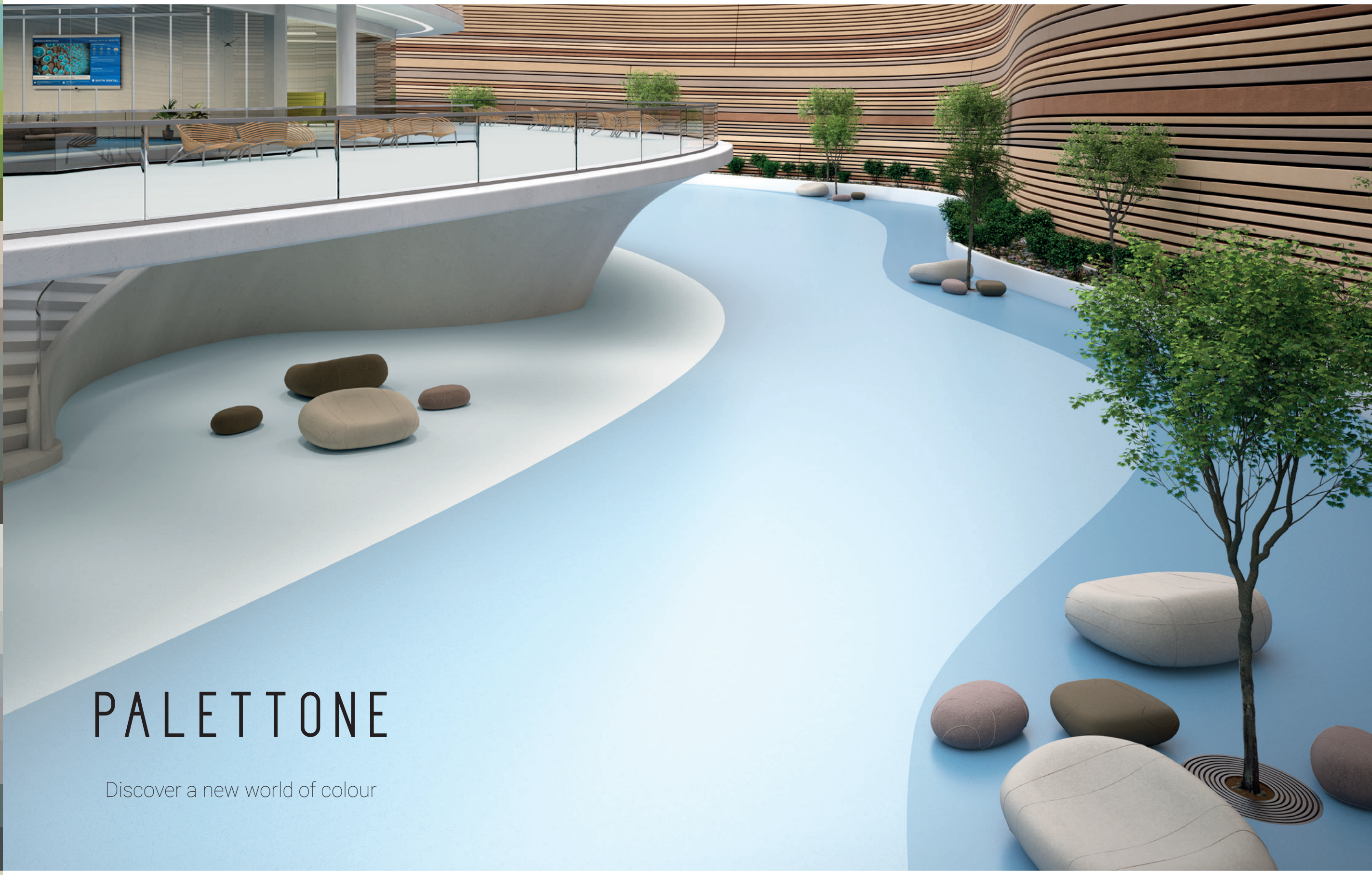
JAMES HALSTEAD PLC

Covering the World

Report and Accounts 2018



Directors and Advisers

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Contents

Chairman's Statement

Results

I am pleased to report in my first year as Chairman that we have, again, achieved record turnover with sales of £249.5 million (2017: £240.8 million). In addition, we have also achieved a record profit before tax of £46.7 million (2017: £46.6 million).

The growth in profit is modest but we have made some significant investment in new product during the year and this is reflected in the profit before tax figure. The breadth of projects that we have been associated with is impressive and includes the Aston Martin DBX factory in Llandough, Amazon's sales office in Cape Town and the Guizhou Provincial Cancer Hospital in China.

As the "Brexit" deadline grows ever nearer I, and the Board, remain vigilant for issues that may arise though obviously the detail remains somewhat hazy. Notwithstanding this lack of clarity, I believe we are well placed in that we export to far more countries outside the EU than are members of the EU. In addition, we have attained full Authorised Economic Operator (AEO) status with HMRC. AEO status is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that our customs controls and procedures are efficient and compliant. It is considered, depending on the exact details of Brexit, that this will minimise the risk of any post Brexit border delays.

With projects as diverse as The Irish Whiskey Museum on Grafton Street in Dublin and the Universal Church, Sao Paolo our portfolio continues to reach far across the globe.

The company and our strategy

James Halstead plc is a group of companies involved in the manufacture and supply of flooring for commercial and domestic purposes, based in Bury UK. James Halstead plc is listed on the AIM market of the London Stock Exchange and celebrates 70 years as a listed company this year.

The group was established in 1914 and continues to operate out of the original premises in Bury. In its factories in Bury and Teesside it manufactures resilient flooring for distribution in the UK and worldwide.

It also sources other flooring products, in particular luxury vinyl tiles and rubber flooring from key partners manufacturing on the group's behalf, predominantly under Halstead brand names.

The key brands the group operates under are Polyflor, Objectflor and Expona. There are other brands that the group operates under that are more regionally based or territory specific.

James Halstead utilises a global distribution chain for export. Parts of this network are controlled by the group, in particular, Western Europe, Australia, New Zealand, Canada and India. The group employs around 830 people worldwide, the majority of whom are in the UK.

The company's strategy is designed to enhance the brand identity thereby generating and enhancing goodwill and customer satisfaction with the aim of continued repeat business. This approach is designed to increase revenue and consequently profitability and cash flow to enable the continuation of dividends thereby creating shareholder wealth. As a manufacturer our supply is in bulk to distributors responsible for regional/local delivery. Key to the company ethos is to have dedicated sales personnel to present our product to end users and specifiers rather than to delegate the representation of product to stockists. Our businesses are totally flooring focused and predominantly commercial flooring.

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.

Sustainability is a key area of focus and from our award winning recycling initiatives through to our environmental policies, we are recognised as leaders within our industry.

I think it is worthy to note that our credentials for responsible sourcing have been recognised with our UK businesses awarded an "excellent" rating under the BES6001 certification process. We were awarded 51 points out of a maximum 52 which I believe is the highest rating given by the British Research Establishment (the BRE). In addition, we have published our latest "Sustainability Report" which communicates our performance to all stakeholders.

Corporate governance

The board has over many years recognised its responsibility towards good corporate governance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. During this calendar year the Financial Reporting Council and the Quoted Company Alliance have both issued guidance on governance and having assessed these codes we have aligned our approach to the latter. In many ways this is a continuing process but in the annual accounts we outline how we affect this code and I trust our shareholders will take the time to review our comments.

Dividend

Profits and earnings per share have increased and we continue un-geared. With our cash balances standing at £50.7 million, even after dividends paid in the last year that amounted to £27.2 million. Our cash reserves continue as the bedrock of a strong balance sheet.

It is pleasing to report that the board proposes, yet again, an increased final dividend. The final dividend will be 9.65p (2017: 9.25p) representing a 4.3% increase which combined with the interim dividend paid in June 2018 of 3.85p (2017: 3.75p), makes a total of 13.5p (2017: 13.0p) for the year, an increase of 3.85%. Once again a record dividend.

Acknowledgements

During the financial year the general manager of our Norwegian business sadly died after battling cancer for many months. Jan-Eric Jorgensen had been with us since 2001 and led his team to create a strong business and is a sad loss to us all. I would also note the retirement from the board of Mr Geoffrey Halstead after 55 years and thank him for his continued support. In addition, my thanks go also to our staff in the UK and around the world whose hard work continues to push us forward.

Outlook

Trading since our year-end continues to be solid, particularly in the UK. Given the adverse raw material cost increases over the last twelve months or so we have increased our prices which our trade partners have accepted.

In addition, we have updated our product portfolio – not least in the homogenous sheet vinyl with Palettone – and to date the new products have received a very good reaction from customers. Shortly this will be augmented by Polysafe Verona, offering enhanced slip resistance and with decoration optimised for dementia friendly environments. As is our way, we have sought third-party certification for this innovative product and the range has been described as "excellent" by the Dementia Services Development Centre (DSDC) at The University of Stirling.

I can only be confident of continued progress in the coming year.

Anthony Wild
Chairman

25 September 2018

Chief Executive's Review

A year of record turnover and one of record profit but the year was challenging. As an exporter we had the advantage of a weaker sterling, but against this raw material prices continued to rise.

The year on year adverse effect of raw material price increases was 9.5% which equates to about £1.8 million. To an extent this was the result of a weak sterling and was offset by sales outside the UK at better exchange rates. Nevertheless, it did affect profitability on sales in the UK but we took an active decision to hold back on price increases to maximise sales volumes. Favourable mix of sales largely offset the bottom line effect of these raw material costs.

The launch, in May 2018, of Palettone was costly but very worthwhile in the longer term. The costs of development trials, sampling, marketing material and related expenditure were around £2 million and the product has just been launched into the global market place. More than half of these costs were above the gross margin line. We believe that the timing of this was important following the closure of one of our competitor's factories.

The Palettone range is a premium homogenous sheet vinyl collection. It is the largest new range by any manufacturer in this core product area for many years and offers a collection of 50 colours optimised for our global market. In recent years a lot of competitor focus has been in the area of luxury vinyl tile but vinyl sheet continues to be a large sector of the market.

Palettone is presented in a unique, innovative sample package with full customer support from specification to installation. The feedback we have received on the collection since its launch has been exceptional.

In addition to the existing businesses we have, during the year, taken considerable time to assess various acquisition opportunities. The most visible of these, which resulted in several announcements, was our approach to Airea plc to look to adding their carpet tile ranges to our portfolio. Having looked in some detail we decided not to progress our ambitions in this area with that company.

Reviewing the businesses in more detail:

Objectflor/Karndean and James Halstead France, our European operations

This year has been one of significant product re-launches for this business.

Firstly, the Karndean ranges which are aimed at the wholesale market were launched at the beginning of the year. Secondly, the flagship Expona Domestic range was launched at the Domotex show in January 2018 and thirdly Polyflor's new Palettone range was launched late in the financial year. The gestation period for a new launch is typically a number of months so the positive impact arising from such major product changes has only been partially seen in the current financial year.

Sales increased by 2% across the business however profitability was negatively impacted by a number of factors, principally, the adverse effect of exchange rates and price increases from suppliers.

All the key markets the business operates in grew, with the exception of Benelux. France in particular has grown again, and is very much accepted as a "local" within that market.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Our Australian business had a record year both in terms of turnover and profit.

The ongoing projects that the business continues to win and supply include the Howard Solomon Aged Care Facility in Ferndale, Western Australia and The Australian Embassy in Port Moresby. Another impressive flooring installation is the Pier 33 Yacht Club in Mooloolaba, Queensland. Given that we are the only manufacturer/distributor with warehousing in every state and with the sales representation local to each major city, the business is soundly based for continued growth.

The business uses product launches not just to present the new product but to also renew contact with specifiers and users of our products.

During the year we added warehousing in South Australia and this has enhanced our service offering to customers with the Angaston, Strathalbyn, Goolwa and Barossa Hospitals all examples of our penetration in this region.

New Zealand had another year of modest 1% growth, which similarly to last year showed good growth on the North Island offset by contraction on the South Island which continues to be slow. Product mix has had some negative impact on margin locally for bought in products as one key supplier had some supply interruptions and the shortfalls in this product were made up with greater sales of lower margin products.

Our UK manufactured products continue to have a dominating market share and the New Zealand social housing contract referred to last year continues to be an important component of this. Our service led approach remains important to that business and continues to be a key distinguishing feature over our competitors.

We have changed the management structure of the Asia business during the course of the year to align it with our larger Australian business. This will ensure that we have a clearer decision making process and aligns more effectively with regional time zones. A key theme for the group in recent years is taking greater control of our markets and plans are in place to extend and make more effective the footprint of our Hong Kong operation both in China and other key markets around Asia. The presence of Chinese manufactured product makes many of these markets very price sensitive and allows for competitors to claim better servicing at least. The restructuring of this part of the business continues to ensure our response to these market pressures is robust. Projects such as the HPA Electronics Factory in Malaysia, Hamazushi Chain Stores across Japan, The Water Market in Macau and Chengdu Woman and Children's Hospital in China illustrate just a few of the many new installations we are proud to have been involved with.

Polyflor & Riverside Flooring, based in UK

There was a dearth of large government funded projects in the UK throughout the year as spending cuts continued to be applied across the board. Nevertheless sales into the refurbishment sector remained strong and with a 24 hour delivery service across the UK, Polyflor was able to make the most out of a weak market. Our UK sales were 3% ahead of the prior year. Polyflor overall reported 4.9% growth in turnover and Riverside some 7%.

New products such as the "next generation" barefoot safety flooring, Polysafe Quattro, which offers sustainable wet slip resistance and the extensive new Palettone collection further helped confidence and sales.

A restructuring of the Polyflor board was carried out during the year which included succession planning and also greater focus on sales into markets where we have identified strong opportunities, such as Eastern Europe and the South Americas. This has not involved adding to the headcount in the UK but will result in the employment of further staff in the local market places.

Also during the year extensive research was undertaken into the development of a totally new format of manufacturing flooring, the results of which are now under board consideration. We plan to acquire a new production plant and our technical teams are working with suppliers on a final specification. To pave the way for this we have spent many months removing old and surplus equipment to create space for this facility on the Radcliffe site.

Investment in our continued success endures. Notwithstanding the development of new ranges, our long term performance depends on continuous improvement of our productivity and plant performance. In the early part of the year we upgraded the chilling units at the Radcliffe site with more effective equipment which reduced energy consumption and with the prolonged heat of this summer this paid for itself, with production at full line speed throughout. Our non-directional sheet vinyl plant was modified with increased automation allowing us to achieve 96% utilisation. Over the coming year this should ensure 25% higher output for the same man-hours. Our high voltage and low voltage equipment was completely revamped which will again reduce down-time and improve quality control. At the same time we have installed new LED lighting across the site which not only improves visibility but does so at a reduced energy level. Given that the per/unit cost of electricity is 2% higher year on year and gas some 9%, these changes have negated cost increases.

Investment at Teesside also continued. We have completed the upgrade to allow in-line register emboss on our heterogeneous sheet as well as upgrading our inspection to an in-line facility. The former offers pay-back with improved designs and the latter with reduced manpower. In addition we have increased the number of racks in the warehouse at Teesside to give us greater capacity and flexibility in our distribution and have also replaced our chilled water system for cooling rolls on the finishing line.

These enhancements to processes are as important as product development because as manufacturers we need to stay at the forefront of competitiveness.

Notable projects in the year included the new Kellogg HQ in Manchester, the S4C HQ (BBC Welsh Language Channel) – Carmarthen, Wales (which used our new Palettone), Adidas UK Head Office in Stockport and Alexander McQueen Head Office in London.

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

The Scandinavian business has posted a 6% increase in turnover over the prior year.

Sweden has had a record year for sales and profitability along with growth in sales of UK manufactured products which showed an increase in sales by some 51%.

The Norwegian business had a change in management late in the year following the sad death of the Managing Director following a short illness. During the year the business was

Chief Executive's Review
continued

re-focused on the core portfolio of Polyflor vinyl sheet. One highlight was one of the first Palettone specifications for Helly Hansen (the sailing and outdoor clothing retailer) in central Oslo. Sales in this business fell back slightly on the prior year as major projects were keenly contested by our competitors. Nevertheless projects such as the FlipZone trampoline park in Bergen and supplying the Swedish government controlled pharmacy Apoteket (which has 400 stores across Sweden) were examples of our solid presence.

Polyflor Canada, based in Toronto

Turnover in this business continued to grow with 15% growth in sales overall. The mining sector, previously the major part of our business in Canada, continues to be in the doldrums and the growth comes from the sales force obtaining specifications from end users.

During the year we relocated to larger premises and we have now put in place a training facility which is a common feature of our businesses around the world. Though initially this facility is only based in the Toronto area it is already raising the profile of our business and adds to our reputation of being a manufacturer that does far more than just sell flooring. Furthermore we have added more sales representation with a team now based in British Colombia.

In the current year we have had products installed in as diverse places as the Canadian Hockey Hall of Fame and in CBC's radio studios.

Polyflor India, based in Mumbai

As reported at the half year the introduction of general sales tax (GST) in July 2017 severely disrupted the performance of this fledgling business for much of the year. As the year progressed the business community overcame the initial shock and more significantly, following a reduction in the GST rates applicable to our product, business activity increased considerably in the latter months of the year allowing the business to break-even for the year as a whole.

This level of activity has continued in the first months of the new year. The portfolio of projects continues to increase monthly as the sales extended Polyflor's footprint across the country. Healthcare remains at the core of opportunities but the year has seen sales to the Indian Space Research Organisation, Goldman Sachs' offices in Bangalore and the Chaitanya Bharati Institute of Technology. Although competition from both global and local players is tough throughout the market we are seeing increasing levels of specifications of our products which bodes well for the future of this business.

Rest of the World

Our global reach continues with our flooring being supplied to Parmaco Pre-Fabricated buildings in Finland, the Malvern College in Cairo and Aksaray Public Hospital in Central Anatolia, Turkey.

In order to further support our activities we opened Polyflor PZE (within the Dubai free trade zone) in February 2018, as a representative office to support our trade in the region and enable us to employ local sales staff. We were pleased to win the contract to supply Al Hokair Play Centres across Saudi Arabia and the UAE and we have every expectation of increased penetration of these markets.

Outlook

In addition to the Verona range noted in the Chairman's outlook we are at an advanced stage of another new range – Polyflor Wovon. A first of its kind for our company, Polyflor Wovon is an exciting collection of interwoven vinyl tiles, a low maintenance alternative to traditional textile materials and has a stylish, tactile design as well as a heavy commercial vinyl construction, perfect for specification within busy interior environments. It should broaden the possibilities for vinyl installations.

With the investments in product, processes and structures I believe we have undertaken significant groundwork in the year to put us in good stead for continued progress in 2019.

Mark Halstead
Chief Executive

25 September 2018

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 judicious accrual for known probable liabilities with as yet uncertain outcome at the year-end. Prudence is less regarded by the accounting profession in the preparation of published accounts than it was even a decade ago but to us 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 0.2% ahead of the profit for the year to 30 June 2017.

Profit after tax is also at a record level being 0.5% ahead of the prior year to 30 June 2017.

Our gross margins decreased as a percentage and in absolute terms. The main reason was, broadly, the adverse effects of increased raw material and plant trial and development costs of the Palettone range.

Some key statistics:

- Group turnover at £249.5 million (2017: £240.8 million) was 3.6% higher than last year.
- Net finance income (excluding the effects of IAS19 accounting for pensions) was £0.11 million (2017: £0.10 million) reflecting interest rates that remain very low.
- Selling and distribution costs were 0.9% ahead of last year. Administration cost were 5.9% below last year.
- Trade debtors decreased to £28.3 million (2017: £28.5million). Trade creditors were lower at £32.6 million (2017: £ 41.3 million).
- Stock levels stand at £71.1 million (2017: £72.9 million) reflecting stock for new ranges, principally Palletone.
- Cash stands at £50.7 million (2017: £52.5 million) even after the payment of £27.2 million in dividends, £9.6 million in tax and £3.6 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. As we approach the date for our exit (albeit followed by a transition period), we continue to digest government guidance. On the plus side we export to many countries outside the EU and are very familiar with global customs procedures. There are concerns in the press over interruptions to supplies into the UK post Brexit but we have sourced raw materials widely and our key European suppliers are very large organisations that have huge trade into the UK and we are confident supplies will continue. To the extent that imports will attract duty we have procedures in place to reclaim any duty on imports that are then re-exported around the globe

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

James Halstead

Financial Director’s Review
continued

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 denominated 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 (decrease)/increase in the value of our overseas assets are as follows:

	£’000
2018	(759)
2017	2,168
2016	4,808
2015	(3,868)
2014	(2,260)

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.

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 20% 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 as driven by the actuarial profession.

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).

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 £4.9 million against a net actuarial gain in 2017 of £2.4 million which is largely the effect of changing assumptions and experience gains on liabilities. It is of note that since the adoption of the pension scheme into the balance sheet some years ago the deficit has had the potential 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 £4.02 (2017: £4.68) are:

- The net deficit to market capitalisation is 1.8% (2017: 2.2%);
- The total liabilities to market capitalisation is 9.2% (2017: 8.5%); and,
- The deficit to operating profit is 31.6% (2017: 45.0%).

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.

Given the ongoing costs of the pension protection fund levy and to give the trustees ongoing comfort, the group is at an advanced stage of adopting asset backed contributions (ABC) in the form of security over some of the group's land and buildings. These stand in the books at historic cost but have a much higher real value.

Gordon Oliver
Finance Director

25 September 2018

The strategic report was approved by the board of directors and signed on behalf of the board.

D W Drillingcourt
Secretary

25 September 2018

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2018.

Results and dividends

The group results for the year and the financial position at 30 June 2018 are shown in the consolidated income statement on page 24 and the consolidated balance sheet on page 26.

The directors are recommending a final dividend of 9.65p (2017: 9.25p) per share on the ordinary share capital for payment on 7 December 2018 to those shareholders whose names appear on the register at 9 November 2018. This final dividend together with the interim dividend of 3.85p (2017: 3.75p) per share paid on 6 June 2018 makes a total dividend of 13.5p (2017: 13.0p) per share for the year.

Directors

The directors who held office during the year were as follows:

J A Wild
M Halstead
G R Oliver
S D Hall
M J Halstead (appointed 1 December 2017)
R P Whiting (appointed 1 December 2017)
G Halstead (retired 1 December 2017)
E K Lotz (retired 1 December 2017)

Mr J A Wild and Mr M Halstead are the directors retiring by rotation, and offer themselves for re-election at the annual general meeting.

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

	30 June 2018		30 June 2017 or later date of appointment	
	Beneficial	As Trustee	Beneficial	As Trustee
J A Wild	150,300	11,975,360	150,300	12,512,032
M Halstead	13,241,468	11,410,754	13,241,468	11,541,547
G R Oliver	207,550	301,248	207,550	432,041
S D Hall	5,700	–	5,700	–
M J Halstead	908,117	–	2,000	–
R P Whiting	–	–	–	–

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 14 September 2018 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
Rulegale Nominees	37,202,143	17.9
John Halstead Settlement	35,447,218	17.0
Octopus Investment Nominees	8,581,475	4.1
HSBC Global Custody Nominee	7,222,735	3.5

Share capital

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

21 July 2017	49,000
31 July 2017	60,000
	109,000

Special business at the annual general meeting

Resolution 6 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the Annual General Meeting in 2019.

Resolution 7 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 2019 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 8 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. The proposed authority will terminate at the next Annual General Meeting of the company to be held in 2019 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 9 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;

Report of the Directors
continued

- 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.

Risk management

Information in relation to risk management and future developments can be found in the financial director's review in the strategic report.

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

25 September 2018

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Board Report on Remuneration

Remuneration committee

The remuneration committee comprises the non-executive directors, with Mr S D Hall, 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

The directors salaries and fees for the year are disclosed in note 13. 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 £430,000 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, Mr M J Halstead and Mr R P Whiting each 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.

S D Hall
Chairman of the Remuneration Committee

Corporate Governance

Chairman's introduction to governance

The board has over many years recognised its responsibility towards good corporate goverance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. During this year the Financial Reporting Council and the Quoted Company alliance have both issued guidance on governance and having assessed these codes we have aligned our approach to the latter. In many ways this is a continuing process but in the following paragraphs we outline how we effect this code and I trust our shareholders will take the time to review our comments.

It is my belief that good governance is accountability to shareholders as a whole over time rather than being swayed by current short term objectives of individual holders. For many companies some shareholders are transient and focus short term, looking for ambitious acquisitions or risky strategies and yet quick to exit at the first sign of problems. Management need to be focused on the medium to long term goal as much as current issues.

Anthony Wild
Chairman

Directors and committees

The Company is controlled by the board of directors. The board consists of a non-executive chairman, two executive directors, a senior independent director and two non-executive directors.

The board has three sub committees: a remuneration committee, an audit committee and a nominations committee.

The directors are named below along with their membership of board committees.

Director	Role	Remuneration Committee	Audit Committee	Nominations Committee
Mr Anthony Wild	Non-executive Chairman	X	X	X
Mr Mark Halstead	Chief Executive			X
Mr Gordon Oliver	Finance Director			X
Mr Steve Hall	Senior Independent Director	X	X	X
Mr Michael Halstead	Non-executive Director	X	X	X
Mr Russell Whiting	Non-executive Director	X	X	X

The board

The role of the board is summarised as follows:

- To establish and maintain the group's vision, mission and values;
- Decide on the current and future strategy to ensure the group's longevity;
- To delegate to management the implementation of policies, strategies and business plans while ensuring the framework of internal controls is effective;
- Account to shareholders and stakeholders to promote their interests and the goodwill to the group.

The board comprises two executive directors and three non-executive directors. The roles of chairman and chief executive are separated.

Directors

Mr Anthony Wild – non-executive Chairman

Mr Wild was appointed to the board as senior independent director in March 2001 and chairman in December 2017. He is a Chartered Accountant and was senior partner in a local firm for many years offering management consultancy services. He brings a long and in depth knowledge of James Halstead plc, its heritage and strategy over many years along with business and commercial knowledge obtained in a career of business advice. A key responsibility of the chairman is to lead the board effectively and to oversee the adoption, delivery and communication of the company's corporate governance model. The chairman as a non-executive director has adequate separation from the day-to-day business to be able to have an independent view. The chairman ensures that the board receives accurate, timely and clear information and there should be good information flows within the board and its committees as well as between the NEDs and senior management. Mr Wild is chairman of the nominations committee.

Mr Mark Halstead – Chief Executive

Mr Halstead has over 30 years' experience in the group holding senior management positions within Polyflor prior to his appointment as group chief executive in 2002. Having gained his grounding in many aspects of the group's flooring activities Mr Halstead focused on exports and founded our operations in Europe. He brings unparalleled knowledge of the group's activities, the products and positioning in markets and experience to allow for the assessment of future opportunities for the group both in commercial terms and product related. Mr Halstead is tasked with the delivery of the business model agreed within the strategy set by the board.

Mr Gordon Oliver – Finance Director

Mr Oliver is a Chartered Accountant. He trained with KPMG and held a number of financial positions in industry prior to joining James Halstead in 1987 as Group Financial Controller. He was instrumental in the disposal of non-core businesses in the UK and overseas and became finance director of the group in 1999. He brings knowledge of financial management and control, corporate governance and business acumen to the business as well as development of future strategy arising from a long period as a member of the board. During his time with the company Mr Oliver's standing has been recognised by several awards from his peers and the financial press. Mr Oliver is tasked with working closely with the Chief Executive to progress the business and to have regard to mitigation of risk. In addition a key role is integrity of the financial information and communicating to the board the financial implications of areas of subjective judgement.

Mr Steve Hall – Senior independent director

Mr Hall was appointed to the board in 2012 as a non-executive director. He has 21 years' experience as a Director of Corporate Banking for the Royal Bank of Scotland where he was responsible for corporate SMEs and quoted clients. For several years he has acted as a consultant outside of banking and is a non-executive director to a large retail chemist chain. He brings with him this banking experience as well as broad experience of mergers, acquisitions and disposals and the financing thereof. One of the key responsibilities of the SID is leading the performance evaluation of the chairman, or the search for a new chairman. As SID, Mr Hall is an alternative route of access for shareholders and other directors who have a concern that cannot be raised through the normal channels of the chair or the executive directors. Mr Hall is chairman of the remuneration and the audit committees.

Mr Michael Halstead – non-executive director

Mr Halstead was appointed to the board in 2017. He has many years' experience in the advertising industry having been an account director for Saatchi and Saatchi and more recently running his own company HH&S Group Limited. He brings general business acumen to the board along with specifics relating to marketing and public relations arising from his background. Mr Halstead provides oversight and scrutiny of the performance of the executive directors, whilst both constructively challenging and inspiring them, thereby ensuring the business develops, communicates and executes the agreed strategy and operates with reference to the risk management framework. Mr Halstead is in the 4th generation after the founder and has never worked within the business but is passionate to preserve the principles of the company and to contribute to its continued success.

Mr Russell Whiting – non-executive director

Mr Whiting was appointed to the board in 2017. He is a local businessman and is director of a company involved in leasing of assets, Associated Credits Holdings Ltd. As well as general business acumen he brings specific understanding of business and asset financing to a broad range of commercial enterprises. He has known the group for a number of years through his business. Mr Whiting possesses the critical skills that are relevant to modern companies, which includes both technical experience and the ability to positively challenge and to listen in equal measure.

Attendance at the six board meetings during the year was as follows:

	Possible	Actual
J A Wild	6	6
M Halstead	6	6
G R Oliver	6	5
S D Hall	6	6
M J Halstead (appointed 1/12/17)	4	4
R P Whiting (appointed 1/12/17)	4	4
G Halstead (retired 1/12/17)	3	3
E K Lotz (retired 1/12/17)	3	3

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;

Corporate Governance
continued

- subsidiary company budgets, containing financial and operating targets, capital expenditure proposals and performance/profitability indicators, are presented to and reviewed by the group executive directors. The consolidated group budget is approved by the group board;
- there is an ongoing process for identifying, evaluating and managing the significant risks faced by the group. These risks are appraised and evaluated by responsible executives and endorsed by subsidiary and group management. This process has been in place throughout the year and up to the date of approval of the annual accounts;
- as part of the regular monitoring and review, the group executive directors hold regular meetings with the management of the subsidiary companies at which reports covering such areas as forecasts, business development, strategic planning, risk exposure and performance against budget, are presented and discussed. These are then reported to the group board, on a quarterly basis;
- 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.

The Quoted Company Alliance Code ("QCA code")

The directors recognise the importance of good corporate governance and have chosen to apply the QCA code as their framework to do so. The QCA code was developed by the Quoted Company Alliance in consultation with a number of institutional small company investors as an alternative code applicable to AIM companies. The QCA code was published in April 2018.

The QCA code sets out ten principles which seek to ensure that the overall framework for corporate governance is robust. The directors believe that this framework is appropriate to the size and operations of the business and each of the principles is commented on below. Many of the disclosures relevant to the code are already made in our annual report and accounts.

The chairman has the responsibility for corporate governance and has taken a lead on this matter. The executive team are directed to day to day management and are accountable to the rest of the board. The chairman expects and demands open discussion of issues facing the business and in the application of this code has sought input from the auditors, the company's advisors and a review by the company lawyer. The board is tasked with continuing the success of the business over time and through successive generations of management and the importance of corporate governance is to oversee the division of ownership and stewardship. The executive directors have the day to day responsibility of stewardship and the chairman and non-executives monitor and evaluate this on behalf of the owners.

James Halstead plc has been listed on the London stock exchange for over 70 years and continues to look for growth in sales and profit to continue its strong record of reward to shareholders in the form of dividend. Whilst this is a primary role, the board is proud of its reputation within its industry and the financial markets and corporate control is central to the ethos.

The disclosures below were last reviewed and approved by the board on 25 September 2018.

QCA Principles and James Halstead plc's approach

1. Establish a strategy and business model which promote long-term value for shareholders

James Halstead plc's strategy is explained fully within our Strategic Report section in our Report and Accounts each financial year.

Our strategy is focussed around stable profitable growth from building the goodwill in our brands and products leading to increasing dividends over time.

Key risks and mitigating factors to our business are also detailed annually in our Report and Accounts.

2. Seek to understand and meet shareholder needs and expectations

The board has a track record of increasing dividends over many years. Where the business has generated funds in excess of its medium-term requirements and no specific investment requirements exist the board has also encouraged the payment of special dividends over the years.

Members of the board talk regularly to both institutional and private investors and the financial press to ensure that company's strategy and objectives are communicated. The group has a large number of shareholders and regular broker updates are published.

The company regularly hosts institution and broker site visits to update on progress and the executive directors are in ongoing contact with the nominated advisor who communicates more closely with the market.

Shareholders can contact the Company Secretary with questions and may be referred to the directors.

In addition, the AGM acts as a forum for all shareholders to meet with the board and raise any questions they may have.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The board recognises that the group has responsibilities to many stakeholders other than its shareholders. This includes employees, customers, suppliers and the wider societies in which we operate.

In terms of communications with stakeholders this is done in ways appropriate to the stakeholder and may take the form of formal announcements, individual meetings (for example appraisals with employees) and negotiations with other stakeholders.

The environmental impact of our manufacturing and our output is of significant importance to our medium term prospects not only to demonstrate our commitment to the community at large but also to customers who increasingly, and rightly, look for suppliers with strong ethical values.

As a member of the communities in which we operate the board takes seriously the impact the business has, positively in terms of being an employer and seeking continuous improvement with respect to the impact on the environment and communities. This is illustrated by our annual "Sustainability Report" copies of which are available on www.polyfor.com which outlines the impact of our manufacturing operations on the wider environment and improvements over time. Feedback from the local community is received directly to the head office. This report has been published for nearly two decades and is now an annual report.

We understand continuous development of our products also contributes to our responsibilities as well as the success of the business. This is illustrated, for example, by development of "dementia friendly" flooring in recent years.

The operating businesses encourage feedback from customers through their relationship managers in the business and customer service teams.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation.

Risk management is reported annually in our Report and Accounts along with how those risks are mitigated and how they change over time.

The board meets six times a year during which business and other risks are assessed. Key subsidiaries have their own management boards which meet regularly and assess the risks relevant to that specific business and relevant responses. These are communicated to the main board either by direct representation or via group management structures that are in place. There are also formal and informal communication routes that allow for risks to be communicated to board members in a timely manner from all operational entities.

5. Maintain the board as a well-functioning, balanced team led by the chair.

Anthony Wild, the non-executive chairman is responsible for the running of the board and Mark Halstead as chief executive has responsibility for implementation of the board's direction.

A monthly report is provided to the board of the financial and operational performance of the group. Information is provided in advance of meetings.

The board is responsible for all strategic decisions and the overall governance and culture of the group.

All the directors have access to the services and advice of the company secretary and are able to take independent professional advice to enable them to do so. This may be done at the group's expense.

Corporate Governance
continued

The board has a majority of non-executive directors and consider that they bring independent thought and judgement to bear as well as business experience out-with the group.

The board has sub committees with specific remits, specifically remuneration, audit and nomination committees and detail of the number of meetings and attendance by directors is noted in the Annual Report.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The board evaluates consistently those skills that are required and whether they are adequately provided for. In doing so and where relevant it will consider guidance available on appointment and training of board members. The Company Secretary has the responsibility to make the board aware of legal changes and will advise on the company's approach. For example the recent GDPR requirements and previously the Market Abuse Regulations (MAR).

Where vacancies arise or gaps are identified that must be addressed, the nomination committee oversees the process of identifying candidates and makes recommendations to the board. Appointments are made on merit against objective criteria and with regard to the benefits that will be brought to the board and the group. The nomination committee also considers succession planning.

The company secretary supports the chairman in addressing the training and development needs of the directors. In the case of new directors there is an induction process to ensure they become aware of the operations of the group.

The directors are aware of their individual responsibility to undertake appropriate continuing development.

7. Evaluate board performance based on clear and relevant objectives seeing continuous improvement.

The board will take account of the Financial Reporting Council's Guidance on Board Effectiveness as it evaluates on a regular basis its performance. The remuneration committee meets formally and is tasked with not only the remuneration of the executive directors but also evaluation of performance. To this end the board is circulated with press comment and market feedback on the business. Market share data and peer group analysis is available.

In terms of the financial performance the auditors meet the audit committee (comprising the non-executives) bi-annually and beyond the audit report do comment on the systems, procedures and efficacy of the management. The nominated advisor has access to the Chairman and meets the non-executives annually.

A rigorous recruitment process is undertaken for new directors prior to their proposal and election. In terms of re-election their performance is reconsidered prior to them being proposed to ensure they remain effective in their role and that they retain their independence.

Re-election is considered by the shareholders at the AGM at which shareholders have the opportunity as a body to approve or otherwise board membership. Succession planning for the board and as importantly the key executives around the world who manage our businesses is an ongoing topic of discussion.

8. Promote a corporate culture that is based on ethical values and behaviours.

The board expects the highest ethical standards of its members and management across the group.

The group has documented procedures with respect to its responsibilities regarding ethical behaviour, specifically bribery and corrupt practices and modern slavery and these are applicable across its operations including supply and customer chains.

The board also takes seriously its responsibilities towards sustainability of its operations and the impact of our operations on the environment. This is documented and reported on annually in Polyflor's Sustainability Report.

As an employer and member of many communities throughout the world, the board consider that strong ethical values to be a good member of these communities is a mind-set not one underpinned by rules and procedures. Ensuring, via recruitment processes and cultural values that this cascades through the business is critical to ensuring the group is a "good member of the community". All directors of the group's companies are expected to comply and are given a manual on procedures and expectations. This covers authority levels and gives guidance on appropriate behaviour.

Ultimately service contracts underpin this by indicating behaviour that can be deemed a breach of contract and the directors are clear about their statutory duties as formally set out in sections 171 – 177 of the Companies Act 2006.

9. Maintain governance structures and processes that are fit for purpose and support good decision making by the board

Corporate governance disclosures are assessed at least annually, including whether the structures and processes are fit for purpose.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The AGM is a key forum for communications with any shareholders who wish to attend, and the directors are available here to listen to views expressed both formally and informally. This combined with the normal cycle of announcements is the key method of communication. The outcome of resolutions put to the AGM are published and are available on the company website.

It terms of publication of results, the company uses the Stock Exchange regulatory news service (RNS) to advise the market (ie shareholders and others) of performance and significant matters. As a group we do not find social media (Facebook, twitter etc) an appropriate medium for dissemination of news due to the "sound-bite" nature of the medium. Brokers are updated and circulate notes regularly.

The group has, where appropriate, communications with major institutional and private shareholders and encourages dialogue.

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 2018 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 2018 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 2018, the Group held inventories of £71.1m (2017: £72.9m).

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:

- Challenging the Group's inventory provisioning policy with specific consideration given to slow moving or obsolete stock lines. This involved a review of production and sales records for a sample of products to ascertain when they were last made or sold and whether they had been appropriately provided for;

- assessing the percentages applied within the provision by reviewing historic sales, the ageing of stock and understanding the production process; and
- testing 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

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.

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 2018, the Group recorded a net retirement obligation of £14.9m (2017: £21.3m), comprising scheme assets of £62.0m (2017: £61.1m) and scheme liabilities of £76.9m (2017: £82.4m).

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. The related sensitivities of any changes in assumptions are disclosed in note 22.

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 appropriateness of the methodology utilised to derive these assumptions.

We have used actuarial experts to benchmark the scheme assumptions against other schemes of a similar size and profile. We have also performed sensitivity analysis on the assumptions determined by the Directors.

We tested the membership data utilised in the valuation of the schemes to source data 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 against the relevant accounting framework.

Our application of materiality

Group materiality 2018	Group materiality 2017	Basis for materiality
£2.34 million	£3.49 million	5% of profit before tax (2017: 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.

We consider profit before tax to be the most significant determinant of the group’s financial performance used by shareholders.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £1.52m (2017: £2.27m) which represents 65% (2017: 65%) of the above materiality level.

Materiality in respect of the audit of the Parent Company has been set at £1.66m (2017: £1.7m) using a benchmark of 5% of profit before tax (2017: 7.5% of profit before tax).

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 £46,700 (2017: £60,000). 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.

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

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 whilst the significant components in Germany and Australia were audited to component materiality. The Germany component is audited by non- BDO firm. 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 93% of the group's revenue, 97% of the group's total assets and 99% of the group's profit before tax.

Whilst materiality for the financial statements as a whole was £2.34m, each component of the group was audited to a lower level of materiality. Component materiality was in the range of £135,000 to £752,000.

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 which makes up 92% of the Central European operations. 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 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.

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report 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 directors' report.

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 11, 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

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.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gary Harding (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom
25 September 2018

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 2018

	Note	2018 £'000	2017 £'000
Revenue	5	249,510	240,784
Cost of sales		(144,993)	(135,974)
Gross profit		104,517	104,810
Selling and distribution costs		(48,087)	(47,659)
Administration expenses		(9,282)	(9,867)
Operating profit		47,148	47,284
Finance income	9	150	134
Finance cost	9	(596)	(802)
Profit before income tax	7	46,702	46,616
Income tax expense	10	(9,994)	(10,106)
Profit for the year attributable to equity shareholders		36,708	36,510
Earnings per ordinary share of 5p			
– basic	11	17.7p	17.6p
– diluted	11	17.6p	17.6p

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 2018

	2018 £'000	2017 £'000
Profit for the year	36,708	36,510
Other comprehensive income net of tax:		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of the net defined benefit liability	4,895	2,404
	4,895	2,404
Items that could be reclassified subsequently to the income statement if specific conditions are met:		
Foreign currency translation differences	(759)	2,168
Fair value movements on hedging instruments	957	410
	198	2,578
Other comprehensive income for the year net of tax	5,093	4,982
Total comprehensive income for the year	41,801	41,492
Attributable to:		
Equity holders of the company	41,801	41,492

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 2018

	Note	2018 £'000	2017 £'000
Non-current assets			
Property, plant and equipment	14	36,324	36,103
Intangible assets	15	3,232	3,232
Deferred tax assets	16	2,674	4,151
		42,230	43,486
Current assets			
Inventories	17	71,096	72,936
Trade and other receivables	18	32,040	31,176
Derivative financial instruments	27	971	416
Cash and cash equivalents	19	50,679	52,532
		154,786	157,060
Total assets		197,016	200,546
Current liabilities			
Trade and other payables	20	48,721	59,321
Derivative financial instruments	27	119	1,362
Current income tax liabilities		3,769	3,860
		52,609	64,543
Non-current liabilities			
Retirement benefit obligations	22	14,899	21,257
Borrowings	21	200	200
Other payables	20	491	486
		15,590	21,943
Total liabilities		68,199	86,486
Net assets		128,817	114,060
Equity			
Equity share capital	23	10,399	10,393
Equity share capital (B shares)	23	160	160
		10,559	10,553
Share premium account		3,805	3,615
Capital redemption reserve		1,174	1,174
Currency translation reserve		5,435	6,194
Hedging reserve		668	(289)
Retained earnings		107,176	92,813
Total equity attributable to shareholders of the parent		128,817	114,060

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 September 2018.

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 2018

	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 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
Transactions with equity shareholders							
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
Profit for the year	–	–	–	–	–	36,708	36,708
Remeasurement of the net defined benefit liability	–	–	–	–	–	4,895	4,895
Foreign currency translation differences	–	–	–	(759)	–	–	(759)
Fair value movements on hedging instruments	–	–	–	–	957	–	957
Total comprehensive income for the year	–	–	–	(759)	957	41,603	41,801
Transactions with equity shareholders							
Dividends	–	–	–	–	–	(27,245)	(27,245)
Issue of share capital	6	190	–	–	–	–	196
Share based payments	–	–	–	–	–	5	5
Balance at 30 June 2018	10,559	3,805	1,174	5,435	668	107,176	128,817

Consolidated Cash Flow Statement

for the year ended 30 June 2018

	Note	2018 £'000	2017 £'000
Cash inflow from operations	25	38,175	47,478
Interest received		150	134
Interest paid		(36)	(33)
Taxation paid		(9,642)	(10,682)
Cash inflow from operating activities		28,647	36,897
Purchase of property, plant and equipment		(3,567)	(4,234)
Proceeds from disposal of property, plant and equipment		232	234
Cash outflow from investing activities		(3,335)	(4,000)
Equity dividends paid		(27,245)	(25,438)
Shares issued		196	538
Cash outflow from financing activities		(27,049)	(24,900)
Net (decrease)/increase in cash and cash equivalents		(1,737)	7,997
Effect of exchange differences		(116)	439
Cash and cash equivalents at start of year		52,532	44,096
Cash and cash equivalents at end of year		50,679	52,532

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 certain 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 2017. 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. An assessment of the effect of adopting this standard is in progress. Following an initial review the effect of adopting this standard is not expected to be significant.

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. An assessment of the effect of adopting this standard is in progress. Following an initial review the effect of adopting this standard is not expected to be significant.

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. The operating lease charge was £3,438,000 for the year ended 30 June 2018 and the operating lease commitments at 30 June 2018 were £8,061,000. When the standard is adopted the

Notes to the Consolidated Financial Statements
continued

2. Accounting policies (continued)

Recent accounting developments (continued)

operating lease charge will be replaced by a depreciation charge and a finance cost. The operating lease committments will be discounted and the resulting right-of-use assets and lease liabilities will be recognised in the balance sheet. An assessment of the effect of adopting this standard is in progress. Following an initial review the effect on profit before income tax and total equity is not expected to be significant.

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.

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.

Financial assets and liabilities

Financial assets comprise trade and other receivables and cash and cash equivalents. Financial liabilities comprise trade and other payables.

Trade and other receivables

Trade and other receivables are non-interest bearing and are initially stated at fair value and then subsequently at amortised cost 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 collectable. 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.

Trade and other payables

Trade and other payables are non-interest bearing and are initially stated at fair value and then subsequently at amortised cost.

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.

Notes to the Consolidated Financial Statements
continued

2. Accounting policies (continued)

Pension scheme arrangements (continued)

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.

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.

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.

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.

Notes to the Consolidated Financial Statements
continued

3. Financial risk management (continued)

Credit risk

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

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

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

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

Liquidity risk

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

Capital risk

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

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

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

4. Critical accounting estimates and judgements

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates and associated assumptions that affect the application of policies, the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best assessments of amounts, events or actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on a regular and ongoing basis. There are no significant judgements.

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

4. Critical accounting estimates and judgements (continued)

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.

Notes to the Consolidated Financial Statements
continued

5. Segmental information

Operating segments are those segments for which results are reviewed by the group's chief operating decision maker (CODM) to assess performance and make decisions about resources to be allocated. The CODM is the group board which meets regularly throughout the year to discuss the performance and results of the group as a whole. The business of the group is focussed almost entirely on the manufacture and distribution of flooring products. The directors consider that under the definitions contained within IFRS 8 there is 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 £57,545,000 (2017: £55,427,000) and Australia £24,659,000 (2017: £26,400,000), and assets in Germany of £10,011,000 (2017: £10,255,000).

Revenue	2018 £'000	2017 £'000
United Kingdom	82,608	80,189
Europe and Scandinavia	109,488	103,440
Australasia and Asia	37,700	39,761
Rest of the World	19,714	17,394
	249,510	240,784

Assets	2018 £'000	2017 £'000
United Kingdom	26,384	25,858
Europe and Scandinavia	11,334	11,524
Australasia and Asia	1,801	1,948
Rest of the World	37	5
Total segment assets	39,556	39,335
Deferred tax assets	2,674	4,151
Total non-current assets	42,230	43,486

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

6. Employee profit share

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

As members of the scheme the 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:

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	3,055	2,830
Operating lease rentals – land and buildings	2,398	2,185
Operating lease rentals – other	1,040	1,116
Research and development	3,135	2,388
Loss on disposal of property, plant and equipment	31	8
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	42	41
Fees payable to the group's auditor and its associates for other services:		
The audit of the group's subsidiaries pursuant to legislation	107	106
Taxation compliance	39	34
Taxation advisory	–	1
Other services	4	11

Notes to the Consolidated Financial Statements
continued

8. Staff costs and numbers

	2018 £'000	2017 £'000
Staff costs comprised:		
Wages and salaries	34,209	33,441
Social security costs	4,107	3,829
Pension costs – defined benefit scheme	497	542
– defined contribution schemes	844	735
Share based payments	5	1
	39,662	38,548

The average monthly number of employees during the year was:

	2018 Number	2017 Number
Manufacturing, selling and distribution	685	683
Administration	143	141
	828	824

The directors' remuneration was:

	2018 £'000	2017 £'000
Salary or fees	955	961
Bonuses	860	830
Benefits	13	12
Total remuneration excluding pension contributions	1,828	1,803
Pension contributions	54	54
	1,882	1,857

9. Finance income/(cost)

	2018 £'000	2017 £'000
Bank deposit interest	141	127
Other interest	9	7
Finance income	150	134
Preference share dividend	(11)	(11)
Other interest	(25)	(22)
	(36)	(33)
Net pension interest cost	(560)	(769)
Finance cost	(596)	(802)
Net finance cost	(446)	(668)

10. Income tax expense

	2018 £'000	2017 £'000
Current tax		
Current tax – current year	10,245	10,726
Current tax – adjustments in respect of prior years	(688)	(518)
	9,557	10,208
Deferred tax		
Deferred tax – current year	276	76
Deferred tax – adjustments in respect of prior years	161	(178)
	437	(102)
Total taxation	9,994	10,106

The effective tax rate for the year to 30 June 2018 is higher (2017: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £'000	2017 £'000
Profit before tax	46,702	46,616
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2017: 19.75%)	8,873	9,207
Effects of:		
Adjustments to tax in respect of prior periods	(527)	(696)
Overseas tax rates	1,428	1,486
Disallowable items	246	128
Other items	(26)	(19)
Total taxation	9,994	10,106

In addition to the amounts above £1,003,000 has been charged (2017: £492,000 charged) 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. The UK deferred tax balances are measured at 17% (2017: 17%).

Notes to the Consolidated Financial Statements
continued

11. Earnings per share

	2018 £'000	2017 £'000
Profit for the year attributable to equity shareholders	36,708	36,510
Weighted average number of shares in issue	207,965,693	207,620,432
Dilution effect of outstanding share options	121,068	216,506
Diluted weighted average number of shares	208,086,761	207,836,938
Basic earnings per 5p ordinary share	17.7p	17.6p
Diluted earnings per 5p ordinary share	17.6p	17.6p

12. Dividends

	2018 £'000	2017 £'000
Equity dividends		
Interim dividend for current year of 3.85p (2017: 3.75p)	8,007	7,792
Final dividend for previous year of 9.25p (2017: 8.5p)	19,238	17,646
Amounts recognised as distributions to equity shareholders in the year	27,245	25,438

A final dividend of 9.65p per share for the year ended 30 June 2018, amounting to £20,069,000, 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 £32,994,000 (2017: £53,777,000). The aggregate amount of directors' emoluments excluding pension contributions was £1,828,000 (2017: £1,803,000) of which the highest paid director's emoluments were £846,000 (2017: £815,000). The directors' salaries or fees for the year ended 30 June 2018 were Mr J A Wild £37,000, Mr M Halstead £412,000, Mr G R Oliver £385,000, Mr S D Hall £22,000, Mr M J Halstead £12,000, Mr R P Whiting £12,000, Mr G Halstead £49,000 and Mr E K Lotz £26,000. The directors' salaries and fees reflect the period served by each director.

14. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
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
Additions	65	3,502	3,567
Disposals	–	(4,312)	(4,312)
Exchange differences	71	(150)	(79)
At 30 June 2018	27,708	67,238	94,946
Depreciation			
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
Charge for the year	709	2,346	3.055
Disposals	–	(4,049)	(4,049)
Exchange differences	19	(70)	(51)
At 30 June 2018	9,149	49,473	58,622
Net book value			
At 30 June 2016	19,044	15,340	34,384
At 30 June 2017	19,151	16,952	36,103
At 30 June 2018	18,559	17,765	36,324

Notes to the Consolidated Financial Statements
continued

15. Intangible assets

	Goodwill £'000
Cost and net book value at 30 June 2016, 2017 and 2018	3,232

An impairment review of goodwill was done by reference to value in use. Value in use was determined using conservative ten year cash flow projections, based on current levels of profitability and assumed conservative growth rates of 0% to 5% and a discount rate of 4%, which is the cost of capital for the group. 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 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
Credited/(charged) to income	(78)	(120)	–	(239)	(437)
Charged to other comprehensive income	(1,003)	–	–	–	(1,003)
Exchange differences	–	–	–	(37)	(37)
At 30 June 2018	2,533	(696)	(603)	1,440	2,674

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

17. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	4,046	2,926
Work in progress	1,539	1,774
Finished goods	65,511	68,236
	71,096	72,936

An amount of £2,625,000 has been charged (2017: £1,260,000 credited) to the income statement in respect of movements in inventory write-downs. The cost of inventory recognised as an expense was £144,993,000 (2017: £135,974,000).

18. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	28,315	28,496
Other receivables	1,261	1,129
Prepayments and accrued income	2,464	1,551
	32,040	31,176

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 £3,072,000 (2017: £3,202,000). 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:

	2018 £'000	2017 £'000
At 1 July	3,202	3,048
Exchange movements	(11)	39
(Credited)/charged to the income statement – selling and distribution costs	(119)	115
At 30 June	3,072	3,202

As at 30 June 2018, trade receivables of £3,432,000 (2017: £2,348,000) 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:

	2018 £'000	2017 £'000
Up to three months overdue	2,903	2,055
Over three months overdue	529	293
Total	3,432	2,348

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

	2018 £'000	2017 £'000
Sterling	7,158	7,111
Euro	12,270	12,295
Australian Dollars	3,416	3,591
New Zealand Dollars	922	833
Norwegian Krone	554	517
US Dollars	2,203	2,485
Hong Kong Dollars	820	991
Other currencies	2,233	1,802
Total	29,576	29,625

Notes to the Consolidated Financial Statements
continued

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:

	2018 £'000	2017 £'000
Sterling	38,530	37,907
Euro	1,341	3,677
Australian Dollars	2,314	2,701
New Zealand Dollars	419	296
Norwegian Krone	612	559
US Dollars	6,597	6,671
Other currencies	866	721
Total	50,679	52,532

20. Trade and other payables

	2018 £'000	2017 £'000
Amounts falling due within one year		
Trade payables	32,610	41,309
Value added, payroll and other taxes	3,060	3,503
Other payables	1,059	820
Accruals	11,992	13,689
	48,721	59,321
Amounts falling due after more than one year		
Other payables	491	486

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

21. Borrowings

	2018 £'000	2017 £'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 2018 and 30 June 2017 the fair value of the preference shares was not materially different from their book value.

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 2018 the accrued pension for the highest paid director was £114,000 and the transfer value of this accrued benefit was £2,483,000.

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 2017. The results of that valuation have been projected forward to 30 June 2018 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

	2018	2017
Principal actuarial assumptions at the balance sheet date		
Discount rate at end of year	2.85%	2.70%
Future salary increases	1.80%	1.90%
Future pension increases	2.90%	3.00%
Rate of inflation – RPI	3.00%	3.10%
– CPI	1.80%	1.90%
Future expected lifetime of current pensioner at age 65:		
Male born in 1953	21.6 years	21.6 years
Female born in 1953	24.1 years	24.1 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1973	22.4 years	22.4 years
Female born in 1973	25.0 years	25.0 years

Notes to the Consolidated Financial Statements
continued

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 £1.1m
Rate of inflation	Increase by 0.1%	Increase by £0.8m
Expected lifetime	Increase by 1 year	Increase by £3.2m

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	2018 £'000	2017 £'000
Present value of funded obligations	(76,862)	(82,370)
Fair value of scheme assets	61,963	61,113
Net liability before deferred taxation	(14,899)	(21,257)
Related deferred tax asset	2,533	3,614
Net liability after deferred taxation	(12,366)	(17,643)

Amounts recognised in the income statement	2018 £'000	2017 £'000
Current service cost	(497)	(542)
Net interest cost	(560)	(769)
	(1,057)	(1,311)

	2018 £'000	2017 £'000
Amounts recognised in other comprehensive income		
Return on assets excluding amount included in net interest cost	1,232	4,259
Gain/(loss) arising from changes in financial assumptions	2,374	(4,831)
Gain arising from changes in demographic assumptions	–	3,468
Experience gain	2,292	–
	5,898	2,896
Deferred tax	(1,003)	(492)
Remeasurement of the net defined benefit liability	4,895	2,404

The actual return on the scheme assets in the year was a £2,855,000 gain (2017: £6,012,000 gain).

	2018 £'000	2017 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	61,113	56,224
Interest income	1,623	1,753
Return on assets excluding interest income	1,232	4,259
Employer contributions	1,517	2,589
Employee contributions	197	233
Benefits paid	(3,719)	(3,945)
	61,963	61,113

22. Retirement benefit obligations (continued)

	2018 £'000	2017 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	(82,370)	(81,655)
Service cost	(497)	(542)
Interest cost	(2,183)	(2,522)
Employee contributions	(197)	(233)
Gain/(loss) arising from changes in financial assumptions	2,374	(4,831)
Gain arising from changes in demographic assumptions	–	3,468
Experience gain	2,292	–
Benefits paid	3,719	3,945
	(76,862)	(82,370)

	2018 £'000	2017 £'000
Changes in the net defined benefit liability		
Opening net defined benefit liability	(21,257)	(25,431)
Service cost	(497)	(542)
Net interest cost	(560)	(769)
Return on assets excluding interest income	1,232	4,259
Gain/(loss) arising from changes in financial assumptions	2,374	(4,831)
Gain arising from changes in demographic assumptions	–	3,468
Experience gain	2,292	–
Employer contributions	1,517	2,589
	(14,899)	(21,257)

Major categories of scheme assets

	2018 £'000	2017 £'000
UK and overseas equities	11,976	11,753
Diversified growth fund	42,894	43,639
Liability driven assets	6,583	5,250
Cash	510	471
Total market value of assets	61,963	61,113

The scheme has no investments in the company or in property occupied by the company.

Notes to the Consolidated Financial Statements
continued

22. Retirement benefit obligations (continued)

Scheme liabilities by category of membership

	2018 £'000	2017 £'000
Active members	27,023	36,090
Deferred pensioners	11,128	13,134
Pensions in payment	38,711	33,146
	76,862	82,370

Average duration of scheme liabilities

	2018 years	2017 years
Active members	19	20
Deferred pensioners	19	21
Pensions in payment	11	11
All scheme liabilities	15	16

Normal company contributions of £1,184,000 are expected to be paid into the scheme during the year ended 30 June 2019.

23. Share capital

Ordinary shares – allotted, issued and fully paid	2018 Number	2017 Number	2018 £'000	2017 £'000
At 1 July ordinary shares of 5p each	207,864,608	207,470,508	10,393	10,374
Ordinary shares of 5p each issued	109,000	394,100	6	19
At 30 June ordinary shares of 5p each	207,973,608	207,864,608	10,399	10,393
Ordinary B shares of 1p each at 1 July 2017 and 30 June 2018	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,559	10,553

The ordinary shares of 5p each were issued during the year for a consideration of £196,000 (2017: £538,000).

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 11 of the financial statements of the company.

	2018 £'000	2017 £'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 11 of the financial statements of the company.

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 109,000 shares and 20,000 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 01.07.17	Exercised in the year	Granted in the year	Number 30.06.18
M Halstead	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					280,000	(60,000)	–	220,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number 01.07.17	Exercised in the year	Granted/ (lapsed) in the year	Number 30.06.18
	4 Jul 07	4 Jul 10	3 Jul 17	144.7125	30,000	–	(30,000)	–
	6 Oct 08	6 Oct 11	5 Oct 18	105.2500	30,000	–	–	30,000
	9 Apr 14	9 Apr 17	8 Apr 24	290.2500	20,000	–	–	20,000
	21 Jul 14	21 Jul 17	20 Jul 24	270.2900	91,500	(49,000)	–	42,500
	12 Jun 17	12 Jun 20	11 Jun 27	476.5000	190,000	–	–	190,000
	22 Dec 17	22 Dec 20	21 Dec 27	436.0800	–	–	20,000	20,000
Total – employees					361,500	(49,000)	(10,000)	302,500
Grand total					641,500	(109,000)	(10,000)	522,500

The market price of the shares at 30 June 2018 was 402p (2017: 468p).

The share price during the year ranged from 377p to 489p.

The average share price when options were exercised in the year was 463p.

Directors exercised 60,000 (2017: 230,000) share options during the year. Aggregate gains on exercising the share options by directors in the year amounted to £212,000 (2017: £812,000) of which £nil (2017: £38,000) related to the highest paid director.

Notes to the Consolidated Financial Statements
continued

23. Share capital (continued)

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

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

	Number of options	Weighted average exercise price
At 30 June 2016	745,600	158p
Exercised in the year	(394,100)	137p
Granted in the year	290,000	477p
At 30 June 2017	641,500	315p
Exercised in the year	(109,000)	179p
Lapsed in the year	(30,000)	145p
Granted in the year	20,000	436p
At 30 June 2018	522,500	357p

At 30 June 2018 there were 212,500 (2017: 220,000) share options exercisable at a weighted average exercise price of 187p (2017: 127p).

The weighted average remaining contractual life of share options outstanding at 30 June 2018 was 6.6 years (2017: 6.5 years).

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:

	2018	2017
Expected life of option	3.5 years	3.5 years
Expected share price volatility	10.0%	10.0%
Expected dividend yield	5.5%	5.5%
Risk free interest rate	0.5%	0.5%
Exercise price	436p	477p

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 2018 was £5,000 (2017: £1,000).

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

	2018 £'000	2017 £'000
Profit for the year attributable to equity shareholders	36,708	36,510
Income tax expense	9,994	10,106
Profit before income tax	46,702	46,616
Finance cost	596	802
Finance income	(150)	(134)
Operating profit	47,148	47,284
Depreciation	3,055	2,830
Loss on sale of property, plant and equipment	31	8
Decrease/(increase) in inventories	1,247	(8,054)
(Increase)/decrease in trade and other receivables	(1,093)	2,838
(Decrease)/increase in trade and other payables	(11,448)	4,982
Defined benefit pension scheme service cost	497	542
Defined benefit pension scheme employer contributions paid	(1,517)	(2,589)
Changes in fair value of financial instruments	250	(364)
Share based payments	5	1
	38,175	47,478

Notes to the Consolidated Financial Statements

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:

	2018 Land and buildings £'000	2018 Other £'000	2017 Land and buildings £'000	2017 Other £'000
Not later than one year	2,690	968	2,318	561
Later than one year and not later than five years	3,162	1,011	4,159	753
Later than five years	228	2	257	70
	6,080	1,981	6,734	1,384

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 the US Dollar and the Euro. Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates. The group buys or sells foreign currency at spot where necessary to address any short-term imbalances.

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. The forward exchange contracts have maturities of less than one year after the balance sheet date.

The group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The hedged cash flows are expected to occur within one year after the balance sheet date.

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.

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:

	2018 Book value £'000	2018 Fair value £'000	2017 Book value £'000	2017 Fair value £'000
Current:				
Trade and other receivables	29,576	29,576	29,625	29,625
Forward exchange contracts	971	971	416	416
Cash and cash equivalents	50,679	50,679	52,532	52,532
Trade and other payables	(45,661)	(45,661)	(55,818)	(55,818)
Forward exchange contracts	(119)	(119)	(1,362)	(1,362)
Total	35,446	35,446	25,393	25,393
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.

	2018 £'000	2017 £'000
Forward exchange contracts at fair value through profit and loss account	4	37
Forward exchange contracts at fair value through hedging reserve	848	(983)
	852	(946)

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 £312,000 (2017: £304,000). 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.

	2018 Post-tax profits £'000	2018 Equity £'000	2017 Post-tax profits £'000	2017 Equity £'000
Euro 5% stronger against sterling	4	4	41	41
Euro 5% weaker against sterling	(4)	(4)	(37)	(37)

Notes to the Consolidated Financial Statements
continued

29. Group companies

At 30 June 2018, 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 4 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:

	2018 Closing	2018 Average	2017 Closing	2017 Average
Euro	1.13	1.13	1.14	1.16
Australian dollar	1.79	1.74	1.69	1.68
New Zealand dollar	1.95	1.89	1.77	1.78
Canadian dollar	1.74	1.71	1.69	1.68
Swedish krona	11.81	11.20	10.96	11.20
Indian rupee	90.46	87.77	83.96	84.43

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.

Polyflor Limited, a subsidiary of the company, leases cars from a company of which Mr Russell Whiting is a director. The lease payments during the year were £162,000 and the maximum outstanding lease committments at 30 June 2018 were £226,000.

Company Balance Sheet
as at 30 June 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Tangible fixed assets	3	4,809	5,051
Investments	4	40,152	40,152
		44,961	45,203
Current assets			
Debtors due within one year		35,807	31,743
Debtors due after one year		2,443	3,543
Total debtors	5	38,250	35,286
Derivative financial instruments	7	971	416
Cash at bank and in hand		34,059	32,497
Total current assets		73,280	68,199
Creditors – amounts falling due within one year	8	(9,298)	(9,534)
Derivative financial instruments	7	(119)	(1,362)
Net current assets		63,863	57,303
Total assets less current liabilities		108,824	102,506
Creditors – amounts falling due after more than one year	9	(200)	(200)
Retirement benefit obligations	10	(14,899)	(21,257)
Net assets		93,725	81,049
Capital and reserves			
Equity share capital		10,399	10,393
Equity share capital (B shares)		160	160
Called up share capital	11	10,559	10,553
Share premium account		3,805	3,615
Capital redemption reserve		1,174	1,174
Hedging reserve		848	(983)
Profit and loss account		77,339	66,690
Total shareholders' funds		93,725	81,049

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 £32,994,000 (2017: £53,777,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25 September 2018.

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 2018

	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 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
Transactions with equity shareholders						
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
Profit for the year	–	–	–	–	32,994	32,994
Remeasurement of the net defined benefit liability	–	–	–	–	4,895	4,895
Fair value movements on hedging instruments	–	–	–	1,831	–	1,831
Total comprehensive income for the year	–	–	–	1,831	37,889	39,720
Transactions with equity shareholders						
Dividends	–	–	–	–	(27,245)	(27,245)
Issue of share capital	6	190	–	–	–	196
Share based payments	–	–	–	–	5	5
Balance at 30 June 2018	10,559	3,805	1,174	848	77,339	93,725

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.

Notes to the Company Financial Statements
continued

2. Staff costs and numbers

	2018 £'000	2017 £'000
Staff costs comprised		
Wages and salaries	2,821	2,834
Social security costs	364	361
Pension costs	117	115
Share based payments	5	1
	3,307	3,311

The average monthly number of employees during the year was 20 (2017: 20).

3. Tangible fixed assets

	Investment land and buildings £'000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 30 June 2017	7,978	1,311	443	9,732
Additions	–	–	57	57
Disposals	–	–	(66)	(66)
At 30 June 2018	7,978	1,311	434	9,723
Depreciation				
At 30 June 2017	4,086	228	367	4,681
Charge for the year	218	25	35	278
Disposals	–	–	(45)	(45)
At 30 June 2018	4,304	253	357	4,914
Net book value				
At 30 June 2018	3,674	1,058	77	4,809
At 30 June 2017	3,892	1,083	76	5,051

The investment land and buildings relates to a freehold property that is occupied by a subsidiary company. The rental income was £600,000 (2017: £600,000).

4. Investments

	Shares in subsidiary undertakings £'000
Cost	
At 30 June 2017	49,552
At 30 June 2018	49,552
Provision for impairment	
At 30 June 2017	9,400
At 30 June 2018	9,400
Net book value	
At 30 June 2018	40,152
At 30 June 2017	40,152

At 30 June 2018, 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

Notes to the Company Financial Statements
continued

4. 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.	3209 Orlando Drive Mississauga Ontario L4V IC5 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

5. Debtors

	2018 £'000	2017 £'000
Trade debtors	77	131
Amounts owed by group undertakings	35,434	31,031
Corporation tax	–	265
Other debtors	75	81
Prepayments and accrued income	221	235
Debtors due within one year	35,807	31,743
Deferred tax assets (note 6)	2,443	3,543
Debtors due after one year	2,443	3,543
Total debtors	38,250	35,286

6. Deferred tax assets

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Other timing differences £'000	Total £'000
At 30 June 2017	3,614	(141)	70	3,543
Charged to income	(78)	(11)	(8)	(97)
Charged to other comprehensive income	(1,003)	–	–	(1,003)
At 30 June 2018	2,533	(152)	62	2,443

7. Derivative financial instruments

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

8. Creditors – amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	401	470
Amounts due to group undertakings	6,631	6,644
Corporation tax	73	–
Other taxation and social security	119	246
Other creditors	176	153
Accruals and deferred income	1,898	2,021
	9,298	9,534

Notes to the Company Financial Statements
continued

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

	2018 £'000	2017 £'000
Preference shares	200	200

10. Retirement benefit obligations

	2018 £'000	2017 £'000
Present value of funded obligations	(76,862)	(82,370)
Fair value of scheme assets	61,963	61,113
Net liability	(14,899)	(21,257)

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

11. Share capital

Ordinary shares – allotted, issued and fully paid	2018 Number	2017 Number	2018 £'000	2017 £'000
At 1 July ordinary shares of 5p each	207,864,608	207,470,508	10,393	10,374
Ordinary shares of 5p each issued	109,000	394,100	6	19
At 30 June ordinary shares of 5p each	207,973,608	207,864,608	10,399	10,393
Ordinary B shares of 1p each at 1 July 2017 and 30 June 2018	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,559	10,553

The ordinary shares of 5p each were issued during the year for a consideration of £196,000 (2017: £538,000).

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

	2018 £'000	2017 £'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.

11. 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.

12. 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)

	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000
Revenue	169,263	186,424	213,944	226,335	217,082	223,488	227,261	226,141	240,784	249,510
Profit before income tax	32,604	35,307	37,538	41,726	40,495	41,753	44,184	45,499	46,616	46,702
Income tax	(8,036)	(9,948)	(10,768)	(11,941)	(10,446)	(10,301)	(10,250)	(10,243)	(10,106)	(9,994)
Profit after income tax	24,568	25,359	26,770	29,785	30,049	31,452	33,934	35,256	36,510	36,708

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Basic earnings per 5p share	11.9p	12.3p	12.9p	14.4p	14.5p	15.2p	16.4p	17.0p	17.6p	17.7p
Dividends paid per 5p share	5.6p	6.3p	6.9p	7.4p	8.3p	9.0p	10.1p	11.4p	12.3p	13.1p

Figures for the years ended 30 June 2009 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	7 December 2018

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 14 September 2018	Number of holders	Number of shares	%
By size of holding			
1-10,000	1,907	5,581,506	2.7
10,001-50,000	549	12,354,250	5.9
50,001-100,000	81	5,572,155	2.7
100,001-500,000	98	21,367,247	10.3
500,001 and over	50	163,098,450	78.4
	2,685	207,973,608	100.0

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	665	100,367,372	48.3
Other limited companies/corporate bodies	35	1,113,168	0.5
Miscellaneous bodies/pension funds	7	228,779	0.2
Private individuals	1,972	106,158,473	51.0
Investment trusts and funds	6	105,816	0.1
	2,685	207,973,608	100.0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ONE HUNDREDTH and THIRD ANNUAL GENERAL MEETING of the company will be held at the Oldham Event Centre, off Hilbre Avenue, Oldham, Lancs, OL2 5BL, on 7 December 2018 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 2018 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 2018.

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

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

5 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 6 and 7 shall be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

6 That, subject to the passing of the ordinary and special resolutions numbered 7 and 8 below, the directors be and they are hereby authorised, pursuant to article 35.14 of the company's articles of association:

(i) to exercise the power contained in article 35.14 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 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.

7 That in substitution for all existing and unexercised authorities and powers, the directors of the company be and they are hereby generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the "Act") to exercise all or any of the powers of the company to allot shares of the company or to grant rights to subscribe for, or to convert any security into, shares of the company (such shares and rights being together referred to as "Relevant Securities") up to an aggregate nominal value of £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.

8 That subject to the passing of the ordinary resolution numbered 7 above the directors be and they are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 subsection (1) of the said Act) for cash pursuant to the authority conferred by resolution numbered 6 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.

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

(i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10% of the ordinary shares in issue at the date of passing of this resolution;

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

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

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

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

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

By order of the board
D W Drillingcourt
Secretary

12 October 2018

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Notice of Annual General Meeting
continued

Notes

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

2 Members entitled to attend and to speak and vote at the AGM are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you require additional forms, please contact the company's registrars Link Asset Services, 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 Link Asset Services at FREEPOST PXS, 34 Beckenham Road, BR3 9ZA, in each case no later than 12 noon on 5 December 2018. 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 You may submit your Proxy electronically using the Share Portal Service at www.signalshares.com.

5 If you wish to attend the meeting in person, please attend at the address set out at the beginning of this notice on 7 December 2018 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.

6 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 5 December 2018.

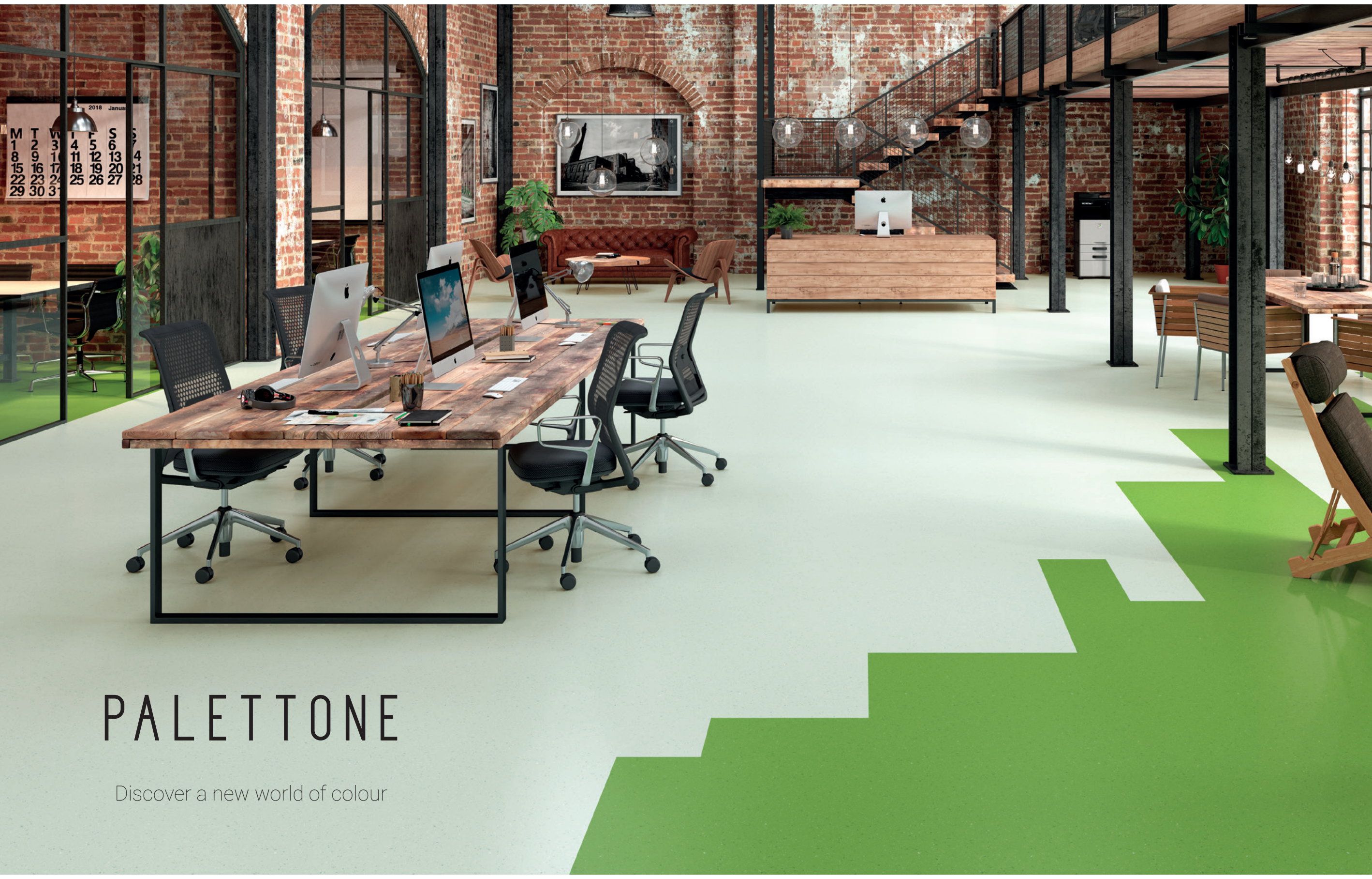
7 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

8 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.

9 Warrants for the final dividend, if approved, will be posted on 7 December 2018 to shareholders on the register as at 9 November 2018.



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