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James Halstead plc

Report and Accounts 2012



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Chairman's Statement

Once again it is pleasing for me to report progress in our results. Revenue for the year is at £226.3 million (2011: £213.9 million), a new record level and 5.8% ahead of last year.

Our profit before tax of £42.7 million (2011: £38.5 million) is also a record achievement and 11.0% ahead of the comparative.

The foregoing comments have become routine in my report over the last few years but it must be said that it was a most challenging year. The UK economy, and many of our international markets, faced difficulties with every manufacturer looking for volume growth and pricing was set ever keener to achieve that volume. Notwithstanding these competitive pressures our UK turnover rose 2.9% and our overseas turnover by 7.3%. We have seen modest revenue growth in comparison to previous years, but I think this very commendable in the prevailing market conditions.

The global marketplace and the diverse end users of our products are best illustrated by some of the projects we have been associated with such as the Winnipeg 'Blue Bomber' Stadium, the Marineland Aquarium and Leisure Park on the Côte d'Azur and the Wangaratta Hospital in Victoria, Australia.

In the UK we have obviously benefitted from the building work associated with the various Olympic venues and as these are converted to other uses we expect some continued modest activity in this area.

It is with some sadness that I report the closure of Phoenix Distribution (NW) Ltd, albeit a very small part of the group. Phoenix was formed in 1992 to continue the sales of motorcycle accessories after the closure of Belstaff International Ltd.

Dividend

As in previous years, the board feels record results should be reflected in a record dividend. The final dividend will be 11.0p (2011: 9.8p) representing a 12.2% increase which combined with the interim dividend, paid in May 2012, of 5.0p (2011: 4.5p) makes a total of 16.0p (2011: 14.3p) for the year, an increase of 11.9%.

Bonus Issue

The board, having regard to the share price performance in recent years will propose, at the forthcoming Annual General Meeting, a one for one capitalisation issue. This will give each shareholder one additional fully paid up 5.0p ordinary share for each one held. The company has undertaken similar issues in 2011, 2005 and 1992. I believe this can only increase the marketability of our shares.

Acknowledgements

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

Outlook

The global market place offers continuing challenges and our competitors are re-doubling their efforts to take market share. However, the investments made in productivity and our reputation for customer service should allow us to maintain our strong position. Industry statistics and market share figures are interesting in themselves but we operate in largely "commodity" products where availability, service and convenience are the most important factors in the decision to buy.

In the UK there are some positive signs of increased activity and in the first two months of the new financial year our UK turnover has increased by nearly 6.0% over the same period last year but it is too early to know if this is a sustainable trend. Nevertheless, we have every expectation that the year ahead will see continued progress.

Geoffrey Halstead
Chairman

Chief Executive's Review

In these challenging times, with recessionary pressures on many businesses, I am encouraged to report record revenue

The James Halstead Group of companies is almost totally focused on flooring these days and the value of our flooring turnover has grown 70% year on year. With currency changes being largely neutral this is real growth. Looking deeper into the numbers we have sold around 30% more flooring by square meterage and can ascribe the difference between this and the growth in overall turnover to a more favourable product mix. Our investment in innovation and added value has moved sales towards our higher value ranges.

Our export success continues. Our strength in Central Europe is well known, as is our Australian business and, in addition, we have built on previous successes to achieve record sales in markets such as Canada, China, Poland, Portugal, Finland, New Zealand, USA, Norway and Saudi Arabia. Projects as diverse as the new Royal Canadian Mounted Police HQ in Halifax, Les Pyramides in Paris and the Penguin Parade Cafe on Phillip Island in Australia are a few examples.

Investment in the future has not lessened. We have extended our premises in Germany, Norway, Australia, the UK, France and Canada. Moreover, significant, if not extensive, expenditure has been focused within our UK manufacturing on improved wrapping equipment, raw materials handling and product coating equipment. More capital investment is in hand.

Notwithstanding the foregoing, we have faced pressure on productivity, as the major plant investments of recent years have resulted in our plant capacity growing significantly ahead of sales. Although this bodes well for the future it gives us short term difficulties and the challenge of balancing output with manning levels. This is a key focus for the present and coming months.

Raw material prices were broadly in line with the prior year which was itself a year of record highs. That they did not worsen is a positive but prices remain stubbornly high. Plasticiser and polymer prices continue to be at near record levels. Energy costs also grew and were around 150% above the prior year. These continue to be an area of concern.

Profits have increased and gross margins are ahead of comparatives largely due to product mix and volume throughput gains.

Our focus on customer service is well known in the market and we continue to be at the forefront of the industry. As far back as the early 1980s we were making the industry aware of the dangers of other manufacturers using asbestos in

vinyl floor tiles and we continue today to be leading edge in technical matters. Just one example is our research on the environmental credentials of our products. Across the globe Polyflor is achieving recognition for its recycling and its green credentials. Our products are manufactured predominantly using natural resources and up to 85% of our vinyl flooring is from these natural resources. It is little known that only 40% of barrel oil is used for all plastic products and vinyl flooring uses only a fraction of this. In addition, PVC flooring can use any PVC recyclate and we have award winning strategies in this area.

During the year we made a £10 million investment in a purpose built global research and development centre in Radcliffe. This will pull together our various R & D and process engineers who were previously spread across our factories. A mark of this new emphasis is that our representative is now Chairman of the European Resilient Flooring Manufacturers' Institute ("ERFMI"). This continuing emphasis on product and processes is at the core of our ongoing success.

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

This region has shown strong sales performance in the current financial year. Polyflor Nordic has increased its year on year sales by some 13% in local currency. This is on top of an 80% increase in sales on the previous year and represents a record year for the business since its inception.

This has been achieved notwithstanding a continued difficult trading environment. There has been little by way of significant projects in the period and growth has come on the back of small projects and day to day business. In terms of projects of note, our Riverside manufactured Mineral FX flooring has been used in housing built for miners in Spitsbergen.

The business in Norway has doubled in size over the last decade and, as a result, had outgrown the warehouse facilities established some time ago. Therefore we have extended the resources available by approximately a third to facilitate continued growth of the business. Our ongoing philosophy is to maintain competitive advantage by offering the best customer service in the market place.

Falck Design, in Sweden, has consolidated the growth of the previous year with sales broadly on a par with last year. Last year we noted that we had moved the stocking of product to Stockholm, where the majority of the business resides. This has been reinforced with the opening of a showroom. As has been the case in Norway, although there have been few significant projects in the year there was a sterling performance from small projects and day to day business.

Objectflor and Karndean, our European based organisations located in Cologne

In local currency terms this business has increased by a further 14 1% which is on top of the very impressive growth figures for the previous decade. The central European growth is not restricted to Germany. Holland, France and Switzerland show a combined growth of 16% which underlines the fact that Euro economies are not all doom and gloom. Germany offered double digit growth which was hard earned and, encouragingly, the near eastern bloc countries (Czech Republic, Slovenia, Hungary etc) showed greater than 30 0% growth.

With the backdrop of the Euro confidence crisis, such a performance is testament to a combination of high quality market leading products and a market leading customer service.

The Riverside collections (Ligno FX and Mineral FX) mentioned in our last annual report have been launched and are gaining market penetration. In addition, the product offering has been enhanced by adding an easy to lay "Click" product to the Expona Domestic collection, a small wood effect collection designed to meet demand in a market area not fully covered by the company's current offering. The forthcoming year will also see the launch of the new Expona Art and Design collection with several exciting designs. This is the eighth incarnation of Expona and the collection is, in my opinion, the most highly regarded in Europe.

With the substantial development of this business over the last few years we are now completing a project to establish warehousing facilities for the next phase of growth. A purpose built warehouse of 18,000sqm has been designed and is being built and will be available for occupation in early autumn of the new financial year. This will bring together into one facility a service currently using three buildings.

I would also note that Eberhard Lotz, Group Board Director, has been nominated honorary President of the FEB, the German flooring manufacturers trade body, a significant achievement given Germany is Europe's largest market for vinyl flooring.

Polyflor Pacific – encompassing Australia and New Zealand

As we approach our 56th year in distribution, although originally as a manufacturer, we can be sure these markets are significant and robust.

The larger of these businesses, Polyflor Australia faced difficult conditions but still managed to increase its volume of flooring sold although this was noticeably made up of lower value product. Given the 14 0% increase in the preceding year, this was an acceptable performance.

Turnover was around 5 0% lower than the comparative period.

Last year was supported by the government programme of investment in schools (known as the "BER") and this was followed by large investment in mining projects. However, over the last 12 months the Australian economy, which is mainly a primary economy, has shown a direct correlation to the world economic environment, particularly in China. The more pessimistic world outlook has resulted in less investment this year in major mining projects and hence some retrenchment in our sales in this arena. The government are also no longer in a position to support the economy with the same level of investment that they had in the previous years.

This has had a knock on effect in the confidence of the general population and business environment which has also left investment in shop fitting and office refurbishment somewhat lower. Offsetting this we have noticed a large upswing in hotel and bar refurbishments following the Government's ban on smoking in public places.

In addition, Australia continued to have many successes with installation in Woolworths, Office Works, Ziera Shoes and Adidas as just a few of the many shop chains using Polyflor. The "Green Tag" environmental rating on the company's product puts it on most shortlists for specifications and The Alfred in Melbourne (the oldest hospital in the city) and The Cabrini in Melbourne (one of the newest) are but two examples.

New Zealand, albeit a smaller business, has progressed following a difficult period in which the economic environment has been poor for a number of years. Sales are ahead of the comparative in both volume and value terms. The business is profitable and still awaits the opportunity for refurbishment in Christchurch following the earthquakes the city has experienced over the last two years. This work represents a good medium term opportunity for sales albeit the timing of being able to take this opportunity is outside our control, and dependent on the cessation of aftershocks.

Riverside Flooring, based in Teesside

This is Riverside's second year in the Group and it has increased its output as the sales activities of Polyflor successfully presented the Riverside product ranges to most of Polyflor's customers.

The plant has achieved profitability but there are productivity gains to be made as volume increases. Sales this year were 20 0% ahead of last year in volume terms and with the launch of Riverside's Modena collection in July 2012 we now offer safety flooring with almost invisible slip resistance, with no compromise on the sustainability of the anti-slip performance.

Chief Executive's Review

continued

The company sells almost exclusively to other James Halstead subsidiaries and we are very pleased with the progress to date and the company is still in the early stages of its potential

Polyflor, based in Oldham and Manchester

Once again Polyflor achieved record sales, not just in the UK but also record sales to the other companies in the Group and record sales to export markets

Just a few of the projects supplied overseas were the KSU Dental College in Saudi Arabia, the Szczecin University in Poland and the University of St Petersburg

It has been a year of progress for Polyflor in the UK. The sales and distribution site in Oldham has focused on integrating the Riverside product range into the Polyflor portfolio for sale in the UK and worldwide whilst maintaining sales volumes of existing Polyflor ranges

Margins were improved and profits were ahead of last year

During the year, Polyflor opened a new distribution centre in London to consolidate customer service and was voted by contractors and architects to have the best vinyl ranges in the annual Contract Flooring Awards. It is heartening to have these awards but complacency is always a danger so we will continue our efforts with such innovations as offering the industry's latest time to order for next day deliveries, and ensuring that we not only look after our customers but those who are their customers as well

In terms of product evolution the company has upgraded Polysafe Standard (arguably the industry bench mark) by adding polyurethane re-enforced surface coating. In addition, Polysafe have launched Hydro-Evolve specifically for wet room installations and Ecomax is a new range of very high recycled content safety flooring at a very competitive price

Exports from Polyflor continue to show encouraging signs and just one example is our Asian sales figures which have been increasing as infrastructure spending continues. Numerous hospital projects in China have been completed during the year and many more will follow

Phoenix Distribution (NW) Ltd

The difficulties of this business have been reported in previous years. It is a very small part of the overall business

With continued lack of consumer confidence, demand for motorcycle helmets was low. In addition there were retailers in dire financial difficulties. Having faced a difficult first half and being a retail focused distributor facing increasing uncertainty, an orderly wind down was undertaken and the business closed

Subsequent to this closure, the UK's largest retailer of motor cycle accessories has appointed an administrator which underlines the difficulties we faced

Outlook

The long established strategy for success that we have followed will be continued. We focus on customer service, product development and design. Our sales teams focus on specifications, contractor and distributor satisfaction and end users. A 30m² refurbishment is as important to us as a 20,000m² Olympic venue, but take different skills to pursue. Indeed, the use of our flooring throughout the Team GB house was a proud achievement but the large number of bar, restroom and restaurant refurbishments were just as welcome around the Olympic parks

When I note projects such as the Pascua Lama Mining camp 4,500m above sea level in the Andes where Polyflor vinyl sheet has been installed, and the Airbus HQ in Toulouse that has installed our Karndean FreeLine I remain confident that our core markets will grow and that we will continue to ensure productivity and quality are the focus

The forthcoming year will see two or three key global range launches that will enhance our product offer and I am confident will drive our continued progress

Mark Halstead
Chief Executive

Financial Director's Review

As is usual, we have prepared these accounts by reference to the consistent application of accounting standards, the matching of costs and revenues with due appraisal and accrual for subjective costs at the year-end whilst always trying to take a prudent approach. 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 reportable segment for the purposes of IFRS 8.

Profit before tax at £42.71 million (2011 £38.48 million) shows an increase of 11%.

Our gross margins increased as a percentage and in absolute terms. The main reason was, broadly, a favourable sales mix biased to higher priced safety and design flooring. The combined effects of various exchange rates largely offset each other and though there were monthly fluctuations in raw material prices these were generally flat over the year as a whole.

Some key statistics

- Group turnover at £226.3 million (2011 £213.9 million) was 5.8% higher of which 0.1% was the effect of translation at more favourable exchange rates.
- Net finance income (excluding the effects of IAS 19 accounting for pensions) increased to £0.2 million (2011 £0.1 million) reflecting increased deposits accounts although rates remained very low.
- Selling and distribution costs were 2.3% higher as a result of the turnover increase but at 17.1% of turnover show a reduction relative to the 17.7% of last year.
- Trade debtors decreased to £28.7 million (£29.6 million) reflecting the lower trade credit in certain export markets over others and additionally trade creditors were lower at £27.8 million (2011 £31.3 million).
- Stock levels have risen and stand at £52.5 million (2011 £48.9 million) and this 7.3% increase is related to the growth in turnover. With broader ranges than in previous years, this is probably a normal level.
- Cash stands at £38.7 million (2011 £34.0 million) even after the payment of £15.4 million in dividends, £10.2 million in tax and £2.9 million of capital expenditure. The cash inflow from operations remains strong at £37.3 million (2011 £32.9 million). In addition, there was a purchase of our shares of £5.2 million via the tender offer made in December 2011.

Key Performance Indicators

The board considers growth in profit before tax and growth in dividend key targets in line with the task of delivering shareholder value. Control of working capital continues to be important and the level of cash is monitored.

Rather than focus on individual working capital targets or ratios, the board are appraised on all significant issues directly by subsidiary management by means of monthly reports on the key decisions and influences on working capital. Our focus at subsidiary level is on stock availability and appropriate credit given to and received from customers and suppliers respectively. Obviously sales, margin and profitability are monitored as well as cash which is the final result of our economic activities. Appropriate summaries of these statistics are collated into monthly Group reports.

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

Principal Business Risks and Uncertainties

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

In general risk is magnified if one doesn't know what one is doing. Our goals are simple and we avoid over-stretching our capabilities. Our plans are not based around a 12 month set of figures 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 largely hear about and focus on the problems of our business and this is the major way in which risk is not merely identified but mitigated. The glaring example in the past year is the risk/reward scenario of Phoenix which is now mitigated.

Financial Director's Review

continued

In last year's report I noted the price and availability of raw materials as a business risk with certain raw materials in very short supply as several manufacturers faced problems. This had not been identified in prior years as a principal business risk as there are several suppliers of these commodities. The situation has continued to ease as far as availability is concerned but remains under scrutiny.

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

In respect of exchange risk, the group operates internationally and is exposed to foreign exchange risk on both sales and purchases that are dominated in currencies other than Sterling. Those giving rise to the most significant risk are US Dollar, Euro 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 12 months' anticipated exposure.

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

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 of 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.

IFRS 7 dictates several disclosures on risk and we have undertaken a market risk sensitivity analysis on fluctuations in our major currency exposure and the effects on the financial assets and liabilities in the balance sheet (which is included in the notes to the accounts in the Annual Report).

I would note that we have overseas subsidiaries with significant profit and assets which are translated at average exchange rates (in the case of profit and loss items) and at year end rates (in the case of balance sheet items). The effect of this is shown annually in the Consolidated Statement of Comprehensive Income. Inevitably there is a translational exposure on these items and since they are not necessarily cash flows (excepting dividend payments) the consolidated net worth of the Group varies over time. We do not hedge this translational exposure though we have in the past hedged overseas assets with matching gearing. At present the cost and complexity in terms of arranging facilities and complying with local taxation rules would seem to outweigh the benefits.

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

	£'000
2012	(1,851)
2011	3,219
2010	530
2009	1,204
2008	2,053

Defined Benefit Pension Scheme

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

The scheme comprises active members (existing employees), deferred members (past employees not yet in retirement) and pensioners. Under the current accounting standard for pensions the changes in cost associated with active members are dealt with in the profit and loss account with the costs associated with deferred members and pensioners dealt with through the Consolidated Statement of Comprehensive Income. This year there is a net actuarial loss of £0.6 million against a net actuarial gain in 2011 of

£2.7 million which is largely the effect of worse than forecast asset growth. It is of note that since the adoption of the pension scheme into the balance sheet (2006) the deficit has had the effect of improving the return on capital employed (since it is a deficit and a liability) and for this reason it is excluded from any performance measure (or related bonus remuneration) internally.

In an effort to offer some perspective by which to view the pension scheme deficit the following statistics are used by some investors:

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

These ratios for this group based on a share price of £6.10 (2011: £4.78) are:

- The net deficit to market capitalisation is 1.2% (2011: 1.8%),
- The total liabilities to market capitalisation is 8.5% (2011: 11.5%), and,
- The deficit to operating profit is 24.3% (2011: 32.2%).

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

Gordon Oliver
Finance Director

Directors and Advisers

Directors

G Halstead
M Halstead
G R Oliver FCA MCT
J A Wild FCA
E K Lotz
S D Hall (appointed 3 January 2012)

Secretary

M L Shilton ACMA, CGMA

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Registrars

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Nominated adviser

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Stockbrokers

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Auditor

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Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2012

The audited financial statements of the group are set out on pages 17 to 47 and the audited financial statements of the company are set out on pages 49 to 58

Principal activities and review of the business

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

Results and dividends

The group results for the year and the financial position at 30 June 2012 are shown in the consolidated income statement on page 17 and the consolidated balance sheet on page 19

The directors are recommending a final dividend of 110p per share on the ordinary share capital for payment on 7 December 2012 to those shareholders whose names appear on the register at 9 November 2012. This final dividend together with the interim dividend paid on 18 May 2012 makes a total of 160p per share (2011 143p)

Directors

Mr G Halstead and Mr M Halstead, being the directors retiring by rotation, offer themselves for re-election at the annual general meeting. The interests of the directors and their families in the share capital of the company were as follows

	30 June 2012		30 June 2011	
	Beneficial	As Trustee	Beneficial	As Trustee
Ordinary shares				
G Halstead	4,099,269	–	4,204,370	441,604
G R Oliver	103,572	–	105,564	–
M Halstead	6,620,531	5,554,753	6,789,482	5,664,544
E K Lotz	–	–	–	–
J A Wild	91,650	6,256,016	94,000	6,409,544
S D Hall	2,850	–	950	–
Preference shares				
G Halstead	86,405	–	86,405	–

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

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

Substantial interests

As at 14 September 2012 the company had been notified of the following interests which represent 3% or more of the existing issued share capital

	Number	%
John Halstead Settlement	17,723,609	17.16
Rulegale Nominees	9,555,036	9.25

Share capital

Ordinary shares

On 5 July 2011, 217,064, on 14 October 2011, 32,500, on 21 October 2011, 6,750, on 26 October 2011, 7,500, on 5 December 2011, 2,880, on 7 February 2012, 5,000, on 8 February 2012, 5,000, on 9 February 2012, 27,500, on 10 February 2012, 6,910, on 12 April 2012, 20,000, on 16 April 2012, 11,760, on 19 April 2012, 10,000, on 25 April 2012, 20,000 and on 1 May 2012, 3,000 new ordinary shares were issued and allotted as fully paid to enable share options to be exercised

On 5 December 2011, 1,087,064 ordinary shares of 50p each were purchased for cancellation under a tender offer at a price of 474.28p amounting to £5,155,727

Bonus Issue

The board proposes that the group should initiate a Bonus Issue of fully paid ordinary shares to the holders of ordinary shares on the register at the close of business on the record date of 10 January 2013 (the "Bonus Issue"), equating to 1 new ordinary share for every 1 ordinary share then held. The proposal is subject to shareholder approval at the Annual General Meeting of the company to be held on 7 December 2012

The Bonus Issue is intended to increase the marketability and liquidity of the company's ordinary shares

It is proposed that an amount equal to the aggregate nominal value of the ordinary shares of 50p each in the company in issue at close of business on 10 January 2013, being part of the amount now standing to the credit of the capital redemption reserve of the company, will be utilised in paying up at par the new ordinary shares to be issued pursuant to the Bonus Issue (the "Bonus Shares")

Terms of Issue of the Bonus Shares

The rights and restrictions attaching to the Bonus Shares will be as currently set out in the articles of association of the company in relation to the existing ordinary shares. The Bonus Shares will rank *pari passu* in all respects with the existing ordinary shares, save that they will not rank for any dividend declared prior to the record date or for the

Report of the Directors

continued

proposed final dividend of the company in respect of the financial period ended 30 June 2012 referred to in resolution number 2 proposed for consideration at the Annual General Meeting of the company convened for 7 December 2012

The Bonus Shares, which will be capable of being held in either certificated or uncertificated (CREST) form as appropriate, will be issued to each shareholder and are not being marketed. Where ordinary shares are held in certificated form on the record date, shareholders will receive non-renounceable share certificates, which will be posted at the risk of the shareholders, in respect of their entitlements to Bonus Shares. Where ordinary shares are held in uncertificated form on the record date, the appropriate CREST accounts will be credited with the relevant number of Bonus Shares, save that the company reserves the right to issue the Bonus Shares in certificated form in exceptional circumstances, such as for example, in the event of any failure or breakdown of CREST. No temporary or renounceable documents of title will be issued. Definitive certificates for the Bonus Shares will be posted to shareholders no later than 25 January 2013 and stock accounts in CREST will be credited with the new ordinary shares on 11 January 2013.

Special business at the annual general meeting

The Bonus Issue is conditional on resolutions 7, 8 and 10 set out in the notice of the Annual General Meeting being passed at the Annual General Meeting and upon Admission. The Directors also reserve the right to elect not to proceed with the Bonus Issue in the event of a change of circumstances such that, in the Directors' opinion, the Bonus Issue is no longer in the best interests of the company and/or shareholders as a whole.

At present the company has a restriction on the number of shares it may issue which is less than the number of shares that are required to be issued to implement the Bonus Issue. Therefore, resolution 7 set out in the notice of Annual General Meeting proposes to remove the restriction in its entirety.

Resolution 8 authorises the Directors to apply an amount (which on the basis of the current issued ordinary share capital of the company would be approximately £5,165,042 being part of the total amount standing to the credit of the capital redemption reserve of the company), in paying up in full the Bonus Shares at par value for the purposes of the Bonus Issue.

Resolution 9 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 2013.

Resolution 10 authorises the directors to allot relevant securities pursuant to section 551 of the Companies Act 2006 up to a maximum nominal amount of £8,608,059 (including the Bonus Shares to be issued pursuant to resolution 8). This figure represents approximately 33.33% of the total enlarged ordinary share capital as enlarged by the Bonus Issue plus 103,300,844 Bonus Shares (which is the number of Bonus Shares which would be issued on the basis of the current issued share capital of the company as at 19 October 2012). The authority will expire at the next Annual General Meeting of the company to be held in 2013 or six months after the next accounting reference date of the company (whichever is the earlier).

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

Resolution 11 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 2013 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 50% of the company's issued ordinary share capital as enlarged by the Bonus Issue. The resolution also contains provisions to enable the directors to deal with fractional entitlements and other practical difficulties which could arise in the event of a rights issue or similar pre-emptive offer.

Resolution 12 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 50% of the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Taxation

For the purposes of United Kingdom taxation of chargeable gains, the Bonus Issue will be treated as a re-organisation of the company's share capital. This means that the issue of the Bonus Shares will not itself give rise to any liability to tax. The Bonus Shares and the existing ordinary shares will be treated as part of the same asset, acquired at the time of the acquisition of existing ordinary shares. Any sale by shareholders of some or all of their Bonus Shares will, however, constitute a disposal for the purposes of United Kingdom taxation of chargeable gains and may, depending on shareholders' individual circumstances, give rise to a tax liability. The comments in this section are intended only as a general guide to the current position. Shareholders should obtain their own professional advice.

Employment policies and involvement

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

Environmental policy

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

Health and safety

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

Research and development

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

Policy and practice on payment of creditors

Operating businesses are responsible for agreeing the terms and conditions under which business transactions are conducted. It is group policy that payments to suppliers are made in accordance with these terms, provided that the supplier is also complying with all relevant terms and conditions. At 30 June 2012 there were 48 (2011: 44) days creditors outstanding in respect of the company.

Political and charitable donations

The group contributed £5,163 (2011: £2,836) for charitable purposes. There were no political contributions.

Directors' responsibilities statement

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the

Report of the Directors

continued

directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period

In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and 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,
- state, with regard to the parent company financial statements, whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

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

Going concern

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

Auditor's remuneration – non-audit related fees

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

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

Auditor

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

As at 28 September 2012, so far as each director is concerned, there is no relevant audit information of which the auditor is unaware. Each director has taken all the steps expected of him as a director to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

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



M L Shilton
Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester, M26 1JN
28 September 2012

Board Report on Remuneration

Remuneration committee

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

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

Remuneration policy

The remuneration policy is to provide terms of employment such that the recruitment, motivation and retention of high calibre personnel is achieved and maintained to the mutual benefit of shareholders and employees. The committee is assisted from time to time by data supplied by independent professional remuneration consultants as to comparable companies, although identical circumstances are rarely found.

Basic salary and bonus payments

Annual bonus schemes are in place which reward the executive directors on achieving performance objectives. Performance is determined by index-linked profit improvements through a trend of earnings per share growth. UK based executives are eligible members of the employee share scheme. Performance bonuses of £335,000 to each of the group chief executive and group finance director were paid during the year.

Share option schemes

The remuneration committee believes that share option plans are an important long term incentive to executive directors and other senior employees. They are intended to link the exercise of the option to a sustained and significant improvement in the underlying financial performance of the group.

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

Pensions

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

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

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

Service agreements

The chairman and the group chief executive do not have service agreements. The group finance director has a service agreement which terminates within or is terminable by the company and the executive on not more than one year's notice. The remuneration committee has taken the view that notice periods of one year are reasonable and in the interests of both the company and its executive directors having regard to prevailing market conditions and current practice. Mr S D Hall has a service contract for an initial term of two years from the date of his appointment, which can be terminated by either party by one month's written notice. Mr J A Wild does not have a service agreement.

J A Wild
Chairman of the Remuneration Committee

Statement of Corporate Governance

The board

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

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

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

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

Attendance at the seven board meetings was as follows

	Possible	Actual
G Halstead – non-executive	7	7
M Halstead	7	7
G R Oliver	7	7
E K Lotz	7	6
J A Wild – non-executive	7	7
S D Hall – non-executive	3	3

Board committees

The following board committees have been in operation throughout the year

The Audit Committee – comprising Mr J A Wild as chairman, Mr G Halstead and Mr S D Hall meets twice a year. The external auditor is present at the meetings and the executive directors may attend at the request of the committee.

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

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

Internal control

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

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

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

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

Relations with shareholders

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

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

We have audited the financial statements of James Halstead plc for the year ended 30 June 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement and the related notes except for the ten year summary on page 48. 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 (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and accounts 2012 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2012 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



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

Manchester, UK
28 September 2012

Consolidated Income Statement

for the year ended 30 June 2012

	Note	2012 £'000	2011 £'000
Revenue	5	226,335	213,944
Cost of sales		(133,013)	(127,857)
Gross profit		93,322	86,087
Selling and distribution costs		(38,723)	(37,846)
Administration expenses		(12,386)	(9,931)
Operating profit		42,213	38,310
Finance income	9	3,821	3,304
Finance cost	9	(3,327)	(3,137)
Profit before income tax	7	42,707	38,477
Income tax expense	10	(12,176)	(11,012)
Profit for the year attributable to equity shareholders	26	30,531	27,465
Earnings per ordinary share of 5p			
– basic	12	29 5p	26 4p
– diluted	12	29 3p	26 3p

All amounts relate to continuing operations

Details of dividends paid and proposed are given in note 11

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012 £'000	2011 £'000
Profit for the year		30,531	27,465
Other comprehensive income net of tax			
Foreign currency translation differences	27	(1,851)	3,219
Actuarial (loss)/gain on the defined benefit pension scheme	23	(580)	2,710
Deferred taxation – change of rate	26	71	71
Fair value movements on hedging instruments	27	144	(911)
Other comprehensive income for the year net of tax		(2,216)	5,089
Total comprehensive income for the year		28,315	32,554
Attributable to			
Equity holders of the company		28,315	32,554

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.

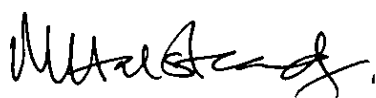
Consolidated Balance Sheet

as at 30 June 2012

	Note	2012 £'000	2011 £'000
Non-current assets			
Property, plant and equipment	14	31,693	33,631
Intangible assets	15	3,232	3,232
Deferred tax assets	16	5,362	5,911
		<u>40,287</u>	<u>42,774</u>
Current assets			
Inventories	17	52,452	48,862
Trade and other receivables	18	30,962	32,119
Derivative financial instruments	19	1,067	18
Cash and cash equivalents	20	38,704	34,031
		<u>123,185</u>	<u>115,030</u>
Current liabilities			
Trade and other payables	21	49,645	50,722
Derivative financial instruments	19	654	1,824
Current income tax liabilities		6,962	5,655
		<u>57,261</u>	<u>58,201</u>
Net current assets			
		<u>65,924</u>	<u>56,829</u>
Non-current liabilities			
Retirement benefit obligations	23	10,367	12,338
Deferred tax liabilities	16	850	921
Borrowings	22	200	200
Other payables	21	456	493
		<u>11,873</u>	<u>13,952</u>
Net assets			
		<u>94,338</u>	<u>85,651</u>
Equity			
Equity share capital	24	5,164	5,200
Equity share capital (B shares)	24	160	160
		<u>5,324</u>	<u>5,360</u>
Share premium account	25	1,974	1,084
Retained earnings	26	75,324	65,839
Other reserves	27	11,716	13,368
		<u>94,338</u>	<u>85,651</u>
Total equity attributable to shareholders of the parent			

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2012

M Halstead
Director



G R Oliver
Director



Consolidated Statement of Changes in Equity

for the year ended 30 June 2012

	Share capital £'000	Share premium £'000	Retained earnings £'000	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total equity £'000
Balance at 30 June 2010	2,754	3,031	49,997	6,279	710	4,071	66,842
Changes In equity							
Profit for the year	-	-	27,465	-	-	-	27,465
Foreign currency translation differences	-	-	-	-	-	3,219	3,219
Actuarial gain on the pension scheme	-	-	2,710	-	-	-	2,710
Fair value movements on hedging instruments	-	-	-	-	(911)	-	(911)
Deferred taxation change of rate	-	-	71	-	-	-	71
Total comprehensive income for the year	-	-	30,246	-	(911)	3,219	32,554
Share based payments	-	-	7	-	-	-	7
Dividends	-	-	(14,411)	-	-	-	(14,411)
Issue of share capital	2,606	(1,947)	-	-	-	-	659
Balance at 30 June 2011	5,360	1,084	65,839	6,279	(201)	7,290	85,651
Changes In equity							
Profit for the year	-	-	30,531	-	-	-	30,531
Foreign currency translation differences	-	-	-	-	-	(1,851)	(1,851)
Actuarial loss on the pension scheme	-	-	(580)	-	-	-	(580)
Fair value movements on hedging instruments	-	-	-	-	144	-	144
Deferred taxation change of rate	-	-	71	-	-	-	71
Total comprehensive income for the year	-	-	30,022	-	144	(1,851)	28,315
Dividends	-	-	(15,381)	-	-	-	(15,381)
Issue of share capital	19	890	-	-	-	-	909
Shares purchased for cancellation	(55)	-	(5,156)	55	-	-	(5,156)
Balance at 30 June 2012	5,324	1,974	75,324	6,334	(57)	5,439	94,338

Consolidated Cash Flow Statement

for the year ended 30 June 2012

	Note	2012 £'000	2011 £'000
Cash inflow from operations	28	37,251	32,944
Interest received		277	238
Interest paid		(100)	(107)
Taxation paid		(10,212)	(9,734)
Cash inflow from operating activities		<u>27,216</u>	<u>23,341</u>
Purchase of property, plant and equipment		(2,885)	(9,696)
Proceeds from disposal of property, plant and equipment		368	252
Cash outflow from investing activities		<u>(2,517)</u>	<u>(9,444)</u>
Equity dividends paid		(15,381)	(14,411)
Purchase of own shares		(5,156)	-
Shares issued		909	659
Cash outflow from financing activities		<u>(19,628)</u>	<u>(13,752)</u>
Net increase in cash and cash equivalents		5,071	145
Effect of exchange differences		(398)	522
Cash and cash equivalents at start of year		<u>34,031</u>	<u>33,364</u>
Cash and cash equivalents at end of year	20	<u>38,704</u>	<u>34,031</u>

Notes to the Group Accounts

1. General information

James Halstead plc ("the company" or "the parent company") is a limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is Beechfield, Hollinhurst Road, Radcliffe, Manchester M26 1JN. The accounts of the company are presented on pages 49 to 58.

The group financial statements presented by the company on pages 17 to 47 consolidate the accounts of the company and its subsidiaries (together referred to as "the group"). The group financial statements are presented in pounds sterling.

2 Accounting policies

Basis of preparation

The group financial statements have been prepared on the historical cost basis as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the profit and loss account, in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the applicable provisions of the Companies Act 2006.

Basis of consolidation

The group financial statements consolidate the accounts of the parent company and all its subsidiaries, drawn up to 30 June each year. Subsidiaries are entities controlled by the group. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. This is normally achieved by a majority shareholding. At 30 June 2012, the company, directly or through an intermediate subsidiary owned 100% of the share capital of all of its subsidiaries. The results of subsidiaries acquired are consolidated from the date on which control passes to the group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the group.

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

Recent accounting developments

The 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.

The following IFRS has been issued but is not yet effective for the first time and has not been early adopted by the group.

IAS 19 "Employee benefits" was amended in June 2011 and is effective for periods beginning on or after 1 January 2013. The impact will be to replace interest cost and expected return on plan assets with a net interest amount that is determined in applying the discount rate to the net defined benefit liability. The group is yet to assess the full impact of this amendment.

Segment reporting

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

2. Accounting policies (continued)

Foreign currencies

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

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

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

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

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

Intangible assets

Goodwill – goodwill arising on the acquisition of a subsidiary undertaking is the excess of the aggregate of the fair value of the consideration transferred, the fair value of any previously held interests, and the recognised value of the non-controlling interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is reviewed for impairment at least annually and when there are indications that the carrying amount may not be recoverable. For the purpose of impairment review, goodwill is allocated to the relevant cash generating unit (CGU) within the group. An impairment loss is recognised if the carrying value of the goodwill or its CGU exceeds its recoverable amount. Any impairment loss is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the calculation of the profit or loss on disposal. Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the UK GAAP value as at that date having been reviewed for impairment at that date and subsequently at least annually.

Notes to the Group Accounts

continued

2. Accounting policies (continued)

Taxation

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

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

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

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

Share-based payments

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Pension scheme arrangements

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

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

2. Accounting policies (continued)

Pension scheme arrangements (continued)

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

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

Property, plant and equipment

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

Freehold buildings 10 to 50 years

Long and short leasehold property over period of lease

Plant and machinery 2 to 20 years

Fixtures and fittings 3 to 10 years

Motor vehicles 2 to 5 years

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

Trade and other payables

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

Revenue recognition

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

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

Research and development

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

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

Dividends

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

Leases

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

Notes to the Group Accounts

continued

2. Accounting policies (continued)

Derivative financial instruments and hedging

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

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

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

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

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

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

3. Financial risk management

Financial risk and treasury policies

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

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

Market risks

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

(a) Foreign exchange risk

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

(b) Interest rate risk

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

3. Financial risk management (continued)

Credit risk

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

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

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

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

Liquidity risk

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

Capital risk

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

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

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

4 Critical accounting estimates and judgements

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

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

Notes to the Group Accounts

continued

4. Critical accounting estimates and judgements (continued)

Allowance for doubtful debts

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

Inventories

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

Income taxes

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

Retirement benefit obligations

The liability recognised in respect of retirement benefit obligations is dependent on a number of estimates including those relating to mortality, inflation, salary increases, and the rate at which liabilities are discounted. Any change in these assumptions would impact the retirement benefit obligations recognised. Further details on these estimates are provided in note 23.

Goodwill

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

5. Segmental information

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

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

	2012	2012
	Revenue	Total
	£'000	assets
		£'000
United Kingdom	74,750	65,818
Europe and Scandinavia	96,613	36,630
Australasia and Asia	39,115	16,958
Rest of the World	15,857	–
Total operations	<u>226,335</u>	119,406
Deferred tax assets		5,362
Cash and cash equivalents		38,704
Total		<u>163,472</u>
	2011	2011
	Revenue	Total
	£'000	assets
		£'000
United Kingdom	72,631	62,048
Europe and Scandinavia	86,493	37,298
Australasia and Asia	39,538	18,516
Rest of the World	15,282	–
Total operations	<u>213,944</u>	117,862
Deferred tax assets		5,911
Cash and cash equivalents		34,031
Total		<u>157,804</u>

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

Notes to the Group Accounts

continued

6. Employee profit share

Profit for the year is after charging the cost of the James Halstead plc share ownership plan. Since 1980 the group has operated an employee share scheme, approved under the Finance Act 1978. In December 2001 the shareholders approved a new share ownership plan in line with the requirements of legislative changes. The aim of this scheme is to enable employees to build up a personal shareholding in James Halstead plc and to participate in its continued expansion and success as shareholders as well as employees. As members of the scheme the UK directors, with the exception of Mr S D Hall and Mr J A Wild, of the parent company each received shares to the value of £3,000.

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

	2012	2011
5p ordinary shares held by the trustees as at 30 June on behalf of the employees	843,219	921,817
As a percentage of shares in issue	0.82%	0.89%

7. Profit before income tax

Profit before tax is stated after charging the following

	2012	2011
	£'000	£'000
Depreciation of property, plant and equipment (see note 14)	3,524	3,283
Operating lease rentals – land and buildings	1,572	1,132
Operating lease rentals – other	1,053	952
Research and development	1,896	1,477
Gain on disposal of property, plant and equipment	(108)	(52)
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	33	33
Fees payable to the group's auditor and its associates for other services		
the audit of the group's subsidiaries pursuant to legislation	133	156
taxation services	36	69
other services	68	50

8. Staff costs and numbers

	2012	2011
	£'000	£'000
Staff costs comprised		
Wages and salaries	27,906	27,517
Social security costs	3,347	3,071
Pension costs – defined benefit scheme	624	642
– defined contribution schemes	483	426
	<u>32,360</u>	<u>31,656</u>

The average monthly number of employees during the year was

	2012	2011
	Number	Number
Manufacturing, selling and distribution	692	693
Administration	140	118
	<u>832</u>	<u>811</u>

9. Finance income/(cost)

	2012	2011
	£'000	£'000
Interest receivable and similar income		
On bank deposits	272	233
Other	5	6
	<u>277</u>	<u>239</u>
Expected return on pension scheme assets	3,544	3,065
Finance income	<u>3,821</u>	<u>3,304</u>
Preference share dividend	(11)	(11)
Interest on short-term borrowing and other financing costs	(89)	(94)
Interest on pension scheme liabilities	(3,227)	(3,032)
Finance cost	<u>(3,327)</u>	<u>(3,137)</u>
Net finance income	<u>494</u>	<u>167</u>

Notes to the Group Accounts

continued

10. Income tax expense

	2012 £'000	2011 £'000
Current tax		
Current tax – current year	11,593	11,397
Current tax – adjustments in respect of prior years	189	(990)
	<u>11,782</u>	<u>10,407</u>
Deferred tax		
Deferred tax – current year	645	217
Deferred tax – adjustments in respect of prior years	(251)	388
	<u>394</u>	<u>605</u>
Total taxation	<u>12,176</u>	<u>11,012</u>

The effective rate for the year to 30 June 2012 is higher (2011 higher) than the standard rate of corporation tax in the UK. The differences are explained below

	2012 £'000	2011 £'000
Profit before tax	<u>42,707</u>	<u>38,477</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 25.5% (2011 27.5%)	10,890	10,581
Effects of		
Adjustments to tax in respect of prior periods	(62)	(602)
Adjustments in respect of overseas tax rates	1,004	683
Permanent differences	189	199
Remeasurement of deferred tax due to change in UK tax rate	155	151
Total taxation	<u>12,176</u>	<u>11,012</u>

In addition to the amounts above £143,000 has been debited (2011 £1,417,000 debited) directly to reserves in respect of the actuarial loss (2011 gain) on the pension scheme, and have been netted off the amounts shown in the Consolidated Statement of Comprehensive Income

11. Dividends

	2012	2011
	£'000	£'000
Equity dividends		
Interim dividend for current year of 5 Op (2011 4 5p)	5,163	4,680
Final dividend for previous year of 9 8p (2011 9 375p)	10,218	9,731
Amounts recognised as distributions to equity holders in the year	15,381	14,411

A final dividend of 11 Op per share, amounting to a total of £11,363,093 for the year ended 30 June 2012 will be proposed at the Annual General Meeting. This dividend is not reflected in these financial statements as it is not approved at the balance sheet date.

12. Earnings per share

	2012	2011
	Pence	Pence
	per share	per share
– Basic	29 5	26 4
– Diluted	29 3	26 3

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £30,531,000 (2011 £27,465,000) by 103,662,875 (2011 103,856,972) shares, being the weighted average number of shares in issue throughout the year.

Diluted earnings per share is calculated by dividing the profit for the year attributable to equity shareholders of £30,531,000 (2011 £27,465,000) by 104,093,080 (2011 104,347,570) shares, being the weighted average number of shares in issue throughout the year, adjusted for the effect of all potentially dilutive shares. The 430,205 (2011 490,598) potentially dilutive shares relate to outstanding share options.

13 Profit of parent company

The profit attributable to the shareholders of James Halstead plc includes a profit, after dividends received, of £25,738,000 (2011 £28,304,000) which has been dealt with in the accounts of that company James Halstead plc, which prepares its accounts in accordance with UK GAAP, has taken advantage of the legal dispensations contained in Section 408 of the Companies Act 2006 allowing it not to publish either a separate profit and loss account or a separate statement of total recognised gains and losses. The aggregate amount of directors' emoluments excluding pension contributions was £1,507,641 of which the highest paid director's emoluments were £640,011.

Notes to the Group Accounts

continued

14. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2010	21,401	51,969	73,370
Additions	4,212	5,692	9,904
Disposals	(447)	(928)	(1,375)
Exchange differences	942	561	1,503
At 30 June 2011	26,108	57,294	83,402
Additions	527	2,358	2,885
Disposals	–	(1,264)	(1,264)
Exchange differences	(1,051)	(237)	(1,288)
At 30 June 2012	25,584	58,151	83,735
Depreciation			
At 30 June 2010	4,472	42,778	47,250
Charge for the year	608	2,675	3,283
Disposals	(447)	(728)	(1,175)
Exchange differences	101	312	413
At 30 June 2011	4,734	45,037	49,771
Charge for the year	983	2,541	3,524
Disposals	–	(1,004)	(1,004)
Exchange differences	(134)	(115)	(249)
At 30 June 2012	5,583	46,459	52,042
Net book value			
At 30 June 2010	16,929	9,191	26,120
At 30 June 2011	21,374	12,257	33,631
At 30 June 2012	20,001	11,692	31,693

15. Intangible assets

Intangible assets consist entirely of goodwill. There were no additions to goodwill in the year. An impairment review was undertaken as at 30 June 2012 using cash flow projections, based on current levels of profitability and assumed growth of 0%-5% and a discount rate of 6%. The result of the review indicated that no impairment is necessary.

16. Deferred tax assets and liabilities

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Property revaluation £'000	Other timing differences £'000	Total £'000
At 30 June 2010	4,808	(202)	(992)	3,231	6,845
(Charged)/credited to income statement	(183)	39	–	(461)	(605)
(Charged)/credited to equity	(1,417)	–	71	–	(1,346)
Exchange differences	–	–	–	96	96
At 30 June 2011	3,208	(163)	(921)	2,866	4,990
(Charged)/credited to income statement	(577)	270	–	(87)	(394)
(Charged)/credited to equity	(143)	–	71	–	(72)
Exchange differences	–	–	–	(12)	(12)
At 30 June 2012	2,488	107	(850)	2,767	4,512

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

	Asset £'000	Liability £'000	Total £'000
At 1 July 2010	7,837	(992)	6,845
At 30 June 2011	5,911	(921)	4,990
At 30 June 2012	5,362	(850)	4,512

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

17. Inventories

	2012 £'000	2011 £'000
Raw materials	3,188	3,115
Consumable stores	573	463
Work in progress	789	847
Finished goods	47,902	44,437
	52,452	48,862

An amount of £1,188,000 has been credited (2011: £112,000 credited) to the income statement in respect of movements in inventory write-downs.

Notes to the Group Accounts

continued

18. Trade and other receivables

	2012 £'000	2011 £'000
Trade receivables	28,725	29,631
Other receivables	762	725
Prepayments and accrued income	1,475	1,763
	<u>30,962</u>	<u>32,119</u>

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

The group's trade receivables are stated after a provision for impairment of £2,817,000 (2011 £3,079,000). 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:

	2012 £'000	2011 £'000
At 1 July	3,079	2,645
Exchange movements	(31)	37
(Credited)/charged to income statement – selling and distribution costs	(231)	397
	<u>2,817</u>	<u>3,079</u>

As at 30 June 2012, trade receivables of £7,400,000 (2011 £6,390,000) 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:

	2012 £'000	2011 £'000
Up to three months	7,139	6,118
Over three months	261	272
Total	<u>7,400</u>	<u>6,390</u>

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

	2012 £'000	2011 £'000
Sterling	8,471	7,850
Euro	10,302	11,787
Australian Dollars	3,818	4,247
New Zealand Dollars	1,077	882
Norwegian Krone	655	906
US Dollars	2,239	1,922
Hong Kong Dollars	1,182	874
Other currencies	1,743	1,888
Total	<u>29,487</u>	<u>30,356</u>

19 Derivative financial instruments

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

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

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

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

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

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

20. Cash and cash equivalents

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

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

	2012	2011
	£'000	£'000
Sterling	34,259	25,825
Euro	1,547	5,866
Australian Dollars	1,458	1,555
New Zealand Dollars	74	126
Norwegian Krone	379	550
US Dollars	1,277	657
Other currencies	(290)	(548)
Total	<u>38,704</u>	<u>34,031</u>

Notes to the Group Accounts

continued

21. Trade and other payables

	2012 £'000	2011 £'000
Amounts falling due within one year		
Trade payables	27,821	31,333
Value added, payroll and other taxes	2,564	2,081
Other payables	1,447	2,003
Accruals	17,813	15,305
	<hr/> 49,645	<hr/> 50,722
Amounts falling due after more than one year		
Other payables	456	493
	<hr/> 456	<hr/> 493

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

22. Borrowings

	2012 £'000	2011 £'000
Non-current liabilities		
Preference shares	200	200
	<hr/> 200	<hr/> 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 2012 and 30 June 2011 the fair value of the preference shares was not materially different from their book value.

23. Retirement benefit obligations

Within the UK the group operates a pension scheme of the defined benefit type which was closed to new members with effect from April 2002. The assets of the scheme are held in separate trustee administered funds. In addition some employees both in the UK and overseas are provided with retirement benefits through defined contribution arrangements. The accumulated total accrued pension for the highest paid director is £85,686 and the transfer value of this accrued benefit as at 30 June 2012 is £1.10 million.

Disclosures relating to defined benefits are as follows

	2012	2011
Principal actuarial assumptions at the balance sheet date (expressed as weighted averages)		
Discount rate at end of year	4.85%	5.70%
Expected return on plan assets at end of year	6.55%	7.95%
Future salary increases	1.45%	2.70%
Future pension increases	2.20%	3.15%
Rate of inflation – RPI	2.20%	3.20%
– CPI	1.45%	2.70%
Future expected lifetime of current pensioner at age 65		
Male born in 1947	22.0 years	21.4 years
Female born in 1947	24.8 years	24.3 years
Future expected lifetime of future pensioner at age 65		
Male born in 1967	23.0 years	22.5 years
Female born in 1967	25.9 years	25.2 years
The expected return on plan assets is based on market expectations at the beginning of the year for returns over the entire life of the benefit obligations		
	2012	2011
	£'000	£'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(53,630)	(57,307)
Fair value of scheme assets	43,263	44,969
Net liability before deferred taxation	(10,367)	(12,338)
Related deferred tax asset	2,488	3,208
Net liability after deferred taxation	(7,879)	(9,130)
	2012	2011
	£'000	£'000
Amounts recognised in the income statement		
Current service cost	(624)	(642)
Interest on obligations	(3,227)	(3,032)
Expected return on scheme assets	3,544	3,065
	(307)	(609)
	2012	2011
	£'000	£'000
Amounts recognised in the statement of comprehensive income		
Actual return less expected return on scheme assets	(5,959)	3,324
Changes in assumptions underlying the present value of the scheme liabilities	5,522	(38)
Gain due to automatic change to CPI for statutory revaluation	–	841
	(437)	4,127
Deferred tax	(143)	(1,417)
	(580)	2,710

The actual return on the scheme assets in the year was a £2,415,000 loss (2011 £6,389,000 gain)

Notes to the Group Accounts

continued

23. Retirement benefit obligations (continued)

	2012 £'000	2011 £'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	44,969	39,011
Expected return on scheme assets	3,544	3,065
Actuarial (losses)/gains	(5,959)	3,324
Employer contributions	2,715	1,314
Employee contributions	324	328
Benefits paid	(2,330)	(2,073)
	<u>43,263</u>	<u>44,969</u>
	2012 £'000	2011 £'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	57,307	56,181
Service cost	624	642
Interest cost	3,227	3,032
Employee contributions	324	328
Actuarial (gains)/losses	(5,522)	38
Benefits paid	(2,330)	(2,073)
Gain due to automatic change to CPI for statutory revaluation	-	(841)
	<u>53,630</u>	<u>57,307</u>
Major categories of scheme assets as a percentage of total scheme assets		
	2012	2011
Equities	87.6%	80.8%
Bonds	4.5%	12.2%
Property	3.2%	2.7%
Cash	4.7%	4.3%

History of scheme

	2012 £'000	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Defined benefit obligation	(53,630)	(57,307)	(56,181)	(50,790)	(54,333)
Fair value of scheme assets	43,263	44,969	39,011	35,188	41,828
Net deficit	<u>(10,367)</u>	<u>(12,338)</u>	<u>(17,170)</u>	<u>(15,602)</u>	<u>(12,505)</u>
Experience adjustments on scheme assets	(5,959)	3,324	4,183	(9,814)	(7,382)
Experience adjustments on scheme liabilities	5,522	803	(7,397)	5,867	1,057

The cumulative amount (net of tax) recognised in the statement of comprehensive income since 1 July 2006 is £3,549,000 loss (2011 £2,969,000 loss)

Normal company contributions of £1,252,000 are expected to be paid into the scheme during the year ended 30 June 2013

24. Share capital

Ordinary shares	2012	2011	2012	2011
	Number	Number	£'000	£'000
Authorised				
Ordinary shares of 5p each	200,000,000	200,000,000	10,000	10,000
B ordinary deferred shares of 1p each	25,000,000	25,000,000	250	250
Allotted, issued and fully paid				
	2012	2011	2012	2011
	Number	Number	£'000	£'000
At 1 July ordinary shares of 5p each	104,002,044	51,871,434	5,200	2,594
Bonus issue of ordinary shares of 5p each	–	51,941,434	–	2,597
Other ordinary shares of 5p each issued	375,864	189,176	19	9
Ordinary shares of 5p each purchased for cancellation	(1,087,064)	–	(55)	–
At 30 June ordinary shares of 5p each	103,290,844	104,002,044	5,164	5,200
Ordinary B shares of 1p each at 1 July 2011 and 30 June 2012	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			5,324	5,360

On 5 December 2011 1,087,064 ordinary shares of 5p each were purchased for cancellation under a tender offer at a price of 474.28p amounting to £5,155,727

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

Preference shares	2012	2011
	£'000	£'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

The respective rights of each class of shares are detailed in note 8 of the financial statements of the company

Notes to the Group Accounts

continued

24. Share capital (continued)

Issue of ordinary shares and number of ordinary shares under option

Under the terms of the executive share option scheme approved on 3 December 1998, options were exercised on 375,864 shares during the year. No further options were granted during the year. Details of those options still outstanding are as follows:

Director's name	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 01 07 11	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30 06 12
G Halstead	4 May 05	3 May 08	3 May 15	128 125	60,000	–	–	60,000
	9 Jan 06	8 Jan 09	8 Jan 16	177 125	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	289 425	80,000	–	–	80,000
	6 Oct 08	5 Oct 11	5 Oct 18	210 500	30,000	–	–	30,000
M Halstead	4 Jul 07	3 Jul 10	3 Jul 17	289 425	80,000	–	–	80,000
	30 Jan 08	29 Jan 11	29 Jan 18	243 085	100,000	(100,000)	–	–
	6 Oct 08	5 Oct 11	5 Oct 18	210 500	40,000	–	–	40,000
G R Oliver	4 Jul 07	3 Jul 10	3 Jul 17	289 425	80,000	–	–	80,000
	30 Jan 08	29 Jan 11	29 Jan 18	243 085	100,000	(100,000)	–	–
	6 Oct 08	5 Oct 11	5 Oct 18	210 500	40,000	–	–	40,000
E K Lotz	6 Oct 08	5 Oct 11	5 Oct 18	210 500	30,000	–	–	30,000
Total – directors					680,000	(200,000)	–	480,000

Employees	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number b/fwd at 01 07 11	Exercised in year	Issued/ (lapsed) in year	Number c/fwd at 30 06 12
	9 Jan 06	8 Jan 09	8 Jan 16	177 125	40,000	–	–	40,000
	4 Jul 07	3 Jul 10	3 Jul 17	289 425	149,824	(65,734)	–	84,090
	6 Oct 08	5 Oct 11	5 Oct 18	210 500	360,000	(110,130)	(15,000)	234,870
Total – employees					549,824	(175,864)	(15,000)	358,960
Grand total					1,229,824	(375,864)	(15,000)	838,960

The market price of the shares at 30 June 2012 was 545.00p (2011: 478.38p)

The share price during the year ranged from 410.25p to 545.00p

24. Share capital (continued)

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

The average share price at the date on which options were exercised in the year was £4.76

At 30 June 2012 there were 838,960 (2011 729,824) share options exercisable at a weighted average price of £2.32 (2011 £2.51)

Aggregate gains on the exercising of share options by directors in the year amounted to £473,830 (2011 £196,392) of which £236,915 related to the highest paid director. Options were exercised over 96,000 shares in the year to 30 June 2011.

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

	Number of options	Average exercise price (£)
At 30 June 2010	1,489,000	2.38
Exercised in the year	(259,176)	2.55
At 30 June 2011	1,229,824	2.35
Exercised in the year	(375,864)	2.42
Lapsed in the year	(15,000)	2.10
At 30 June 2012	838,960	2.32

Share based payments

The group's equity settled share based payments comprise the grant of share options to certain employees under the group's executive share option scheme. Details of such options are given above. The group has calculated the fair value of the options at the date of grant using the Black Scholes model. The following table lists the inputs into the model for the year ended 30 June 2011.

Expected life of option	3 years
Expected share price volatility	18%-20%
Expected dividend yield	5.8%-8.7%
Risk free interest rate	2.0%-4.4%
Exercise prices	128.125p-289.425p

An expense based on the fair value calculated at the date of grant as detailed above is recognised in the profit and loss account over the vesting period of the options. There was no share based payment expense for the year ended 30 June 2012.

25. Share premium account

	2012 £'000	2011 £'000
At 1 July	1,084	3,031
Share options exercised	890	650
Bonus issue	-	(2,597)
At 30 June	1,974	1,084

Notes to the Group Accounts

continued

26. Retained earnings

	2012 £'000	2011 £'000
At 1 July	65,839	49,997
Profit for the year	30,531	27,465
Share based payment expense	–	7
Actuarial gain/(loss) (net of deferred tax)	(580)	2,710
Deferred taxation – change of rate	71	71
Equity dividends paid	(15,381)	(14,411)
Shares purchased for cancellation	(5,156)	–
At 30 June	<u>75,324</u>	<u>65,839</u>

27. Other reserves

	Capital redemption reserve £'000	Hedging reserve £'000	Currency translation reserve £'000	Total £'000
At 30 June 2010	6,279	710	4,071	11,060
Fair value adjustments	–	(911)	–	(911)
Exchange rate adjustments	–	–	3,219	3,219
At 30 June 2011	<u>6,279</u>	<u>(201)</u>	<u>7,290</u>	<u>13,368</u>
Fair value adjustments	–	144	–	144
Exchange rate adjustments	–	–	(1,851)	(1,851)
Shares purchased for cancellation	55	–	–	55
At 30 June 2012	<u>6,334</u>	<u>(57)</u>	<u>5,439</u>	<u>11,716</u>

28. Cash inflow from operations

	2012 £'000	2011 £'000
Operating profit	42,213	38,310
Depreciation	3,524	3,283
Profit on sale of property, plant and equipment	(108)	(52)
Increase in inventories	(5,221)	(10,305)
Increase in trade and other receivables	(1,060)	(1,123)
(Decrease)/increase in trade and other payables	(73)	3,472
Share-based payment expense	–	7
Retirement benefit obligations	(2,091)	(672)
Changes in fair value of financial instruments	67	24
	<u>37,251</u>	<u>32,944</u>

29. Commitments

	2012	2011
	£'000	£'000
Capital commitments		
Contracted for but not incurred – property plant and equipment	–	450

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:

	2012	2012	2011	2011
	Land and	Other	Land and	Other
	buildings	£'000	buildings	£'000
	£'000	£'000	£'000	£'000
Not later than one year	1,684	921	1,077	720
Later than one year and not later than five years	7,423	1,438	2,741	1,634
Later than five years	3,049	1,753	678	–
	12,156	4,112	4,496	2,354

30. Financial instruments

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

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

	2012	2012	2011	2011
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Current				
Trade and other receivables	29,487	29,487	30,356	30,356
Forward exchange contracts (see note 19)	1,067	1,067	18	18
Cash and cash equivalents	38,704	38,704	34,031	34,031
Trade and other payables	(47,081)	(47,081)	(48,641)	(48,641)
Forward exchange contracts (see note 19)	(654)	(654)	(1,824)	(1,824)
Total	21,523	21,523	13,940	13,940
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 nominal values of the forward exchange contracts outstanding at the year end are disclosed in note 12 of the financial statements of the company.

Notes to the Group Accounts

continued

30. Financial instruments (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. IFRS 7 requires that these be grouped into Levels 1 to 3 based on the degree to which the fair value is observable. All items in the table below are categorised as Level 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.

	2012	2011
	£'000	£'000
Forward exchange contracts at fair value through profit and loss account	208	(166)
Forward exchange contracts at fair value through hedging reserve	205	(1,640)
	413	(1,806)

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 £255,000 (2011: £187,000). 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.

	2012	2012	2011	2011
	Post-tax	Equity	Post-tax	Equity
	profits	£'000	profits	£'000
	£'000	£'000	£'000	£'000
Euro 5% stronger against sterling	(33)	(33)	27	(22)
Euro 5% weaker against sterling	30	30	(24)	20

31. Group companies

The following information is not a complete listing of all group companies as at 30 June 2012, but includes only those companies principally affecting the profits or assets of the group.

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

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

32. Exchange rates

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

	2012 Average	2012 Closing	2011 Average	2011 Closing
Euro	1.18	1.24	1.17	1.11
Australian dollars	1.54	1.53	1.61	1.50
New Zealand dollars	1.97	1.95	2.10	1.94
Swedish Krona	10.66	10.83	10.65	10.13

33. Related parties

Transactions between the company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The group's contributions to the defined benefit pension scheme are disclosed in note 23.

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

Ten Year Summary (Unaudited)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	UK	UK	UK	UK						
	GAAP	GAAP	GAAP	GAAP	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
Revenue	99,775	104,703	112,353	126,024	137,252	158,740	169,263	186,424	213,944	226,335
Profit (before exceptional items)	12,211	13,699	13,760	17,481	23,499	29,857	32,997	35,751	38,477	42,707
Exceptional items*	-	10,396	-	-	-	-	-	-	-	-
Profit before income tax	12,211	24,095	13,760	17,481	23,499	29,857	32,997	35,751	38,477	42,707
Income tax	(3,646)	(5,938)	(4,276)	(5,647)	(7,657)	(9,502)	(8,146)	(10,072)	(11,012)	(12,176)
Profit after income tax	8,565	18,157	9,484	11,834	15,842	20,355	24,851	25,679	27,465	30,531

Unless otherwise stated all amounts are in £ thousands

Underlying/headline earnings per 5p share**	8 41p	8 74p	9 60p	11 90p	15 55p	19 85p	24 15p	24 84p	26 44p	29 45p
Net dividends paid per ordinary share of 5p***	3 53p	4 00p	4 69p	5 32p	6 63p	8 75p	10 88p	12 50p	13 88p	14 80p
Dividend cover based on dividends paid and underlying/headline earnings per share of 5p	2 38	2 18	2 05	2 24	2 35	2 27	2 22	1 99	1 90	1 99

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

** For 2002 to 2006, underlying/headline earnings per share is as defined in the notes to the accounts for the relevant year. For 2007 onwards underlying/headline earnings per share and basic earnings per share are the same. Figures for previous years have been restated to take account of the two for one share issue in the year ended 30 June 2006 and the one for one share issue in the year ended 30 June 2011.

*** Net dividends per ordinary share have been restated for previous years on a paid basis in accordance with FRS 21 and to take account of the two for one share issue in the year ended 30 June 2006 and the one for one share issue in the year ended 30 June 2011. Special dividends are not included.

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

Figures for years ended 30 June 2002 to 30 June 2006 have not been restated to reflect the impact of IFRS. Had this exercise been undertaken the major changes would have been the re-allocation of settlement and volume discounts to revenue, with no impact on profit before income tax and the removal of the amortisation of goodwill.

Company Balance Sheet

as at 30 June 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Tangible fixed assets	2	5,904	5,462
Investments	3	20,098	20,093
		<u>26,002</u>	<u>25,555</u>
Current assets			
Debtors	4	37,989	34,377
Cash at bank, in hand and on short-term deposit	12	24,457	18,788
		<u>62,446</u>	<u>53,165</u>
Creditors – amounts falling due within one year	6	(15,336)	(11,718)
Net current assets		<u>47,110</u>	<u>41,447</u>
Total assets less current liabilities		<u>73,112</u>	<u>67,002</u>
Creditors – amounts falling due after more than one year	7	(200)	(200)
		<u>72,912</u>	<u>66,802</u>
Capital and reserves			
Equity share capital		5,164	5,200
Equity share capital (B shares)		160	160
		<u>5,324</u>	<u>5,360</u>
Called up share capital	8	5,324	5,360
Share premium account	9	1,974	1,084
Capital redemption reserve	10	6,334	6,279
Profit and loss account	11	59,280	54,079
Total shareholders' funds		<u>72,912</u>	<u>66,802</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 28 September 2012

M Halstead
Director



G R Oliver
Director



Notes to the Financial Statements of the Company

1. Accounting policies

Basis of preparation

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

Profit and recognised gains and losses of the company

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

Dividends

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

Share based payments

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

Leases

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

Tangible fixed assets

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

Investments

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

1. Accounting policies (continued)

Deferred taxation

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

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

Pension scheme arrangements

The company operates a defined benefit scheme (which was closed to new members with effect from April 2002). The company also operates a defined contribution scheme for those employees who prefer this option or who are unable to join the defined benefit scheme. Executive directors Mr M Halstead and Mr G R Oliver are members of the defined benefit scheme and total company pension contributions in the year were respectively £25,554 and £23,799. As the company is unable to identify its share of the underlying assets and liabilities of the defined benefit scheme on a consistent and reasonable basis, the company accounts for the scheme as though it were a defined contribution scheme. Accordingly the amount charged to the profit and loss account is the contribution payable in the year to both the defined benefit and defined contribution schemes. Differences between contributions payable in the year and contributions actually paid are shown as accruals or prepayments in the balance sheet.

2. Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2011	8,545	212	8,757
Additions	527	103	630
Group transfers	–	152	152
At 30 June 2012	9,072	467	9,539
Depreciation			
At 30 June 2011	3,117	178	3,295
Charge for the year	231	21	252
Group transfers	–	88	88
At 30 June 2012	3,348	287	3,635
Net book value			
At 30 June 2012	5,724	180	5,904
At 30 June 2011	5,428	34	5,462

Notes to the Financial Statements of the Company

continued

3. Investments

	Shares in subsidiary undertakings £'000	Loans to subsidiary undertakings £'000	Total interests in subsidiary undertakings £'000
Cost			
At 30 June 2011	28,233	1,260	29,493
Additions	5	–	5
At 30 June 2012	28,238	1,260	29,498
Provision for impairment			
At 30 June 2011	9,400	–	9,400
At 30 June 2012	9,400	–	9,400
Net book value			
At 30 June 2012	18,838	1,260	20,098
At 30 June 2011	18,833	1,260	20,093

At 30 June 2012, the company held directly and indirectly 100% of the equity and voting rights of the following undertakings

Name of subsidiary	Country of incorporation and operation	Proportion owned by the parent company (%)	Shares at cost £'000
Polyflor Limited	England	100	3,000
Riverside Flooring Limited	England	100	–
Halstead Flooring International Limited	England	100	–
JHL Limited	England	100	–
Titan Leisure Group Limited	England	100	15,200
Titan CPL Limited	England	–	–
Phoenix Distribution (N W) Limited	England	–	–
Halstead Flooring Concepts Pty Limited	Australia	100	6,176
Polyflor Australia Pty Limited	Australia	–	–
James Halstead Flooring New Zealand Limited	New Zealand	–	–
Polyflor Canada Inc	Canada	100	–
Objectflor Art und Design Belags GmbH	Germany	100	3,857
Karndean International GmbH	Germany	–	–
James Halstead France SAS	France	100	5
Falck Design AB	Sweden	–	–
			28,238

4. Debtors

	2012	2011
	£'000	£'000
Trade debtors	266	81
Amounts owed by group undertakings	37,044	33,445
Deferred tax assets (note 5)	531	588
Other debtors	75	75
Prepayments and accrued income	73	188
	<u>37,989</u>	<u>34,377</u>

5. Deferred taxation

	2012	2011
	£'000	£'000
Accelerated capital allowances	(4)	13
Short-term timing differences	535	575
	<u>531</u>	<u>588</u>
Opening balance	588	1,111
Charge to profit and loss account	(57)	(523)
Closing balance	<u>531</u>	<u>588</u>

6. Creditors – amounts falling due within one year

	2012	2011
	£'000	£'000
Trade creditors	704	723
Amounts due to group undertakings	9,276	6,115
Corporation tax payable	246	384
Other taxation and social security	177	100
Other creditors	–	398
Accruals and deferred income	4,933	3,998
	<u>15,336</u>	<u>11,718</u>

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

	2012	2011
	£'000	£'000
Preference shares	<u>200</u>	<u>200</u>

Notes to the Financial Statements of the Company

continued

8. Share capital

Ordinary shares	2012	2011	2012	2011
	Number	Number	£'000	£'000
Authorised				
Ordinary shares of 5p each	200,000,000	200,000,000	10,000	10,000
B ordinary deferred shares of 1p each	25,000,000	25,000,000	250	250
Allotted, issued and fully paid				
	2012	2011	2012	2011
	Number	Number	£'000	£'000
At 1 July ordinary shares of 5p each	104,002,044	51,871,434	5,200	2,594
Bonus issue of ordinary shares of 5p each	–	51,941,434	–	2,597
Other ordinary shares of 5p each issued	375,864	189,176	19	9
Ordinary shares of 5p each purchased for cancellation	(1,087,064)	–	(55)	–
At 30 June ordinary shares of 5p each	103,290,844	104,002,044	5,164	5,200
Ordinary B shares of 1p each at 1 July 2011 and 30 June 2012	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			5,324	5,360

On 5 December 2011 1,087,064 ordinary shares of 5p each were purchased for cancellation under a tender offer at a price of 474.28p amounting to £5,155,727

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

Preference shares	2012	2011
	£'000	£'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

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

8. Share capital (continued)

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

The 5.5% (2011: 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% (2011: 5.5%) per annum on the capital for the time being paid up thereon and the right in the event of a winding up, in priority to all other shares in the capital of the company, to repayment of the capital paid up thereon together with a premium of 5p per share and a sum equivalent to any arrears and accruals of the said fixed cumulative preferential dividend thereon (whether earned or declared or not) calculated up to the date of such repayment of capital but shall not confer any further right to participate in profits or assets of James Halstead plc.

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

- (i) At the date of the notice convening the meeting the fixed cumulative preferential dividend on the preference shares is six months in arrears and then so long only as such dividend shall remain unpaid, and so that for this purpose the dividend on the preference shares shall be deemed to accrue due and be payable by equal half-yearly instalments on 30 June and 31 December in every year, or
- (ii) The business of the meeting includes the consideration of a resolution for reducing the capital or winding up the company or for the sale of its undertaking or of any resolution directly abrogating or varying any of the special rights or privileges attached to the preference shares.

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

9 Share premium account

	2012	2011
	£'000	£'000
At 1 July	1,084	3,031
Share options exercised	890	650
Bonus issue	–	(2,597)
At 30 June	1,974	1,084

10. Capital redemption reserve

	2012	2011
	£'000	£'000
At 1 July	6,279	6,279
Shares purchased for cancellation	55	–
At 30 June	6,334	6,279

Notes to the Financial Statements of the Company

continued

11 Profit and loss account

	2012 £'000	2011 £'000
At 1 July	54,079	40,179
Profit for the year	25,738	28,304
Share-based payment transactions	–	7
Equity dividends paid	(15,381)	(14,411)
Shares purchased for cancellation	(5,156)	–
At 30 June	59,280	54,079

The company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The company's profit for the financial year was £25,738,000 (2011 £28,304,000). Charged against this profit are the salaries of Mr G Halstead, £156,668, Mr M Halstead, £298,000, Mr G R Oliver, £272,500, Mr J A Wild, £28,900, Mr E K Lotz, £50,847 and Mr S D Hall, £10,000.

12. Financial instruments

A full description of the James Halstead plc group's treasury policy is contained in the financial director's review on page 5.

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

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

(i) Preference shares

The preference shares in issue are fully described in note 8. The preference shares have no fixed repayment date. The book value of the preference shares in issue at 30 June 2012 was £200,000 (2011 £200,000). At 30 June 2012 and 30 June 2011 the fair value of the preference shares was not materially different to their book value. Under the requirements of FRS 25 the preference shares are included in creditors.

(ii) Currency and interest rate profile of financial assets

	Book and fair values of bank balances, deposits, balances and cash in hand	
	2012 £'000	2011 £'000
Sterling (including sterling equivalent of UK foreign currency balances)	24,457	18,788

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

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

12. Financial instruments (continued)

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

Net foreign currency monetary financial assets/(liabilities) within the balance sheet were

	2012	2011
	£'000	£'000
Australian Dollars	(349)	43
Canadian Dollars	(46)	(264)
Euro	(659)	893
Hong Kong Dollars	(144)	(29)
New Zealand Dollars	(57)	(159)
Norwegian Krone	(228)	(126)
US Dollars	1,026	521
Others	(475)	(611)
	<u>(932)</u>	<u>268</u>

The nominal values of forward exchange contracts outstanding at the year end, were as follows

	2012	2011
	£'000	£'000
Contracts to sell		
Australian Dollars	3,273	10,203
Canadian Dollars	873	1,267
Euro	4,103	4,428
Hong Kong Dollars	1,636	1,441
New Zealand Dollars	1,421	1,550
Norwegian Krone	1,476	1,405
US Dollars	1,036	1,059
Others	1,831	2,493
	<u>15,649</u>	<u>23,846</u>
Contracts to sell Euro/buy US Dollars	<u>13,636</u>	<u>23,617</u>

Notes to the Financial Statements of the Company

continued

12. Financial instruments (continued)

The fair values of forward exchange contracts outstanding at the year end were as follows

	2012 Asset/(liability) £'000	2011 Asset/(liability) £'000
Contracts to sell		
Australian Dollars	(69)	(531)
Canadian Dollars	(2)	(26)
Euro	13	(121)
Hong Kong Dollars	(7)	12
New Zealand Dollars	(51)	(121)
Norwegian Krone	19	(61)
US Dollars	17	(11)
Others	(20)	(69)
	<u>(100)</u>	<u>(928)</u>
Contracts to sell Euro/buy US Dollars	513	(871)

13. Reconciliation of movements in shareholders' funds

	2012 £'000	2011 £'000
Profit for the financial year	25,738	28,304
Equity dividends paid	(15,381)	(14,411)
Shares purchased for cancellation	(5,156)	-
FRS 20 share option charge	-	7
New share capital subscribed	909	659
Net increase in shareholders' funds for the financial year	<u>6,110</u>	<u>14,559</u>
Opening equity shareholders' funds	66,802	52,243
Closing equity shareholders' funds	<u>72,912</u>	<u>66,802</u>

Shareholder Information

Financial calendar

Annual general meeting 7 December 2012 (see notice of meeting on pages 61 to 63)

Announcement of results

For the half year March

For the full year September/October

Dividend payments

Ordinary shares – interim May
– final December

Preference shares June and December

Share dealing information

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

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

Shareholder analysis*

	Number of holders	Number of shares
By size of holding		
1-10,000	2,401	6,581,323
10,001-50,000	464	9,504,622
50,001-250,000	109	11,807,075
250,001 and over	57	75,407,824
	<u>3,031</u>	<u>103,300,844</u>

	Number of holders	Number of shares	%
By category			
Banks and nominee companies	838	34,229,286	33.13
Other limited companies/corporate bodies	47	730,980	0.71
Miscellaneous bodies/pension funds	12	113,154	0.11
Private individuals	2,127	68,195,743	66.02
Investment trusts and funds	7	31,671	0.03
	<u>3,031</u>	<u>103,300,834</u>	<u>100.00</u>

*as at 14 September 2012

Share Fraud Warning

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. These calls come from fraudsters operating in 'boiler rooms' that are mostly based abroad.

While high profits are promised, those who buy or sell shares in this way usually lose their money.

The Financial Services Authority (FSA) has found most share fraud victims are experienced investors who lose an average of £20,000, with around £200m lost in the UK each year.

PROTECT YOURSELF

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- 1 Get the name of the person and organisation contacting you
- 2 Check the FSA Register at www.fsa.gov.uk/fsaregister to ensure they are authorised
- 3 Use the details on the FSA Register to contact the firm
- 4 Call the FSA Consumer Helpline on 0845 606 1234 if there are no contact details on the Register or you are told they are out of date
- 5 Search our list of unauthorised firms and individuals to avoid doing business with
- 6 REMEMBER if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

REPORT A SCAM

If you are approached about a share scam you should tell the FSA using the share fraud reporting form at www.fsa.gov.uk/scams, where you can find out about the latest investment scams. You can also call the Consumer Helpline on 0845 606 1234.

**If you have already paid money to share fraudsters you should contact Action Fraud on
0300 123 2040.**

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the NINETY SEVENTH ANNUAL GENERAL MEETING of the company will be held at the Holiday Inn Hotel, 1 Higher Bridge Street, Bolton, BL1 2EW on 7 December 2012 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 2012 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 2012
- 3 To re-elect Mr G Halstead 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-elect Mr S D Hall as a director in accordance with the articles of association
- 6 To re-appoint PKF (UK) LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year

Special Business

To consider and, if thought fit, pass the following resolutions of which resolutions 8, 9 and 10 shall be proposed as ordinary resolutions and resolutions 7, 11 and 12 will be proposed as special resolutions

- 7 That in accordance with paragraph 42(2)(b) of Schedule 2 of the Companies Act 2006 (Commencement No 8, Transitional Provisions and Savings) Order 2008, the restriction on the authorised share capital of the company set out in article 6 of the memorandum of association of the company, which by virtue of section 28 of the Companies Act 2006 is treated as a provision of the company's articles of association, is hereby revoked and deleted and article 2.2 of the articles of association of the company (authorised share capital) as amended by any shareholder resolutions passed to increase the authorised share capital is hereby revoked and deleted and the remaining provisions of the company's articles of association shall be renumbered accordingly
- 8 That, subject to the passing of the special resolution numbered 7 above, the directors be and are hereby authorised, pursuant to article 36.2 of the articles of association of the company, to capitalise an amount, being part of the amount standing to the credit of the capital redemption reserve of the company, equal to the aggregate nominal value of the ordinary shares of 50p each in the company in issue at close of business on 10 January 2013 ("Record Date"), and accordingly that the Directors be authorised and directed to appropriate such sum to the members who are, at the Record Date, registered as the holders of the issued ordinary shares of 50p each in the capital of the company in the same proportions in which such sum would have been divisible amongst them if it were distributed by way of dividend and to apply such sum on their behalf in paying up in full new ordinary shares of 50p each and allot such ordinary shares credited as fully paid to those members in the proportion of one new ordinary share for each existing ordinary share held on such date and so that such new ordinary shares shall rank *pari passu* in all respects with the existing ordinary shares of 50p each but shall not rank for the proposed final dividend of the company of 110p per ordinary share in respect of the financial year ended 30 June 2012 or for any other dividend declared prior to the Record Date
- 9 That, subject to the passing of the ordinary and special resolutions numbered 10 and 11 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 50p 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

Notice of Annual General Meeting

continued

10 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 £8,608,059 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

11 That subject to the passing of the ordinary resolution numbered 10 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 10 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 £516,504, representing approximately 5 per cent of the current ordinary share capital of the company as enlarged by the issue of shares pursuant to resolution 8 above,

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

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

- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10% of the ordinary shares in issue at the date of passing of this resolution,
- (ii) the maximum price (exclusive of any expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of The London Stock Exchange plc for the five business days immediately preceding the day on which the ordinary share is purchased,
- (iii) the minimum price which may be paid for each ordinary share is 5 pence (exclusive of any expenses),
- (iv) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the company or twelve months from the date, if earlier, of passing this resolution,

- (v) the company may make a contract or contracts to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and the company may make a purchase of its ordinary shares in pursuance of such contract as if the authority hereby conferred had not expired, and
- (vi) the directors may elect to hold shares purchased under this authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital of the company at any one time)

By order of the board
M L Shilton

Secretary

Beechfield,
Hollinhurst Road,
Radcliffe,
Manchester
M26 1JN

19 October 2012

Notes

- 1 Preference shareholders are advised that they are not entitled to attend or vote at the annual general meeting
- 2 Members entitled to attend and to speak and vote at the AGM are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice. If you require additional forms please contact the company's registrars at PXS 34 Beckenham Road Beckenham, Kent, BR3 4TU
- 3 To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand by the company's registrars at PXS 34 Beckenham Road, Beckenham BR3 4TU in each case no later than 12 noon on 5 December 2012. Any power of attorney or other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be enclosed with the proxy form
- 4 If you wish to attend the meeting in person, please attend at the address set out at the beginning of this notice on 7 December 2012 bringing either your attendance card or other appropriate identification so that you can be identified by the company's registrars. It is recommended that you arrive at least 15 minutes before the time appointed for the meeting to begin
- 5 To be entitled to attend and vote at the meeting (and for the purpose of the determination by the company of the votes they may cast) shareholders must be registered in the register of members of the company at 6 pm on 5 December 2012
- 6 Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares
- 7 The following documents will be available for inspection at the company's registered office during normal business hours from the date of this notice until the time of the meeting and at the address set out at the beginning of this notice from 15 minutes before the meeting until it ends
 - (i) the register of interests of the directors in the share capital of the company, and
 - (ii) copy of the service contract of Mr G R Oliver
- 8 Warrants for the final dividend, if approved will be posted on 7 December 2012 to shareholders on the register as at 9 November 2012