Teesside which, initial costings suggest, could offer cost advantage as well as the logistical benefit of being nearer our European markets.

Our gross margin improved in all markets, a major achievement given the challenges facing the group during the year and obviously greatly helped by the weakness of Sterling.

International trade is about more than just shipping product. Our customers, often governments and multi-nationals, expect sustainability standards and environmental credentials. To us this means action and involvement, not just the glossy PR so often seen. For example, we are one of the first to achieve SA 8000 certification (for global working practices), BES 6001 certification (for ethical sourcing) and BRE Global A+ rating (for sustainable manufacture).

Achieving these certifications gives us added credibility in the market. Our recycling initiatives and co-operations demonstrate both innovation and solid action whether it is the UK with the Chartered Institute of Waste Management (CIWM) (who awarded us for environmental excellence) or the Green Councils of Australia/New Zealand (awarded Green Tag certificate). Polyflor is leading the industry.

Reviewing the businesses in more detail:

Objectflor/Karndean and James Halstead France, our European operations

Turnover was on a par with last year although within this it was encouraging that there was growth in our Expona brand, by some 3.3%, offset by a reduction in the Karndean ranges of 6.4%.

As anticipated given our market share and the intense pressure from competitors within the German market a decline in turnover within Germany was noted but this was compensated for by performance in surrounding territories most markedly Belgium, Austria, Eastern Europe and Switzerland.

During the year augmenting the Benelux and Eastern bloc sales force has been a strategy to increase our penetration of surrounding territories whilst defending our leading position in Germany. Germany sales represent 68% of total sales serviced from Cologne (2016: 71%).

For several years we have supplied flooring to the expanding fitness chains Fit One and McFit but this year we have secured many other national chains of which Fitness First, Linzenich Fitness and Pfitzenmeier Group are but examples. Retail chains are important clients and Objectflor have secured many customers including Euronics stores across the region as well as Unitymedia stores and the retail outlets of Bijou Brigitte. Hotel chains such as Sol Umag in Croatia and Aquis Grana are referenced as good installations but our flooring was also supplied and fitted to the central police station in Frankfurt and in the Kika Leiner furniture stores across Germany.

In France, turnover was on a par with the record of the previous year with increased profit as a result of product sales migrating to higher margin lines. Turnover across France was strong. In the Paris region we have supplied 'Passy Plaza', the prestigious shopping centre, in the 16th arrondissement and other installations as diverse at the 'Thalassa', Frances flagship oceanographic vessel and the Puy du Fou theme park.

Chief Executive's Review
continued

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Turnover was 6.8% above last year, with profit greatly increased. Margins improved by over 5% reflecting both favourable product mix and the cessation of sales of discontinued stock which was a feature of the prior year. This top line benefit was further improved by reduced freight costs (equivalent to 1.3% of sales) by the realignment of stock holdings across the continent.

Our team in NSW have relocated our Victoria offices, augmented the Queensland staff with representation in Far North Queensland and recruited a state manager for Western Australia. The breadth of installations was impressive whether it be the rollout of Polyflor across Woolworths stores nationally, the Narrogin Hospital in WA or the Western Sydney University as well as countless refurbishments across the country.

Our Hong Kong office continues to supply impressive projects across China such as Qinhuangdou Welfare Hospital and the award winning Fudan University Hospital of Shanghai. As important as healthcare continues to be, our Chinese presence is much more broadly based with the recent Toys R Us franchises and Louis Vuitton shops in Hong Kong illustrating the breadth of customers as does the MGM Casino in Macau.

New Zealand showed modest 1% growth and improved margins. This achievement illustrates the underlying strength of the day to day business where for some key product ranges we continue to have significant market share, particularly for UK manufactured products. This share is over 30% of the market which is commendable for such a distant location. The headline 1% hides good growth in the North Island contrasting with the South Island, where activity generally for our customers has been poor, still affected by continued uncertainty following the Christchurch earthquake some years ago.

We retained the main New Zealand social housing contract which came up for renewal in the period. Success in this is testament to the high level of service and quality provided, a key factor in decision making. Polyflor in New Zealand was voted Vinyl Flooring Supplier of the year by the Flooring Xtra group and continues to offer retail stores such as the Spark Stores chain and Motorcycle Mecca in Invercargill design led flooring. Healthcare will always be a key market segment but beyond this use of our products in the year extended from buses, and BP garages to the Rorotonga sports stadium in the Cook Islands.

A key development in the year was the move to the new warehouse in Auckland, which is better suited to our current and likely business needs. This has assisted with the profitability of the business.

Polyflor & Riverside Flooring, based in UK

Overall turnover reduced by 2.5% and profit was consequently affected but Riverside continued to grow with 3% increase in turnover.

The last 12 months in the UK have been difficult. One of the major distributors was prepared for sale by its PLC parent which involved de-stocking, a lack of investment and ultimately disposal. Another of the major distributors looked to rationalise stock and focused on margin improvement. Whilst this de-stocking did affect our sales, ultimately it is temporary. The similarities to the actions of the large UK retailers such as Tesco, Sainsbury, etc., a few years ago seem appropriate to mention because, whilst the major chains focused on margin and own label products, the large independent distributors have focused on branded products, such as ours, at keen price points and showed good growth and increased market share. Sales in the market place of Polyflor product were higher than the previous year despite the de-stocking which is encouraging.

Productivity improvements in line speed and capacity at Radcliffe combined with the, at best, flat UK demand that was a consequence of the aforementioned de-stocking inevitably led us to drop shifts from each of our Radcliffe production lines. Regrettably there were redundancies (just under 30). This obviously had a financial cost (which hit the bottom line in the early part of the year) and a human cost, but thankfully all the redundancies were voluntary, but the consequence was 570 man years of experience left the business.

Product development was at the forefront and a lot of time, and cost, has gone into new product lines for the future. Over £900,000 has been invested into the Riverside plant in Teesside and the company can now offer in line registered embossing on its award winning heterogeneous sheet. In addition we have secured planning permission to extend the plant.

Polyflor has for the fourth consecutive year won the Contract Flooring Association's Manufacturer of the Year

Award as Best Vinyl Award (for the 8th year in a row) which helped us to secure the order for the new Dumfries Royal Infirmary which faced competition from one of our continental competitors. Range launches and re-vamps were several and included our new 'Silentflor' commercial flooring with unique sound-deadening properties and vivid colour ranges. 'Bloc', our vivid single colour homogenous range, has received very good responses from architects and specifiers.

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

Norway posted a small increase in turnover in the year of just under 2% increase over the prior year. As a largely primary economy, the low oil prices of the recent past had an impact on this market. Nevertheless, turnover comprised a greater proportion of UK manufactured product (around 39% of the total) which was gratifying. Projects included the new Svalbard Satellite Station (SvalSat 2) which is located at 78° north of the equator and probably our most Northern installation together with the new Trondheim Spektrum arena. Profit in Norway was comfortably ahead of the prior year.

In Sweden, turnover declined 8.3%. Profit, though reduced, held up surprisingly well as a result of a swing to our higher end products leading to improved margins. The Swedish business experienced a change in management following the retirement of the previous Managing Director. This along with some staff disruption resulted in a poor second half of the year, however as new sales and marketing strategies have been implemented sales are improving. Higher margins and tight overhead control meant that the shortfall in sales was not reflected to as great an extent in terms of profitability.

Close control of overheads where possible means that profitability across the Scandinavian business has increased vis a vis the prior year.

Polyflor Canada, based in Toronto

Turnover continued to grow with an 8% growth in distributor sales. However this was offset by a decline in direct sales into the mining sector due to lower activity in this sector.

National retailers such as Boston Pizza and Booster Juice are valued clients as well as Landmark Cinemas and Chevron Gas stations. In addition prestigious new buildings continue to choose Polyflor such as the Royal Victoria Hospital, the National Hockey League Association NHLA head offices and Omers Towers in Toronto.

Polyflor India, based in Mumbai

We had a good year as this relative new business reported a small profit. With five regional sales managers and a dealer network approaching two dozen we have exited the start-up phase of our move into this market and several healthcare projects have contributed to this record year such as the Humancare Trust Hospital in Dwarka, the Royalcare Super Speciality Hospital, Coimbatore and the ESIC Medical College in Mandi.

Rest of the World

Outside our headline markets we continue to cover the world and a few locations worthy of mention are Banco De la Natu in Mexico City, Salalah airport in Oman, the new Schengen terminal at Athens airport and Tamana University in Trinidad. Our distribution network has performed well with several countries at record levels of turnover (Ghana, Lithuania, Italy, Portugal, Puerto Rica and the USA being examples).

Outlook

There are positive signs in the UK that after the turbulence of the last year resulting from changes at two of the larger distributors conditions are now normalising. In addition, our supply chain issues have largely been resolved. The early months of the new financial year have provided encouraging signs of growth with turnover increasing. I am optimistic for the coming year.

On behalf of the board

Mark Halstead
Chief Executive

29 September 2017

Financial Director's Review

As is usual, we have prepared these accounts by the consistent application of accounting standards, the matching of costs and revenues with due appraisal and accrual for subjective (but probable) liabilities at the year-end. Prudence is less regarded in the preparation of published accounts than it was even a decade ago but caution remains important. The group operates through separate legal entities in certain areas of the world and though these are discussed in the Chief Executive's Review we, as a Board, have concluded that these operations are one segment for the purposes of IFRS 8.

This year's profit before tax is a record being 2.5% ahead of the profit for the year to 30 June 2016.

Profit after tax is also at a record level being 3.6% ahead of the prior year to 30 June 2016. Our gross margins increased as a percentage and in absolute terms. The main reason was, broadly, the beneficial effects of exchange rates on export activities offset by increased raw material and purchase costs. There were monthly fluctuations in raw material prices initially exacerbated by shortages in certain areas but overall by the weakness of Sterling.

Some key statistics:

- Group turnover at £240.8 million (2016: £226.1 million) was 6.5% higher than last year and was significantly affected by the exchange rates.
- Net finance income (excluding the effects of IAS19 accounting for pensions) was £0.1 million (2016: £0.2 million) reflecting rates that remain very low.
- Selling and distribution costs were 15.9% ahead of last year reflecting foreign exchange translation effects
- Trade debtors decreased to £28.5 million (2016: £30.7million). Trade creditors were higher at £41.3 million (2016: £32.8 million).
- Stock levels have risen and stand at £72.9 million (2016: £62.8 million) and this 16% increase is partly related to year end translation where the exchange rate has moved 6 % against last year and the remaining growth from product launch stock prior to July despatch and wider product ranges.
- Cash stands at £52.5 million (2016: £44.1 million) even after the payment of £25.4 million in dividends, £10.7 million in tax and £4.2 million of capital expenditure.

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 informed of 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 in-depth 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.

In terms of non-financial KPIs brand awareness, reputation, customer satisfaction and market share are all important but difficult to assess. We do not believe that surveys and market share data, to the extent that is collated by various trade bodies, is complete and wholly accurate. Consequently little reliance is placed upon this data. Customer satisfaction awards are always welcome.

Principal Business Risks and Uncertainties

The ongoing discussions regarding the UK leaving the EU ("Brexit") is an ongoing uncertainty. It has affected exchange rates and interest rates, at least in the short term, but it is as yet unclear what will unfold and we continue to await the evolution of the repercussions.

The Board constantly assesses risks and discusses business issues regularly. 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.

Inevitably the unexpected cannot be anticipated but given the depth of understanding of our principal business by the senior management, and the Board, risk is ameliorated but not eliminated.

Our goals are simple and we avoid over-stretching our capabilities. Our plans are not limited to a twelve month set of figures, though budgets are prepared and monitored, and we look to benefit from decisions over a longer time frame. A major mitigation of risk is a close understanding of our people, their motivations, experience and limitations. In general it is in the nature of the Board to talk about and focus on the problems of our business. This is the major way in which risk is not merely identified but mitigated. Excess capacity exists in our businesses and across Europe, but turnover and profit have advanced.

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. 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 terms of credit risk certain companies have insurance in place and where there is no insurance we often require letters of credit or bills of exchange but fundamentally credit control and market awareness are important. Our cash balances, and bank facilities combined with a robust balance sheet are buffers against liquidity risk.

In respect of exchange risk, the Group operates internationally and is exposed to foreign exchange risk on both sales and purchases that are dominated in currencies other than Sterling. Those giving rise to the most significant risk are US Dollar, Euro and Australian Dollar. 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 year's anticipated exposure. 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).

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 covered by our current levels of stock holding. Given the length of service of many senior managers succession planning becomes a risk and/or an uncertainty but again the open style of decision making and collaboration mitigate the risk.

The activity and progress of our competitors is a significant risk. Whether there is a new innovation or a gain in competitive advantage by a new process, or the loss of market share by any means, any effect on our volume throughput will have an effect on profitability. The Board looks for market intelligence, and devotes significant time to understanding the strategy of our competitors. It is clear that the success this business has achieved over the last 20 years leads our competitors to scour all information we publish for data on our activities.

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 varies over time. We do not hedge this translational exposure though we have in the past hedged overseas assets with matching debt. At present the cost and complexity in terms of arranging facilities and complying with local taxation rules would seem to outweigh the benefits.

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

	£'000
2017	2,168
2016	4,808
2015	(3,868)
2014	(2,260)
2013	93

Aside from the strategic, operational and financial risks described there are also compliance risks relating to the legal and regulatory requirements of the various markets in which we operate. Directors and senior management are involved in health and safety, duty and customs clearance, waste management and other such issues.

James Halstead

Financial Director's Review
continued

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 2002 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.

Accounting for this defined benefit scheme is prescribed by IAS 19 and the quantum of the deficit is ever more volatile due to the nature of using current (low) gilt yields and arguably over prudent assumptions.

Actuaries undertake a tri-annual valuation of the scheme. Our defined benefit scheme is "contracted-out" and with the cessation of contracted-out status in 2016 there is an added cost (increased employer national insurance contributions). There was much debate recently over the old British Steel pension fund and talk of legislation to cap pension in payments at CPI rather than the discredited RPI. The implications are broadly beneficial to the group, but since the issue was raised the effects of "Brexit" have taken precedence.

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 current service costs of 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 £2.4 million against a net actuarial loss in 2016 of £7.4 million which is largely the effect of changing assumptions. 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. The majority of UK employees are in one or other of our defined contribution schemes.

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 a share price of £4.68 (2016: £4.09) are:

- The net deficit to market capitalisation is 2.2% (2016: 2.5%);
- The total liabilities to market capitalisation is 8.5% (2016: 9.6%); and,
- The deficit to operating profit is 45.0% (2016: 55.2%).

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 group. The dominant assumption that drives up the deficit is that the current very low gilt yields are used to determine liabilities. There is an irony in that pension funds have an unquenchable appetite for government bonds at ever lower interest rates.

The strategic report was approved by the board.

On behalf of the board

Gordon Oliver
Finance Director

29 September 2017

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2017.

Results and dividends

The group results for the year and the financial position at 30 June 2017 are shown in the consolidated income statement on page 19 and the consolidated balance sheet on page 21.

The directors are recommending a final dividend of 9.25p per share on the ordinary share capital for payment on 1 December 2017 to those shareholders whose names appear on the register at 3 November 2017. This final dividend together with the interim dividend paid on 6 June 2017 makes a total of 13.0p per share (2016: 12.0p).

Directors

Mr S D Hall and Mr E K Lotz are the directors retiring by rotation. Mr S D Hall will offer himself for re-election at the annual general meeting. Mr E K Lotz has decided to retire as a director of the company and will not seek re-election at the annual general meeting.

Two new directors will be appointed by the board and will offer themselves for election at the annual general meeting. Further details of these appointments will be given in the notice of the annual general meeting.

The interests of the directors and their families in the share capital of the company were as follows:

	30 June 2017		30 June 2016	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	8,621,937	–	8,401,937	–
G R Oliver	207,550	432,041	207,550	583,575
M Halstead	13,241,468	11,541,547	13,241,468	11,693,081
E K Lotz	–	–	–	–
J A Wild	150,300	12,512,032	150,300	12,512,032
S D Hall	5,700	–	5,700	–
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.

Details of the directors' options under the terms of the executive share option scheme are set out in note 23.

Substantial interests

As at 21 September 2017 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
John Halstead Settlement	35,447,218	17.0
Rulegale Nominees	35,276,816	17.0
Octopus Investment Nominees	6,639,982	3.2

Share capital

During the year new ordinary shares were issued and allotted as fully paid to enable share options to be exercised as follows:

22 August 2016	25,232
24 August 2016	42,868
19 October 2016	45,000
1 November 2016	21,000
22 November 2016	5,000
5 April 2017	160,000
3 May 2017	10,000
12 May 2017	20,000
15 May 2017	5,000
23 June 2017	60,000
	394,100

Special business at the annual general meeting

Resolution 7 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 2018.

Resolution 8 authorises the directors to allot relevant securities pursuant to section 551 of the Companies Act 2006 up to a maximum nominal amount of £3,466,227 representing approximately 33.33% of the total ordinary share capital. The authority will expire at the next Annual General Meeting of the company to be held in 2018 or six months after the next accounting reference date of the company (whichever is the earlier).

Except for the issue of shares to satisfy the exercise of share options granted under the share schemes, the board has no present intention of issuing any ordinary share capital of the company. As at the date of this document, the company holds no treasury shares.

Resolution 9 invites shareholders to renew the board's authority to issue shares for cash without first being required to offer them *pro rata* to existing shareholders.

Report of the Directors
continued

The proposed authority will terminate at the next Annual General Meeting of the company to be held in 2018 or six months after the next accounting reference date of the company (whichever is earlier). The authority is limited to equity securities up to an aggregate nominal amount of 5.0% of the company's issued ordinary share capital. The resolution also contains provisions to enable the directors to deal with fractional entitlements and other practical difficulties which could arise in the event of a rights issue or similar pre-emptive offer.

Resolution 10 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 10.0% of the issued capital at prices not exceeding 5.0% above the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Employment policies and involvement

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

Environmental policy

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

All employees, suppliers and contractors are made aware of the environmental policy which is also freely available to the general public and regulatory authorities.

Health and safety

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

Research and development

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

Directors' responsibilities statement

The directors are responsible for preparing the annual 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. The directors 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) including Financial Reporting Standard 101 Reduced Disclosure Framework. 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 group and the company and of the profit or loss of the group for that period.

The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 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 group and company 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 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 ensuring the annual report and financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. The directors' responsibilities also extend to the ongoing integrity of the financial statements contained therein.

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 BDO LLP as auditor will be proposed at the forthcoming annual general meeting.

Directors' statement as to the disclosure of information to the auditor

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The directors' are not aware of any relevant audit information of which the auditor is unaware.

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

D W Drillingcourt
Secretary

29 September 2017

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Board Report on Remuneration

Remuneration committee

The remuneration committee comprises the non-executive directors, with Mr J A Wild, as chairman. 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 directors is determined by the board as a whole by reference to market rates. They do not participate in the group bonus scheme, pension scheme or share option scheme. No director can vote in regard to his own remuneration.

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 £415,000 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. Mr S D Hall has a service contract for an initial term of two years from the date of his appointment, which can be terminated by either party by one month's written notice. Mr J A Wild does not have a service agreement.

J A Wild
Chairman of the Remuneration Committee

Corporate Governance

As an AIM listed company, the company is not required to comply with the provision of the UK Corporate Governance Code. However, the board recognises the importance of, and is committed to, ensuring that effective corporate governance procedures relevant to smaller listed companies are in place.

The board

The membership of the board during the year comprised three executive directors and three non-executive directors.

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 Mr S D Hall and Mr J A Wild to be independent.

Given the size of the group, the board does not consider it necessary to change the ratio of non-executives 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 – non-executive	6	6
M Halstead	6	6
G R Oliver	6	6
E K Lotz	6	3
J A Wild – non-executive	6	6
S D Hall – non-executive	6	6

Board committees

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

The Audit Committee – comprising Mr J A Wild as chairman, Mr G Halstead and Mr S D Hall 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 Mr J A Wild as chairman, Mr G Halstead and Mr S D Hall decides on the remuneration of the executive directors.

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 three executive directors and three non-executive directors.

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;

Corporate Governance
continued

- 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;
- 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

Opinion

We have audited the financial statements of James Halstead plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated and parent company statement of changes in equity, the consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

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 reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2017 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Inventory valuation and provisioning

As described in Note 2 (accounting policies) and Note 17 (inventories), the Group carries inventory at the lower of cost and net realisable value. As at 30 June 2017, the Group held inventories of £72.9m (2016: £62.8m).

Judgement is required to assess the appropriate level of provisioning for items which may be sold below cost as a result of a reduction in consumer demand particularly in light of changing consumer tastes and new products being developed. Such judgements include management's expectations for future sales. This is a significant risk for the audit.

How we addressed the key audit matter

We obtained assurance over management's assumptions applied in calculating the value of inventory provisions by:

- assessing the Group's inventory provisioning policy, with specific consideration given to slow moving or obsolete stock lines;

Independent Auditor's Report to the Members of James Halstead plc continued

- verifying the value of a sample of inventory to confirm it is held at the lower of cost and net realisable value, through comparison to invoices and sales prices; and

We also reviewed the bases of stock provisioning applied by all group entities and considered whether these were being applied consistently and reflected the nature of the stock held in each location.

Accruals

As described in Note 2 (accounting policies) and Note 20, the Group records a significant number of accrual balances which are specific to the business and its operations.

At 30 June 2017, the aggregate of all accruals was £13.7m (2016: £15.2m). The accruals balance includes a large volume of accruals and whilst some accruals are easily and ordinarily calculated, others contain an element of judgement and are more complex in nature, for example, customer warranty claims in respect of manufactured stock, rectification accruals and self-insurance accruals.

We focused on these areas because there is an inherent level of complexity in management estimating certain accruals owing to their nature and the risk of management bias. These types of accruals are not individually material but may, under certain circumstances, be material in the aggregate.

How we addressed the key audit matter

We understood and evaluated the processes, procedures and controls in place in respect of these judgmental accrual balances and assessed key account reconciliation processes.

We tested and challenged the reasonableness of the key assumptions underlying the judgmental accruals which included:

- Claim history;
- Levels of customer claims; and
- Time periods over which the assessment is made.

We tested the input data of the judgmental accruals, re-performed the underlying calculations and performed sensitivity analysis over the key drivers of the estimation of the accruals.

For warranty and rectification accruals, we reviewed correspondence with third parties, critically assessed the assumptions around relay costs and costs per square metre and held conversations with members outside the finance team to understand the nature of each claim.

For the self-insurance accruals, we have reviewed the assumptions against data from the insurance company, reviewed against historic actual claims and performed sensitivity analysis to confirm the reasonableness of the accrual made by management.

Pension scheme assumptions

As described in Note 2 (accounting policies) and Note 22 (retirement benefit obligations), the Group has a defined benefit pension plan in the UK. At 30 June 2017, the Group recorded a net retirement obligation of £21.3m (2016: £25.4m), comprising scheme assets of £61.1m (2016: £56.2m) and scheme liabilities of £82.4m (2016: £81.7m).

The pension valuation is dependent on market conditions and key assumptions made, in particular relating to investment markets, discount rate, inflation expectations and life expectancy assumptions.

The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.

How we addressed the key audit matter

In testing the pension valuation, we have utilised internal pension actuarial experts to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions.

We have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.

We tested the membership data utilised in the valuation of the schemes to assess whether the basis of the valuation is appropriate.

Furthermore, we have assessed the disclosure of the pension scheme assumptions in the financial statements.

Our application of materiality

Group materiality FY 2017	Group materiality FY 2016	Basis for materiality
£3.49 million	£3.41 million	7.5% of profit before tax

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Our determination of materiality increased from FY 2016 with the higher profitability of the group. We consider profit before tax to be the most significant determinant of the group's financial performance used by shareholders.

We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £60,000 (2016: £68,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Our group audit scope focused on the group's principal operating locations being the United Kingdom, Germany and Australia. The operations in the United Kingdom were subject to a full scope audit while the significant components in Germany and Australia were audited to component materiality. The Australian component is audited by a BDO member firm.

Together with the parent company and its group consolidation, which was also subject to a full scope audit, these locations represent the principal business units of the group and account for 95% of the group's revenue, 98% of the group's total assets and 98% of the group's profit before tax.

Whilst materiality for the financial statements as a whole was £3.49m, each component of the group was audited to a lower level of materiality.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned.

The Central European operations form a significant part of group turnover and profitability. As part of our audit strategy, the Responsible Individual and senior members of the group audit team visited Germany. The audit visits by the Group audit team were timed to enable us to be involved during the planning and risk assessment process in addition to during the completion of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

The Australian operations form a further significant part of group turnover and profits. Again the Responsible Individual and senior members of the group audit team were involved at all stages of the audit process, directing the planning and risk assessment work performed through calls with the overseas component auditors and local management. Reviews of the component auditor working papers were also completed.

The remaining components of the group were considered non-significant and these components were principally subject to analytical review procedures.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the Members of James Halstead plc continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the report of the directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the report of the directors.

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

- adequate accounting records have not been kept, 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Gary Harding (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom
29 September 2017

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Revenue	5	240,784	226,141
Cost of sales		(135,974)	(130,177)
Gross profit		104,810	95,964
Selling and distribution costs		(47,659)	(41,105)
Administration expenses		(9,867)	(8,776)
Operating profit		47,284	46,083
Finance income	9	134	177
Finance cost	9	(802)	(761)
Profit before income tax	7	46,616	45,499
Income tax expense	10	(10,106)	(10,243)
Profit for the year attributable to equity shareholders		36,510	35,256
Earnings per ordinary share of 5p			
– basic	11	17.6p	17.0p
– diluted	11	17.6p	17.0p

All amounts relate to continuing operations.

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

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2017

	2017 £'000	2016 £'000
Profit for the year	36,510	35,256
Other comprehensive income net of tax:		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of the net defined benefit liability	2,404	(7,360)
Deferred taxation – change of rate	–	106
	2,404	(7,254)
Items that could be reclassified subsequently to the income statement if specific conditions are met:		
Foreign currency translation differences	2,168	4,808
Fair value movements on hedging instruments	410	(2,126)
	2,578	2,682
Other comprehensive income for the year net of tax	4,982	(4,572)
Total comprehensive income for the year	41,492	30,684
Attributable to:		
Equity holders of the company	41,492	30,684

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 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Property, plant and equipment	14	36,103	34,384
Intangible assets	15	3,232	3,232
Deferred tax assets	16	4,151	5,129
		43,486	42,745
Current assets			
Inventories	17	72,936	62,828
Trade and other receivables	18	31,176	33,820
Derivative financial instruments	27	416	433
Cash and cash equivalents	19	52,532	44,096
		157,060	141,177
Total assets		200,546	183,922
Current liabilities			
Trade and other payables	20	59,321	53,395
Derivative financial instruments	27	1,362	2,066
Current income tax liabilities		3,860	4,300
		64,543	59,761
Non-current liabilities			
Retirement benefit obligations	22	21,257	25,431
Deferred tax liabilities	16	–	603
Borrowings	21	200	200
Other payables	20	486	460
		21,943	26,694
Total liabilities		86,486	86,455
Net assets		114,060	97,467
Equity			
Equity share capital	23	10,393	10,374
Equity share capital (B shares)	23	160	160
		10,553	10,534
Share premium account		3,615	3,096
Capital redemption reserve		1,174	1,174
Currency translation reserve		6,194	4,026
Hedging reserve		(289)	(699)
Retained earnings		92,813	79,336
Total equity attributable to shareholders of the parent		114,060	97,467

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2017.

M Halstead
Director

G R Oliver
Director

James Halstead plc Registration Number 140269

Consolidated Statement of Changes in Equity
for the year ended 30 June 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 30 June 2015	10,524	2,917	1,174	(782)	1,427	91,200	106,460
Profit for the year	–	–	–	–	–	35,256	35,256
Remeasurement of the net defined benefit liability	–	–	–	–	–	(7,360)	(7,360)
Deferred taxation change of rate	–	–	–	–	–	106	106
Foreign currency translation differences	–	–	–	4,808	–	–	4,808
Fair value movements on hedging instruments	–	–	–	–	(2,126)	–	(2,126)
Total comprehensive income for the year	–	–	–	4,808	(2,126)	28,002	30,684
Dividends	–	–	–	–	–	(39,867)	(39,867)
Issue of share capital	10	179	–	–	–	–	189
Share based payments	–	–	–	–	–	1	1
Balance at 30 June 2016	10,534	3,096	1,174	4,026	(699)	79,336	97,467
Profit for the year	–	–	–	–	–	36,510	36,510
Remeasurement of the net defined benefit liability	–	–	–	–	–	2,404	2,404
Foreign currency translation differences	–	–	–	2,168	–	–	2,168
Fair value movements on hedging instruments	–	–	–	–	410	–	410
Total comprehensive income for the year	–	–	–	2,168	410	38,914	41,492
Dividends	–	–	–	–	–	(25,438)	(25,438)
Issue of share capital	19	519	–	–	–	–	538
Share based payments	–	–	–	–	–	1	1
Balance at 30 June 2017	10,553	3,615	1,174	6,194	(289)	92,813	114,060

Consolidated Cash Flow Statement
for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Cash inflow from operations	25	47,478	50,325
Interest received		134	177
Interest paid		(33)	(43)
Taxation paid		(10,682)	(10,220)
Cash inflow from operating activities		36,897	40,239
Purchase of property, plant and equipment		(4,234)	(4,842)
Proceeds from disposal of property, plant and equipment		234	200
Cash outflow from investing activities		(4,000)	(4,642)
Equity dividends paid		(25,438)	(39,867)
Shares issued		538	189
Cash outflow from financing activities		(24,900)	(39,678)
Net increase/(decrease) in cash and cash equivalents		7,997	(4,081)
Effect of exchange differences		439	749
Cash and cash equivalents at start of year		44,096	47,428
Cash and cash equivalents at end of year		52,532	44,096

Notes to the Consolidated Financial Statements

1. General information

James Halstead plc ("the company" or "the parent company") is a limited liability company, registered in England and Wales, domiciled in the United Kingdom and listed on AIM on the London Stock Exchange. The address of its registered office is Beechfield, Hollinhurst Road, Radcliffe, Manchester, M26 1JN.

2. Accounting policies

Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) as endorsed by the European Union ("endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under endorsed IFRS. The company financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework, and are presented separately following the group financial statements.

The group financial statements have been prepared on the historical cost basis as modified by the valuation of financial assets and financial liabilities (including derivative instruments) at fair value.

Basis of consolidation

The group financial statements consolidate the financial statements of the parent company and all its subsidiaries, as if they formed a single entity. Subsidiaries are entities controlled by the group. Control exists if all three of the following elements are present: power over the entity, exposure to variable returns from the entity, and the ability to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. Control is normally achieved by a majority shareholding. 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 are eliminated on consolidation.

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.

There were no new standards or interpretations effective for the first time for periods beginning on or after 1 July 2016. None of the amendments to standards that are effective from that date had a significant effect on the group's financial statements.

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, will or may have an effect on the group's future financial statements:

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement, and is effective for accounting periods beginning on or after 1 January 2018. The final standard contains new requirements which cover classification and measurement, impairment, and hedge accounting. The recognition and derecognition requirements for financial assets and financial liabilities are unchanged from IAS 39. In particular IFRS 9 sets out a new forward looking expected credit loss model which replaces the incurred loss model in IAS 39.

IFRS 15 Revenue from contracts with customers replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations, and is effective for accounting periods beginning on or after 1 January 2018. The standard establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

IFRS 16 Leases replaces the existing accounting requirements in IAS 17 Leases, and is effective for accounting periods beginning on or after 1 January 2019. A single model for lessees will be required, eliminating off balance sheet accounting for non-exempt operating leases. Related lease assets and liabilities will therefore come onto the balance sheet and the presentation and timing of income and expense recognition in the income statement will change.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until the detailed reviews have been completed.

2. Accounting policies (continued)

Segment reporting

Operating segments are those segments for which results are reviewed by the group's chief operating decision maker (CODM) to assess performance and make decisions about resources to be allocated. The CODM is the group board which meets regularly throughout the year to discuss the performance and results of the group as a whole. The business of the group is 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, the directors consider that under the definitions contained within IFRS 8 there is 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.

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.

Notes to the Consolidated Financial Statements
continued

2. Accounting policies (continued)

Taxation

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

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 likelihood to remit the earnings.

Deferred income tax assets and liabilities are based on tax rates and laws that are substantively 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.

Trade and other receivables

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

Cash and cash equivalents

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

Pension scheme arrangements

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

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

2. Accounting policies (continued)

Pension scheme arrangements (continued)

A defined benefit scheme is a scheme in which the amount of pension benefit that an employee will receive on retirement is defined. For the defined benefit scheme, pension costs and the costs of providing other post retirement benefits are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement. The service cost is charged against operating profit and the net interest cost is charged as a finance cost. The net interest cost is calculated using the discount rate at the beginning of the 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.

Remeasurements of the net defined benefit liability are recognised in the period in which they arise in other comprehensive income.

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 land: Not depreciated
Freehold buildings: 10 to 50 years
Plant and equipment: 2 to 20 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 provided in the normal course of business, net of trade discounts, rebates, VAT and other sales related taxes.

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

Research and development

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

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

Dividends

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

Leases

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

Notes to the Consolidated Financial Statements
continued

2. Accounting policies (continued)

Derivative financial instruments and hedging

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

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

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

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

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

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

3. Financial risk management

Financial risk and treasury policies

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

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 the functional currency of the entity making the sale or purchase. 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.

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:

Notes to the Consolidated Financial Statements
continued

4. Critical accounting estimates and judgements (continued)

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.

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.

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 22.

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.

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 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 comprise property, plant and equipment and intangibles. Geographical disclosures in respect of revenues and segment assets are provided below and include revenue for Germany of £55,427,000 (2016: £49,574,000) and Australia £26,400,000 (2016: £20,704,000), and assets in Germany of £10,255,000 (2016: £10,098,000).

Revenue	2017 £'000	2016 £'000
United Kingdom	80,189	84,579
Europe and Scandinavia	103,440	91,013
Australasia and Asia	39,761	34,243
Rest of the World	17,394	16,306
	240,784	226,141

Assets	2017 £'000	2016 £'000
United Kingdom	25,858	24,857
Europe and Scandinavia	11,524	11,429
Australasia and Asia	1,948	1,329
Rest of the World	5	1
Total segment assets	39,335	37,616
Deferred tax assets	4,151	5,129
Total non-current assets	43,486	42,745

Revenue is by location of customer. Assets are by location of asset.

Notes to the Consolidated Financial Statements
continued

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 following directors received shares to the value of, Mr G Halstead £nil, Mr M Halstead £nil and Mr G R Oliver £nil.

7. Profit before income tax

Profit before tax is stated after charging/(crediting) the following:

	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	2,830	2,872
Operating lease rentals – land and buildings	2,185	1,889
Operating lease rentals – other	1,116	1,057
Research and development	2,388	2,144
Loss/(profit) on disposal of property, plant and equipment	8	(46)
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	41	41
Fees payable to the group's auditor and its associates for other services:		
The audit of the group's subsidiaries pursuant to legislation	106	88
Taxation compliance	34	31
Taxation advisory	1	7
Other services	11	11

8. Staff costs and numbers

	2017 £'000	2016 £'000
Staff costs comprised:		
Wages and salaries	33,441	31,467
Social security costs	3,829	3,534
Pension costs – defined benefit scheme	542	544
– defined contribution schemes	735	825
Share based payments	1	1
	38,548	36,371

The average monthly number of employees during the year was:

	2017 Number	2016 Number
Manufacturing, selling and distribution	683	694
Administration	141	138
	824	832

The directors' remuneration was:

	2017 £'000	2016 £'000
Salary or fees	961	924
Bonuses	830	780
Benefits	12	14
Total remuneration excluding pension contributions	1,803	1,718
Pension contributions	54	53
	1,857	1,771

9. Finance income/(cost)

	2017 £'000	2016 £'000
Interest receivable and similar income:		
On bank deposits	127	163
Other	7	14
Finance income	134	177
Preference share dividend	(11)	(11)
Interest on short-term borrowing and other financing costs	(22)	(32)
	(33)	(43)
Net pension interest cost	(769)	(718)
Finance cost	(802)	(761)
Net finance cost	(668)	(584)

Notes to the Consolidated Financial Statements
continued

10. Income tax expense

	2017 £'000	2016 £'000
Current tax		
Current tax – current year	10,726	10,251
Current tax – adjustments in respect of prior years	(518)	(653)
	10,208	9,598
Deferred tax		
Deferred tax – current year	76	418
Deferred tax – adjustments in respect of prior years	(178)	227
	(102)	645
Total taxation	10,106	10,243

The effective tax rate for the year to 30 June 2017 is higher (2016: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	46,616	45,499
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.75% (2016: 20.00%)	9,207	9,100
Effects of:		
Adjustments to tax in respect of prior periods	(696)	(426)
Overseas tax rates	1,486	1,143
Disallowable items	128	360
Remeasurement of deferred tax due to change in UK tax rate	(19)	66
Total taxation	10,106	10,243

In addition to the amounts above £492,000 has been charged (2016: £839,000 credited) as other comprehensive income in respect of the remeasurement of the net defined benefit liability, and have been netted off the amounts shown in the Consolidated Statement of Comprehensive Income.

The UK corporation tax rate will change from 19% to 17% on 1 April 2020.

11. Earnings per share

	2017 £'000	2016 £'000
Profit for the year attributable to equity shareholders	36,510	35,256
Weighted average number of shares in issue	207,620,432	207,431,307
Dilution effect of outstanding share options	216,506	473,629
Diluted weighted average number of shares	207,836,938	207,904,936
Basic earnings per 5p ordinary share	17.6p	17.0p
Diluted earnings per 5p ordinary share	17.6p	17.0p

12. Dividends

	2017 £'000	2016 £'000
Equity dividends		
Interim dividend for current year of 3.75p (2016: 3.5p)	7,792	7,262
Final dividend for previous year of 8.5p (2016: 7.858p)	17,646	16,302
Special dividend of nil p (2016: 7.858p)	–	16,303
Amounts recognised as distributions to equity shareholders in the year	25,438	39,867

A final dividend of 9.25p per share for the year ended 30 June 2017, amounting to £19,238,000, will be proposed at the Annual General Meeting. This dividend is not reflected in these financial statements as it is not approved at the balance sheet date.

13. Profit of the parent company

The company has taken advantage of the provisions of Section 408 of the Companies Act 2006 and elected not to present its own profit and loss account. The profit after taxation for the financial year dealt with in the financial statements of the company was £53,777,000 (2016: £33,474,000). The aggregate amount of directors' emoluments excluding pension contributions was £1,803,000 (2016: £1,718,000) of which the highest paid director's emoluments were £815,000 (2016: £775,000). The directors' salaries or fees for the year ended 30 June 2017 were Mr G Halstead £90,000, Mr M Halstead £397,000, Mr G R Oliver £370,000, Mr J A Wild £32,000, Mr E K Lotz £52,000 and Mr S D Hall £20,000.

Notes to the Consolidated Financial Statements
continued

14. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2015	23,888	63,450	87,338
Additions	1,405	3,437	4,842
Disposals	–	(694)	(694)
Exchange differences	1,370	805	2,175
At 30 June 2016	26,663	66,998	93,661
Additions	383	3,851	4,234
Disposals	–	(3,038)	(3,038)
Exchange differences	526	387	913
At 30 June 2017	27,572	68,198	95,770
Depreciation			
At 30 June 2015	6,661	49,505	56,166
Charge for the year	639	2,233	2,872
Disposals	–	(540)	(540)
Exchange differences	319	460	779
At 30 June 2016	7,619	51,658	59,277
Charge for the year	671	2,159	2,830
Disposals	–	(2,796)	(2,796)
Exchange differences	131	225	356
At 30 June 2017	8,421	51,246	59,667
Net book value			
At 30 June 2015	17,227	13,945	31,172
At 30 June 2016	19,044	15,340	34,384
At 30 June 2017	19,151	16,952	36,103

15. Intangible assets

	Goodwill £'000
Cost and net book value at 30 June 2015, 2016 and 2017	3,232

An impairment review of goodwill was done by reference to value in use. Value in use was determined using ten year cash flow projections, based on current levels of profitability and assumed growth of 0% to 5% and a discount rate of 4%. The result of the review indicated that no impairment was required.

16. Deferred tax assets and liabilities

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Property revaluation £'000	Other timing differences £'000	Total £'000
At 30 June 2015	3,698	(381)	(709)	1,591	4,199
Charged to income	(214)	(38)	–	(393)	(645)
Credited to other comprehensive income	839	–	106	–	945
Exchange differences	–	–	–	27	27
At 30 June 2016	4,323	(419)	(603)	1,225	4,526
Credited/(charged) to income	(217)	(157)	–	476	102
Charged to other comprehensive income	(492)	–	–	–	(492)
Exchange differences	–	–	–	15	15
At 30 June 2017	3,614	(576)	(603)	1,716	4,151

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 30 June 2015	4,908	(709)	4,199
At 30 June 2016	5,129	(603)	4,526
At 30 June 2017	4,151	–	4,151

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

17. Inventories

	2017 £'000	2016 £'000
Raw materials and consumables	2,926	3,306
Work in progress	1,774	1,284
Finished goods	68,236	58,238
	72,936	62,828

An amount of £1,260,000 has been credited (2016: £1,218,000 credited) to the income statement in respect of movements in inventory write-downs. The cost of inventory recognised as an expense was £135,974,000 (2016: £130,177,000).

Notes to the Consolidated Financial Statements
continued

18. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	28,496	30,688
Other receivables	1,129	1,146
Prepayments and accrued income	1,551	1,986
	31,176	33,820

All amounts within trade and other receivables are due within one year. The fair value of amounts included in 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 £3,202,000 (2016: £3,048,000). 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:

	2017 £'000	2016 £'000
At 1 July	3,048	2,810
Exchange movements	39	91
Charged to the income statement – selling and distribution costs	115	147
At 30 June	3,202	3,048

As at 30 June 2017, trade receivables of £2,348,000 (2016: £6,014,000) 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:

	2017 £'000	2016 £'000
Up to three months overdue	2,055	5,938
Over three months overdue	293	76
Total	2,348	6,014

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

	2017 £'000	2016 £'000
Sterling	7,111	9,733
Euro	12,295	11,105
Australian Dollars	3,591	3,663
New Zealand Dollars	833	877
Norwegian Krone	517	486
US Dollars	2,485	3,265
Hong Kong Dollars	991	582
Other currencies	1,802	2,123
Total	29,625	31,834

19. 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:

	2017 £'000	2016 £'000
Sterling	37,907	30,428
Euro	3,677	4,451
Australian Dollars	2,701	2,251
New Zealand Dollars	296	385
Norwegian Krone	559	703
US Dollars	6,671	4,916
Other currencies	721	962
Total	52,532	44,096

20. Trade and other payables

	2017 £'000	2016 £'000
Amounts falling due within one year		
Trade payables	41,309	32,806
Value added, payroll and other taxes	3,503	3,891
Other payables	820	1,533
Accruals	13,689	15,165
	59,321	53,395
Amounts falling due after more than one year		
Other payables	486	460

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

21. Borrowings

	2017 £'000	2016 £'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 2017 and 30 June 2016 the fair value of the preference shares was not materially different from their book value.

Notes to the Consolidated Financial Statements
continued

22. Retirement benefit obligations

In the UK the group operates a defined benefit pension scheme which was closed to new members in 2002. In addition some employees both in the UK and overseas are provided with retirement benefits through defined contribution arrangements. Executive directors Mr M Halstead and Mr G R Oliver are members of the defined benefit scheme and the employer pension contributions for the year were £28,000 and £26,000 respectively. At 30 June 2017 the accrued pension for the highest paid director was £108,000 and the transfer value of this accrued benefit was £2,228,000.

Disclosures relating to the defined benefits pension scheme are as follows:

The company sponsors the Halstead Group Pension Scheme, a funded defined benefit pension scheme in the UK. The scheme is administered within a trust which is legally separate from the company. Trustees are appointed by both the company and the scheme's membership and act in the interest of the scheme and all relevant stakeholders, including the members and the company. The trustees are also responsible for the investment of the scheme's assets.

Existing members accrue an annual pension of 1/60th or 1/80th (depending on category) of final salary for each year of pensionable service, increasing in line with inflation whilst in payment. On the death of an active member the scheme provides the widow(er) a lump sum and a spouse's pension. Members who leave service before retirement are entitled to a deferred pension.

Active members of the scheme pay contributions at the rate of either 7.5% or 6% of salary depending on category and the company pays the balance of the cost as determined by regular actuarial valuations.

The scheme poses a number of risks to the company, for example, longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The trustees are aware of these risks and use various techniques to control them. The trustees have a number of internal control policies including a risk register, which are in place to manage and monitor the various risks they face.

The scheme is subject to regular actuarial valuations, which are usually carried out every three years. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The last formal actuarial valuation was carried out as at 5 April 2014. The results of that valuation have been projected forward to 30 June 2017 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

	2017	2016
Principal actuarial assumptions at the balance sheet date		
Discount rate at end of year	2.70%	3.15%
Future salary increases	1.90%	2.20%
Future pension increases	3.00%	2.95%
Rate of inflation – RPI	3.10%	2.95%
– CPI	1.90%	2.20%
Future expected lifetime of current pensioner at age 65:		
Male born in 1952	21.6 years	22.1 years
Female born in 1952	24.1 years	25.0 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1972	22.4 years	23.1 years
Female born in 1972	25.0 years	26.1 years

22. Retirement benefit obligations (continued)

The sensitivities of the principal assumptions used to measure the scheme liabilities are as follows:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease by 0.1%	Increase by £1.3m
Rate of inflation	Increase by 0.1%	Increase by £0.9m
Expected lifetime	Increase by 1 year	Increase by £3.9m

The sensitivities may not be representative of the actual change in the present value of the scheme obligations, as it is unlikely that the change in assumptions would occur in isolation of each other, as the assumptions may be linked.

Amounts recognised in the balance sheet	2017 £'000	2016 £'000
Present value of funded obligations	(82,370)	(81,655)
Fair value of scheme assets	61,113	56,224
Net liability before deferred taxation	(21,257)	(25,431)
Related deferred tax asset	3,614	4,323
Net liability after deferred taxation	(17,643)	(21,108)

Amounts recognised in the income statement	2017 £'000	2016 £'000
Current service cost	(542)	(544)
Net interest cost	(769)	(718)
	(1,311)	(1,262)

	2017 £'000	2016 £'000
Amounts recognised in other comprehensive income		
Return on assets excluding amount included in net interest cost	4,259	49
Loss arising from changes in financial assumptions	(4,831)	(8,248)
Gain arising from changes in demographic assumptions	3,468	–
	2,896	(8,199)
Deferred tax	(492)	839
Remeasurement of the net defined benefit liability	2,404	(7,360)

The actual return on the scheme assets in the year was a £6,012,000 gain (2016: £2,266,000 gain).

	2017 £'000	2016 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	56,224	54,200
Interest income	1,753	2,217
Return on assets excluding interest income	4,259	49
Employer contributions	2,589	2,522
Employee contributions	233	272
Benefits paid	(3,945)	(3,036)
	61,113	56,224

Notes to the Consolidated Financial Statements
continued

22. Retirement benefit obligations (continued)

	2017 £'000	2016 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	(81,655)	(72,692)
Service cost	(542)	(544)
Interest cost	(2,522)	(2,935)
Employee contributions	(233)	(272)
Loss arising from changes in financial assumptions	(4,831)	(8,248)
Gain arising from changes in demographic assumptions	3,468	–
Benefits paid	3,945	3,036
	(82,370)	(81,655)

	2017 £'000	2016 £'000
Changes in the net defined benefit liability		
Opening net defined benefit liability	(25,431)	(18,492)
Service cost	(542)	(544)
Net interest cost	(769)	(718)
Return on assets excluding interest income	4,259	49
Loss arising from changes in financial assumptions	(4,831)	(8,248)
Gain arising from changes in demographic assumptions	3,468	–
Employer contributions	2,589	2,522
	(21,257)	(25,431)

Major categories of scheme assets

	2017 £'000	2016 £'000
Return seeking		
UK equities	682	953
Overseas equities	31,931	24,707
Diversified growth fund	10,517	12,105
	43,130	37,765
Debt instruments		
Corporates	6,328	5,178
Gilts	785	1,625
Index linked	5,250	7,801
	12,363	14,604
Other		
Property	1,876	1,592
Cash	3,744	2,263
	5,620	3,855
Total market value of assets	61,113	56,224

All of the scheme assets are held in pooled managed funds which can be classified as level 2 instruments based on the definition in IFRS 13.
The scheme has no investments in the company or in property occupied by the company.

22. Retirement benefit obligations (continued)

Scheme liabilities by category of membership

	2017 £'000	2016 £'000
Active members	36,090	33,158
Deferred pensioners	13,134	13,415
Pensions in payment	33,146	35,082
	82,370	81,655

Average duration of scheme liabilities

	2017 years	2016 years
Active members	20	20
Deferred pensioners	21	21
Pensions in payment	11	11
All scheme liabilities	16	16

Normal company contributions of £1,235,000 (2016: £1,350,000) are expected to be paid into the scheme during the year ended 30 June 2018.

23. Share capital

Ordinary shares – allotted, issued and fully paid	2017 Number	2016 Number	2017 £'000	2016 £'000
At 1 July ordinary shares of 5p each	207,470,508	207,282,508	10,374	10,364
Ordinary shares of 5p each issued	394,100	188,000	19	10
At 30 June ordinary shares of 5p each	207,864,608	207,470,508	10,393	10,374
Ordinary B shares of 1p each at 1 July 2016 and 30 June 2017	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,553	10,534

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 12 of the financial statements of the company.

	2017 £'000	2016 £'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

The respective rights of each class of shares are detailed in note 12 of the financial statements of the company.

Notes to the Consolidated Financial Statements
continued

23. 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 394,100 shares and 290,000 share options were granted during the year. Details of those options still outstanding are as follows:

Director	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number 01.07.16	Exercised in the year	Granted in the year	Number 30.06.17
G Halstead	4 Jul 07	4 Jul 10	3 Jul 17	144.7125	160,000	(160,000)	–	–
	6 Oct 08	6 Oct 11	5 Oct 18	105.2500	60,000	(60,000)	–	–
M Halstead	4 Jul 07	4 Jul 10	3 Jul 17	144.7125	10,000	(10,000)	–	–
	6 Oct 08	6 Oct 11	5 Oct 18	105.2500	80,000	–	–	80,000
	21 Jul 14	21 Jul 17	20 Jul 24	270.2900	20,000	–	–	20,000
	12 Jun 17	12 Jun 20	11 Jun 24	476.5000	–	–	50,000	50,000
G R Oliver	21 Jul 14	21 Jul 17	20 Jul 24	270.2900	20,000	–	–	20,000
	12 Jun 17	12 Jun 20	11 Jun 27	476.5000	–	–	50,000	50,000
E K Lotz	6 Oct 08	6 Oct 11	5 Oct 18	105.2500	60,000	–	–	60,000
Total – directors					410,000	(230,000)	100,000	280,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number 01.07.16	Exercised in the year	Granted in the year	Number 30.06.17
	4 Jul 07	4 Jul 10	3 Jul 17	144.7125	81,232	(51,232)	–	30,000
	6 Oct 08	6 Oct 11	5 Oct 18	105.2500	122,868	(92,868)	–	30,000
	9 Apr 14	9 Apr 17	8 Apr 24	290.2500	40,000	(20,000)	–	20,000
	21 Jul 14	21 Jul 17	20 Jul 24	270.2900	91,500	–	–	91,500
	12 Jun 17	12 Jun 20	11 Jun 27	476.5000	–	–	190,000	190,000
Total – employees					335,600	(164,100)	190,000	361,500
Grand total					745,600	(394,100)	290,000	641,500

The market price of the shares at 30 June 2017 was 468p (2016: 409p).

The share price during the year ranged from 379p to 542p.

23. Share capital (continued)

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

The average share price when options were exercised in the year was £4.76.

Directors exercised 230,000 (2016: 170,000) share options during the year. Aggregate gains on exercising the share options by directors in the year amounted to £812,000 (2016: £584,000) of which £38,000 (2016: £nil) related to the highest paid director.

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

	Number of options	Weighted average exercise price (£)
At 30 June 2015	1,013,600	1.42
Exercised in the year	(188,000)	1.00
Lapsed in the year	(80,000)	0.80
At 30 June 2016	745,600	1.58
Exercised in the year	(394,100)	1.37
Granted in the year	290,000	4.77
At 30 June 2017	641,500	3.15

At 30 June 2017 there were 220,000 (2016: 574,100) share options exercisable at a weighted average exercise price of £1.27 (2016: £1.23).

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 calculated the fair value of the options at the date of grant using the Black Scholes model. The inputs into the model were as follows:

	2017	2016
Expected life of option	3.5 years	–
Expected share price volatility	10.0%	–
Expected dividend yield	5.50%	–
Risk free interest rate	0.50%	–
Exercise price	476.5p	–

An expense based on the fair value calculated at the date of grant was recognised in the profit and loss account over the vesting period of the options. The share based payment expense for the year ended 30 June 2017 was £1,000 (2016: £1,000).

Notes to the Consolidated Financial Statements
continued

24. Reserves

The nature and purpose of each reserve within equity is as follows.

Reserve	Description and purpose
Equity share capital	Nominal value of equity share capital issued.
Share premium account	Amount subscribed for equity share capital in excess of nominal value.
Capital redemption reserve	Amounts transferred from share capital on redemption of issued shares.
Currency translation reserve	Cumulative currency translation gains and losses arising on the retranslation of the net assets of the group's foreign operations.
Hedging reserve	Gains and losses arising on the fair value of financial instruments in an effective designated cash flow hedging relationship.
Retained earnings	All other gains and losses and transactions with owners, such as dividends, not recognised in other reserves.

25. Cash inflow from operations

	2017 £'000	2016 £'000
Profit for the year attributable to equity shareholders	36,510	35,256
Income tax expense	10,106	10,243
Profit before income tax	46,616	45,499
Finance cost	802	761
Finance income	(134)	(177)
Operating profit	47,284	46,083
Depreciation	2,830	2,872
Loss/(profit) on sale of property, plant and equipment	8	(46)
(Increase)/decrease in inventories	(8,054)	539
Decrease in trade and other receivables	2,838	842
Increase in trade and other payables	4,982	2,051
Defined benefit pension scheme service cost	542	544
Defined benefit pension scheme employer contributions paid	(2,589)	(2,522)
Changes in fair value of financial instruments	(364)	(39)
Share based payments	1	1
	47,478	50,325

26. 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:

	2017 Land and buildings £'000	2017 Other £'000	2016 Land and buildings £'000	2016 Other £'000
Not later than one year	2,318	561	1,911	709
Later than one year and not later than five years	4,159	753	4,965	489
Later than five years	257	70	691	11
	6,734	1,384	7,567	1,209

27. 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.

Notes to the Consolidated Financial Statements

28. 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:

	2017 Book value £'000	2017 Fair value £'000	2016 Book value £'000	2016 Fair value £'000
Current:				
Trade and other receivables	29,625	29,625	31,834	31,834
Forward exchange contracts	416	416	433	433
Cash and cash equivalents	52,532	52,532	44,096	44,096
Trade and other payables	(55,818)	(55,818)	(49,504)	(49,504)
Forward exchange contracts	(1,362)	(1,362)	(2,066)	(2,066)
Total	25,393	25,393	24,793	24,793
Non-current:				
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.

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 2 which, as defined by IFRS 7, refers to those items whose fair value measurement is derived from inputs other than that are observable for the asset or liability either directly or indirectly.

	2017 £'000	2016 £'000
Forward exchange contracts at fair value through profit and loss account	37	(195)
Forward exchange contracts at fair value through hedging reserve	(983)	(1,438)
	(946)	(1,633)

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 £304,000 (2016: £249,000). 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.

	2017 Post-tax profits £'000	2017 Equity £'000	2016 Post-tax profits £'000	2016 Equity £'000
Euro 5% stronger against sterling	41	41	20	20
Euro 5% weaker against sterling	(37)	(37)	(18)	(18)

29. Group companies

At 30 June 2017, the trading subsidiaries of the group were:

Name of subsidiary	Activity	Country of incorporation	Proportion owned (%)
Polyflor Limited	Flooring manufacturing and distribution	England	100
Riverside Flooring Limited	Flooring manufacturing	England	100
Polyflor Australia Pty Limited	Flooring distribution	Australia	100
Polyflor New Zealand Limited	Flooring distribution	New Zealand	100
Polyflor Canada Inc.	Flooring distribution	Canada	100
Polyflor India Pvt Limited	Flooring distribution	India	100
Objectflor Art und Design Belags GmbH	Flooring distribution	Germany	100
Karndean International GmbH	Flooring distribution	Germany	100
James Halstead France SAS	Flooring distribution	France	100
Falck Design AB	Flooring distribution	Sweden	100

A complete list of the group's subsidiaries is provided in note 5 of the financial statements of the company.

30. Exchange rates

The currency exchange rates used to translate the results, assets and liabilities of foreign subsidiaries were:

	2017 Closing	2017 Average	2016 Closing	2016 Average
Euro	1.14	1.16	1.20	1.34
Australian dollar	1.69	1.68	1.80	2.04
New Zealand dollar	1.77	1.78	1.88	2.23
Canadian dollar	1.69	1.68	1.74	1.97
Swedish krona	10.96	11.20	11.33	12.50
Indian rupee	83.96	84.43	90.23	98.48

31. 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 22.

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. The key management personnel are the directors.

Company Balance Sheet
as at 30 June 2017

	Note	2017 £'000	2016 £'000
Fixed assets			
Tangible fixed assets	4	5,051	4,987
Investments	5	40,152	19,152
		45,203	24,139
Current assets			
Debtors due within one year		31,743	35,983
Debtors due after one year		3,543	4,339
Total debtors	6	35,286	40,322
Derivative financial instruments	8	416	433
Cash at bank and in hand		32,497	21,952
Total current assets		68,199	62,707
Creditors – amounts falling due within one year	9	(9,534)	(9,837)
Derivative financial instruments	8	(1,362)	(2,066)
Net current assets		57,303	50,804
Total assets less current liabilities		102,506	74,943
Creditors – amounts falling due after more than one year	10	(200)	(200)
Retirement benefit obligations	11	(21,257)	(25,431)
Net assets		81,049	49,312
Capital and reserves			
Equity share capital		10,393	10,374
Equity share capital (B shares)		160	160
Called up share capital	12	10,553	10,534
Share premium account		3,615	3,096
Capital redemption reserve		1,174	1,174
Hedging reserve		(983)	(1,438)
Profit and loss account		66,690	35,946
Total shareholders' funds		81,049	49,312

The company has taken advantage of the provisions of Section 408 of the Companies Act 2006 and has elected not to present its own profit and loss account. The profit after taxation for the financial year dealt with in the financial statements of the company was £53,777,000 (2016: £33,474,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2017.

M Halstead
Director

G R Oliver
Director

James Halstead plc Registration Number 140269

Company Statement of Changes in Equity

for the year ended 30 June 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 30 June 2015	10,524	2,917	1,174	2,206	49,698	66,519
Profit for the year	–	–	–	–	33,474	33,474
Remeasurement of the net defined benefit liability	–	–	–	–	(7,360)	(7,360)
Fair value movements on hedging instruments	–	–	–	(3,644)	–	(3,644)
Total comprehensive income for the year	–	–	–	(3,644)	26,114	22,470
Dividends	–	–	–	–	(39,867)	(39,867)
Issue of share capital	10	179	–	–	–	189
Share based payments	–	–	–	–	1	1
Balance at 30 June 2016	10,534	3,096	1,174	(1,438)	35,946	49,312
Profit for the year	–	–	–	–	53,777	53,777
Remeasurement of the net defined benefit liability	–	–	–	–	2,404	2,404
Fair value movements on hedging instruments	–	–	–	455	–	455
Total comprehensive income for the year	–	–	–	455	56,181	56,636
Dividends	–	–	–	–	(25,438)	(25,438)
Issue of share capital	19	519	–	–	–	538
Share based payments	–	–	–	–	1	1
Balance at 30 June 2017	10,553	3,615	1,174	(983)	66,690	81,049

Notes to the Company Financial Statements

1. Accounting policies

Basis of preparation

The separate financial statements of the company are presented as required by the Companies Act 2006. The company meets the definition of a qualifying entity under FRS 100 Application of Financial Reporting Requirements issued by the Financial Reporting Council. Accordingly, the financial statements have been prepared in accordance with FRS 101 Reduced Disclosure Framework as issued by the Financial Reporting Council.

The company has used the disclosure exemptions available under FRS 101 in relation to presentation of a cash flow statement, comparative information for certain assets, capital management, transactions with other group companies, compensation of key management personnel and the effects of new but not yet effective IFRS.

As the consolidated financial statements include the equivalent disclosures, the company has used the disclosure exemptions available under FRS 101 in relation to share based payments, and financial instruments. The disclosures for the defined benefit retirement obligations are included in the consolidated financial statements.

The financial statements are prepared on a going concern basis and in accordance with the historical cost convention, except for certain financial instruments that have been measured at fair value.

The accounting policies of the company are the same as those set out in the consolidated financial statements. The critical accounting estimates and judgements are income taxes and retirement benefit obligations as set out in the consolidated financial statements.

The following additional accounting policies are specific to the company's financial statements.

Investments

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

Investment land and buildings

Investment land and buildings are stated at cost less depreciation and any provision for impairment. Depreciation is calculated to write off the buildings on a straight line basis over their estimated economic life of fifty years. No depreciation is charged in respect of land.

2. Profit for the year

The company has taken advantage of the provisions of Section 408 of the Companies Act 2006 and has elected not to present its own profit and loss account. The profit after taxation for the financial year dealt with in the financial statements of the company was £53,777,000 (2016: £33,474,000).

3. Staff costs and numbers

	2017 £'000	2016 £'000
Staff costs comprised		
Wages and salaries	2,834	2,840
Social security costs	361	351
Pension costs	115	125
Share based payments	1	1
	3,311	3,317

The average monthly number of employees during the year was 20 (2016: 23).

4. Tangible fixed assets

	Investment land and buildings £'000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 30 June 2016	7,671	1,311	440	9,422
Additions	307	–	41	348
Disposals	–	–	(38)	(38)
At 30 June 2017	7,978	1,311	443	9,732
Depreciation				
At 30 June 2016	3,898	204	333	4,435
Charge for the year	188	24	62	274
Disposals	–	–	(28)	(28)
At 30 June 2017	4,086	228	367	4,681
Net book value				
At 30 June 2017	3,892	1,083	76	5,051
At 30 June 2016	3,773	1,107	107	4,987

The investment land and buildings relates to a freehold property that is occupied by a subsidiary company. The rental income was £600,000 (2016: £500,000).

Notes to the Company Financial Statements
continued

5. Investments

	Shares in subsidiary undertakings £'000
Cost	
At 30 June 2016	28,552
Additions	21,000
At 30 June 2017	49,552
Provision for impairment	
At 30 June 2016	9,400
At 30 June 2017	9,400
Net book value	
At 30 June 2017	40,152
At 30 June 2016	19,152

The additions to investments comprised Polyflor Limited £17,000,000 and Riverside Flooring Limited £4,000,000.

At 30 June 2017, the company held directly and indirectly 100% of the equity and voting rights of the following undertakings:

Subsidiary	Activity	Country of incorporation	Proportion owned (%)
Owned by the company			
Polyflor Limited	Flooring manufacturing and distribution	England	100
Riverside Flooring Limited	Flooring manufacturing	England	100
Titan Leisure Group Limited	Holding company	England	100
Halstead Flooring International Limited	Dormant company	England	100
Expona Limited	Dormant company	England	100
JHL Limited	Dormant company	England	100
Arai (UK) Limited	Dormant company	England	100
Halstead Floorings Limited	Dormant company	Ireland	100
Halstead Flooring Concepts Pty Limited	Holding company	Australia	100
Polyflor Canada Inc.	Flooring distribution	Canada	100
Polyflor India Pvt Limited	Flooring distribution	India	100
Objectflor Art und Design Belags GmbH	Flooring distribution	Germany	100
James Halstead France SAS	Flooring distribution	France	100
Falck Design AB	Flooring distribution	Sweden	100
Owned by subsidiaries			
Phoenix Distribution (NW) Limited	Dormant company	England	100
Polyflor Australia Pty Limited	Flooring distribution	Australia	100
Colonia Flooring Pty Limited	Dormant company	Australia	100
Polyflor New Zealand Limited	Flooring distribution	New Zealand	100
Karndean International GmbH	Flooring distribution	Germany	100

5. Investments continued

Subsidiary	Address
Polyflor Limited Riverside Flooring Limited Titan Leisure Group Limited Halstead Flooring International Limited Expona Limited JHL Limited Arai (UK) Limited Phoenix Distribution (NW) Limited	Beechfield Hollinhurst Road Radcliffe Manchester M26 1JN England
Halstead Floorings Limited	24/26 City Quay Dublin 2 D02NY19 Ireland
Halstead Flooring Concepts Pty Limited Polyflor Australia Pty Limited Colonia Flooring Pty Limited	101 Prosperity Way Dandenong VIC 3175 Australia
Polyflor Canada Inc.	6350 Northwest Drive Mississauga Ontario L4V 1J7 Canada
Polyflor India Pty Limited	B-408 Knox Plaza Mindspace, Malad West Mumbai 400 064 India
Objectflor Art und Design Belags GmbH Karndean International GmbH	Wankelstrase 50 D 50996 Koln Germany
James Halstead France SAS	Parc Saint Christophe 10 Avenue de l'Enterprise 95861 Cergy Pontoise France
Falck Design AB	Box 102 51 434 23 Kungsbacka Besoksadress Energigatan 9 Sweden
Polyflor New Zealand Limited	2 Narek Place Manukau City Auckland 2104 New Zealand

Notes to the Company Financial Statements
continued

6. Debtors

	2017 £'000	2016 £'000
Trade debtors	131	76
Amounts owed by group undertakings	31,031	35,594
Corporation tax	265	–
Other debtors	81	136
Prepayments and accrued income	235	177
Debtors due within one year	31,743	35,983
Deferred tax assets (note 7)	3,543	4,339
Debtors due after one year	3,543	4,339
Total debtors	35,286	40,322

7. Deferred tax assets

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Other timing differences £'000	Total £'000
At 30 June 2016	4,323	(119)	135	4,339
Charged to income	(217)	(22)	(65)	(304)
Charged to other comprehensive income	(492)	–	–	(492)
At 30 June 2017	3,614	(141)	70	3,543

8. Derivative financial instruments

Derivative financial instruments are forward foreign exchange contracts recognised in the balance sheet at fair value.

9. Creditors – amounts falling due within one year

	2017 £'000	2016 £'000
Trade creditors	470	517
Amounts due to group undertakings	6,644	6,631
Corporation tax	–	11
Other taxation and social security	246	114
Other creditors	153	231
Accruals and deferred income	2,021	2,333
	9,534	9,837

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

	2017 £'000	2016 £'000
Preference shares	200	200

11. Retirement benefit obligations

	2017 £'000	2016 £'000
Present value of funded obligations	(82,370)	(81,655)
Fair value of scheme assets	61,113	56,224
Net liability	(21,257)	(25,431)

The company sponsors the Halstead Group Pension Scheme. Disclosure information is provided in note 22 to the consolidated financial statements.

12. Share capital

Ordinary shares – allotted, issued and fully paid	2017 Number	2016 Number	2017 £'000	2015 £'000
At 1 July ordinary shares of 5p each	207,470,508	207,282,508	10,374	10,364
Ordinary shares of 5p each issued	394,100	188,000	19	10
At 30 June ordinary shares of 5p each	207,864,608	207,470,508	10,393	10,374
Ordinary B shares of 1p each at 1 July 2016 and 30 June 2017	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,553	10,534

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

	2017 £'000	2016 £'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

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 Company Financial Statements
continued

12. 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% 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% 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.

13. Related party transactions

The company has taken advantage of the exemption granted by FRS 101 not to disclose transactions and balances with other group companies.

Ten Year Summary (Unaudited)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	158,740	169,263	186,424	213,944	226,335	217,082	223,488	227,261	226,141	240,784
Profit before income tax	29,605	32,604	35,307	37,538	41,726	40,495	41,753	44,184	45,499	46,616
Income tax	(9,431)	(8,036)	(9,948)	(10,768)	(11,941)	(10,446)	(10,301)	(10,250)	(10,243)	(10,106)
Profit after income tax	20,174	24,568	25,359	26,770	29,785	30,049	31,452	33,934	35,256	36,510

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Basic earnings per 5p share	9.8p	11.9p	12.3p	12.9p	14.4p	14.5p	15.2p	16.4p	17.0p	17.6p
Dividends paid per 5p share	4.4p	5.6p	6.3p	6.9p	7.4p	8.3p	9.0p	10.1p	11.4p	12.3p

Figures for the years ended 30 June 2008 to 2013 have been restated to reflect the impact of the revision to IAS 19 which was implemented in the year ended 30 June 2014.

Figures for previous years have been restated to take account of the one for one bonus share issues in the years ended 30 June 2011 and 2013.

Special dividends are not included.

Shareholder Information

Financial calendar

Annual general meeting	1 December 2017

Announcement of results

For the half year	March
For the full year	September

Dividend payments

Ordinary shares – interim	June
– 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 on the London Stock Exchange website.

Shareholder analysis

as at 21 September 2017

	Number of holders	Number of shares	%
By size of holding			
1-10,000	1,820	5,535,914	2.7
10,001-50,000	588	13,341,159	6.4
50,001-100,000	91	6,448,635	3.1
100,001-500,000	97	20,922,231	10.1
500,001 and over	54	161,725,669	77.7
	2,650	207,973,608	100.0

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	629	97,169,401	46.7
Other limited companies/corporate bodies	34	1,130,913	0.5
Miscellaneous bodies/pension funds	13	304,062	0.1
Private individuals	1,968	109,263,416	52.6
Investment trusts and funds	6	105,816	0.1
	2,650	207,973,608	100.0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ONE HUNDREDTH and SECOND ANNUAL GENERAL MEETING of the company will be held at the Oldham Event Centre, off Hilbre Avenue, Oldham, Lancs, OL2 5BL on 1 December 2017 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 2017 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 2017.

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

4 To elect Mr M J Halstead as a director under the articles of association (note 9).

5 To elect Mr R P Whiting as a director under the articles of association (note 10).

6 To re-appoint BDO LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

Special Business

To consider and, if thought fit, pass the following resolutions of which resolutions 7 and 8 shall be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions:

7 That, subject to the passing of the ordinary and special resolutions numbered 8 and 9 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 5.0p 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.

8 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 £3,466,227 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.

Notice of Annual General Meeting
continued

9 That subject to the passing of the ordinary resolution numbered 8 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:

(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 5 per cent. of the ordinary share capital of the company in issue at the date of the passing of this resolution;

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.

10 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
D W Drillingcourt
Secretary

13 October 2017

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

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 at, PXS, 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 at, PXS, 34 Beckenham Road, Beckenham BR3 4TU, in each case no later than 12 noon on 29 November 2017. 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 1 December 2017 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 close of business on 29 November 2017.

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 1 December 2017 to shareholders on the register as at 3 November 2017.

9 Mr Michael Halstead, aged 60, is an executive of many years standing in the advertising industry, in recent years for his own company (HH&S Group Ltd) and formerly as an account director for Saatchi & Saatchi.

10 Mr Russell Whiting, aged 51, who is a local businessman and a director and shareholder of Associated Credit Holdings Ltd. Mr Whiting has extensive experience of offering leasing solutions to a broad range of commercial enterprises.

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