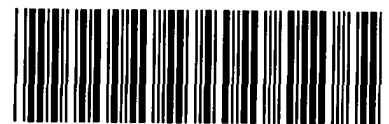


James Halstead plc

Report and Accounts 2020

Company registration number 140269

THURSDAY



A9FPIF43

A12

15/10/2020

#225

COMPANIES HOUSE

Directors and Advisers

Directors

J A Wild FCA
M Halstead
G R Oliver FCA MCT
S D Hall
M J Halstead
R P Whiting

Secretary

D W Drillingcourt FCA

Registered office

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Company registration No.
140269

Website

www.jameshalstead.com

Bankers

The Royal Bank of Scotland plc
6th Floor
1 Spinningfields Square
Manchester
M3 3AP

Registrars

Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Nominated adviser

Panmure Gordon & Co
One New Change
London
EC4M 9AF

Stockbrokers

WH Ireland
24 Martin Lane
London
EC4R 0DR

Auditor

BDO LLP
3 Hardman Street
Spinningfields
Manchester
M3 3AT

Contents

Strategic Report

Chairman's Statement	2
Chief Executive's Review	4
Financial Director's Review	8
Section 172 Statement	12

Governance

Report of the Directors	14
Board Report on Remuneration	19
Corporate Governance	20

Financial Statements

Independent Auditor's Report to the Members of James Halstead plc	26
Consolidated Income Statement	30
Consolidated Statement of Comprehensive Income	31
Consolidated Balance Sheet	32
Consolidated Statement of Changes in Equity	33
Consolidated Cash Flow Statement	34
Notes to the Consolidated Financial Statements	35
Company Balance Sheet	62
Company Statement of Changes in Equity	63
Notes to the Company Financial Statements	64

Supplementary Information

Ten Year Summary	71
Shareholder Information	72
Notice of Annual General Meeting	73

Chairman's Statement

Results

For the first time in over a generation we are not reporting record earnings per share.

Turnover for the year at £238.6 million (2019: £253.0 million) is some 5.7% below last year with the period April through to June 2020 showing significant decline as the global lockdown initiatives curtailed normal business with most of our businesses worldwide resulting in profit before tax at £43.9 million (2019: £48.3 million), down 9.2%. Perhaps it is worth noting that extrapolating the numbers based on performance for the first nine months we reasonably would have expected turnover to have been circa £25 million higher and profits some £7 million higher.

In reporting these figures we have, as a board, considered our approach and actions in the difficult months of the lockdowns that were thrust upon most of our businesses and asked what we should have done differently. In short, even with hindsight, we as a board feel the decisions and actions were correct and that the depth and quality of our senior teams' experience proved, once again, our capability and resilience.

Crucially in February and March we refocused production on the assumption of excess healthcare demand and concentrated on maintaining output whilst altering working practices to minimise risk to our employees.

These results are more than gratifying against the backdrop that all our major markets faced.

Our business was awarded the title Contract Flooring Manufacturer of the year, gratifying as the voting is by the floor laying contractors that install our products..

The company and our strategy

James Halstead plc is a group of companies involved in the manufacture and supply of flooring for commercial and domestic purposes, based in Bury UK. James Halstead plc has been listed on the London Stock Exchange for more than 70 years.

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

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

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

Corporate governance and corporate social responsibility

The board has over many years recognised its responsibility towards good corporate governance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. Increasingly companies are, quite rightly, tasked with demonstrating their environmental credentials, supply chain management with social and economic dimensions and stewardship.

Polyflor is certified to Quality Management System ISO9001 and ISO14001 to underline our robust environmental procedures. We are certified to BES9001 the standard for responsible sourcing which takes our credentials beyond our own factories to our suppliers. Added to this is our SA8000 accreditation based on the UN declaration of human rights that audits supplier provision of sound workplace and standards. Our commitment to our employees continues and this year saw one of our shop floor workers achieve the milestone of 50 years with the business.

We continue to be active members of trade bodies that bring standards across the industry for example the European Resilient Flooring Manufacturing Institute ERFMI (where our Technical Director is President). We publish, annually, a sustainability report, although given the disruption of the recent few months it will be a much briefer interim report.

Dividend

Profits and earnings per share have slightly decreased but we continue un-gear. Our cash balances stand at £67.4 million (2019: £ 68.7 million), even after dividends paid in the last year that amounted to £25.2 million, increased pension scheme payments of £4.1m and taxation of £11.6 million. Our cash reserves continue as the foundation of our strong balance sheet. I, and the board, believe that the work done on control of working capital during the final quarter of the year was sterling.

It is pleasing to report that the board proposes at this point, and subject to the approval of the shareholders at the upcoming AGM, to pay a final dividend. The final dividend will be 10.0p (2019: 10.0p). This, combined with the interim dividends paid in June and September totalling 4.25p (2019: 4.0p), makes a total of 14.25p (2019: 14.0p) for the year, an increase of 1.8%.

This is, yet again, a record level of dividend.

Acknowledgements

My thanks go to our staff in the UK and around the world whose hard work continues to allow us to increase our business. This year has been particularly challenging as we all faced uncertainties and a particular mention to those who have worked hard on the safeguards we have. I would also like to thank two of our competitors (Altro Group plc and Amtico International Ltd) for their assistance with PPE during the lockdown period.

Outlook

Currently, some three months into the new trading year, our sales are on a par with the record trading of the comparative period. Business has bounced back with refurbishment in many sectors buoyant, but with difficulties in sectors such as catering/hospitality.

Looking ahead there are two external factors that cloud a clear view of the current year – the pandemic and the final exit of the UK from the European Union. There are many reasons to believe that a second wave of the virus will not lead to a second major lock down – better knowledge and treatments within healthcare, greater awareness of social distancing and greater testing capability. That said the effects of targeted lockdowns does mean uncertainty is ongoing and we cannot say that the worst is past.

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

Both these issues will, no doubt, have an impact on the forthcoming financial year but, I believe, we have the experience and ability to move forward with confidence.

Healthcare has always been an area of core competence for our businesses and alongside the urgent demands of our NHS we have supplied flooring to 12 modular hospitals in Argentina, 13 hospitals in Mexico and 11 hospitals in South Africa. The pandemic tested supply chains but across the globe we have supplied from our stock-holdings. Notwithstanding these sales our business has suffered as building projects are delayed and it is far from business as usual in many parts of the world.

I, and the board, are confident of another solid year tempered by the uncertainties that currently abound.

Anthony Wild
Chairman

30 September 2020

Chief Executive's Review

At this time last year, we thought the major challenge would be the fast approaching implications of "Brexit", but we were tasked with something on a different scale entirely.

We drew on a wealth of experience to protect our company, our leading market position and our stakeholders. In most markets we, as manufacturers, deliver bulk for wholesalers and distributors who in turn break that bulk. Many of our distributors were closed and thus we faced the challenge of organising and fulfilling much smaller despatches to health providers across the UK, Europe and the rest of the world. In this task we were successful.

Worthy of note were the various government funding initiatives that were put in place across many markets. At the start of the lockdowns we assessed liquidity and debtor risk as major issues but these did not, by and large, transpire. The contrast with the 2008 recession was stark and it can only be said that various government initiatives appeared to have been a success in the continuity of liquidity. In terms of our sector, flooring, we were well aware of the types of flooring that would be in immediate demand for the healthcare sector, not least because of our prior experience during the SARS-Cov-1 outbreak many years ago.

Turnover at £238.6 million (2019: £253.0 million) was 5.7% down on the year. The UK sales at £78.9 million (2019: £88.6 million) were 10.9% below last year. Overseas sales were 2.9% below last year. The shortfalls all came in the period April to June 2020.

Profit before tax at £43.9 million (2019: £48.3 million) was 9.2% below last year and though we traded profitably in the period April to June 2020 the shortfall in turnover inevitably led to a major fall in profits.

It has been many years since we have seen profits fall, but these were far from normal times. I am very encouraged by the actions and efforts of our key staff during those difficult weeks when the news seemed to get progressively worse. Our focus was to protect our workforce and our company and to continue to supply our global market. To date we have succeeded.

Reviewing the businesses in more detail:

Objectflor/Karndean and James Halstead France, our European operations

Sales overall were slightly behind the prior year by 2.7% which also had an impact on profitability. The area of slowdown can be ascribed to the pandemic as there was a downturn in retail shop fitting in terms of refurbishment and new store openings. The business supplies a number of "private-label" collections to various buying groups which are refreshed on a two/three year cycle and, consequently,

sales in these ranges reduced as the ranges approach re-launch in the coming financial year. Our own branded ranges however showed increases in sales. There were several product launches in the year including Expona Simplay 19dB and Expona Puzzle (an interlocking tile) both of which are loose lay products (i.e. not requiring glue). Loose lay flooring is seen as a growth area and we have developed over the last years a comprehensive offering in this area. These projects included the World Fashion Center in Amsterdam and Le Théâtre des Folies Bergère, Paris.

Alongside expansion of the vinyl ranges we have launched a range of carpet tiles in these markets branded as Expona. This range closely aligns with our LVT ranges and will act as both complementary sales as well as new market segments. Our Expona carpet tiles have been installed in the Friedrich-Ebert-Allee in Bonn which is a very high profile office development that includes retail space and a museum. Another example of Expona carpet are the Mima Furniture Stores in Croatia.

Furthermore, the Saarflor (rubber sheet) range has been updated and is being sold across the European markets. Polyflor sheet vinyl sales continue to grow with Polyflor "Trend" fitted in many branches of Toys "r" Us across Germany and "Palettone" installed at Kliniken der Stadt Köln-Merheim (municipal hospitals of the City of Cologne in the district of Merheim).

Geographically, prior to the crisis most of the markets were showing performance ahead of the prior year, most significantly growth was experienced in France and Eastern markets with Germany and Austria performing well. Different markets had different levels of lock down of which France and Austria were the most significant. In France our route to market is generally through distribution and these outlets tend to also sell paint and the majority remained open and instigated "click and collect" which reduced the downside of the lockdown to our trade. Our French business continues to secure prestigious clients of which just one example is the Nestlé Waters headquarters in Issy-les-Moulineaux. The central European markets have recovered well following release of the restrictions and in France we are seeing the start of enquiries in advance of the 2024 Paris Olympics though it is noticeable that larger projects in general are being delayed.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Turnover in the region was down 4% at constant exchange rates (7% down when foreign exchange movements are included). Profit was however 11% ahead of last year as a result of a better mix of sales and strong control of costs.

Our Australian business faced a series of issues during the course of the year including bush fires that were widespread in the most populous states, an ongoing drought that severely impacted the New South Wales economy, a relatively weak economy and the significant depreciation of the Australian dollar against the US dollar. In addition, of course, the pandemic. Furthermore, the plant breakdown in Radcliffe affected supply of stock for some time during the mid-part of the financial year. Sales in Australia have fallen slightly against the prior year (3.7%) although increased margins coming from sales mix and lower costs has resulted in slightly higher profits. A particularly creditable result given the list of adversities.

The Australian business has continued to operate throughout the period and managed to continue to supply despite the various local restrictions that were in place. As with a number of our businesses good levels of local stock assisted in us being able to take opportunities from competitors where they were unable to supply, either because of issues within their supply chain or them having closed their operations. Polyflor (UK) continued despatches to Australia and New Zealand at normal levels in spite of the local lockdowns in anticipation that sales would quickly return to normal due to the majority of sales being refurbishments.

Our Australian business is strong both in the commercial and domestic sectors, and we have found that softening in the commercial markets has been offset by stronger domestic demand, which is thought, partly at least, to be a factor of travel restrictions meaning people taking fewer holidays and, instead, investing in their own property. The team have updated the local website and complemented this with new social media platforms whilst revamping the sampling processes across the continent and increasing sales representation in New South Wales and South Australia.

The New Zealand business, under new local management from the latter quarter of last year has shown significant growth in sales and profit for the first three quarters of the year. The business was closed for a seven week period during which New Zealand's commercial activities were forced to cease. New Zealand faced the most stringent lockdown of any market in which we operate. Some government support was received in this period which, combined with savings in overheads, has eased the impact on profit which came from low sales activity. Sales ended up lower than the prior year as a result of this, however post lockdown activity levels are showing good recovery. Despite this, profits for the full year were noticeably higher.

Towards the end of the year we re-secured the Kainga Ora (New Zealand's social housing provider) contract for a period of four years. This project takes product manufactured in our Manchester plant.

We continue to increase our sales resource in several of the Asian markets, including Indonesia, Malaysia and Singapore whilst also investing in more localised stocks. A warehouse has been established in Shanghai during the year to service the market locally. This initiative is in its infancy. Early signs suggest that it is having a positive impact on sales overall. Our social media and marketing are also being developed to be more localised in nature to facilitate a better understanding of our offering in these markets. China continues to be an important market but with the competitive situation there as rigorous as ever.

Polyflor & Riverside Flooring, based in UK

Turnover for the year was 7.2% below the prior year comparative and profit was 12% down. The loss of turnover and increased cost of working in the period of the UK lockdown is the causal factor behind these results. Looking at the turnover in more detail the UK turnover was down 10.9% against the prior year, sales from Polyflor to our overseas subsidiaries were level with the prior year and exports to third parties were 2.7% down. The closure by lockdown of the UK and several of our major customers was the reason for the decline. Extrapolating the period to the end of March we were expecting about 8-10% growth.

Polyflor is the engine behind the growth of our UK and overseas trade and there were several major product launches in the course of the year which, I believe, underline our market leading position. In August 2019 the Expona Design collection was re-launched with 24 new innovative designs of heavy duty commercial luxury vinyl tiles. These ranges have exceeded expectations for increased sales.

I would also note that the new ranges that we brought to market in the early months of 2019 have also proved to be very successful. Firstly, Polysafe Quicklay, a vinyl sheet that can be installed without adhesive (even on damp sub-floors) has been very well received and was the floor of choice for very many of the healthcare initiatives during the early stages of the pandemic and indeed broadened greatly the general acceptance by the conservative floor layers of a "glue – free" installation. In addition, Expona EnCore Rigid loc, our commercial luxury tile that is also adhesive free has been very successful and featured in some depth in the BBC renovation show "Your Home Made Perfect". It is clear that quality commercial flooring can gain market share in the

Chief Executive's Review

continued

domestic market, though our focus remains in the commercial sector. Projects of note in the year include Ibrox Stadium refurbishment, Knock Airport in County Mayo and Glenfield Hospital in Leicester.

As noted in last year's report the Radcliffe factory suffered a major breakdown in June 2019 that closed one of our four production lines. This ceased supply from that line for some 12 weeks into the current year and whilst the management team tried to manage stock and the adverse effects on sales there were projects that we lost most noticeably in export markets and in particular our Australian subsidiary.

Riverside, the manufacturing facility at Teesside saw sales of its product increase during the year by more than 10% and reported an increase in profits. The Polyflor sales team in Oldham have marketed and shipped the Riverside portfolio to an increasing number of countries despite the UK sales being decimated by the UK lockdown. A commendable result.

The lockdown of the UK from late March 2020 was a major focus of efforts in the year. Our production by-and-large continued but it was at increased cost due to the lower output and ancillary costs.

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

Sales across this region are broadly comparable with those of the prior year in what has been a difficult year in both markets. Business continued to be soft however a few individually significant projects were delivered. Sales mix is weighted more towards our own product suite through the trading year, and whilst this has the consequence of reducing margins locally it is more beneficial to the group as a whole.

Although there were restrictions regarding the national response to the pandemic in Norway the business remained open throughout. To keep their economy more active, restrictions in Sweden were less severe however some negative commercial impacts came later in the year as the economy and refurbishment slowed. There were many education projects in Sweden with examples being Orkerstern School, and the Svärtingeschool. Across the Scandinavian region, competitors had problems supplying some specifications to the advantage of our businesses where we were able to supply from stocks locally or from the UK. This is a trend that has continued into the new financial year.

Polyflor Canada, based in Toronto

As has been the case every year since the business was established, we have increased sales, with a further 6.2% added this year compared to the last. The growth continues to come from the territories in which we have our own dedicated sales force, those being Ontario, British Columbia and Ottawa.

As the business supplies the healthcare sector it was able to remain open as an essential supplier and continue to operate during the period of restrictions in Ontario. Healthcare and education remain key sectors for this business selling our core ranges of products. Sales of luxury vinyl tiles have also increased significantly over the period in what is a very competitive market. Our product offerings are attractive given the quality of designs and product presentation. The City of Orillia Public Library, Trattoria Nervosa Kitchen in Toronto and Loblaw's Toronto headquarters are examples of key projects supplied in the year.

Polyflor India, based in Mumbai

The trend of increasing growth since the inception of this business came to an end during the year with project specifications facing delays/funding problems and failing to materialise as sales.

The slowdown was compounded by the effects of the pandemic that effectively closed the business operations for a three month period. The majority of sales are new projects and our business in India has a far lower level of refurbishment than any other market in which we operate. Sales have therefore retrenched significantly in this current period and we pared back some of the operations accordingly. Notwithstanding these issues projects completed included Johnson & Johnson Pharma in Mumbai and Mark & Space Telesystems, Gurgaon.

Several significant projects have been delivered post year end in the healthcare and pharmaceutical sectors, including material for a manufacturing plant that will be producing one of the leading vaccines currently being trialled.

Rest of the World

The Polyflor export and marketing offices, based in Royton, continue to support our international businesses and to directly sell via a global network of representatives, agents and distributors.

During the year the export team and our Pacific Asia team have worked hard to increase our presence in the Far East. We have added dedicated sales representatives in Malaysia, Indonesia and Singapore working close with the long established Polyflor Hong Kong and reporting to the regional director in Australia. A major programme of presentations across the regions has re-invigorated the many contactors and architects we have dealt with over the years and presented the company and its products to a much wider audience. With Facebook and Instagram accounts added for Malaysia, Thailand, Vietnam Singapore, Indonesia and Taiwan and the Philippines. In addition, our corporate websites have been re-vamped and social media sites for Wechat, Weibo and LinkedIn are all adding to the business and feeding enquires.

Our first full year with a sales office in Bogota, Colombia has seen good progress with projects across the region including Argentina, Chile, Brazil and Mexico. The team have not only increased the support to existing distributors in the region but also brought new opportunities and contacts with projects such as the Industrial Hospital Medical Centre in Puerto Rica.

Other local representatives working locally but reporting to Polyflor continue to represent us in Romania, Indonesia, the Czech Republic and Hungary. Project Livesport in Prague being just one example. In March, we appointed an experienced Spanish sales manager, who is already securing Polyflor specifications not only in Spain but in other Spanish speaking countries. The representative office in the Middle East is now underpinned with stock warehoused in the United Arab Emirates and supporting increased business in Dubai, Oman, Qatar and Saudi Arabia. During the year we supplied six emergency hospitals in the UAE, three more in Qatar and four in Jordan.

The 100,000 square metres of Polyflor Voyager XL that was shipped to refurbish the Moscow subway trains was a notable project. This subway is the fourth longest in the world with some seven million daily users. In addition the supply of Palettone to the National Hospital of Iceland in Landspítali was also of note.

In conclusion

I, and the board, are confident of another solid year tempered by the uncertainties that currently abound.

In several markets there is general sentiment that the cost of the recent months will lead to economic slowdown, business closures and increased unemployment. That said we have seen a very sharp return to prior levels which may, in part, be pent-up demand but equally there is demonstrable evidence of ongoing demand where there are buoyant sectors such as modular buildings.

Mark Halstead
Chief Executive

30 September 2020

Financial Director's Review

As is usual, we have prepared these accounts by the consistent application of accounting standards with due appraisal and judicious accrual for known probable liabilities with as yet uncertain outcome at the year end. In these accounts IFRS 16 Leases was adopted for the year ended 30 June 2020, with no restatement of the comparative period, and it had no significant effect on the profit for the year. The effect of the adoption of IFRS 16 is set out in note 34. As in previous years we remain prudent.

The group operates through separate legal entities in certain areas of the world and though these are discussed in the Chief Executive's Review we, as a board, have concluded that these operations are one segment for the purposes of IFRS 8.

Some key statistics:

- Group turnover at £238.6 million (2019: £253.0 million) was 5.7% lower than last year.
- Profit before tax was £43.9 million (2019: £48.3 million) 9.2% lower than last year.
- Finance income was £0.4 million (2019: £0.4 million) reflecting interest rates that remain very low.
- Selling and distribution costs were 7.8% lower than last year. Administration expenses were 3.0 % lower than last year
- Trade debtors decreased to £24.6 million (2019: £29.0 million). Trade creditors decreased to £29.6 million (2019: £ 42.0 million).
- Stock levels stand at £68.5 million (2019: £69.9 million).
- Cash stands at £67.4 million (2019: £68.7 million) even after the payment of £25.2 million in dividends, £11.6 million in tax and £4.2 million of capital expenditure.

Key performance indicators

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

Rather than focus on individual working capital targets or ratios, the board are informed of all significant issues directly by subsidiary management by means of monthly reports on the key decisions and influences on working capital. Our focus at subsidiary level is on stock availability and appropriate credit given to and received from customers and suppliers respectively. Obviously sales,

margin and profitability are monitored as well as cash, which is the final result of our economic activities. Appropriate summaries of these statistics are collated into monthly group reports. These accounts contain analysis and more importantly we require each director to undertake a written report on their area and often these include key indicators (obvious examples are level of absenteeism in the factories, debtor days and margin by product line but these are backed up with detail of the key drivers of these ratios and the planned response).

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

In terms of non-financial KPIs brand awareness, reputation, customer satisfaction and market share are all important but difficult to assess. We do not believe that surveys and market share data, to the extent that is collated by various trade bodies, is incomplete and wholly accurate. Consequently little reliance is placed upon this data. We subscribe to various third party reports on the flooring industry which to an extent match and compare us to our competitors and whilst valid snap-shots of the sector they are limited. Customer satisfaction awards are always welcome and we note these in our strategic report.

Principal decisions

The strategic report notes our approach to our Section 172 of the Companies Act 2006 and we have faced many decisions in the year. We define principal decisions as those that have a significant impact on the company and/or group and/or our stakeholders. Principal decisions that are currently confidential to the group are not included in the list below. Any such decision would be included in future report and accounts if and when confidentiality is no longer a factor.

The potential impact of principal decisions on stakeholders is assessed in detail by the board. Obviously a significant number of decisions had to be made in the period of the lockdown and principally the level of manufacturing activity. The executive directors kept the board apprised and these actions are described in the strategic review and in our interim reporting. To the extent that these decisions affect employees there is a bi-annual update on group performance. Each of the principal decisions has an effect on employment and hence employees as a whole so this high level update is important to provide context for the individuals.

During the year the following were considered by the board.

Payment of dividends

The board considered shareholder expectations in setting these dividends, along with the cash position of the company. The record interim dividend was in part deferred as the UK and several of our important markets faced national lockdowns. The second part of this was paid on 10 September 2020. In reaching its dividend decision, the board took into account the fact that there is a large employee shareholder base (through its UK share schemes) and its commitments to funding the pension schemes. Cash flow projections are an important part of this and particularly in this current year and the executive directors were tasked with keeping the board apprised of debtors and working capital. In the early stages of the UK national lockdown the effect of the crisis on liquidity was unknown and discussion with our bankers on access to temporary funding was commenced. One major benefit of government policy was that customers nationally and globally continued payments by and large as normal (as indeed did our Group).

Defined benefit (DB) pension scheme - deficit funding

The board reviews the DB pension scheme deficit on a regular basis and continued to fund the deficit as agreed in the 2017 valuation, the board having considered the cash position has in recent months, (i.e. since the start of the pandemic), made additional payments of £4 million above the agreed plan and are working towards assessing the up to date position with the tri-annual valuation of the scheme. In addition, the board took the decision to appoint an independent trustee and is taking steps to increase the number of member appointed trustees from one to two. The board is of the belief that increasing the member nominated trustee number can only offer more engagement.

Review of long term executive incentives

Our existing share option plan was approved in 2010 and the board have sought advice to update this plan and it will be presented to shareholders at the upcoming AGM. Many companies in recent years have moved to the issue of nil cost options but the board considers that whilst, on occasion, this might be appropriate we should issue options at the market value of our shares and that benefit to executives is thereby dependant on value creation to shareholders.

Approval of group budget

A key process is to each year agree budgets with our trading subsidiaries and this is presented to the board towards the end of each trading year. Having regard to the unprecedented situation across our markets for the pandemic this process this year would be neither accurate nor a useful use of time. The Board, therefore, will assess progress against the prior year comparative and re-assess

budgeting in early 2021. In the normal course of budget preparation manning levels and shift patterns are assessed and this effect of working hours disseminated to the various departmental employees.

Warehouse expansion

The board has appraised the need for increased warehouse capacity in the UK and plans are being finalised for final approval. The board has agreed in principle and the cost of this expansion will be in excess of £12 million (excluding stock holdings).

Whilst not a principal decision in the year there was significant action in regard to the pandemic and the national lockdown. As part of assessing the ability of the group and company to continue as a going concern, management considered the impact of the pandemic on its business. Operationally the need was to continue supply of product to customers including emergency facilities across the globe and in many markets our businesses were deemed essential. Equally the priority was to ensure safe working and the associated PPE and social distancing. Contacts across the world supplied some of that PPE and our thanks to them in this regard. The long history we have with healthcare strengthened and we anticipated the type of products that would, in the short-term, be in demand. Similar demand was seen at the time of SARS-Cov-1 in 2002-2004. Priorities and decisions were, by necessity, short term and reactive since medium term outcomes were speculation. It is an old adage but sometimes it is easy to get on with actions than to pontificate. Going concern is further described in the director's report. It is clear that this single subject has been a main focus of the statutory auditors.

Principal business risks and uncertainties

The ongoing pandemic is an uncertainty. The actions we take will necessarily evolve. We have detailed procedures to minimise risk of transmission within our business.

The situation regarding the UK leaving the EU ("Brexit") is an ongoing uncertainty. It is as yet unclear what will unfold and we continue to await the evolution of the repercussions. As we approach the date for our exit from the transition period, we continue to digest government guidance. On the plus side we export to many countries outside the EU and are very familiar with global customs procedures. There are concerns in the press over interruptions to supplies into the UK post Brexit but we have sourced raw materials widely and our key European suppliers are very large organisations that have huge trade into the UK and we are confident supplies will continue. To the extent that imports will attract duty we have procedures in place to reclaim any duty on imports that are then re-exported around the globe.

Financial Director's Review

continued

The board constantly assesses risks and discusses business issues regularly. To the extent risk is insurable the board is risk averse and the group is widely insured. A comprehensive insurance appraisal takes place annually to mitigate exposure to risks, such as business interruption and fire but obviously key risks such as escalating raw material prices and energy costs fall outside any insurable event. Inevitably the unexpected cannot be anticipated but given the depth of understanding of our principal business by the senior management, and the board, risk is ameliorated but not eliminated.

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

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

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

In respect of exchange risk, the group operates internationally and is exposed to foreign exchange risk on both sales and purchases that are denominated in currencies other than sterling. Those giving rise to the most significant risk are US dollar, euro and Australian dollar. To mitigate risk associated with exchange rate fluctuations the group's policy is to hedge known and forecast transactions. This hedging is at least 25% and on occasion, albeit rarely, more than 100% of the next year's anticipated exposure. 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).

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 wouldn't be covered by our current levels of stock holding. Given the length of service of many senior managers, succession planning becomes a risk and/or an uncertainty but again the open style of decision making and collaboration mitigate the risk.

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

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

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

	£'000
2020	336
2019	(170)
2018	(759)
2017	2,168
2016	4,808

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

Defined benefit pension scheme

In common with other long established businesses we have the complications and uncertainty associated with having a "final salary" pension scheme. The scheme has been closed to new entrants since 2002 and was only offered to UK based employees; of our UK based work force around 20% of employees are members of this scheme. At this moment in time we are considering closure of the scheme to future accrual.

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

Actuaries undertake a tri-annual valuation of the scheme.

The scheme comprises active members (existing employees), deferred members (past employees not yet in retirement) and pensioners. Under the current accounting standard for pensions the current service costs of active members are dealt with in the profit and loss account with the costs associated with deferred members and pensioners dealt with through the Consolidated Statement of Comprehensive Income. This year there is a net actuarial loss of £5.1 million against a net actuarial loss in 2019 of £4.5 million which is largely the effect of changing assumptions on liabilities. It is of note that since the adoption of the pension scheme into the balance sheet some years ago the deficit has had the potential effect of improving the return on capital employed (since it is a deficit and a liability) and for this reason it is excluded from any performance measure (or related bonus remuneration) internally. The majority of UK employees are in one or other of our defined contribution schemes.

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

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

These ratios for this Group based on a share price of 518p (2019: 514p) are:

- The net deficit to market capitalisation is 1.7% (2019: 1.5%);
- The total liabilities to market capitalisation is 8.4% (2019: 7.8%); and,
- The deficit to operating profit is 52.6% (2019: 40.5%).

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

merely give some idea of the "affordability" of the deficit to the group. The dominant assumption that drives up the deficit is that the current very low gilt yields are used to determine liabilities. There is an irony in that pension funds have an unquenchable appetite for government bonds at ever lower interest rates. The focus on current interest rates as a determinant of long term liabilities continues and it should be noted that relatively small increases in this assumption eliminates the deficit.

It continues to be that our scheme augments past pensions to RPI though ongoing salaries and future accrual are to the more appropriate CPI. Several years ago the UK Statistics Authority balked at changing RPI even though it is widely discredited as an appropriate measure on which to base pensions. The latest proposal to alter RPI to the CPIH basis could reduce the deficit significantly.

Gordon Oliver
Finance Director

30 September 2020

Section 172 Statement

The directors and the board as a collective consider that they acted in a way that would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in S172(1) (a) to (f) of the Act) in the decisions taken during the year ended 30 June 2020.

The group comprises business units in various locations worldwide, all of which have engagement with their local stakeholders and other companies within the group structure. The group's governance delegation of authority allows decisions to be made at local business unit level up to defined limits, which allows them to take account of the needs of their local stakeholders through their decisions implemented locally. The board routinely monitors these decisions and ultimately takes responsibility for the interaction with all stakeholders.

In consideration of major matters discussed at board level, the likely impact on all stakeholders are carefully considered and where possible, decisions are carefully explained and discussed with affected stakeholders before actions are implemented to ensure they understand and have any necessary support.

The group's key stakeholders and how we engage with them are set out below.

Stakeholder group	How do we engage with them?	How has the board considered their interests?
Shareholders	Members of the board have regular dialogue with institutional Investors and individual shareholders in order to develop an understanding of their views. The AGM is an important forum for private shareholders to meet the board and ask any questions they may have, directly. The company's website has an investors section which gives investors direct access to reports, press releases and business information. There is also contact mailbox facility.	The board understands that shareholders require sustainable growth and value creation. In recognising this, it has implemented a policy which has resulted in increasing dividend returns and incremental shareholder returns over a sustained period. Shareholder views, together with movements in the shareholder base, are regularly reported to and discussed by the board and their views are considered. Our NOMAD's views on market sentiment are fed back on a regular basis, and are considered by the board where it impacts strategy.
Customers	We interact with our customers through: ■ Regular visits and meetings ■ Industry exhibitions ■ Customer site tours and presentations ■ Business unit websites ■ Supplying extensive samples and supporting literature ■ Delivering a high standard of technical support ■ Providing enhanced digital design services and support	Our strategy of attaining sustainable growth in profit and building goodwill in our brands will only be achieved through an understanding of the needs of our customers and the markets we serve. The board regularly considers the impact on customers when considering strategic decisions, for instance the major investment in a new warehousing facility has been driven by the need to improve customer service.

Suppliers	Engagement with suppliers and business partners is achieved by holding regular meetings, regular evaluation reviews and through audits of the supplier base.	The board recognises that relationships with the supplier base is important to the reputation and long term success of the group. There is regular dialogue between our management team and our suppliers, where quality, price, sustainability and health and safety are key to the discussions. Any matters which the board needs to be aware of are reported back as appropriate.
Employees	We engage with our employees through site communications, briefings, performance reviews, newsletters and notice boards. Employees are also written to individually on matters which are deemed important.	The board is aware that our employees are critical to the successful achievement of the strategic aims. The group prides itself on providing a friendly and safe working environment for all employees, and given the nature of our manufacturing process, health and safety is taken extremely seriously. There are a number of employees who have achieved thirty, forty and even fifty years' service. The group has operated a share scheme which enabled employees to build up personal shareholding in James Halstead plc and participate in its expansion and success.
Communities	We operate from multiple sites and seek to be a good neighbour with the local communities. Where possible we create opportunities to recruit and develop local people, which helps support the local economy and look after the environment. We also support local charities through fundraising and donations.	The board has a full understanding of the importance of good community relations with both internal and external stakeholders. The impact of our operations from an environmental perspective is recognised on a local and global level. Capital expenditure projects, for example, focus on improving energy efficiency and reducing environmental emissions.

The corporate social responsibility section of the latest Polyflor Sustainability Report outlines in further detail, the group's commitment to its stakeholders, including the supply chain, employees and the communities.

The principal decisions in the year are included in the Financial Director's Review.

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

D W Drillingcourt
Secretary

30 September 2020

Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2020.

Results and dividends

The group results for the year and the financial position at 30 June 2020 are shown in the consolidated income statement on page 30 and the consolidated balance sheet on page 32.

The directors are recommending a final dividend of 10.00p (2019: 10.00p) per share on the ordinary share capital for payment on 11 December 2020 to those shareholders whose names appear on the register at 20 November 2020. This final dividend together with the two interim dividends of 2.125p per share paid on 5 June 2020 and 10 September 2020 makes a total dividend of 14.25p (2019: 14.00p) per share for the year.

Directors

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

J A Wild
M Halstead
G R Oliver
S D Hall
M J Halstead
R P Whiting

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

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

	30 June 2020		30 June 2019	
	Beneficial	As Trustee	Beneficial	As Trustee
J A Wild	150,300	11,975,360	150,300	11,975,360
M Halstead	13,241,468	11,126,312	13,241,468	11,202,159
G R Oliver	207,550	130,234	207,550	206,081
S D Hall	5,700	–	5,700	–
M J Halstead	688,117	–	688,117	–
R P Whiting	–	–	–	–

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

Details of the directors' options under the terms of the executive share option scheme are set out in note 27.

Substantial interests

As at 14 September 2020 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
Rulegate Nominees	36,955,718	17.8
John Halstead Settlement	35,447,218	17.0
HSBC Global Custody Nominee	13,329,928	6.4
Octopus Investment Nominees	10,394,356	5.0

Share capital

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

14 January 2020	10,000
	<u>10,000</u>

Special business at the annual general meeting

Resolution 6 renews the directors' authority to offer ordinary shareholders the opportunity to take ordinary shares in lieu of any cash dividends which may be payable prior to the Annual General Meeting in 2021.

Resolution 7 authorises the directors to allot relevant securities pursuant to section 551 of the Companies Act 2006 up to a maximum nominal amount of £3,469,018 representing approximately 33.33% of the total ordinary share capital. The authority will expire at the next Annual General Meeting of the company to be held in 2021 or six months after the next accounting reference date of the company (whichever is the earlier).

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

Resolution 8 invites shareholders to renew the board's authority to issue shares for cash without first being required to offer them *pro rata* to existing shareholders. The proposed authority will terminate at the next Annual General Meeting of the company to be held in 2021 or six months after the next accounting reference date of the company (whichever is earlier). The authority is limited to equity securities up to an aggregate nominal amount of

5.0% of the company's issued ordinary share capital. The resolution also contains provisions to enable the directors to deal with fractional entitlements and other practical difficulties which could arise in the event of a rights issue or similar pre-emptive offer.

Resolution 9 seeks to renew the authority of shareholders to allow the company to purchase its own shares in respect of up to 10% of the issued capital at prices not exceeding 5% above the average of the middle market quotations for the five business days preceding the purchase. The directors undertake that the authority would only be exercised if the directors were satisfied that a purchase would result in an increase in expected earnings per share and was in the best interests of the company at that time. The directors may choose to hold shares purchased under such authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital at any one time).

Resolution 10 seeks to amend the rules of the James Halstead plc Share Option Plan that was adopted by the company in 1998. Substantive changes to the rules of the plan have been made to take into account changes in legislation and rules affecting listed companies since the scheme was last amended in 2010, including Market Abuse Rules 2014. A significant change to the rules being proposed is the incorporation of malus and clawback provisions which takes account of recent case law and aligns the rules with the Investment Association's remuneration principals (November 2019).

Going concern

The group's performance, position and business activities, together with the factors likely to affect its future development, are described in the Chief Executive's Statement.

The directors have reviewed current performance and forecasts, combined with capital investment and expenditure commitments, and a range of trading scenarios. The group has no net borrowings and owns the freeholds on many of its premises (the most significant being the four UK operating sites).

After making enquiries, the directors have the reasonable expectation that the group has adequate financial resources to continue in operation, including contractual and commercial commitments, for the foreseeable future. The global pandemic has led to a greater focus on this facet of the accounts and the audit but in looking at various scenarios we see some positives when considering the short to medium term (12 – 18 months). Firstly, the UK (and most of our other markets) went into the initial wave of the pandemic unprepared in terms of resources and basic

knowledge of the virus. Over that initial lockdown period we remained profitable and cash generative (albeit at lower levels). During that time our focus was on the immediate upswing in demand from the health sector (for example "Nightingale" pop-up hospitals), but this by no means offset the lower levels of trade elsewhere.

It is reasonable to suppose that in a second wave any lockdown would be less widespread. In addition we and the markets in which we operate are more aware of the health and safety issues. The various health services are more prepared and basic resources such as PPE and sanitisers are more available. It is clear that infections continue to rise in many locations but equally across the various markets the death rate is lower due to better understanding of treatment, better public awareness and other factors.

Furthermore, we have noted that, in our business, there has been a marked "bounce back" in trade in the weeks and months after the various lockdowns our businesses have faced. The major part of our business is repair and renewal and it seems clear that whilst sales dropped significantly in the lockdown these were not lost but were deferred. On new build there has been a smaller rebound, and still in many markets the service sector of the building trade are not working as normal but this work is not cancelled but merely deferred.

Certain end user segments continue to be hit (restaurant and hospitality being the most obvious) but others have grown beyond the norm (portable buildings and school refurbishment). Given the extreme ease of cleaning vinyl its use in many projects is being widened. Our competitors and our customers have all been affected by the pandemic. To the extent that they have made public their experiences of trading and outlook we have assessed these in our own projections. In the most drastic of scenarios significant wages can be curtailed under statutory lay off for a period of three months. We are confident that we have not lost market share.

Working with our teams we have tested extreme scenarios for the purposes of the statutory audit and, whilst we do not believe they are likely, this stress testing underpins the going concern concept. The most practical aspects of our planning is damage limitation of our ability to continue to manufacture and supply our global markets by maximising awareness of basic hygiene and social distancing.

An initial concern was cash flow and it is pleasing to note that liquidity was not generally compromised in the way it was in the financial crisis. We have no doubt that the liquidity injected into the UK economy by grants supporting the payment of wages helped. As we look to the months ahead this financial support will cease which is one reason we have stress tested wider disruption.

Report of the Directors

continued

Employment involvement

Within the UK we have both 25 year clubs and 40 year clubs for all employees. Many employees have worked their entire career for the group, and retaining an experienced workforce is important to our long term success. Our workforce retention rate is very high. Recruitment is biased to the local area, and we have a number of graduate recruits and offer internships to support of younger people looking to develop their employment skills. We look to pass on knowledge and we are involved in skills training to the flooring industry, technical knowledge to the industry in general and involvement in the Chartered Institute of Human Resource Management's "Skills Ahead Mentoring Project". We have a floor fitting school for the industry and this is accessible to employees allowing them to gain skills for use in their own homes.

Promotion or opportunities in different departments are often recruited from within the business and is preferred to external candidates. The senior management and the directors having, in the main, come from lower positions within the business, including the executive directors of the main company. Our recycling partnership presents to senior management and staff on a regular basis to promote a better understanding of achievements and goals to involve more of our staff in sustainability.

We have a firm belief in equality and our main subsidiaries are SA8000 accredited (an independent standard for decent working environments). Also BS OHAS 18001 accredits our occupational and safety management protocols.

All our UK employees are offered pension scheme benefits with company contribution and the majority of UK employees are shareholders in the company by virtue of a long standing employee participation scheme. This is currently being reviewed to make it even more relevant to the group today. On the more personal level we operate a company supported social club for employees, we have outdoor seating, we offer bike sheds and there are shower facilities at most sites. Also there are break out zones and facilities to either buy or prepare food at all our sites. The company looks favourably on providing time for employees to undertake voluntary work.

Across our sites there are regular consultation meetings with employee representatives (some with trade union representatives).

Our employees are an important asset and are kept abreast of group performance at least twice a year. In this year with the pandemic we have made provision for many staff to work from home and created segregated teams to maximise social distancing. Obviously the production lines need manpower and much reorganisation has been undertaken to maintain a

safe working environment. During the early days of the pandemic a great deal of time was spent in collaboration with external union officials and local health and safety officials to minimise risk and to allay employee concerns.

In terms of decisions directly affecting employees, communication is by line managers in the first instance, but the directors will discuss overall matters with designated representatives. In regard to the principal decisions of the business the board has considered the employees as a group and their well being as a whole.

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.

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.

Emissions and energy consumption

In line with current UK reporting guidelines, the following table details the group's UK emissions made and energy consumed in the year ended 30 June 2020. The information has been prepared using the reporting guidance set out by the SECR (Streamlined Energy and Carbon Reporting) requirements and methodology.

	Year ended 30 June 2020 Tonnes of CO ₂ e
Scope 1 - direct emissions (UK facilities and vehicles)	8,049
Scope 2 - indirect emissions (UK purchased electricity)	5,495
Total Scope 1 and Scope 2 emissions	13,544
Intensity metric – total scope 1 & 2 emissions per metric tonne produced	0.31
Total UK energy consumption (kWh)	67,086,645

The group is committed to year on year improvements in our operational energy efficiency. A number of energy efficiency projects have been identified for completion in the coming year including the installation of high efficiency boilers, an LED light replacement schedule, increased installation of submeters to facilitate more efficient plant management and the implementation of an energy and environment strategy in line with the UK's 2050 net zero targets. These projects will be accretive to the improvement in energy efficiencies achieved through the measures undertaken in the current year.

Risk management

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

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. The directors have elected to prepare the parent company

financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

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

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

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

The directors are responsible for ensuring the annual report and financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions.

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

Report of the Directors

continued

Auditor's remuneration – non-audit related fees

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

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

Auditor

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

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

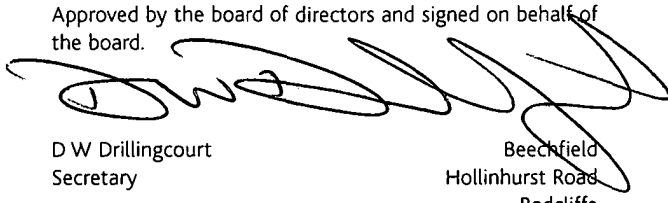
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit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

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

D W Drillingcourt
Secretary

30 September 2020

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN



Board Report on Remuneration

Remuneration committee

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

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

Remuneration policy

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

Basic salary and bonus payments

The directors' salaries and fees for the year are disclosed in note 14. 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 £463,000 to each of the group chief executive and group finance director were paid during the year.

Share option schemes

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

The share option plan is reviewed by the remuneration committee and is open to executive directors and selected employees of the group. The option price per ordinary share will not be less than the market value on the day of grant. A limit of four times earnings has been placed on the value of the aggregate price payable on the exercise of all options or

rights to subscribe for ordinary shares granted to an individual employee under the share option plan and under all other discretionary schemes.

Pensions

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

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

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

Service agreements

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

S D Hall

Chairman of the Remuneration Committee

Corporate Governance

Chairman's introduction to governance

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

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

Anthony Wild
Chairman

Directors and committees

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

The board has two sub committees: a remuneration committee and an audit committee.

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

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

The board

The role of the board is summarised as follows:

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

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

Directors

Mr Anthony Wild – non-executive Chairman

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

Mr Mark Halstead – Chief Executive

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

Mr Gordon Oliver – Finance Director

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

Mr Steve Hall – Senior independent director

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

Mr Michael Halstead – non-executive director

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

Mr Russell Whiting – non-executive director

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

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

	Possible	Actual
J A Wild	6	6
M Halstead	6	6
G R Oliver	6	6
S D Hall	6	6
M J Halstead	6	6
R P Whiting	6	6

Senior management team

Mr David Drillingcourt – Corporate Development Director and Company Secretary

Mr Drillingcourt is a Chartered Accountant and trained with KPMG before joining the company in 1996 as group accountant. He served as finance director at two of the company's subsidiaries, Phoenix Distribution (NW) Limited (1999-2005) and Polyflor Limited (2005-2013), before his appointment as company secretary in 2013 and corporate development director in 2019. Working closely with the board and subsidiary directors, the role is designed to help support the future growth of the business across the globe.

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.

Corporate Governance

continued

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.

The Quoted Company Alliance Code ("QCA code")

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

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

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

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

The disclosures below were last reviewed and approved by the board on 30 September 2020.

QCA Principles and James Halstead plc's approach

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

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

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

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

2. Seek to understand and meet shareholder needs and expectations

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

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

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

Shareholders can contact the company secretary with questions and may be referred to the directors.

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

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

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

In terms of communications with stakeholders this is done in ways appropriate to the stakeholder and may take the

form of formal announcements, individual meetings (for example appraisals with employees) and negotiations with other stakeholders.

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

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

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

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

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

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

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

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

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

Corporate Governance

continued

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

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

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

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

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

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

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

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

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

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

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

The board will take account of the Financial Reporting Council's Guidance on Board Effectiveness as it evaluates on a regular basis its performance. The remuneration committee meets formally and is tasked with not only the remuneration of the executive directors but also evaluation

of performance. To this end the board is circulated with press comment and market feedback on the business. Market share data and peer group analysis is available.

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

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

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

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

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

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

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

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

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

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

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

The board retains ultimate accountability for maintaining good governance. The executive directors are responsible for the day-to-day operational management of the group and the non-executive directors are responsible for bringing their independent and objective judgement to board discussions and decisions. The roles of chairman and chief executive are split in accordance with best practice. The board are responsible for the implementation of strategy, the achievement of performance and ensuring the framework of internal controls is effective. The board has delegated specific responsibilities to the audit and remuneration committees.

The audit committee assists the board by ensuring that the financial performance of the group is properly reported. It oversees and reviews the internal control processes, its relationship with external auditors and the process for ensuring compliance with laws, regulations and corporate governance.

The remuneration committee is responsible for establishing a formal and transparent procedure for developing policy on remuneration and to set the remuneration packages of individual directors, including, where appropriate, bonuses, incentive payments and share options.

Due the nature and size of the company, the directors have determined that a nomination committee is not necessary and that issues concerning the nomination of directors will be dealt with by the board directly.

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

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

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

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

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

Opinion

We have audited the financial statements of James Halstead plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 June 2020 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Parent Company Balance Sheets, Consolidated and Parent Company Statement of Changes in Equity, Consolidated Cash Flow Statement and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Inventory valuation and provisioning

As described in Note 2 (accounting policies) and Note 19 (inventories), the group carries inventory at the lower of cost and net realisable value. Provision is made against slow moving, obsolete and damaged inventories. As at 30 June 2020, the group held inventories of £68.5m (2019: £69.9m).

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

How we addressed the key audit matter

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

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

- assessing the appropriateness of the percentages applied within the provision by reviewing historic sales and the ageing of stock and
- testing of a sample of inventory to confirm it is held at the lower of cost and net realisable value, through comparison to invoices for cost and sales prices.

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

Key observation: Our work did not highlight evidence that the level of inventory provision is materially misstated.

Pension scheme assumptions

As described in Note 2 (accounting policies) and Note 26 (retirement benefit obligations), the group has a defined benefit pension plan in the UK. At 30 June 2020, the group recorded a net retirement obligation of £23.2m (2019: £19.6m), comprising scheme assets of £67.3m (2019: £63.8m) and scheme liabilities of £90.5m (2019: £83.3m).

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

This area represented a key audit matter given that the setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries. The related sensitivities of any changes in assumptions are disclosed in note 26.

How we addressed the key audit matter

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

We benchmarked the scheme assumptions against other schemes of a similar size and profile. Specifically we challenged the discount rate, inflation and mortality assumptions applied in the calculation by using pension experts to benchmark the assumptions applied against comparable third party data and assessed the appropriateness of the assumptions in the context of the group's own position. We have also performed sensitivity analysis on the assumptions determined by the Directors.

Furthermore, we have assessed the disclosure of the net pension liability and the related assumptions and sensitivities in the financial statements against the relevant accounting framework.

Key observation: We have not identified any evidence to suggest that the methodology and assumptions applied in relation to determining the pension valuation are not within an acceptable range.

Going concern

As disclosed in Note 2, management have assessed that it is appropriate for the group and the parent company to continue preparing the consolidated financial statements on a going concern basis.

The outbreak of Covid-19 has resulted in uncertainty in the economy and difficulty in accurately forecasting the performance of the group going forwards.

Management considered implications for the group's going concern assessment and the disclosure in the Annual Report and accounts, by developing stress test scenarios to model potential impacts.

Management are required to make significant estimates and judgements when preparing such forecasts as a small change in the assumptions used may have a significant impact on the cash flows of the group and profitability. For this reason we considered the audit of going concern a key audit matter.

How we addressed the key audit matter

Our audit procedures included examining management's business plan covering the period to September 2021. We examined the cash flow forecasts for key judgements as well as considering downside sensitivities to these.

We challenged management's stress test scenarios including levers available to management to mitigate the impacts.

We challenged management on the key assumptions included in the scenarios and confirmed management's mitigating actions are within their control.

The forecasts include key assumptions in respect of (1) the impact of Coronavirus on future sales; and (2) operational capacity. We challenged each area by considering whether the assumptions put in place were realistic based on supporting information such as post year end performance and historic trends. We also corroborated each key assumption to supporting documentation.

We also assessed the adequacy of the disclosure within the financial statements relating to the directors' assessment of the going concern basis of preparation.

Our application of materiality

Group materiality 2020	Group materiality 2019	Basis for materiality
£2.30 million	£2.41 million	5% of 3 year average profit before tax (2019: 5% of profit before tax)

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions,

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

could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Pre-tax profit is determined to be a stable basis of assessing business performance and is considered to be the most significant determinant of performance used by shareholders.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at £1.49m (2019: £1.57m) which represents 65% (2019: 65%) of the above materiality level.

Materiality in respect of the audit of the Parent Company has been set at £1.49m (2019: £1.54m) using a benchmark of 5% of 3 year average profit before tax (2019: 5% of profit before tax). Pre-tax profit is determined to be a stable basis of assessing business performance and is considered to be the most significant determinant of performance used by shareholders. For the purposes of the group audit, the amount above was restricted to component materiality.

We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £46,000 (2019: £48,200). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

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

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

Together with the parent company and its group consolidation, which was also subject to a full scope audit, these locations represent the principal business units of the group and account for 93% of the group's revenue, 97% of the group's total assets and 99% of the group's profit before tax.

Whilst materiality for the financial statements as a whole was £2.30m, each component of the group was audited to a lower level of materiality. Component materiality was in the range of £0.46m to £1.61m.

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

The Central European operations form a significant part of group turnover and profitability. As part of our audit strategy, the Responsible Individual and senior members of the group audit team were involved during the planning and risk assessment process of the German component in addition to during the completion of detailed audit procedures. We attended key meetings virtually with component management and auditors, and reviewed component auditor work papers.

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the Report and Accounts 2020, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

BDO LLP

Gary Harding (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester
United Kingdom
30 September 2020

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

Consolidated Income Statement

for the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Revenue	5	238,630	253,038
Cost of sales		(138,262)	(144,236)
Gross profit		100,368	108,802
Selling and distribution costs		(45,297)	(49,149)
Administration expenses		(10,936)	(11,279)
Operating profit		44,135	48,374
Finance income	9	382	357
Finance cost	10	(660)	(455)
Profit before income tax	7	43,857	48,276
Income tax expense	11	(9,502)	(10,484)
Profit for the year attributable to equity shareholders		34,355	37,792
Earnings per ordinary share of 5p			
– basic	12	16.5p	18.2p
– diluted	12	16.5p	18.2p

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in note 13.

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Profit for the year		34,355	37,792
Other comprehensive income net of tax:			
Items that will not be reclassified subsequently to the income statement:			
Remeasurement of the net defined benefit liability	26	(5,062)	(4,546)
		(5,062)	(4,546)
Items that could be reclassified subsequently to the income statement if specific conditions are met:			
Foreign currency translation differences		336	(170)
Fair value movements on hedging instruments		(16)	(689)
		320	(859)
Other comprehensive income for the year net of tax		(4,742)	(5,405)
Total comprehensive income for the year		29,613	32,387
Attributable to:			
Equity holders of the company		29,613	32,387

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 11.

Consolidated Balance Sheet

as at 30 June 2020

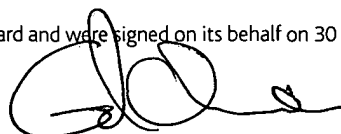
	Note	2020 £'000	2019 £'000
Non-current assets			
Property, plant and equipment	15	38,520	37,449
Right of use assets	16	5,872	–
Intangible assets	17	3,232	3,232
Deferred tax assets	18	4,334	3,261
		<u>51,958</u>	<u>43,942</u>
Current assets			
Inventories	19	68,542	69,921
Trade and other receivables	20	28,361	32,816
Derivative financial instruments	29	73	372
Cash and cash equivalents	21	67,445	68,664
		<u>164,421</u>	<u>171,773</u>
Total assets		<u>216,379</u>	<u>215,715</u>
Current liabilities			
Trade and other payables	22	47,444	58,354
Derivative financial instruments	29	883	684
Current income tax liabilities		773	3,419
Lease liabilities	23	2,568	–
		<u>51,668</u>	<u>62,457</u>
Non-current liabilities			
Retirement benefit obligations	26	23,216	19,582
Other payables	22	449	419
Lease liabilities	23	3,371	–
Preference shares	24	200	200
		<u>27,236</u>	<u>20,201</u>
Total liabilities		<u>78,904</u>	<u>82,658</u>
Net assets		<u>137,475</u>	<u>133,057</u>
Equity			
Equity share capital	27	10,407	10,407
Equity share capital (B shares)	27	160	160
		<u>10,567</u>	<u>10,567</u>
Share premium account		4,072	4,044
Capital redemption reserve		1,174	1,174
Currency translation reserve		5,601	5,265
Hedging reserve		(37)	(21)
Retained earnings		116,098	112,028
Total equity attributable to shareholders of the parent		<u>137,475</u>	<u>133,057</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 September 2020.

M Halstead
Director



G R Oliver
Director



James Halstead plc

Registration Number 140269

Consolidated Statement of Changes in Equity

for the year ended 30 June 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 30 June 2018	10,559	3,805	1,174	5,435	668	107,176	128,817
Profit for the year	–	–	–	–	–	37,792	37,792
Remeasurement of the net defined benefit liability	–	–	–	–	–	(4,546)	(4,546)
Foreign currency translation differences	–	–	–	(170)	–	–	(170)
Fair value movements on hedging instruments	–	–	–	–	(689)	–	(689)
Total comprehensive income for the year	–	–	–	(170)	(689)	33,246	32,387
Transactions with equity shareholders							
Dividends	–	–	–	–	–	(28,405)	(28,405)
Issue of share capital	8	239	–	–	–	–	247
Share based payments	–	–	–	–	–	11	11
Balance at 30 June 2019	10,567	4,044	1,174	5,265	(21)	112,028	133,057
Profit for the year	–	–	–	–	–	34,355	34,355
Remeasurement of the net defined benefit liability	–	–	–	–	–	(5,062)	(5,062)
Foreign currency translation differences	–	–	–	336	–	–	336
Fair value movements on hedging instruments	–	–	–	–	(16)	–	(16)
Total comprehensive income for the year	–	–	–	336	(16)	29,293	29,613
Transactions with equity shareholders							
Dividends	–	–	–	–	–	(25,236)	(25,236)
Issue of share capital	–	28	–	–	–	–	28
Share based payments	–	–	–	–	–	13	13
Balance at 30 June 2020	10,567	4,072	1,174	5,601	(37)	116,098	137,475

Consolidated Cash Flow Statement

for the year ended 30 June 2020

	2020 £'000	2019 £'000
Profit for the year attributable to equity shareholders	34,355	37,792
Income tax expense	9,502	10,484
Profit before income tax	43,857	48,276
Finance cost	660	455
Finance income	(382)	(357)
Operating profit	44,135	48,374
Depreciation of property, plant and equipment	3,185	3,105
Depreciation of right of use assets	2,937	–
(Profit)/loss on sale of property, plant and equipment	(43)	16
Defined benefit pension scheme service cost	611	564
Defined benefit pension scheme employer contributions paid	(4,138)	(1,780)
Changes in fair value of financial instruments	14	281
Share based payments	13	11
Decrease in inventories	1,717	1,449
Decrease/(increase) in trade and other receivables	4,388	(621)
(Decrease)/increase in trade and other payables	(10,450)	9,033
Cash inflow from operations	42,369	60,432
Taxation paid	(11,566)	(10,487)
Cash inflow from operating activities	30,803	49,945
Purchase of property, plant and equipment	(4,215)	(4,263)
Proceeds from disposal of property, plant and equipment	110	107
Cash outflow from investing activities	(4,105)	(4,156)
Interest received	382	357
Interest paid	(30)	(33)
Lease interest paid	(202)	–
Lease capital paid	(2,873)	–
Equity dividends paid	(25,236)	(28,405)
Shares issued	28	247
Cash outflow from financing activities	(27,931)	(27,834)
Net (decrease)/increase in cash and cash equivalents	(1,233)	17,955
Effect of exchange differences	14	30
Cash and cash equivalents at start of year	68,664	50,679
Cash and cash equivalents at end of year	67,445	68,664

Notes to the Consolidated Financial Statements

1. General information

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

2. Accounting policies

Basis of preparation

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

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

Going concern

The directors have reviewed current performance and forecasts, combined with capital investment and expenditure commitments, and a range of trading scenarios. The group has no net borrowings and owns the freeholds on many of its premises (the most significant being the four UK operating sites).

After making enquiries, the directors have the reasonable expectation that the group has adequate financial resources to continue in operation, including contractual and commercial commitments, for the foreseeable future. The global pandemic has led to a greater focus on this facet of the accounts and the audit but in looking at various scenarios we see some positives when considering the short to medium term (12 – 18 months). Firstly, the UK (and most of our other markets) went into the initial wave of the pandemic unprepared in terms of resources and basic knowledge of the virus. Over that initial lockdown period we remained profitable and cash generative (albeit at lower levels). During that time our focus was on the immediate upswing in demand from the health sector (for example "Nightingale" pop-up hospitals), but this by no means offset the lower levels of trade elsewhere.

It is reasonable to suppose that in a second wave any lockdown would be less widespread. In addition we and the markets in which we operate are more aware of the health and safety issues. The various health services are more prepared and basic resources such as PPE and sanitisers are more available. It is clear that infections continue to rise in many locations but equally across the various markets the death rate is lower due to better understanding of treatment, better public awareness and other factors.

Furthermore, we have noted that, in our business, there has been a marked "bounce back" in trade in the weeks and months after the various lockdowns our businesses have faced. The major part of our business is repair and renewal and it seems clear that whilst sales dropped significantly in the lockdown these were not lost but were deferred. On new build there has been a smaller rebound, and still in many markets the service sector of the building trade are not working as normal but this work is not cancelled but merely deferred.

Certain end user segments continue to be hit (restaurant and hospitality being the most obvious) but others have grown beyond the norm (portable buildings and school refurbishment). Given the extreme ease of cleaning vinyl its use in many projects is being widened. Our competitors and our customers have all been affected by the pandemic. To the extent that they have made public their experiences of trading and outlook we have assessed these in our own projections. In the most drastic of scenarios significant wages can be curtailed under statutory lay off for a period of three months. We are confident that we have not lost market share.

Working with our teams we have tested extreme scenarios for the purposes of the statutory audit and, whilst we do not believe they are likely, this stress testing underpins the going concern concept. The most practical aspects of our planning is damage limitation of our ability to continue to manufacture and supply our global markets by maximising awareness of basic hygiene and social distancing.

An initial concern was cash flow and it is pleasing to note that liquidity was not generally compromised in the way it was in the financial crisis. We have no doubt that the liquidity injected into the UK economy by grants supporting the payment of wages helped. As we look to the months ahead this financial support will cease which is one reason we have stress tested wider disruption.

Notes to the Consolidated Financial Statements

continued

2. Accounting policies (continued)

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 standards were adopted in the period.

IFRS 16 Leases was adopted with effect from 1 July 2019. The effect of adopting IFRS 16 is set out in note 34.

IFRIC 23 Uncertainty over income tax treatments had no impact on the financial statements.

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

IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors (amendment – definition of material)

IFRS 3 Business combinations (amendment – definition of material)

Revised conceptual framework for Financial Reporting

The impact of these is being assessed, but they are not expected to have a material impact on the financial statements.

Basis of consolidation

The group financial statements consolidate the financial statements of the parent company and all its subsidiaries, as if they formed a single entity. Subsidiaries are entities controlled by the group. Control exists if all three of the following elements are present: power over the entity, exposure to variable returns from the entity, and the ability to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control. Control is normally achieved by a majority shareholding. The company, directly or through an intermediate subsidiary owned 100% of the share capital of all of its subsidiaries. The results of subsidiaries acquired are consolidated from the date on which control passes to the group. The results of disposed subsidiaries are consolidated up to the date on which control passes from the group. All intra-group transactions and balances are eliminated on consolidation.

Segment reporting

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

Foreign currencies

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

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

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

2. Accounting policies (continued)

Foreign currencies (continued)

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.

Taxation

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

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

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

Deferred income tax assets and liabilities are based on tax rates and laws that are substantively enacted at the balance sheet date.

Share-based payments

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

Notes to the Consolidated Financial Statements

continued

2. Accounting policies (continued)

Inventories

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

Financial assets and liabilities

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

Trade and other receivables

Trade and other receivables are non-interest bearing and are initially stated at fair value and then subsequently at amortised cost less provision for lifetime expected credit losses using the simplified approach in IFRS 9. Estimated irrecoverable amounts are based on historical experience and forward looking information, together with specific amounts that are not expected to be collectable. Individual amounts are written off when management deems them not to be collectable.

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. Cash and cash equivalents are held at amortised cost.

Trade and other payables

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

Pension scheme arrangements

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

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

A defined benefit scheme is a scheme in which the amount of pension benefit that an employee will receive on retirement is defined. For the defined benefit scheme, pension costs and the costs of providing other post retirement benefits are charged to the income statement in accordance with the advice of qualified independent actuaries. Past service costs are recognised immediately in the income statement. The service cost is charged against operating profit and the net interest cost is charged as a finance cost. The net interest cost is calculated using the discount rate at the beginning of the period. The retirement benefit obligations recognised on the balance sheet represent the difference between the fair value of the scheme's assets and the present value of the scheme's defined benefit obligations measured at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method.

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

2. Accounting policies (continued)

Property, plant and equipment

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

Freehold land: Not depreciated

Freehold buildings: 10 to 50 years

Plant and equipment: 2 to 20 years

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

Right of use assets and lease liabilities

A right of use asset and a lease liability are recognised for all leased asset contracts on their commencement, except for low value leases and short term leases of one year or less.

On recognition, the right of use asset and lease liability are measured at the present value of the lease payments discounted over the lease term. The discount rate used is the rate inherent in the lease if this can be determined, or the incremental borrowing rate.

Subsequent to initial recognition, the right of use assets are depreciated on a straight line basis over the shorter of the lease term or the useful life of the asset. The lease liabilities are increased by the interest cost and reduced by the lease payments made. A depreciation charge and an interest cost are recognised in the income statement.

The lease payments for low value and short term leases are expensed in the income statement on a straight line basis over the lease term.

Revenue recognition

Revenue is from the sales of flooring products and is recognised at the point in time when control of the products has been transferred to the customer. Sales are recognised on despatch of the goods to the customer. Control passes to the customer at the point terms of despatch are met. Sales are invoiced at the time of despatch and payment terms are based on the invoice date. Payment terms vary by customer, but do not exceed six months. Revenue is stated after provision for trade discounts and rebates due on the sales. Revenue excludes VAT and sales taxes.

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.

Notes to the Consolidated Financial Statements

continued

2. Accounting policies (continued)

Derivative financial instruments and hedging

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

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

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

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

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

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

3. Financial risk management

Financial risk and treasury policies

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

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

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

Market risks

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

(a) Foreign exchange risk

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

(b) Interest rate risk

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

3. Financial risk management (continued)

Credit risk

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

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

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

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

Liquidity risk

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

Capital risk

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

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

At the year end the group had preference shares classified as debt of £200,000.

4. Critical accounting estimates and judgements

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

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

Notes to the Consolidated Financial Statements

continued

4. Critical accounting estimates and judgements (continued)

Inventories

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

Expected credit losses

Provision is made against trade receivables for lifetime expected credit losses using the simplified approach in IFRS 9. 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, the creditworthiness of the customer and forward looking information. 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. Further details are provided in note 20.

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 26.

5. Segmental information

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

Segment assets comprise property, plant and equipment, right of use and intangible assets. Geographical disclosures in respect of revenues and segment assets are provided below and include revenue for Germany of £53,096,000 (2019: £53,293,000) and assets in Germany of £12,166,000 (2019: £9,899,000).

	2020	2019
	£'000	£'000
Revenue		
United Kingdom	78,921	88,571
Europe and Scandinavia	105,732	108,097
Australasia and Asia	33,553	35,396
Rest of the World	20,424	20,974
	<u>238,630</u>	<u>253,038</u>
Assets		
United Kingdom	30,248	27,727
Europe and Scandinavia	13,679	11,249
Australasia and Asia	3,060	1,667
Rest of the World	637	38
Total segment assets	<u>47,624</u>	<u>40,681</u>
Deferred tax assets	4,334	3,261
Total non-current assets	<u>51,958</u>	<u>43,942</u>

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

Notes to the Consolidated Financial Statements

continued

6. Employee profit share

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

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

7. Profit before income tax

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

	2020 £'000	2019 £'000
Depreciation of property, plant and equipment	3,185	3,105
Depreciation of right of use assets	2,937	–
(Profit)/loss on disposal of property, plant and equipment	(43)	16
Operating lease rentals	–	3,805
Research and development	1,468	1,588
Government grant income for business support UK and overseas	(1,739)	–
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	50	50
Fees payable to the group's auditor and its associates for other services:		
The audit of the group's subsidiaries pursuant to legislation	112	112
Taxation compliance	43	43
Taxation advisory	6	10
Other services	1	1

8. Staff costs and numbers

	2020 £'000	2019 £'000
Staff costs comprised:		
Wages and salaries	35,054	36,755
Social security costs	4,196	4,357
Pension costs – defined benefit scheme	611	564
– defined contribution schemes	834	877
Share based payments	13	11
	<u>40,708</u>	<u>42,564</u>

The average monthly number of employees during the year was:

	2020 Number	2019 Number
Manufacturing, selling and distribution	668	699
Administration	158	151
	<u>826</u>	<u>850</u>

The directors' remuneration was:

	2020 £'000	2019 £'000
Salary or fees	968	934
Bonuses	926	892
Benefits	8	8
Total remuneration excluding pension contributions	<u>1,902</u>	<u>1,834</u>
Pension contributions	<u>25</u>	<u>35</u>
	<u>1,927</u>	<u>1,869</u>

9. Finance income

	2020 £'000	2019 £'000
Bank deposit interest	377	350
Other interest	5	7
<i>Finance income</i>	<u>382</u>	<u>357</u>

10. Finance cost

	2020 £'000	2019 £'000
Other interest	19	22
Preference share dividend	11	11
	<u>30</u>	<u>33</u>
Lease interest	202	–
Net pension interest cost	428	422
<i>Finance cost</i>	<u>660</u>	<u>455</u>

11. Income tax expense

	2020 £'000	2019 £'000
Current tax		
Current tax – current year	9,393	10,583
Current tax – adjustments in respect of prior years	(486)	(447)
	<u>8,907</u>	<u>10,136</u>
Deferred tax		
Deferred tax – current year	437	254
Deferred tax – adjustments in respect of prior years	158	94
	<u>595</u>	<u>348</u>
<i>Total taxation</i>	<u>9,502</u>	<u>10,484</u>

Current tax includes £3,085,000 (2019: £3,501,000) of overseas tax.

The effective tax rate for the year to 30 June 2020 is higher (2019: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £'000	2019 £'000
Profit before tax	43,857	48,276
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	8,333	9,172
Effects of:		
Adjustments to tax in respect of prior periods	(328)	(353)
Overseas tax rates	1,228	1,451
Disallowable items	193	240
Other items	76	(26)
<i>Total taxation</i>	<u>9,502</u>	<u>10,484</u>

In addition to the amounts above £1,671,000 has been credited (2019: £931,000 credited) as other comprehensive income in respect of the remeasurement of the net defined benefit liability, and has been netted off the amounts shown in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements

continued

12. Earnings per share

	2020 £'000	2019 £'000
Profit for the year attributable to equity shareholders	34,355	37,792
Weighted average number of shares in issue	208,135,698	208,071,633
Dilution effect of outstanding share options	148,358	70,667
Diluted weighted average number of shares	208,284,056	208,142,300
Basic earnings per 5p ordinary share	16.5p	18.2p
Diluted earnings per 5p ordinary share	16.5p	18.2p

The earnings per 5p ordinary share are attributable to equity shareholders.

13. Dividends

	2020 £'000	2019 £'000
Equity dividends		
Final dividend for previous year of 10.00p (2019: 9.65p)	20,813	20,080
Interim dividend for current year of 2.125p (2019: 4.00p)	4,423	8,325
Amounts recognised as distributions to equity shareholders in the year	25,236	28,405

A second interim dividend of 2.125p per share for the year ended 30 June 2020, amounting to £4,423,000, was declared on 30 July 2020 and paid on 10 September 2020.

A final dividend of 10.00p per share for the year ended 30 June 2020, amounting to £20,814,000 will be proposed at the Annual General Meeting.

14. Profit of the parent company

The company has taken advantage of the provisions of Section 408 of the Companies Act 2006 and elected not to present its own profit and loss account. The profit after taxation for the financial year dealt with in the financial statements of the company was £27,818,000 (2019: £55,617,000). The aggregate amount of directors' emoluments excluding pension contributions was £1,902,000 (2019: £1,834,000) of which the highest paid director's emoluments were £912,000 (2019: £878,000). The directors' salaries or fees for the year ended 30 June 2020 were Mr J A Wild £40,000, Mr M Halstead £445,000, Mr G R Oliver £418,000, Mr S D Hall £25,000, Mr M J Halstead £20,000 and Mr R P Whiting £20,000.

15. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2018	27,708	67,238	94,946
Additions	224	4,039	4,263
Disposals	–	(723)	(723)
Exchange differences	120	40	160
At 30 June 2019	28,052	70,594	98,646
Additions	–	4,215	4,215
Disposals	–	(465)	(465)
Exchange differences	163	55	218
At 30 June 2020	28,215	74,399	102,614
Depreciation			
At 30 June 2018	9,149	49,473	58,622
Charge for the year	658	2,447	3,105
Disposals	–	(600)	(600)
Exchange differences	37	33	70
At 30 June 2019	9,844	51,353	61,197
Charge for the year	670	2,515	3,185
Disposals	–	(398)	(398)
Exchange differences	59	51	110
At 30 June 2020	10,573	53,521	64,094
Net book value			
At 30 June 2018	18,559	17,765	36,324
At 30 June 2019	18,208	19,241	37,449
At 30 June 2020	17,642	20,878	38,520

16. Right of use assets

	Right of use assets £'000
Cost	
Amount recognised on 1 July 2019 (note 34)	8,869
Exchange differences	14
At 30 June 2020	8,883
Depreciation	
Charge for the year	2,937
Exchange differences	74
At 30 June 2020	3,011
Net book value	
At 30 June 2020	5,872

Notes to the Consolidated Financial Statements

continued

17. Intangible assets

Goodwill
£'000

Cost and net book value at 30 June 2018, 2019 and 2020

3,232

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

18. Deferred tax assets and liabilities

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Other timing differences £'000	Total £'000
At 30 June 2018	2,533	(696)	837	2,674
Credited/(charged) to income	(135)	(120)	(93)	(348)
Credited to other comprehensive income	931	—	—	931
Exchange differences	—	—	4	4
At 30 June 2019	3,329	(816)	748	3,261
Credited/(charged) to income	(589)	(308)	302	(595)
Credited to other comprehensive income	1,671	—	—	1,671
Exchange differences	—	—	(3)	(3)
At 30 June 2020	4,411	(1,124)	1,047	4,334

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred income taxes relate to the same tax authority. All deferred tax assets and liabilities are analysed as non-current.

19. Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	5,140	4,625
Work in progress	1,358	1,515
Finished goods	62,044	63,781
	<u>68,542</u>	<u>69,921</u>

An amount of £416,000 has been charged (2019: £1,557,000 charged) to the income statement in respect of movements in inventory write-downs. The cost of inventory recognised as an expense was £138,262,000 (2019: £144,236,000).

20. Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	24,623	29,000
Other receivables	1,749	1,361
Prepayments	1,989	2,455
	<u>28,361</u>	<u>32,816</u>

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

The group's trade receivables are stated after a provision for expected credit losses of £1,588,000 (2019: £2,034,000). The provision against trade receivables for expected credit losses is based on specific risk assessments taking into account past default experience and appropriate forward looking information. The provision is analysed as follows:

	2020 £'000	2019 £'000
At 1 July	2,034	3,072
Exchange movements	3	6
Debts written off	(644)	(88)
Charged/(credited) to income	195	(956)
At 30 June	<u>1,588</u>	<u>2,034</u>

	Loss rate 2020 %	Gross 2020 £'000	Provision 2020 £'000	Loss rate 2019 %	Gross 2019 £'000	Provision 2019 £'000
Not past due	1	22,203	146	1	25,883	219
Up to three months past due	22	3,262	733	18	4,048	712
Over three months past due	95	746	709	100	1,103	1,103
		<u>26,211</u>	<u>1,588</u>		<u>31,034</u>	<u>2,034</u>

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

	2020 £'000	2019 £'000
Sterling	7,417	9,011
Euro	9,226	11,318
Australian Dollars	3,171	3,198
New Zealand Dollars	859	934
Norwegian Krone	674	604
US Dollars	2,715	2,732
Hong Kong Dollars	829	482
Other currencies	1,481	2,082
Total	<u>26,372</u>	<u>30,361</u>

Notes to the Consolidated Financial Statements

continued

21. 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:

	2020	2019
	£'000	£'000
Sterling	54,629	53,123
Euro	3,100	4,845
Australian Dollars	2,077	1,588
New Zealand Dollars	226	407
Norwegian Krone	505	468
US Dollars	5,527	6,968
Other currencies	1,381	1,265
Total	67,445	68,664

22. Trade and other payables

	2020	2019
	£'000	£'000
Amounts falling due within one year		
Trade payables	29,596	41,971
Value added, payroll and other taxes	4,008	3,504
Other payables	1,383	1,048
Accruals	12,457	11,831
	47,444	58,354
Amounts falling due after more than one year		
Other payables	449	419

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

23. Lease liabilities

	£'000
Amount recognised on 1 July 2019 (note 34)	8,869
Lease interest	202
Lease payments	(3,075)
Exchange differences	(57)
At 30 June 2020	5,939
Amounts payable in less than one year	2,568
Amounts payable in more than one year	3,371
	5,939

All amounts are payable within five years.

24. Preference shares

	2020	2019
	£'000	£'000
Preference shares	200	200

The cumulative preference shares have no fixed repayment date. They are not listed and therefore no market price is available. At 30 June 2020 and 30 June 2019 the fair value of the preference shares was not materially different from their book value.

25. Net cash analysis

	Cash and cash equivalents £'000	Lease liabilities £'000	Preference shares £'000	Net cash £'000
At 30 June 2018	50,679	–	(200)	50,479
Cash flow	17,955	–	–	17,955
Exchange differences	30	–	–	30
At 30 June 2019	68,664	–	(200)	68,464
Cash flow	(1,233)	3,075	–	1,842
Other changes	–	(9,071)	–	(9,071)
Exchange differences	14	57	–	71
At 30 June 2020	67,445	(5,939)	(200)	61,306

26. Retirement benefit obligations

In the UK the group operates a defined benefit pension scheme which was closed to new members in 2002. In addition some employees both in the UK and overseas are provided with retirement benefits through defined contribution arrangements. Executive directors Mr M Halstead and Mr G R Oliver are members of the defined benefit scheme and the employer pension contributions for the year were £25,000 and £nil respectively. At 30 June 2020 the accrued pension for the highest paid director was £122,000 and the transfer value of this accrued benefit was £3,019,000.

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

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

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

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

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

Notes to the Consolidated Financial Statements

continued

26. Retirement benefit obligations (continued)

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

The last formal actuarial valuation was carried out as at 5 April 2017. The results of that valuation have been projected forward to 30 June 2020 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

On 26 October 2018, the High Court reached a judgement in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that schemes should equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The impact of this judgement on the scheme has been estimated and included in the pension liability.

	2020	2019
Principal actuarial assumptions at the balance sheet date		
Discount rate at end of year	1.65%	2.40%
Future salary increases	1.80%	1.90%
Future pension increases	2.75%	3.00%
Rate of inflation – RPI	2.80%	3.10%
– CPI	1.80%	1.90%
Future expected lifetime of current pensioner at age 65:		
Male born in 1955	21.7 years	21.7 years
Female born in 1955	24.2 years	24.1 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1975	22.5 years	22.5 years
Female born in 1975	25.1 years	25.1 years

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

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Decrease by 0.1%	Increase by £1.4m
Rate of inflation	Increase by 0.1%	Increase by £0.9m
Expected lifetime	Increase by 1 year	Increase by £4.4m

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

	2020	2019
	£'000	£'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(90,488)	(83,336)
Fair value of scheme assets	67,272	63,754
Net liability before deferred taxation	(23,216)	(19,582)
Related deferred tax asset	4,411	3,329
Net liability after deferred taxation	(18,805)	(16,253)

26. Retirement benefit obligations (continued)

	2020	2019
	£'000	£'000
Amounts recognised in the income statement		
Current service cost	(611)	(564)
Net interest cost	(428)	(422)
	<u>(1,039)</u>	<u>(986)</u>
	2020	2019
	£'000	£'000
Amounts recognised in other comprehensive income		
Return on assets excluding amount included in net interest cost	1,042	1,303
Gain/(loss) arising from changes in financial assumptions	(7,867)	(6,469)
Gain/(loss) arising from changes in demographic assumptions	–	(280)
Experience gain/(loss)	92	(31)
	<u>(6,733)</u>	<u>(5,477)</u>
Deferred tax	1,671	931
Remeasurement of the net defined benefit liability	<u>(5,062)</u>	<u>(4,546)</u>
The actual return on the scheme assets in the year was a £2,583,000 gain (2019: £3,051,000 gain).		
	2020	2019
	£'000	£'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	63,754	61,963
Interest income	1,541	1,748
Return on assets excluding interest income	1,042	1,303
Employer contributions	4,138	1,780
Employee contributions	202	212
Benefits paid	(3,405)	(3,252)
	<u>67,272</u>	<u>63,754</u>
	2020	2019
	£'000	£'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	(83,336)	(76,862)
Service cost	(611)	(564)
Interest cost	(1,969)	(2,170)
Employee contributions	(202)	(212)
Gain/(loss) arising from changes in financial assumptions	(7,867)	(6,469)
Gain/(loss) arising from changes in demographic assumptions	–	(280)
Experience gain/(loss)	92	(31)
Benefits paid	3,405	3,252
	<u>(90,488)</u>	<u>(83,336)</u>

Notes to the Consolidated Financial Statements

continued

26. Retirement benefit obligations (continued)

	2020 £'000	2019 £'000
Changes in the net defined benefit liability		
Opening net defined benefit liability	(19,582)	(14,899)
Service cost	(611)	(564)
Net interest cost	(428)	(422)
Return on assets excluding interest income	1,042	1,303
Gain/(loss) arising from changes in financial assumptions	(7,867)	(6,469)
Gain/(loss) arising from changes in demographic assumptions	–	(280)
Experience gain/(loss)	92	(31)
Employer contributions	4,138	1,780
	<u>(23,216)</u>	<u>(19,582)</u>

Major categories of scheme assets

	2020 £'000	2019 £'000
UK and overseas equities	13,591	13,104
Diversified growth fund	43,758	43,426
Liability driven assets	8,705	6,944
Cash	1,218	280
Total market value of assets	<u>67,272</u>	<u>63,754</u>

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

Scheme liabilities by category of membership

	2020 £'000	2019 £'000
Active members	36,945	31,517
Deferred pensioners	13,423	12,207
Pensions in payment	40,120	39,612
	<u>90,488</u>	<u>83,336</u>

Average duration of scheme liabilities

	2020 years	2019 years
Active members	19	20
Deferred pensioners	19	20
Pensions in payment	11	11
All scheme liabilities	16	16

Normal company contributions of £2,547,000 are expected to be paid into the scheme during the year ended 30 June 2021.

27. Share capital

Ordinary shares – allotted, issued and fully paid	2020 Number	2019 Number	2020 £'000	2019 £'000
At 1 July ordinary shares of 5p each	208,131,108	207,973,608	10,407	10,399
Ordinary shares of 5p each issued	10,000	157,500	–	8
At 30 June ordinary shares of 5p each	208,141,108	208,131,108	10,407	10,407
Ordinary B shares of 1p each at 1 July 2019 and 30 June 2020	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,567	10,567

The ordinary shares of 5p each were issued during the year for a consideration of £28,000 (2019: £247,000).

The group also has preference shares in issue as detailed below which are required, under accounting rules, to be disclosed as financial instruments within creditors. Full details of these are given in note 11 of the financial statements of the company.

	2020 £'000	2019 £'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

The respective rights of each class of shares are detailed in note 11 of the financial statements of the company.

Notes to the Consolidated Financial Statements

continued

27. 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 10,000 shares and nil share options were granted during the year. Details of those options still outstanding are as follows:

Director	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number 30.06.19	Exercised in the year	Granted in the year	Number 30.06.20
M Halstead	21 Jul 14	21 Jul 17	20 Jul 24	270.29	20,000	–	–	20,000
	12 Jun 17	12 Jun 20	11 Jun 27	476.50	50,000	–	–	50,000
	18 Oct 18	18 Oct 21	17 Oct 28	390.83	60,000	–	–	60,000
G R Oliver	21 Jul 14	21 Jul 17	20 Jul 24	270.29	20,000	–	–	20,000
	12 Jun 17	12 Jun 20	11 Jun 27	476.50	50,000	–	–	50,000
	18 Oct 18	18 Oct 21	17 Oct 28	390.83	60,000	–	–	60,000
Total – directors					260,000	–	–	260,000
Employees								
	9 Apr 14	9 Apr 17	8 Apr 24	290.25	10,000	(10,000)	–	–
	21 Jul 14	21 Jul 17	20 Jul 24	270.29	5,000	–	–	5,000
	12 Jun 17	12 Jun 20	11 Jun 27	476.50	190,000	–	–	190,000
	22 Dec 17	22 Dec 20	21 Dec 27	436.08	20,000	–	–	20,000
	18 Oct 18	18 Oct 21	17 Oct 28	390.83	325,000	–	–	325,000
Total – employees					550,000	(10,000)	–	540,000
Grand total					810,000	(10,000)	–	800,000

The market price of the shares at 30 June 2020 was 518p (2019: 514p).

The share price during the year ranged from 365p to 570p.

The average share price when options were exercised in the year was 540p.

Directors exercised nil (2019: 80,000) share options during the year. Aggregate gains on exercising the share options by directors in the year amounted to £nil (2019: £255,000) of which £nil (2019: £255,000) related to the highest paid director.

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

	Number of options	Weighted average exercise price
At 30 June 2018	522,500	357p
Exercised in the year	(157,500)	156p
Granted in the year	445,000	391p
At 30 June 2019	810,000	415p
Exercised in the year	(10,000)	290p
At 30 June 2020	800,000	416p

At 30 June 2020 there were 45,000 (2019: 55,000) share options exercisable at a weighted average exercise price of 270p (2019: 274p).

The weighted average remaining contractual life of share options outstanding at 30 June 2020 was 7.6 years (2019: 8.5 years).

27. Share capital (continued)

Share based payments

The group's equity settled share based payments comprise the grant of share options to certain employees under the group's executive share option scheme. Details of such options are given above. The group calculated the fair value of the options at the date of grant using the Black Scholes model. The inputs into the model were as follows:

	2019
Expected life of option	3.5 years
Expected share price volatility	10.0%
Expected dividend yield	4.4%
Risk free interest rate	0.5%
Exercise price	391p

An expense based on the fair value calculated at the date of grant was recognised in the profit and loss account over the vesting period of the options. The share based payment expense for the year ended 30 June 2020 was £13,000 (2019: £11,000).

28. Reserves

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

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

Notes to the Consolidated Financial Statements

29. Derivative financial instruments

The group is exposed to foreign currency risk on sales and purchases that are denominated in a currency other than the functional currency of the entity concerned. The currencies giving rise to this risk are various, but the most significant are the US Dollar and the Euro. Forward exchange contracts are used to manage this exposure to fluctuations in foreign exchange rates. The group buys or sells foreign currency at spot where necessary to address any short-term imbalances.

The group hedges, using forward exchange contracts, transactions denominated in a foreign currency which are not matched against other transactions in the same currency within the group. The forward exchange contracts have maturities of less than one year after the balance sheet date.

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

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

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

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

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:

	2020	2020	2019	2019
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Current:				
Trade and other receivables	26,372	26,372	30,361	30,361
Forward exchange contracts	73	73	372	372
Cash and cash equivalents	67,445	67,445	68,664	68,664
Trade and other payables	(43,436)	(43,436)	(54,850)	(54,850)
Forward exchange contracts	(883)	(883)	(684)	(684)
Lease liabilities	(2,568)	(2,568)	–	–
Total	47,003	47,003	43,863	43,863
Non-current:				
Other payables	(449)	(449)	(419)	(419)
Lease liabilities	(3,371)	(3,371)	–	–
Preference shares	(200)	(200)	(200)	(200)
Total	(4,020)	(4,020)	(619)	(619)

Other than forward exchange contracts which are categorised as derivative instruments, all financial assets are categorised as financial assets measured at amortised cost and all financial liabilities are categorised as financial liabilities measured at amortised cost.

30. Financial instruments (continued)

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

	2020 £'000	2019 £'000
Forward exchange contracts at fair value through profit and loss account	(5)	(32)
Forward exchange contracts at fair value through hedging reserve	(805)	(280)
	<u>(810)</u>	<u>(312)</u>

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 £442,000 (2019: £430,000). 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.

	2020 Post-tax profits £'000	2020 Equity £'000	2019 Post-tax profits £'000	2019 Equity £'000
Euro 5% stronger against sterling	(38)	(38)	34	34
Euro 5% weaker against sterling	34	34	(31)	(31)

31. Group companies

At 30 June 2020, the trading subsidiaries of the group were:

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

A complete list of the group's subsidiaries is provided in note 4 of the financial statements of the company.

Notes to the Consolidated Financial Statements

continued

32. Exchange rates

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

	2020 Closing	2020 Average	2019 Closing	2019 Average
Euro	1.10	1.14	1.12	1.13
Australian dollar	1.79	1.88	1.81	1.81
New Zealand dollar	1.92	1.98	1.89	1.93
Canadian dollar	1.68	1.69	1.66	1.71
Swedish krona	11.51	12.14	11.81	11.84
Indian rupee	93.29	91.04	87.85	91.15

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 26.

Details of other related party transactions for the group are shown in the directors' report, board report on remuneration and in the notes to the financial statements. The key management personnel are the directors.

Polyflor Limited, a subsidiary of the company, leases cars from a company of which Mr Russell Whiting is a director. The lease payments during the year were £292,000 (2019: £247,000) and the maximum outstanding lease commitments at 30 June 2020 were £45,000 (2019: £226,000).

34. New accounting standard IFRS 16 Leases

IFRS 16 Leases has replaced IAS 17 Leases. The new standard eliminates the distinction between operating and finance leases. All leases are now accounted for on the balance sheet, except for low value leases and short term leases of one year or less. The leases are accounted for by recognising a right of use asset and a lease liability.

On recognition, the right of use asset and lease liability are measured at the present value of the lease payments discounted over the lease term. The discount rate used is the rate inherent in the lease if this can be determined, or the incremental borrowing rate.

Subsequent to initial recognition, the right of use assets are depreciated on a straight line basis over the shorter of the lease term or the useful life of the asset. The lease liabilities are increased by the interest cost and reduced by the lease payments made. A depreciation charge and an interest cost are recognised in the income statement.

IFRS 16 has been adopted with effect from 1 July 2019. On adoption the modified retrospective approach has been applied, such that the right of use assets and lease liabilities are equal to each other, with no adjustment to opening reserves. There is no restatement of the comparative periods. On adoption all long leases which had less than one year remaining at 1 July 2019 were classified as short term leases. Leases are primarily for land and buildings and dilapidations, termination and extension options were not material.

The right of use assets and lease liabilities recognised on adoption at 1 July 2019 were £8,869,000.

For the year ended 30 June 2020 the right of use assets depreciation charge was £2,937,000 and the lease interest cost was £202,000. The adoption of IFRS 16 had no significant effect on the profit before income tax for the year ended 30 June 2020.

34. New accounting standard IFRS 16 Leases (continued)

The effect of the adoption of IFRS 16 on the balance sheet at 1 July 2019 is set out below.

	30 June 2019	Effect of IFRS 16	1 July 2019 IFRS 16
	IAS 17 £'000	£'000	IFRS 16 £'000
Right of use assets	–	8,869	8,869
Lease liabilities	–	8,869	8,869

A reconciliation of the operating lease commitments at 30 June 2019 under IAS 17 and the lease liabilities recognised at 1 July 2019 under IFRS 16 is set out below.

	£'000
Operating lease commitments at 30 June 2019	9,002
Correction of lease commitments	308
Undiscounted lease commitments	9,310
Discounting using incremental borrowing rate	(441)
Lease liabilities recognised at 1 July 2019	8,869

The incremental borrowing rate ranged from 2% to 8% depending on the currency of the lease. The weighted average incremental borrowing rate was 3%.

Company Balance Sheet

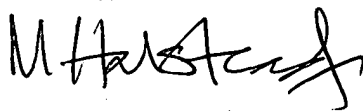
as at 30 June 2020

	Note	2020 £'000	2019 £'000
Fixed assets			
Tangible fixed assets	3	4,580	4,822
Investments	4	40,152	40,152
		<u>44,732</u>	<u>44,974</u>
Current assets			
Debtors due within one year		40,952	48,412
Debtors due after one year		4,259	3,218
Total debtors	5	45,211	51,630
Derivative financial instruments	7	73	372
Cash at bank and in hand		56,221	48,449
Total current assets		<u>101,505</u>	<u>100,451</u>
Creditors – amounts falling due within one year	8	(9,381)	(9,438)
Derivative financial instruments	7	(883)	(684)
Net current assets		<u>91,241</u>	<u>90,329</u>
Total assets less current liabilities		<u>135,973</u>	<u>135,303</u>
Creditors – amounts falling due after more than one year	9	(200)	(200)
Retirement benefit obligations	10	(23,216)	(19,582)
Net assets		<u>112,557</u>	<u>115,521</u>
Capital and reserves			
Equity share capital		10,407	10,407
Equity share capital (B shares)		160	160
Called up share capital	11	10,567	10,567
Share premium account		4,072	4,044
Capital redemption reserve		1,174	1,174
Hedging reserve		(805)	(280)
Profit and loss account		97,549	100,016
Total shareholders' funds		<u>112,557</u>	<u>115,521</u>

The company has taken advantage of the provisions of Section 408 of the Companies Act 2006 and has elected not to present its own profit and loss account. The profit after taxation for the financial year dealt with in the financial statements of the company was £27,818,000 (2019: £55,617,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 September 2020.

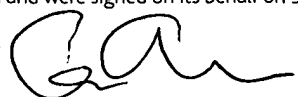
M Halstead
Director



James Halstead plc

Registration Number 140269

G R Oliver
Director



Company Statement of Changes in Equity

for the year ended 30 June 2020

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance at 30 June 2018	10,559	3,805	1,174	848	77,339	93,725
Profit for the year	–	–	–	–	55,617	55,617
Remeasurement of the net defined benefit liability	–	–	–	–	(4,546)	(4,546)
Fair value movements on hedging instruments	–	–	–	(1,128)	–	(1,128)
Total comprehensive income for the year	–	–	–	(1,128)	51,071	49,943
Transactions with equity shareholders						
Dividends	–	–	–	–	(28,405)	(28,405)
Issue of share capital	8	239	–	–	–	247
Share based payments	–	–	–	–	11	11
Balance at 30 June 2019	10,567	4,044	1,174	(280)	100,016	115,521
Profit for the year	–	–	–	–	27,818	27,818
Remeasurement of the net defined benefit liability	–	–	–	–	(5,062)	(5,062)
Fair value movements on hedging instruments	–	–	–	(525)	–	(525)
Total comprehensive income for the year	–	–	–	(525)	22,756	22,231
Transactions with equity shareholders						
Dividends	–	–	–	–	(25,236)	(25,236)
Issue of share capital	–	28	–	–	–	28
Share based payments	–	–	–	–	13	13
Balance at 30 June 2020	10,567	4,072	1,174	(805)	97,549	112,557

Notes to the Company Financial Statements

continued

1. Accounting policies

Basis of preparation

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

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

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

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

The statement on going concern in the consolidated financial statements also justifies the going concern basis used for the company financial statements.

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

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

Investments

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

Investment land and buildings

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

Group debtors

Amounts owed by group undertakings are stated after any provision for expected credit loss in line with the three stage model in IFRS 9.

2. Staff costs and numbers

	2020	2019
	£'000	£'000
Staff costs comprised:		
Wages and salaries	3,042	2,852
Social security costs	393	370
Pension costs	94	99
Share based payments	13	11
	<u>3,542</u>	<u>3,332</u>

The average monthly number of employees during the year was 21 (2019: 20).

3. Tangible fixed assets

	Investment land and buildings £'000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 30 June 2019	7,978	1,311	671	9,960
Disposals	–	–	(57)	(57)
At 30 June 2020	<u>7,978</u>	<u>1,311</u>	<u>614</u>	<u>9,903</u>
Depreciation				
At 30 June 2019	4,463	277	398	5,138
Charge for the year	172	24	43	239
Disposals	–	–	(54)	(54)
At 30 June 2020	<u>4,635</u>	<u>301</u>	<u>387</u>	<u>5,323</u>
Net book value				
At 30 June 2020	<u>3,343</u>	<u>1,010</u>	<u>227</u>	<u>4,580</u>
At 30 June 2019	<u>3,515</u>	<u>1,034</u>	<u>273</u>	<u>4,822</u>

The investment land and buildings relates to a freehold property that is occupied by a subsidiary company. The rental income was £600,000 (2019: £600,000).

Notes to the Company Financial Statements

continued

4. Investments

	Shares in subsidiary undertakings £'000
Cost	
At 30 June 2019	49,552
At 30 June 2020	49,552
Provision for impairment	
At 30 June 2019	9,400
At 30 June 2020	9,400
Net book value	
At 30 June 2020	40,152
At 30 June 2019	40,152

At 30 June 2020, the company held directly and indirectly 100% of the equity and voting rights of the following undertakings:

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

4. Investments continued

Subsidiary	Registered office
Polyflor Limited	Beechfield
Riverside Flooring Limited	Hollinhurst Road
Titan Leisure Group Limited	Radcliffe
Halstead Flooring International Limited	Manchester
Expona Limited	M26 1JN
JHL Limited	England
Arai (UK) Limited	
Phoenix Distribution (NW) Limited	
Halstead Floorings Limited	24/26 City Quay
	Dublin 2
	D02NY19
	Ireland
Halstead Flooring Concepts Pty Limited	101 Prosperity Way
Polyflor Australia Pty Limited	Dandenong
Colonia Flooring Pty Limited	VIC 3175
	Australia
Polyflor Canada Inc.	3209 Orlando Drive
	Mississauga
	Ontario L4V 1C5
	Canada
Polyflor India Pty Limited	B-408 Knox Plaza
	Mindspace, Malad West
	Mumbai 400 064
	India
Objectflor Art und Design Belags GmbH	Wankelstrasse 50
Karndean International GmbH	D 50996 Koln
	Germany
James Halstead France SAS	Parc Saint Christophe
	10 Avenue de l'Enterprise
	95861 Cergy Pontoise
	France
Falck Design AB	Box 102 51
	434 23 Kungsbacka
	Besöksadress
	Energigatan 9
	Sweden
Polyflor New Zealand Limited	2 Narek Place
	Manukau City
	Auckland 2104
	New Zealand
Polyflor FZE	Office No LB16112
	PO Box 17054
	Jafza 16 Building
	Jebel Ali Free Zone
	Dubai
	UAE
Polyflor (M) SDN. BHD.	802, 8th Floor, Block C
	Kelana Square
	17 Jalan 557/26
	Petaling Jaya
	Salangor 47301
	Malaysia

Notes to the Company Financial Statements

continued

5. Debtors

	2020 £'000	2019 £'000
Trade debtors	73	84
Amounts owed by group undertakings	40,447	47,835
Corporation tax	110	–
Other debtors	73	65
Prepayments	249	428
Debtors due within one year	40,952	48,412
Deferred tax assets (note 6)	4,259	3,218
Debtors due after one year	4,259	3,218
Total debtors	45,211	51,630

6. Deferred tax assets

	Pension scheme deficit £'000	Accelerated tax depreciation £'000	Other timing differences £'000	Total £'000
At 30 June 2019	3,329	(153)	42	3,218
Charged to income	(589)	(23)	(18)	(630)
Credited to other comprehensive income	1,671	–	–	1,671
At 30 June 2020	4,411	(176)	24	4,259

7. Derivative financial instruments

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

8. Creditors – amounts falling due within one year

	2020 £'000	2019 £'000
Trade creditors	238	329
Amounts due to group undertakings	6,631	6,638
Corporation tax	–	114
Other taxation and social security	133	132
Other creditors	516	539
Accruals	1,863	1,686
	9,381	9,438

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

	2020 £'000	2019 £'000
Preference shares	200	200

10. Retirement benefit obligations

	2020 £'000	2019 £'000
Present value of funded obligations	(90,488)	(83,336)
Fair value of scheme assets	67,272	63,754
Net liability	(23,216)	(19,582)

The company sponsors the Halstead Group Pension Scheme. Disclosure information is provided in note 26 to the consolidated financial statements.

11. Share capital

Ordinary shares – allotted, issued and fully paid	2020 Number	2019 Number	2020 £'000	2019 £'000
At 1 July ordinary shares of 5p each	208,131,108	207,973,608	10,407	10,399
Ordinary shares of 5p each issued	10,000	157,500	–	8
At 30 June ordinary shares of 5p each	208,141,108	208,131,108	10,407	10,407
Ordinary B shares of 1p each at 1 July 2019 and 30 June 2020	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			10,567	10,567

The ordinary shares of 5p each were issued during the year for a consideration of £28,000 (2019: £247,000).

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

	2020 £'000	2019 £'000
Authorised		
9,265,580 C preference shares of 60p each	5,559	5,559
200,000 5.5% preference shares of £1 each	200	200
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

Shareholders approved a proposal for the return of capital ("return of capital") at an extraordinary general meeting on 6 December 2004. This resulted in the creation of the 1 pence B ordinary shares ("B shares") and the 60 pence C preference shares ("C shares") as described below.

Notes to the Company Financial Statements

continued

11. Share capital (continued)

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

The 5.5% cumulative preference shares of £1 shall confer on the holders thereof the right to receive in priority to all other shares in the capital of the company out of the profits of the company which it shall be determined to distribute, a *fixed cumulative preferential dividend* at the rate of 5.5% per annum on the capital for the time being paid up thereon and the right in the event of a winding up, in priority to all other shares in the capital of the company, to repayment of the capital paid up thereon together with a premium of 5p per share and a sum equivalent to any arrears and accruals of the said fixed cumulative preferential dividend thereon (whether earned or declared or not) calculated up to the date of such repayment of capital but shall not confer any further right to participate in profits or assets of James Halstead plc.

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

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

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

12. Related party transactions

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

Ten Year Summary (Unaudited)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	213,944	226,335	217,082	223,488	227,261	226,141	240,784	249,510	253,038	238,630
Profit before income tax	37,538	41,726	40,495	41,753	44,184	45,499	46,616	46,702	48,276	43,857
Income tax	(10,768)	(11,941)	(10,446)	(10,301)	(10,250)	(10,243)	(10,106)	(9,994)	(10,484)	(9,502)
Profit after income tax	26,770	29,785	30,049	31,452	33,934	35,256	36,510	36,708	37,792	34,355

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Basic earnings per 5p share	12.9p	14.4p	14.5p	15.2p	16.4p	17.0p	17.6p	17.7p	18.2p	16.5p
Dividends per 5p share	7.2p	8.0p	8.8p	10.0p	11.0p	12.0p	13.0p	13.5p	14.0p	14.3p

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

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

Special dividends are not included.

Shareholder Information

Financial calendar

Annual general meeting	12 November 2020
------------------------	------------------

Announcement of results

For the half year	March
For the full year	September

Dividend payments

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

Share dealing information

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

Information concerning the day-to-day movement of the share price can be found on the London Stock Exchange website.

Shareholder analysis

as at 14 September 2020

	Number of holders	Number of shares	%
By size of holding			
1-10,000	1,803	5,215,852	2.5
10,001-50,000	485	10,861,260	5.2
50,001-100,000	77	5,429,708	2.6
100,001-500,000	83	18,353,524	8.8
500,001 and over	50	168,280,764	80.9
	2,498	208,141,108	100.0
By category			
Private individuals	1,832	104,047,006	50.0
Banks and nominee companies	623	103,137,568	49.5
Other limited companies/corporate bodies	29	768,768	0.4
Miscellaneous bodies/pension funds	8	81,950	0.0
Investment trusts and funds	6	105,816	0.1
	2,498	208,141,108	100.0

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ONE HUNDREDTH and FIFTH ANNUAL GENERAL MEETING of the company will be held at its registered office, Beechfield, Hollinhurst Road, Redcliffe, Manchester M26 1JN, on 12 November 2020 at 9.00am.

The company's priority in the current climate is the health and safety of shareholders and colleagues and in light of the recent UK government's updated restrictions on public gatherings, the board has reluctantly decided that shareholders will not be invited to attend this meeting. The AGM will therefore be conducted as a closed meeting with the minimum number of members in attendance as is required to form a quorate meeting.

Shareholders are strongly encouraged to vote ahead of the AGM by completing and returning their form of proxy and to appoint the chairman of the meeting as their proxy to ensure that their vote will be counted.

In the spirit of transparency and engagement, should shareholders wish to ask any questions in relation to the resolutions set out in the Notice of AGM, which they may otherwise have asked at the AGM had they been in attendance, they are encouraged to contact the company prior to the AGM by email to secretary@jameshalstead.plc.uk. Please label your email with "AGM Question" to enable swift identification. We will endeavour to respond to all questions received. Answers to common questions asked will be published in a Q&A document on the company's website at www.jameshalstead.com.

Ordinary business

- 1 To receive and adopt the report of the directors and the statement of accounts for the year ended 30 June 2020 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 2020.
- 3 To re-elect Mr M J Halstead who is retiring by rotation under the articles of association as a director.
- 4 To re-elect Mr R P Whiting who is retiring by rotation under the articles of association as a director.
- 5 To re-appoint BDO LLP as auditors of the company and authorise the directors to fix their remuneration for the ensuing year.

Special business

To consider and, if thought fit, pass the following resolutions of which resolutions 6, 7 and 10 shall be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

- 6 That, subject to the passing of the ordinary and special resolutions numbered 7 and 8 below, the directors be and they are hereby authorised, pursuant to article 35.14 of the company's articles of association:
 - (i) to exercise the power contained in article 35.14 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 5.0p each in the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and
 - (ii) to capitalise the appropriate amount of new ordinary shares falling to be allotted pursuant to any elections made as aforesaid out of profits, or sums standing to the credit of any share premium account or capital reserves of the company, to apply such sums in paying up such new ordinary shares and to allot such new ordinary shares to the members of the company making such elections in accordance with their respective entitlements.
- 7 That in substitution for all existing and unexercised authorities and powers, the directors of the company be and they are hereby generally and unconditionally authorised for the purpose of section 551 Companies Act 2006 (the "Act") to exercise all or any of the powers of the company to allot shares of the company or to grant rights to subscribe for, or to convert any security into, shares of the company (such shares and rights being together referred to as "Relevant Securities") up to an aggregate nominal value of £3,469,018 to such persons at such times and generally on such terms and conditions as the directors may determine (subject always to the articles of association of the company) PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the company (if earlier) save that the directors of the company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the directors of the company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

Notice of Annual General Meeting

continued

- 8 That subject to the passing of the ordinary resolution numbered 7 above the directors be and they are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 subsection (1) of the said Act) for cash pursuant to the authority conferred by resolution numbered 6 above as if Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited to:
- (i) the allotment of equity securities in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practical) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and
 - (ii) the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal amount of 5% of the ordinary share capital of the company in issue at the date of the passing of this resolution;
- and shall expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the company (if earlier) save that the company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.
- 9 That the company is hereby generally and unconditionally authorised for the purposes of section 693 and 701 of the Companies Act 2006 to make one or more market purchases (within the meaning of section 693(4) of the said Act) of fully paid ordinary shares of 5 pence each in the capital of the company ("ordinary shares") provided that:
- (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 10% of the ordinary shares in issue at the date of passing of this resolution;
 - (ii) the maximum price (exclusive of any expenses) which may be paid for an ordinary share shall not be more than 5% above the average of the middle market quotations for an ordinary share as derived from the Daily Official List of The London Stock Exchange plc for the five business days immediately preceding the day on which the ordinary share is purchased;
 - (iii) the minimum price which may be paid for each ordinary share is 5 pence (exclusive of any expenses);
 - (iv) unless previously revoked or varied, the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the company or twelve months from the date, if earlier, of passing this resolution;
 - (v) the company may make a contract or contracts to purchase its ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and the company may make a purchase of its ordinary shares in pursuance of such contract as if the authority hereby conferred had not expired; and
 - (vi) the directors may elect to hold shares purchased under this authority in the form of treasury shares (subject to a maximum of 10% of the issued ordinary share capital of the company at any one time).
- 10 That the amendments to the rules of the James Halstead PLC Share Option Plan (the "Rules") of which Part A is intended to meet the requirements for a tax-advantaged company share option plan (CSOP) in Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003. The directors and the company secretary are authorised to do all things necessary in order to adopt the amendments to the Rules and carry into effect the changes to the Rules, including notifying any existing option holders of the amendments to the Rules, as appropriate. A summarised schedule of the amendments can be found on the company's website at www.jameshalstead.com.

By order of the board
D W Drillingcourt
Secretary

16 October 2020

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN

Notes

- 1 Preference shareholders are advised that they are not entitled to attend or vote at the annual general meeting.
- 2 Please do not travel to the AGM as any person who seeks to attend in person will be refused entry. All shareholders are therefore strongly urged to register their votes in advance by appointing the chairman of the AGM as their proxy and advise them of the voting instructions. We do not recommend you appoint any other person as your proxy as they will be unable to attend the AGM and your votes will not be counted.
- 3 You can vote either:
 - i. By logging on to www.signalshares.com and following the instructions. If you experience difficulties in logging in or require assistance, please contact Link Asset Services (previously called Capita), directly on Tel: 0371 664 0300 (Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales).
 - ii. You may request a hard copy of the form of proxy directly from the registrars, Link Asset Services using the telephone number above (same call terms and conditions apply)
 - iii. In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In order for a proxy appointment to be valid a form of proxy must be completed. In each case the form of proxy must be received by Link Asset Services at 34 Beckenham Road, Beckenham, Kent, BR3 4TU by 9.00am on 10 November 2020.
- 4 If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the Registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully. Electronic communication facilities are open to all shareholders and those who use them will not be disadvantaged
- 5 CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting (and any adjournment of the Meeting) by using the procedures described in the CREST Manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent (ID RA10) by 9.00am on 10 November 2020. For this purpose, the time of receipt will be taken to mean the time (as determined by the timestamp applied to the message by the CREST application host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
- 6 CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- 7 Any corporation which is a shareholder can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a shareholder provided that no more than one corporate representative exercises powers in relation to the same shares.
- 8 As at 30 September 2020 (being the latest practicable business day prior to the publication of this Notice), the company's ordinary issued share capital consisted of 208,141,108 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 30 September 2020 were 208,141,108.
- 9 You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the company for any purposes other than those expressly stated.
- 10 A copy of this Notice, and other information required by Section 311A of the Companies Act 2006, can be found on the company's website at www.jameshalstead.com.
- 11 The documents listed below will be available for inspection at an agreed time at the registered office of the company during the usual business hours on any weekday except bank holidays. Please e-mail secretary@jameshalstead.plc.uk (Label your e-mail "AGM documents") to book an appointment to view the following documents:
 - 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.
- 12 The final dividend, if approved, will be paid on 11 December 2020 to shareholders on the register as at 20 November 2020.