

Report & Accounts 2023



Expona Commercial PUR
House of Books & Friends, Manchester, UK

James Halstead

JAMES HALSTEAD plc

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Chairman's Statement

Results

Revenue for the year at £303.6m (2022: £291.9m) is 4% ahead of the comparative year largely driven by increased demand across a number of our key markets. This is a record level of sales.

The reported profit before tax for the year of £52.1m (2022: £52.1m) is a fraction over the comparative. Nevertheless, profit after tax is £42.4m (2022: £40.3m) – an increase of 5.1%. A record level of profit. Furthermore, earnings per share are at 10.2p (2022: 9.7p) which is an increase of 5.2% and a record level of EPS.

The financial year was one of contrast, with the earlier months having encountered escalating energy costs, severe difficulties as a result of the lack of timely availability of international shipping and increased transportation costs. However, the latter months of the year were much more positive with the easing of energy costs and a great improvement in shipping and transportation costs. In addition, our export sales in many markets developed as demand increased. The breadth of projects stretches from The Media Centre for the Paris 2024 Olympics, Castlerock Farm in British Columbia to The Centre for Autism Research (CFAR) at the King Faisal Specialist Hospital & Research Centre in Riyadh.

Sales growth has, on the whole, proved positive with the UK, the Americas, Australia, New Zealand and Malaysia all reporting increased demand, although Central Europe sales were lower than last year. As the year progressed, gross margins improved for the reasons already noted helped by the price increases and also by a swing in the mix of sales to pure commercial ranges as opposed to light commercial/heavy domestic. The core focus of our flooring ranges in healthcare, education and retail infrastructure, rather than private residential, remains a key benefit to our business model. Nevertheless, in Germany we have seen recent successes in new residential apartment buildings such as Quartier Möllner Straße in Rostock (Mecklenburg-Vorpommern) and York-Quartier in Münster (North Rhine-Westphalia).

The Company and our strategy

James Halstead 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 75 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 constantly develop its brand identity and its reputation for quality, product innovation, durability and availability, thereby enhancing and maintaining goodwill with the aim of achieving repeat business. Our focus is to work with stockists who in turn distribute those bulk deliveries whilst promoting and representing the products to the end users and specifiers who will purchase the stock from those stockists.

This approach is designed to increase and secure revenue streams and drive profitability and cash flow which enables the continuation of dividends, in turn creating shareholder value. In the normal course of business one key element of the Company ethos is having dedicated sales personnel to present our product to our customers' clientele.

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 our product offering.

Sustainability, social responsibility and the environment

We have in recent weeks published our 18th sustainability report that details our actions and ambitions in the areas of the environment, sustainability and social responsibility. Climate change has led to a greater focus on carbon dioxide levels but climate change it is not, in our view, a matter of trying to highlight any one single measure such as carbon emissions or net zero targets. As a manufacturer in the UK there are basic levels of environmental legislation that far exceed the standards of many countries. However we look to go far beyond that. Further information on the actions that we have taken are included further down in this report.

Dividend

Our cash balances stand at £63.2 million (2022: £52.1 million) with one of the major reasons for the increase being decreased stock. The finished goods inventory at the

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year-end is £77.1 million (2022: £101.9 million) which is about 24.3% lower than the prior year comparative.

Also of note regarding the cash flow for the year is taxation paid of £11.9 million (2022: £9.9 million), fixed asset additions of £2.9 million (2022: £3.2 million) and equity dividends paid of £32.3 million (2022: £32.3 million).

The interim dividend of 2.25p (2022: 2.25p) was paid in June 2023. The Board, having regard to the cash balances and profitability, is proposing a final dividend of 5.75p (2022: 5.50p) which will mean a total dividend for the year of 8.0p (2022: 7.75p) an increase of 3.23%. This is a record level of dividend.

Acknowledgements

Once again, I would like to thank our colleagues for their continued efforts in achieving this year's result.

Our thanks also to the UK Contract Flooring Association for their members' accolades with Polyflor being awarded the 2023 Manufacturer of the Year, as well as the best use of flooring in a charitable initiative with the community interest company House of Books and Friends, Manchester.

Outlook

Trading from the year end to date, overall, has been positive. Flooring has been supplied to diverse end customers from Medica Sur, which is recognised as the best hospital in Mexico, the Giant Flagship Store, Düsseldorf (one of the world's largest manufacturers of high-end bicycles) and the new headquarters of Deloitte in Milan (a NZEB – "Nearly Zero Energy Building"), helped by our flooring rated with both LEED "Platinum" status and WELL "Gold" certified. While both four-letter acronyms have similar requirements and standards, the two certifications are very different. WELL Certification focuses on people's health and wellness, while LEED is a certification that focuses on environmental impact and sustainability.

In the UK demand has been slightly less buoyant. Our UK business is far more focused on commercial flooring and repair, renewal and refurbishment and consequently less exposed to consumer spending. Nevertheless, there are budgetary constraints on renewal spending. Indeed, the Chairman's report of September 2016 noted UK

government spending restrictions on refurbishment in the education sector and this continues to be case.

We welcome the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and note that we already trade with 10 of the 11 countries that now have a free trade agreement with the UK.

Overall overseas turnover is 60-65% of total turnover and growing. With greater availability of global shipping, a strong balance sheet and a proven business model, we are confident in the prospects of the year ahead and progress across the Group.

Anthony Wild
Chairman

29 September 2023



Chief Executive's Review

Our business is, in essence, really simple. We create a floorcovering fit for purpose, we manufacture in volume and efficiently, we present the product to wholesalers, architects and end-users then sell the product, collect payment, make a profit and repeat the process.

It has been a record year for sales for the Group but the year had its challenges, disappointments and successes and overall must be considered as satisfactory. We have supplied flooring from the Van der Valk Hotel in Sneek, Netherlands to the Hospital de Bosa in Bogota, Colombia whilst supplying innumerable small projects in schools, offices, cafes, care homes, ships and hospitals across the world. Our own distribution teams and those of our very many stockists are despatching constantly and it is our delivery, availability and quality that keeps this show on the road. Our sales tomorrow are the orders we receive today as we are not in the "make to order" sector. Our sales are what we have in the warehouse.

Sustainability and environmental consideration have been a key part of buying decisions for many end users for very many years and increasingly part of listed company accounts. I echo the Chairman's comment to look at the audited sustainability report that is in its 18th annual version. We are proud of our record in this area and the annual accounts will have fuller details including the ubiquitous SECR (streamlined energy and carbon reporting) and the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 statements which are often referred to as the very similar "TCFD" (task force on climate related change financial disclosures). The ESG element of our business is a part of the presentation to end users and their purchase decision process whether it is Wendy's Restaurants, Ontario or the new Louis Vuitton's headquarters just steps away from La Samaritaine in Paris.

Environment and sustainability are as much about marginal gains with each 1% adding to the amassed improvements to offset the effects of anthropogenic climate change. Sustainable manufacturing has, to us, always been important and we look to minimise use of scarce resources, recycle and recover materials, and leave as small a footprint by our manufacturing as possible.

Perhaps one point I would make on the subject of social responsibility is that we are deeply involved in many trade bodies across Europe and in our markets globally. Rather than hire consultants to represent us we feel that trade bodies act not only as a representative body for the industry/market that they characterise, putting forward the collective view and position of its members, but probably more importantly the members set and raise standards to promote and improve best practices, whilst highlighting

common areas of concern. The results over time are that end users and consumers gain confidence in the product. In addition, a trade body can give the 'industry voice'. Trade associations speak on behalf of their members with the 'industry voice', especially when communicating with related industries (suppliers, customers and end-users), governments, agencies, regulators and on occasion the media.

Objectflor/Karndean and James Halstead France, our European operations

It was a difficult year for our Central European business (based in Cologne) with sales down 7.9% in the year. Sales in Germany are more exposed to the retail and domestic market than any other subsidiary. The French market saw a 12.6% increase in sales where the effects from the Ukraine crisis were lower due to greater government intervention in the cost of living crisis. We moved to a new warehouse in France during the year, reduced our costs, whilst also improving our service to customers.

Inflation, uncertainty from the conflict in Ukraine, and some destocking by customers all played a part in a clearly challenging economic environment. Given interest rates and construction costs, many new build projects were put on hold or cancelled. The housing market in Germany has been poor. Even though demand for accommodation is large the supply has fallen significantly. A 32% fall in residential housing construction in Germany has driven negative sentiment which is reported to be at levels last seen after the global financial crisis.

In France, the sales were raised by particular successes in increasing loose lay tile products (albeit these tend to be at lower margin than many other ranges), a 29% increase in own label collections to distributors and growing success in the healthcare sector. Healthcare was targeted in France last year by the introduction of dedicated sales representation to this end user segment and the success against economic conditions was clearly the result of taking increased market share in this area.

Margins remained suppressed during the year, driven by the overhang of cost surcharges and price increases in the stock value. There have been improvements in the latter half of the year as stock is replenished and sea freight surcharges have reduced.

Stocks within Objectflor have been reduced by 25.2% which resulted from a combination of reduction from last year's strategic increases and also a reaction to the lower sales in

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the year. The management team have placed focus on costs to mitigate the drop off in sales and profitability. Just one example was that Objectflor withdrew from major exhibitions along with many other flooring manufacturers which did the same, reflecting the negative sentiment of the industry against market conditions. The headcount was reduced as staff leaving were not replaced on sales-facing roles.

The business remains very profitable and the re-launch of the Expona Domestic luxury vinyl tile collection in January 2023 was very successful. The business supplied new flooring to the Ford factory in Cologne.

Polyflor APAC – encompassing Australia, New Zealand and Asia

Our APAC region is made up of four distinct areas including Australia, New Zealand, North Asia and Southeast Asia. To give a better strategic focus in the region a new reporting structure has been established to oversee the region as a whole. These changes are aimed at enhancing collaboration, aligning strategies and ensuring efficient decision making across the region creating a stronger network, promoting regional initiatives and leveraging resources effectively.

One immediate example of this is the implementation of a new ERP system. Our Malaysian business was the first to move over to this software during 2022, led by the Australian team who then supported New Zealand in their switch at the start of 2023. Australia successfully went live on the same system on 1 July 2023 and whilst all separate reporting entities, now have a common system where shared resources can be utilised.

Sales in the region were affected by international shipping delays that depleted stock holdings and the cost of shipping affected margins.

Looking individually at each of these regions, we have seen Australia grow gross sales by a further 3.8% to a record level, an excellent achievement. The increase this year has been driven largely through price increases with volumes 4.5% down in the year.

Despite price increases, margins are down on last year with the sales growth for the period coming from more commercial flooring than domestic, adversely affecting the product mix in terms of margin. Stocks, including goods in transit, are 13% down on the previous years.

New Zealand saw another solid year. Sales were ahead by 20% but the ongoing high freight and product cost affected

margins. During the early part of the year we experienced significant shipping delays which gradually eased from January 2023 onwards. Stock levels were reduced 17%. There remains traffic congestion locally holding up shipments. There were some one-off costs in the year, such as the ERP implementation noted above, but overall profitability remained level despite this.

Our Malaysian business which services the Southeast Asia region has gone from strength to strength increasing sales by 78%. We are starting to see the benefits of our investment in salespeople across the region as more projects are secured, although Malaysia remains the biggest market. Sales into Singapore were boosted by obtaining SGBC (Singapore Green Building Council) certification which helped sales of Polyflor products into the government sector.

All sales to date in this region are from products manufactured in our UK factories, however, now we have established ourselves in the market, we will look to introduce a small range of luxury vinyl tile products during the next financial year, sourced regionally. Interest has been positive.

Unfortunately, our North Asia sales continue to underperform. Extended Covid shutdowns in China, lack of projects, surplus capacity from competing Chinese factories and delays in manufacturing and shipping our product have all contributed. None of the countries covered by this area showed any growth. Following a review of the North-Asia region at the end of the year, a change in management has occurred and with all travel restrictions now over, our APAC management will take a more strategic view of the whole region and focus resources to best achieve growth. There will not be an immediate turn around given the nature of the business, but we believe it will succeed.

Polyflor & Riverside Flooring, based in UK

Undoubtedly, it was overall a commendable year at our UK manufacturing sites. These businesses supply not only the UK, where turnover was 4.2% ahead of last year, but also our overseas subsidiaries and direct export customers. Profits were also ahead of the prior year despite the challenges of increased input cost, massive energy cost increases and industrial action by part of the workforce in Radcliffe.

Riverside output and sales increased with a near 14% increase in turnover. In the UK the increase was 10%, sales to our own overseas subsidiaries were down 10% but sales to the rest of the world increased by 36%.

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Chief Executive's Review

continued

Export demand was restricted for the early part of the year by availability of timely shipping though this was greatly improved by the year end. It was also the case that the "bottlenecks" of international transport delayed and restricted supplies to our overseas subsidiaries; local stock helped to minimise the effects on sales but opportunities for greater sales were lost.

Significant product launches in the year were undertaken. Camaro (our light commercial heavy domestic luxury tile range) in September 2022 was relaunched with new designs and tiles. The market reception was extremely positive. Expona Commercial (our project focused luxury vinyl tile) was relaunched in July 2022 was extremely well received. The marketing support for these launches in terms of sampling, product presenters, and display materials was impressive, and costly, but will stand the ranges in good stead over the next 2-3 years before we again refresh designs. The Aztech Soccer Arena in Guernsey was just one project that Expona commercial was used in.

Raw material costs and availability were difficult in the early months of the year but improved and from January 2023, when combined with sales price increases, led to improved margins. Energy cost increases were a severe problem in the first half of the year and though this eased in the second half, the costs are still very high when compared to prior year comparatives. In this we are not alone but in the global market place, outside Europe, energy costs have not been so severe. Inflationary pressures affected all costs. Wages, services and costs across all areas were challenging. Cost control was a constant focus for the Group.

Our stock levels were drastically reduced as concerns over energy abated, indeed the industrial action on part of our plant helped reduce stock levels more rapidly than we might otherwise have chosen. The stock reduction was generally very good for cash generation but as a result we have struggled to supply certain product ranges and have been out of stock in some lines.

Unfulfilled demand to a manufacturer is far from desirable. Shift patterns and overtime in part helped alleviate some of the difficulties but on several key ranges stock levels remained persistently low. The export departments ended the year with outstanding orders that were unfulfilled by production and, whilst the second half of the year saw much greater ability to get exports to the end markets, our manufacturing capability lagged. Against the economic environment, the balance between prudence and increasing manufacturing headcount was assessed and prudence prevailed.

Polyflor Nordic comprising Polyflor Norway based in Oslo and Polyflor Sweden based in Gothenburg

After a strong performance in the previous financial period, we saw a flat year for our Nordic markets with combined sales marginally down by 1.8% in the year. An increase in costs saw the region fall back in terms of profitability, but our investment in extra sales personnel across the region, this year more concentrated on Sweden, should return us to further growth next year.

Our Norwegian business had some key project success in hospital projects and introduced a new high-end commercial carpet from Germany.

Whilst the sales have remained flat overall, the mix has improved with an increase in UK manufactured product which benefits the Group as a whole. Growth remains the focus in both markets.

As with other markets, overall stocks have been reduced in the region (by approximately 10%), but with the greater cooperation between the countries, a more balanced approach should lead to improved delivery times and lower freight costs as we progress.

Polyflor Canada, based in Toronto

Our Canadian business saw a record year for sales and a significant increase in net profit against a generally sluggish economy. It was another strong performance with sales ahead of last year by 30%. We have seen growth in both LVT volumes (+24%) and UK manufactured product (10%). The Canadian sales of product supplied by our Teesside plant increased by 30%.

The business supplied flooring to the Huawei Offices in Vancouver and to the Toronto Dominion Bank, the latter being in Expona commercial luxury vinyl tile (newly re-launched by Polyflor UK).

As we noted last year, Covid-19 resulted in restricted travel so with a greater ability to visit distributors and specifiers we have seen an uplift in trading. There has also been an improvement in the logistic bottlenecks that hampered previous years helping to ensure product was available for projects. It was clear that increased interest rates and input costs have noticeably affected customer confidence and building projects were keenly contested.

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Stocks have been reduced by 8.3%, despite the decision to purchase more LVT direct rather than relying on the UK stock holdings and this strategy will continue as we see continued growth from our LVT ranges. We continue to invest in growth in the region with further recruitment in sales personnel planned for the coming year.

Rest of the World

Our products are sold in many markets across the globe and the preceding sections cover some of the key markets where we have a local presence and warehousing. These markets have been long established for the sales of our flooring and there has also been significant growth in several other markets when compared to last year. Our products are available and sold across the globe and we continue to make strides in our export markets. Whilst our European neighbours have remained subdued with more of an impact from the Ukraine crisis affecting energy inflation and spending power than other countries, we have seen good sales growth in the USA (+36%), Latin America (+31%), the Middle East (+38) and the Mediterranean (+20%).

We are actively looking to increase our presence in both the Middle East and Latin America by increasing the number of salespeople on the ground.

In India we continue to control costs. This remains a market where freight costs remain problematical and our focus is now mainly on pharmaceutical and healthcare sectors. There were projects such as the Serum Institute and the Hazrat Shahjalal International Airport in Dhaka Bangladesh.

Sustainability, social responsibility and the environment

As highlighted in the Chairman's Statement, we recently published our 18th sustainability report for the Company. In this we detail the actions and ambitions that we have taken to addressing environment impact, sustainability and social responsibility. I would like to note just a few of the many areas of focus covered by our independently audited sustainability report:

Water usage

Water is a natural resource that must be protected. Manufacturing can result in a high use of water but at Polyflor we collect rainwater and store it for use in cooling during the manufacturing process (and have done so for over 50 years). This stored water is returned to storage after use and largely avoids the use of mains water supply, just

4% of the water that we use comes from the mains supply. We have expanded collection of rainwater from our factories guttering to underground storage and this will enable us to further reduce mains water usage. We have added filtration so that we can use the collected water for other uses on site such as jet washing.

Waste

I have noted over the years our Recofloor after sale vinyl take back scheme. However, waste comes in other forms notably packaging. At Polyflor we minimise waste to landfill and have an onsite waste collection, segregation and re-purposing team with a dedicated part of the site. Cardboard, wood and metals are separated for recycling and waste liquids sent for treatment to extract for alternative uses.

Training for the skill shortage

Fifteen years ago we created the Polyflor Training Academy based on the Radcliffe site to add to the skills set of our end users (the contract floor layers). The academy delivers 1-4 day training courses for a nominal charge with basic skills training to advanced level training. Last year we ran 27 courses in Radcliffe for 275 participants. In addition, the training academy offers product training to our own employees and undertakes off site training. This facility has been replicated in our European business with the Objectflor Campus. The Campus held 17 courses in the last year with around 500 delegates and a further 12 related industry courses with around 400 delegates. Smaller events have taken place in Australia, New Zealand and Canada. We see this as a key part of our social responsibility to bridge the skills gap even though these delegates are not directly our customers. Our stockists should, over time, benefit and do take confidence from these commitments.

Environmental product declarations (EPD)

With many green labels and accreditations across the globe the proliferation can be confusing for end consumers. The abundance of "green washing" is known to many. The Centre for European Standards (CEN) created a European standard (EN) with the aim of a worldwide standard for environmental performance. The EPDs that Polyflor has attained are independently verified and are environmentally assessed based on global warming potential, ozone depletion potential as well as five other environmental impact indicators. The benefit is that EPDs support the environmental goals of stakeholders from design stage to use whether in new build construction or retrofit.

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Chief Executive's Review

continued

ESG is not supposed to be "boiler plate" nor "tick box" and each element of our place in our locality, in our wider community and our industry is important. Each facet is so much more important to the future and needs to be much broader than one measure or targeting "net zero" at some future point. Environmental sustainability is not the responsibility of one person or committee but the work of the whole team across the Group looking at the different facets and focusing on the components that should each combine for a more cohesive strategy.

In conclusion

Given the circumstances we can only be pleased with the results for the year. The hard work, dedication and experience of our subsidiary directors and management has been a key factor in this achievement.

The recent years since "Brexit" (January 2020) have seen our businesses rise to the many challenges since that time and it is perhaps worth a glance at our performance since the 2020 year end. Our sales since then are 27% higher (+49% in the UK, +10% in Europe, + 22% in Australasia and +42% in the rest of the world); our profit before tax some 19% higher. Notwithstanding these figures our progress in global markets has been hampered by many factors however these are now behind us and though we have inflationary issues and in many markets spending constraints I and our teams feel confident of the Group's progress in the global markets. We look ahead with confidence across the business.

Mark Halstead
Chief Executive

29 September 2023

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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. As in previous years we, as a board, look to be 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 £303.6 million (2022: £291.9 million) was 4% higher than last year.
- Profit before tax was £52.1 million (2022: £52.1 million).
- Selling and distribution costs were 6% higher than last year. Administration expenses were 4% lower than last year.
- Trade receivables decreased to £42.9 million (2022: £46.7 million). Trade payables decreased to £40.3 million (2022: £61.5 million).
- Inventory levels stand at £87.4 million (2022: £112.3 million).
- Cash stands at £63.2 million (2022: £52.1 million) even after the payment of £32.3 million in dividends, £11.9 million in tax and £2.9 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. The group comprises two major manufacturing plants and a number of overseas importer and distribution businesses but no overall KPI seem appropriate. Obviously sales, profit and cash generation are monitored against budgets and more so against prior year comparatives.

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 their 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 they are collated by various trade bodies, is complete nor 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. At subsidiary level there are non-financial KPIs. Examples being call response time, non-conforming product complaints, staff turnover/retention but these are company or department specific and reported by directors in their monthly reports. The executive directors comment on these on case specific bases and the non-executives have sight of the major reports.

Principal decisions

The strategic report notes our approach to 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. The executive directors kept the board apprised of their actions and these 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 a potential effect on employment and hence employees as a whole so this high level update is important to provide context for the individuals.

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Financial Director's Review

continued

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. Cash flow projections are an important part of this, particularly in the current economic environment - the executive directors were tasked with keeping the board apprised of the working capital position.

Defined benefit pension scheme

Further to the triennial valuation of 2020 and having regard to the relatively small numbers of active members the board took the decision to close this scheme to future accrual. In addition having regard to the many changes in the economic climate the board asked the trustees to consider an interim valuation of the scheme to ensure the most up to date figures were available for the basis of agreed ongoing funding.

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 ongoing disruption to energy across our markets the budgetary process this year was deemed to still be fraught with uncertainties. Nevertheless, a full budgetary process has been undertaken to assess our manufacturing capacity and manage shift patterns and associated expenditure.

Warehouse expansion

In 2020 the board appraised the need for increased warehouse capacity in the UK. Given the myriad of other problems that have presented themselves since that date this project has not progressed as of yet.

Salary increases

During the year the UK faced significant inflation and the board took the view that directors of its subsidiaries would have increases capped at 5%

Principal business risks and uncertainties

The board resolved (in February 2022) that we should cease to undertake sales of flooring to Russia and given the close involvement of Belarus to only supply the latter with healthcare related products (after a review by the board of individual projects). The effects of this conflict on global trade and costs continues to be an uncertainty.

The effects on UK energy costs have been widely reported but the implications for UK manufacture go much deeper. Certainly the increased cost of our UK energy of both gas and electricity has been significant but the effects on raw

material supplies have also been significant. The dependency of many industries in Europe on the large refinery and chemical plants being fed oil and gas from Russia made it immediately apparent that the conflict would lead to major disruptions in supply beyond the cost of energy. The situation as of the end of the current financial year is much improved from the scenario a year ago but remains a business risk.

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. Cyber security is another identifiable risk, there are many media reports an increase in blanket attacks by cyber criminals often backed by hostile nation states targeting civilian and commercial organisations, owing to the value of the personal and sensitive data held. Ransom ware remains the single biggest threat to organisations and the use of sophisticated phishing and social engineering techniques by cyber criminals persists as the main method of entry and compromise. The board regularly tasks its subsidiaries with assessment of cyber risk and most particularly in the area of bank scams. In addition servers and emails are protected with various firewall safeguards. In addition, the group avails itself of various insurances which may offer some help in the event of a cyber-ware event.

James Halstead

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

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
2023	(1,818)
2022	926
2021	(615)
2020	336
2019	(170)

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. Risks associated with climate change, which are not, currently, deemed to be principal risks and uncertainties are noted elsewhere under our Climate-related Financial Disclosures (CFD).

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 active members as at 31 January 2023, with no added service to the defined benefit scheme from that date

Accounting for this defined benefit scheme is prescribed by IAS 19 and the quantum of the deficit or surplus is ever volatile due to the nature of using gilt yields, at a point in time, and to a lesser extent a myriad of assumptions determined by the actuarial profession.

The scheme comprises deferred members (present and past employees not yet in retirement) and pensioners.

Gordon Oliver
Finance Director

29 September 2023

James Halstead

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 2023.

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 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 is 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	<p>Members of the board have regular dialogue with institutional Investors and individual shareholders in order to develop an understanding of their views.</p> <p>The AGM is an important forum for private shareholders to meet the board and ask any questions they may have, directly.</p> <p>The company's website has an investors section which gives investors direct access to reports, press releases and business information. There is also a contact mailbox facility.</p>	<p>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.</p> <p>Shareholder views, together with movements in the shareholder base, are regularly reported to and discussed by the board and their views are considered.</p> <p>Our NOMAD's views on market sentiment are fed back on a regular basis, and are considered by the board where it impacts strategy.</p>
Customers	<p>We interact with our customers through:</p> <ul style="list-style-type: none"> ■ 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 	<p>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.</p> <p>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.</p>

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.

James Halstead

Climate-related Financial Disclosures

Non-Financial and Sustainability Information

In 2022 the UK Government introduced the Climate-related Financial Disclosure Regulations. These regulations have been introduced to support informed decisions by investors and to encourage companies to embed climate-change considerations into the management of businesses. These disclosures were largely based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) and are a requirement for accounting periods starting on or after 6 April 2022.

Separately within the Report of the Directors we have disclosed our streamlined energy and carbon reporting (SECR) and in addition the Chairman's Statement, the Chief Executive's Review and the Report of the Directors refer to environmental, social responsibility and sustainability considerations and initiatives. It should be noted that our SECR is reported on a location-based approach; however, the business does purchase 100% renewable electricity for its operations, further reducing the operational carbon footprint when taking a market-based reporting approach.

Sustainability and environmental considerations have been key considerations for our businesses for over a generation and we see these as a differentiation against competitors. A key consideration is to dispel the myth of PVC as being a 'bad' choice because of its derivation from fossil fuels. PVC is widely used in products and applications and brings sustainability benefits whether they are cars (to make them lighter and thus more economic) or in buildings (windows, floors, piping and cabling) to perform effectively for much longer than alternative materials. Life spans of 30 to 100 years with minimal maintenance (hence limited additional consumption of energy and raw materials). At end-of-life PVC can be recycled and has the longest history of recycling amongst plastic with the most advanced level of material recycling (i.e. lower energy input). The volume of PVC that we process each year is less than one tenth of one percent of global annual production. In terms of safety PVC has a very good long term record and is one of only a few materials trusted and approved for use for the storage of live human blood cells.

Our annual ESG reports are part of our manufacturing ethos.

There is an assumption that investors and regulators have an appreciation of climate reporting, but in reality there is a myriad of 'green claims' and much of it inconsistent with a consumer society. For our part, we focus on durability and life span of products since an extended life span reflects lower energy usage.

Within the context of the regulations we, and others, have responsibilities to assess and manage climate-related risks and opportunities. Whilst our business has always assessed risks these regulations seek to add separate focus to climate-related issues. Noted below are specific risks that we have assessed together with a degree of background and the related mitigation.

Governance and time

In terms of collating and undertaking these responsibilities, the board has delegated the role to the finance director to assess and enquire. This in no way negates the board's primary focus and involvement in climate-related risks and the FD will, as a matter of course, update the board on climate-related risks. Indeed, this is not different to assessing risk management. It is a matter for the board as a whole to determine further actions. The initial assessment in the short term is that climate change related risk to our business is low and not material. Nevertheless, the board wishes this to be an open item on the agenda for subsidiary boards to have further meetings and risk assessment. Subsidiary board meetings are held 6-8 times a year and Group board meetings 5-6 times. Risks identified, usually by discussion and enquiry are reported to the main board and mitigating actions assessed.

The subject of climate change and associated risks in the medium term will require greater time and involvement with 3rd parties including suppliers, trade bodies and potentially consultants. The risks surrounding climate change often do not fit with other risk management areas as they are, in the medium to long term, largely imprecise and mitigation tends, therefore, to be hypothetical in the short term. The subject matter and risk perception may well change over time and hence to board's decision to seek input, and to make the subject an ongoing agenda subject.

It is to be envisioned that larger risks may be recognised in future years and that more resource may be needed to assess the, as yet, indeterminate effects on our small business as a result of climate change.

There follows a number of areas where risks have been assessed and whilst the reporting is not tabled and boxed the board believe the context of these areas warrants a degree of background.

These are the current risks associated with climate related changes but these may potentially have increased severity in the medium term (4-8 years). The risks identified currently are, to the belief of the board, sufficient to gain an understanding of our business model. Currently, the board believe, the following points outline the perceived risks but will consider the impact of these risks to our business model and may undertake resilience modelling in the fullness of time.

James Halstead

In referencing the past the board is no way distancing the need to look at the future, and the long term and past events can and do have relevance to preparedness. At the moment our current targets in relation to managing climate related risks are to increase awareness of the risks, to engage with stakeholders and to continue to assess both risks and opportunities. If it is to be envisaged that, in due course over the next 2-5 year performance indicators / key metrics may be identified. However, data sets on the effects of climate change and the geographic location of potential effects are incomplete and speculative.

Risk Management

The main board has made climate-related risks an agenda item at subsidiary level and in the initial phase asked subsidiary directors to consider a wide range of issues to assess risks. Quarterly these will be discussed in detail for board presentation. The process is aimed at allowing the board to identify and determine relative significance to the business of the risks (and opportunities).

The board believes it important to note that environmental considerations and sustainability are key considerations and nothing in the statutory climate related disclosure statements alters that view. As manufacturers this has been both good practice and good stewardship, as well as progress to a low carbon footprint. In reality this means using less energy, fewer resources, greater recycling and preserving air quality, all of which are reported in our annual sustainability report, with constant review and to strive to improve. Our 18th annual sustainability report is available on our website or as a printed copy and this offers a far more detailed review of the group's activities, albeit with a heavy focus on our manufacturing activities.

Given that our manufacturing is based within Europe, it perhaps does not go without saying that legislation is significant with regard to environmental issues, air quality, and water use and that the vast majority of raw materials and all energy used are subject to the same standards. These are not insignificant and it is to be hoped that greater focus on climate change might add to greater scrutiny of sustainability and environmental good practice that compares favourably against imported products from less highly controlled regions.

Our manufacturing bases are Radcliffe in Manchester and Thornaby on Teesside. Neither of these locations are at high risk for flooding and both are near to, or part of, significant main roads and infrastructure. At this time and in the medium term we see low risk of anything other than short term disruption from climate related weather events. This average increase may lead to increased severity in weather events and more extremes (hotter, colder, rainier, and longer

drought). We have already experienced some of these extremes over the last two years and arguably some actions that we took during the pandemic also assist with our preparedness (in regard to delays in raw material input deliveries).

The risks of climate change are by their nature as yet unknown. The board recognise the need for ongoing assessment and ask all management to input into the process. In looking for a key performance indicator or indicators the nature of the subject makes this, as yet, difficult and nebulous. However, the structure we have adopted is for the senior finance team to consider the financial effects in line with other risk assessments. The review relates to all the group's subsidiary activities but outside the UK our activities are sales and distribution with relevant warehouse facilities. Outside the UK no significant risks were noted other than potential disruption by an extreme weather event within the territory, or affecting a particular warehouse and this would be assessed as temporary and insured. Examples of extreme events that we have faced in recent years (which may or may not be climate-change related):

- extreme flooding in Queensland, Australia;
- extended drought and wildfires in Australia;
- earthquake damage in Christchurch, New Zealand.

In considering various scenarios, it is almost impossible to assess risk without attaching probabilities but notwithstanding our teams will meet and review perceived risks. However, even though risk mitigation plans may be difficult that does not mean that the risk of complacency is high merely that retaining speed of reaction and flexibility is important and no amount of "speculation" or boilerplate can obviate this.

Strategy

Looking at the risks across several areas where we have identified risks associated with climate change with background detail and / or mitigation actions (where relevant).

Raw materials

Around 50% of our raw materials (by mass) are sourced from the UK, from less 40 miles away and up to about 95% from Europe. Delays in these shipments would seem not to be affected by most weather events other than heavy snow which can close local and main roads (dependent on severity) but over a relatively short time period. As a site we carry over 500 tonnes in reserve at any one time so are well placed to last circa a week without any deliveries. We also hold around 40-50 tonnes of bag stock which can be added into the production lines manually for an extra day's production.

James Halstead

Climate-related Financial Disclosures

continued

Most polymers and plasticisers are sourced from outside the UK. Polymers are sourced from the large European petrochemical producers (as do our European flooring competitors) and the biggest negative impact we have seen in recent years is when there are low water levels in the main French / German rivers that are used heavily to transport goods and materials. Chemicals and raw materials are often transported between sites by barge and these barges are unable to operate if the river is too low (or too high) and/or loading limits are lowered when the rivers run low. In addition, various parts of the Rhine have in the last year become impassable (due to droughts / prolonged periods without rain) which has resulted in delays and inefficiencies from these suppliers. The same can be said during prolonged rainfall (extreme events) that the rivers become too high to be navigated. Climate change could exacerbate the situation. In mitigation alternate supplies from the USA are possible and there are several agents that facilitate such alternatives.

Further to local delays as a result of extreme events we do also see shipping delays due to rough seas (high winds / extreme events) that can also lead to delays and ships being unable to dock and/or miss ports / unloading.

Since the pandemic our manufacturing sites now hold higher reserves of raw materials than before and have increased storage capacity by 100 tonnes of bulk liquids. We have also sought to increase the number of approved suppliers from further afield and in 2022 purchased over 600 tonnes of US or Asian sourced PVC which assists during any delays in Europe. Of course, these extreme weather events can also affect US or Asian suppliers and we have witnessed the impact of the extreme weather event ice storm in Texas, which impacted at least one chemical producer for which we were reliant for a speciality chemical. In this case alternative sources were found.

Diversifying and increasing sources of approved materials can reduce the direct impact to the site and on-going production.

For all other (non-major) ingredients, on balance, many of these are either sourced locally and/or we carry large inventories to provide protection. We also, as one of the largest accounts in the UK, enjoy excellent relationships with our long-standing key material suppliers and interact with other organisations operating in similar fields / ingredients. A reflection of this being the problems we have endured during the global pandemic when despite all the issues raw materials sourcing was disrupted but supply maintained.

Production facilities - extreme weather events

Over the last year extremes in weather have been experienced in Manchester. In the summer of 2022 UK air temperatures increased to over 42°C. The UK Met Office issued an Amber and Red warning for extreme heat. This affected those that are most vulnerable to extreme heat and needed some changes to working practices and daily routines. The extreme heat event also led to a higher risk of failure of heat sensitive systems and equipment. This is a known issue and summer time heat waves are not uncommon in the UK. During this event there were increased electrical components failures and losses in efficiency were experienced. Given our history as a manufacturer we have well established spares policies to react to these types of problem. In higher ambient temperatures the line speeds of some of our production are lessened. Provisions for all employees to mitigate the impact from these events needed to be considered and actions implemented.

During the winter of 2022 the site also observed the opposite extreme temperatures with minus 12°C being recorded overnight. These extremes potentially lead to pipes freezing, valves failing and issues with other engineering equipment. In addition, it involves also keeping the site operating safely with gritting and snow clearing and providing employees with winter work wear. An increase in such events may well affect output but are not expected to preclude ongoing UK based manufacturing.

The site can at times also suffer from heavy sustained periods of extreme high rainfall and with climate change these kind of events may increase in frequency. This can lead to localised flooding on local roads, flooding of production halls from back-up from the drains or off the roofing areas. We have the necessary equipment on site to remediate these short term travails.

Stock shortage

Ultimately, to protect the on-going business and any such impacts from extreme weather events, as a business, on the whole, we carry large inventories of finished product stocks at separate locations. So, in the unlikely event of impact from a severe weather event on the manufacturing capabilities these stock reserves enable the business to continue to supply the market with goods. This was tested in 2019 when one production line endured a mechanical failure and was shut for 12 weeks. Obviously this is only a mitigation to short term climate related events which we consider appropriate.

James Halstead

PVC use and regulation

There is increasing activity by activists who protest against anything plastic or derived from oil. As users of PVC, we are of course arguably on that list but it is generally accepted as an essential polymer in the building sector. PVC is a low energy polymer and has many advantages.

We strive to underline the benefits of vinyl as a building product and most especially as flooring. We have many environmental accreditations, and present the benefits of thermoplastic materials, recycling, and our stewardship through the Recofloor take-back scheme. We have been recycling PVC for over 60 years and it is a fact that vinyl flooring is less energy intensive and more efficient to make than many alternatives.

PVC brings important benefits to products and applications in areas as diverse as construction, automobile manufacturing, medical devices, electronics and electrical equipment, packaging and fashion. Whether it is rigid or flexible, PVC helps to make cars lighter and resistant against corrosion, it enables windows to last longer, allows fresh water delivery through the use of durable piping, and stores blood to save and improve people's lives.

Vinyl applications can perform effectively for much longer than alternative materials. Their life-span can range from 30 to 100 years in the case of cables, pipes and window profiles. In addition, PVC products need minimal maintenance, and hence very limited additional consumption of energy, raw materials and chemicals is necessary to ensure their continued functionality. As a result, PVC has the advantage of remaining in use for a long period before it enters into the waste chain and we continue to work with various agencies to divert such waste back into the manufacturing process.

When it reaches its end of life, PVC can be recycled. In fact, PVC has the longest history of recycling amongst plastics and the most advanced level of mechanical recycling. We have been using recycled PVC for over 50 years.

One major mitigation of these risks has been the focus on healthcare around the world during and since the pandemic. Vinyl flooring produced in long wide rolls and used as an impervious layer in extremely long lasting and extremely easy to disinfect. Demand may well increase but the use of textile flooring in healthcare appears to be diminishing.

One risk that remains is that as legislators increase the demands on business so that manufacturing within the UK (and indeed Europe) becomes difficult or uneconomic. It cannot be correct that all manufacturing moves out of the UK as costs of energy and targeting of specific initiatives makes importers more competitive. To mitigate this we sit

on trade bodies and work with industry initiatives to explain our processes and present a fairer presentation of facts.

Reputational risk

As the general public and the customers become more environmentally aware there are risks and opportunities. As already noted the majority of our flooring products have some oil derived content (PVC polymers). This can and has been replaced by alternative polymer sources though there is an added energy cost to such polymers that offset the perceived benefit of non-fossil fuel sources. On a more basic level the fossil-fuel source is derived as a by-product of the oil cracking process so it will continue to be made as long as petrol is produced.

Durability and reason for use are huge benefits. As an impervious layer on a hospital floor that can be easily cleaned / disinfected a vinyl floor is not easily replaced. Already up to 85% of that vinyl flooring is from sustainable and/or recycled product.

Our ongoing challenge to mitigate objections to vinyl flooring is to present facts. Our sustainability credentials are literally an open book with an annual sustainability report it is not "green-washing" and is independently audited with independently verified facts.

It should be noted that many climate related disasters lead to an increase in demand for vinyl flooring. The use of temporary buildings for the homeless and the rescue efforts associated with weather based events has a long association with the use of vinyl flooring.

Metrics and Targets

We have not as an entity set targets or key performance indicators. Within our industry we are working with many trade bodies and authorities to increase the take up of recycled material. Our sustainability and environmental considerations are wider than simple numbers such as carbon neutrality. As a factory making flooring we inevitably have a carbon footprint and as we grow this may increase but unlike competitors outside Europe we are in a community that looks to recycle waste, improve air quality and reduce the impact of our actions. We strive to source all our electricity from 100% renewables but this costs more. Our most recent CP21 shows 100% all our UK electricity usage in the year to March 2023 renewable and was either wind or photovoltaic (not biomass). The decision was taken to exclude biomass from our renewable purchases. Our renewable energy being fully supported by REGO certification (renewable energy of guaranteed origin).

James Halstead

Climate-related Financial Disclosures

continued

Over and above our energy costs we have multiple add on costs levied by government for many varied projects (feed-in tariff, renewable obligations, climate change levy or Elexon).

Polyflor, is member of VinylPlus which was founded in 2011 by the European Council of Vinyl Manufacturers (ECVM), the European Stabiliser Producers Association (ESPA), European Plasticisers and the European Plastics Converters (EuPC) when the PVC industry renewed a previous initiative called Vinyl 2010. It currently recycles c 800,000 tonnes of PVC annually.

In addition, as detailed within the SECR in the Report of the Directors, we use the Greenhouse Gas (GHG) Protocol to calculate our emissions and measure performance against these. The UK has purchased 100% renewable electricity, however, our carbon emission reporting is not based on our purchases of electricity but rather the actual electricity that we extract from the national grid. This is a location based methodology rather than market related and underlines that whilst we are using renewable the provision of electricity is far from renewable. Furthermore, we do use natural gas as energy supply, principally to our Teesside facility, but are unable to move this to electricity because the national grid infrastructure can supply no more electricity to the industrial estate where our business is based without upgrades to underground connections.

The group is committed to improvements in operational energy efficiency with the efficiency measures that were undertaken during the year explained within our SECR. The group are undertaking the Energy Savings Opportunity Scheme Phase 3 to identify further energy savings opportunities, and better understand patterns of energy consumption. The implementation of the findings of these surveys should enable further energy savings to be made in the future.

James Halstead

Sustainability and the environment

James Halstead plc is the parent company that trades and manufactures under the Polyflor brand. Recently Polyflor has published its 18th annual sustainability report, covering the company's environmental, social and governance (ESG) performance for 2022. The data for this report has been independently verified for BES 6001 v3.1 to provide our stakeholders with complete transparency.

As a responsible manufacturer, Polyflor endeavours to reduce and minimise the environmental impact across all operations. Whilst reporting this and highlighting our focused objectives and guiding policies, integrity is important: Reporting remains impartial, and indications are made regarding future improvements.

Sustainability at Polyflor is not the responsibility of just one person: It is very much a team effort throughout the entire company and involves listening to our customers and other external driving forces. Sustainability is driven by our board of directors across all areas of the business and includes our environmental objectives and processes or quite simply, encouraging employees to 'do their bit' at home, in the community and in the workplace.

Polyflor has always been industry leading with regards to its products and sustainability. We have used harvested rainwater for production since 1915 and have been recycling vinyl since we pioneered it in 1950. Polyflor was an early adopter of BRE with products first assessed on a Life Cycle Analysis in 2005 and we were the first commercial flooring manufacturer to achieve the BRE's standard for

Responsible Sourcing, BES 6001, for many of our products. Other firsts as a flooring manufacturer included achieving GreenTag's LCARate certification and rolling out a recycling initiative inclusive of site collections and distributor drop-off sites to suit all customer and waste volume requirements.

Undoubtedly, recent years have presented significant challenges to our businesses, however, Polyflor has continued to perform well and has maintained a full focus on its sustainability objectives. Our investment in sustainability initiatives has continued throughout, including our Recofloor recycling scheme which is widely regarded as one of the best examples of its type. Co-founded by Polyflor in 2009, Recofloor continues to significantly reduce the environmental impact of Polyflor and its customers and is a scheme we are very proud of.

In 2022, Polyflor made further progress across a broad range of its objectives and was able to reduce carbon footprint across a number of key areas of the business, not least production and logistics. Of course, the business remains committed to continual improvement with sustainability at the heart of our operations and we look forward to reporting further significant progress next year.

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

D N Fletcher
Secretary

29 September 2023



Report of the Directors

The directors are pleased to present their report, together with the audited accounts for the year ended 30 June 2023.

Results and dividends

The group results for the year and the financial position at 30 June 2023 are shown in the consolidated income statement on page 37 and the consolidated balance sheet on page 39.

The directors are recommending a final dividend of 5.75p (2022: 5.50p) per share on the ordinary share capital for payment on 15 December 2023 to those shareholders on the register at 17 November 2023. This final dividend together with the interim dividend of 2.25p (2022: 2.25p) per share paid on 9 June 2023 makes a total dividend of 8.00p (2022: 7.75p) 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 2023		30 June 2022	
	Beneficial	As Trustee	Beneficial	As Trustee
J A Wild	300,600	23,950,720	300,600	23,950,720
M Halstead	26,505,604	22,246,584	26,505,604	22,250,344
G R Oliver	440,988	254,428	430,988	258,188
S D Hall	11,400	–	11,400	–
M J Halstead	1,376,234	–	1,376,234	–
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 15 September 2023 the company had been notified of the following interests which represent 3% or more of the existing issued share capital:

	Number	%
Rulegale Nominees	72,865,342	17.5
John Halstead Settlement	70,894,436	17.0
Octopus Investment Nominees	27,447,999	6.6

Share capital

Full details of the company's share capital and movements during the year are set out in note 11 to the company's financial statements.

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 2024.

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 £6,945,901 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 2024 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 2024 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

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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).

Going concern

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

After considering current trading, forward forecasts and scenario planning the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. The directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least one year from when the financial statements are authorised for issue. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Employee 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 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 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 wellbeing 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.

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Report of the Directors

continued

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

Scope 1 and 2 consumption and carbon dioxide emission data has been calculated in line with the 2019 UK Government environmental reporting guidance. Emissions Factor Database 2021 version 1 has been used, utilising the published kWh gross calorific volume and kgCO₂e emissions factors relevant for the reporting period.

	Year ended 30 June	
	2023	2022
	Tonnes of CO ₂ e	Tonnes of CO ₂ e
Scope 1 - direct emissions (UK facilities and vehicles)	9,120	9,370
Scope 2 - indirect emissions (UK purchased electricity)	4,035	5,464
Total Scope 1 and Scope 2 emissions	13,155	14,834
Intensity metric – total scope 1 & 2 emissions per metric tonne produced	0.27	0.25
Total UK energy consumption (kWh)	68,576,711	74,936,963

The group is committed to improvements in operational energy efficiency. The energy efficiency measures that were undertaken during the year were:

- The ongoing installation of LED lighting to replace old inefficient lighting
- Thermographic surveys of electrical equipment to identify abnormally high temperatures within our electrical distribution systems. This equipment may be operating incorrectly and consuming high amounts of energy. The equipment may be replaced or performance optimised.
- A database system that monitors energy consumption and identifies areas of abnormal consumption for measures to reduce consumption
- A new boiler was installed to replace an old inefficient boiler
- Surveys of compressed air systems to identify and repair leakages to reduce wasted energy
- Installation of thermal insulation for heated mixing equipment to reduce wasted heat and keep equipment within its optimum performance range

The group are undertaking the Energy Savings Opportunity Scheme Phase 3 to identify further energy savings opportunities, and better understand patterns of energy consumption. The implementation of the findings of these surveys should enable further energy savings to be made in the future.

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 UK adopted international accounting standards. 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

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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 UK adopted international accounting standards 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.

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 N Fletcher
Secretary

29 September 2023



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 £500,000 to each of the group chief executive and group finance director were paid during the year. These related to the 2022 financial 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 defined benefit and defined contribution pension schemes. The defined benefit pension scheme was closed to future accrual on 31 January 2023. The group chief executive and group finance director are deferred 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.

Other benefits within the schemes are death in service lump sums, spouse's and dependant's pensions following death in service of the member and ill health early retirement when 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
29 September 2023

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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
29 September 2023

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 four 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.

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Corporate Governance

continued

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 senior independent director is leading the performance evaluation of the chairman, or the search for a new chairman. As senior independent director, 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

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). He served as company secretary (2013 – 2021). He was appointed 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.

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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 with 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.

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Corporate Governance

continued

The disclosures below were last reviewed and approved by the board on 29 September 2023.

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.

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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 and audit 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).

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 mindset 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.

James Halstead

Corporate Governance

continued

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.

James Halstead

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

Opinion on the financial statements

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 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

We have audited the financial statements of James Halstead plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 June 2023 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and the Parent Company Balance Sheets, the Consolidated and Parent Company Statement of Changes in Equity, the 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 UK adopted international accounting standards. 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Examining the Directors' business plan covering the period through to October 2024. We examined the cash flow forecasts for key judgements, verifying to source data as appropriate, as well as considering downside sensitivities to these;
- Testing their mechanical accuracy and assessing historical forecast accuracy;
- We considered the reasonableness of key assumptions and mitigating actions used by the Directors in their stress test scenarios based on our knowledge of the business; and
- Assessing the adequacy against the accounting standards of the disclosures within the financial statements relating to the Directors' assessment of the going concern basis of preparation.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

James Halstead

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

Overview

Coverage

- 88% (2022: 99%) of Group profit before tax
- 79% (2022: 90%) of Group revenue
- 81% (2022: 95%) of Group total assets

Key audit matters

	2023	2022
Inventory provisioning	✓	✓
Pension scheme assumptions	✓	✓

Materiality

Group financial statements as a whole: £2.6m (2022: £2.6m) based on 5% of profit before tax (2022: 5% of profit before tax).

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Our Group audit scope focused on the Group's principal operating locations being the United Kingdom and Germany. The operations in the United Kingdom, which were deemed to be significant components, were subject to a full scope audit given the statutory audit requirements whilst the significant component in Germany was also subject to a full scope audit to component materiality. The German component was audited by a non-BDO member firm. The remaining components of the Group were considered non-significant and these components were principally subject to analytical review procedures by the Group engagement team. In the case of the Australian component, although non-significant, it was subject to a full scope audit to component materiality by a BDO member firm.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

The German 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 with component management and auditors, and reviewed component auditor work papers.

In respect of the Australian operations, 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 component auditors and local management. Reviews of the component auditor working papers were also completed.

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) that 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.

Key audit matter – Inventory 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.

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 or written off 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.

James Halstead

How the scope of our audit 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 check it is held at the lower of cost and net realisable value, through comparison to invoices for cost and sales prices.

We also reviewed 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 method of inventory provision was inappropriate.

Key audit matter – 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 2023, the Group recorded a net retirement obligation of £1.4m (2022: £6.1m benefit), comprising scheme assets of £56.1m (2022: £69.2m) and scheme liabilities of £57.6m (2022: £63.1m).

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 and the related disclosures 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.

How the scope of our audit addressed the key audit matter

In testing the pension valuation, with the help of external pension actuarial experts, we reviewed 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.

We have tested the accuracy of the scheme asset statements by reference to service organisation control reports to gain assurance over the robustness of the provider's internal controls. Further, we have sample tested assets to third party sources in order to confirm ownership and valuation.

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. Furthermore, the disclosures made are in accordance with the relevant accounting framework.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. 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.

James Halstead

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

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements	
	2023	2022
Materiality	£2.60m	£2.60m
Basis for determining materiality	5% of profit before tax	5% of profit before tax
Performance materiality	£1.69m	£1.69m
	Parent company financial statements	
	2023	2022
Materiality	£1.82m	£1.61m
Basis for determining materiality	Based on 70% of group materiality	Based on 70% of group materiality but restricted to 5% of profit before tax.
Performance materiality	£1.18m	£1.05m

Rationale for the benchmark applied – 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.

Rationale for the percentage applied for performance materiality – 65% of the above materiality level. This is considered the appropriate basis given the multiple significant components across two geographic regions (United Kingdom and Germany), the level of misstatements in the past and our overall risk assessment.

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, apart from the Parent Company whose materiality is set out above, based on a percentage of between 50% and 75% (2022: 20% and 70%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £1.30m to £1.95m (2022: £0.52m to £1.82m). In the audit of each component, we further applied performance materiality levels of 65% (2022: 65%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £52,000 (2022: £52,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Report and Accounts 2023 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Director's report

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.

In the light of the knowledge and understanding of the Group and 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.

James Halstead

Matters on which we are required to report by exception

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

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Non-compliance with laws and regulations

Based on:

- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance;
- Obtaining an understanding of the Group's policies and procedures regarding compliance with laws and regulations;

we considered the significant laws and regulations to be the international accounting standards, the UK Companies Act 2006, the QCA Code and Group-wide taxation laws.

The Group is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be those that relate to the payment of employees; and industry related such as compliance with health and safety requirements.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

James Halstead

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

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Enquiring of management concerning potential litigations and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud to be inappropriate journal entries, revenue recognition and management bias in accounting estimates.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Involvement of forensic specialists in the audit to assess the fraud risks that have been identified above and discussed by the audit team and to challenge the audit team as to whether all aspects were appropriately considered;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the Group's defined benefit pension scheme liabilities, stock provisions (as set out in the key audit matters section above), accruals and forecasts used within impairment models utilised to assess goodwill impairment;
- Testing a sample of revenue transactions around the year end to supporting documentation (including invoice and proof of delivery) for all significant components to assess if the revenue had been recorded in the correct period;

- A critical assessment of the consolidation to check this had been prepared appropriately and consideration of manual or late journals posted at consolidation level to verify the accuracy and appropriateness of these; and
- Agreement of the financial statement disclosures to underlying supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including component engagement teams, who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. For component engagement teams, we also reviewed the result of their work performed in this regard.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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.

Stuart Wood (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, United Kingdom
29 September 2023

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

James Halstead

Consolidated Income Statement

for the year ended 30 June 2023

	Note	2023 £'000	2022 £'000
Revenue	5	303,562	291,860
Cost of sales		(188,099)	(178,355)
Gross profit		115,463	113,505
Selling and distribution costs		(53,338)	(50,316)
Administration expenses		(10,514)	(10,931)
Operating profit		51,611	52,258
Finance income	9	748	42
Finance cost	10	(260)	(237)
Profit before income tax	7	52,099	52,063
Income tax expense	11	(9,695)	(11,735)
Profit for the year attributable to equity shareholders		42,404	40,328
Earnings per ordinary share of 5p			
– basic	12	10.2p	9.7p
– diluted	12	10.2p	9.7p

All amounts relate to continuing operations.

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

James Halstead

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2023

	Note	2023 £'000	2022 £'000
Profit for the year		42,404	40,328
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	(7,237)	7,090
		(7,237)	7,090
Items that could be reclassified subsequently to the income statement if specific conditions are met:			
Foreign currency translation differences		(1,818)	926
Fair value movements on hedging instruments		(135)	(111)
		(1,953)	815
Other comprehensive income for the year net of tax		(9,190)	7,905
Total comprehensive income for the year		33,214	48,233
Attributable to:			
Equity holders of the company		33,214	48,233

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.

James Halstead

Consolidated Balance Sheet

as at 30 June 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	15	3,232	3,232
Property, plant and equipment	16	35,887	36,671
Right of use assets	17	7,164	5,634
Retirement benefit obligations	26	–	6,144
Deferred tax	18	114	234
		<u>46,397</u>	<u>51,915</u>
Current assets			
Inventories	19	87,440	112,279
Trade and other receivables	20	46,979	51,171
Derivative financial instruments	29	773	2,166
Current tax		699	–
Cash and cash equivalents	21	63,222	52,144
		<u>199,113</u>	<u>217,760</u>
Total assets		<u>245,510</u>	<u>269,675</u>
Current liabilities			
Trade and other payables	22	60,738	84,507
Derivative financial instruments	29	213	517
Current tax		422	2,097
Lease liabilities	23	2,696	2,166
		<u>64,069</u>	<u>89,287</u>
Non-current liabilities			
Retirement benefit obligations	26	1,460	–
Other payables	22	400	453
Lease liabilities	23	4,582	3,548
Preference shares	24	200	200
Deferred tax	18	585	2,929
		<u>7,227</u>	<u>7,130</u>
Total liabilities		<u>71,296</u>	<u>96,417</u>
Net assets		<u>174,214</u>	<u>173,258</u>
Equity			
Equity share capital	27	20,838	20,837
Equity share capital (B shares)	27	160	160
		<u>20,998</u>	<u>20,997</u>
Share premium account		13	–
Currency translation reserve		4,094	5,912
Hedging reserve		806	941
Retained earnings		148,303	145,408
Total equity attributable to shareholders of the parent		<u>174,214</u>	<u>173,258</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2023.

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 2023

	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 2021	10,568	4,122	1,174	4,986	1,052	134,592	156,494
Profit for the year	–	–	–	–	–	40,328	40,328
Remeasurement of the net defined benefit liability	–	–	–	–	–	7,090	7,090
Foreign currency translation differences	–	–	–	926	–	–	926
Fair value movements on hedging instruments	–	–	–	–	(111)	–	(111)
Total comprehensive income for the year	–	–	–	926	(111)	47,418	48,233
Transactions with equity shareholders							
Dividends	–	–	–	–	–	(32,298)	(32,298)
Issue of share capital	11	812	–	–	–	–	823
Bonus issue of share capital	10,418	(4,934)	(1,174)	–	–	(4,310)	–
Share based payments	–	–	–	–	–	6	6
Balance at 30 June 2022	20,997	–	–	5,912	941	145,408	173,258
Profit for the year	–	–	–	–	–	42,404	42,404
Remeasurement of the net defined benefit liability	–	–	–	–	–	(7,237)	(7,237)
Foreign currency translation differences	–	–	–	(1,818)	–	–	(1,818)
Fair value movements on hedging instruments	–	–	–	–	(135)	–	(135)
Total comprehensive income for the year	–	–	–	(1,818)	(135)	35,167	33,214
Transactions with equity shareholders							
Dividends	–	–	–	–	–	(32,298)	(32,298)
Issue of share capital	1	13	–	–	–	–	14
Share based payments	–	–	–	–	–	26	26
Balance at 30 June 2023	20,998	13	–	4,094	806	148,303	174,214

James Halstead

Consolidated Cash Flow Statement

for the year ended 30 June 2023

	2023	2022
	£'000	£'000
Profit for the year attributable to equity shareholders	42,404	40,328
Income tax expense	9,695	11,735
Profit before income tax	52,099	52,063
Finance cost	260	237
Finance income	(748)	(42)
Operating profit	51,611	52,258
Depreciation of property, plant and equipment	3,461	3,794
Depreciation of right of use assets	3,060	3,139
Profit on sale of property, plant and equipment	(84)	(198)
Defined benefit pension scheme service cost	178	500
Defined benefit pension scheme employer contributions paid	(1,942)	(1,970)
Changes in fair value of financial instruments	(776)	703
Share based payments expense	26	6
Decrease/(increase) in inventories	22,966	(50,272)
Decrease/(increase) in trade and other receivables	3,031	(7,451)
(Decrease)/increase in trade and other payables	(20,365)	15,905
Cash inflow from operations	61,166	16,414
Taxation paid	(11,900)	(9,879)
Cash inflow from operating activities	49,266	6,535
Interest received	467	42
Purchase of property, plant and equipment	(2,854)	(3,248)
Proceeds from disposal of property, plant and equipment	134	280
Cash outflow from investing activities	(2,253)	(2,926)
Interest paid	(36)	(20)
Lease interest paid	(224)	(143)
Lease capital paid	(3,015)	(3,233)
Equity dividends paid	(32,298)	(32,298)
Shares issued	14	823
Cash outflow from financing activities	(35,559)	(34,871)
Net increase/(decrease) in cash and cash equivalents	11,454	(31,262)
Effect of exchange differences on cash and cash equivalents	(376)	145
Cash and cash equivalents at start of year	52,144	83,261
Cash and cash equivalents at end of year	63,222	52,144

James Halstead

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 UK adopted international accounting standards. 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 (being 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 forecasts cover the next two financial years. The group has no net borrowings and owns the freeholds on many of its premises (the most significant being four UK operating sites and two sites in Germany).

After considering current trading, forward forecasts and scenario planning the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the group has adequate resources to continue in operational existence and meet its liabilities as they fall due for the foreseeable future. The directors have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least one year from when the financial statements are authorised for issue. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Recent accounting developments

The financial statements are prepared in accordance with UK adopted international accounting 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.

Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Annual Improvements to IFRS, (2018-2020 Cycle): IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41

There were no new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these financial statements, which will or may have an effect on the group's future financial statements. The directors continue to assess any accounting developments which could have a material effect 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. The financial statements of subsidiaries are adjusted to bring them into line with the group's accounting policies as required.

James Halstead

2. Accounting policies (continued)

Segment reporting

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

Foreign currencies

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

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

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

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

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

Intangible assets

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



Notes to the Consolidated Financial Statements

continued

2. Accounting policies (continued)

Taxation

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

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

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

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

Deferred income tax assets and liabilities are undiscounted.

Share-based payments

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

Inventories

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

Financial assets and liabilities

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

Trade and other receivables

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

James Halstead

2. Accounting policies (continued)

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 defined contribution pension schemes and a defined benefit pension scheme for certain of its United Kingdom 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 in the income statement at the earlier of when the plan amendment or curtailment occurs or when the group recognises related restructuring costs or termination benefits. 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 obligations are recognised in the period in which they arise in other comprehensive income. A net defined benefit obligations asset is recognised to the extent that the group can realise an economic benefit from that asset.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment except for land which is stated at cost less any impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset. 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.

The right of use asset is stated at cost being lease payments, reduced for any lease incentives received, and increased for any lease payments made at or before commencement of the lease, initial direct costs incurred and the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset.

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.



Notes to the Consolidated Financial Statements

continued

2. Accounting policies (continued)

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. Control passes to the customer at the point terms of despatch are met, which is generally when the goods are delivered to the customer. There is limited judgement needed in identifying the point control passes: once physical delivery of the products to the agreed location has occurred, the group no longer has physical possession, usually will have a present right to payment (as a single payment on delivery) and retains none of the significant risks and rewards of the goods. 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.

Grants

Grants that compensate for expenses are recognised in the income statement in the same period and category in which the expenses are recognised.

Dividends

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

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 in equity through other comprehensive income, 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.

James Halstead

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.

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.



Notes to the Consolidated Financial Statements

continued

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:

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. The effect on the income statement of the movements in inventory write-downs is provided in note 19.

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, 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.

James Halstead

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 £56,887,000 (2022: £62,553,000) and assets in Germany of £9,426,000 (2022: £9,016,000).

	2023	2022
	£'000	£'000
Revenue		
United Kingdom	117,447	110,612
Europe and Scandinavia	116,261	121,109
Australasia and Asia	40,915	38,021
Rest of the World	28,939	22,118
	<u>303,562</u>	<u>291,860</u>
	2023	2022
	£'000	£'000
Non-current assets		
United Kingdom	29,689	30,018
Europe and Scandinavia	10,961	10,544
Australasia and Asia	5,619	4,870
Rest of the World	14	105
	<u>46,283</u>	<u>45,537</u>
Total segment assets		
Retirement benefit obligations	–	6,144
Deferred tax assets	114	234
	<u>46,397</u>	<u>51,915</u>

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

6. Employee profit share

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

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

James Halstead

Notes to the Consolidated Financial Statements

continued

7. Profit before income tax

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

	2023 £'000	2022 £'000
Depreciation of property, plant and equipment	3,461	3,794
Depreciation of right of use assets	3,060	3,139
Profit on disposal of property, plant and equipment	(84)	(198)
Research and development	1,533	1,549
Government grant income for business support UK and overseas	–	(112)
Fees payable to the group's auditor for the audit of the parent company and consolidated financial statements	100	55
Fees payable to the group's auditor and its associates for other services: The audit of the group's subsidiaries pursuant to legislation	247	148

8. Staff costs and numbers

	2023 £'000	2022 £'000
Staff costs comprised:		
Wages and salaries	39,036	37,092
Social security costs	4,990	4,564
Pension costs – defined benefit scheme	178	500
– defined contribution schemes	1,096	907
Share based payments expense	26	6
	<u>45,326</u>	<u>43,069</u>

The average monthly number of employees during the year was:

	2023 Number	2022 Number
Manufacturing, selling and distribution	692	654
Administration	168	165
	<u>860</u>	<u>819</u>

The directors' remuneration was:

	2023 £'000	2022 £'000
Salary or fees	1,047	1,004
Bonuses	1,000	1,000
Benefits	20	25
Total remuneration excluding pension contributions	<u>2,067</u>	<u>2,029</u>
Pension contributions	–	25
	<u>2,067</u>	<u>2,054</u>
Social security costs related to this remuneration	<u>287</u>	<u>272</u>

There were no directors accruing benefits in the defined benefit scheme (2022: one).

There were no directors in the defined contribution schemes.

9. Finance income

	2023 £'000	2022 £'000
Bank deposit interest	455	36
Other interest	12	6
	<u>467</u>	<u>42</u>
Net pension interest income	281	–
Finance income	<u>748</u>	<u>42</u>

10. Finance cost

	2023 £'000	2022 £'000
Other interest	25	9
Preference share dividend	11	11
	<u>36</u>	<u>20</u>
Lease interest	224	143
Net pension interest cost	–	74
Finance cost	<u>260</u>	<u>237</u>

11. Income tax expense

	2023 £'000	2022 £'000
Current tax		
UK current year	8,522	7,573
UK adjustments in respect of prior years	(1,540)	(516)
UK total	<u>6,982</u>	<u>7,057</u>
Overseas	2,534	3,737
	<u>9,516</u>	<u>10,794</u>
Deferred tax		
Current year temporary differences	746	565
Current year tax rate difference	139	137
Adjustments in respect of prior years	(706)	239
	<u>179</u>	<u>941</u>
Total taxation	<u>9,695</u>	<u>11,735</u>

The effective tax rate for the year to 30 June 2023 is lower (2022: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £'000	2022 £'000
Profit before tax	<u>52,099</u>	<u>52,063</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20.5% (2022: 19%)	10,680	9,892
Effects of:		
Adjustments to tax in respect of prior periods	(2,246)	(277)
Overseas tax rates	1,039	1,659
Disallowable items	83	324
Deferred tax rate difference	139	137
Total taxation	<u>9,695</u>	<u>11,735</u>

In addition to the amounts above £2,412,000 has been credited (2022: £2,015,000 charged) 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.

The UK corporation tax rate changed to 25% from 1 April 2023. The UK deferred tax balances at 30 June 2023 were measured at 25%.

James Halstead

Notes to the Consolidated Financial Statements

continued

12. Earnings per share

	2023	2022
	£'000	£'000
Profit for the year attributable to equity shareholders	42,404	40,328
Weighted average number of shares in issue	416,752,764	416,586,675
Dilution effect of outstanding share options	21,390	201,425
Diluted weighted average number of shares	416,774,154	416,788,100
Basic earnings per 5p ordinary share	10.2p	9.7p
Diluted earnings per 5p ordinary share	10.2p	9.7p

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

13. Dividends

	2023	2022
	£'000	£'000
Equity dividends		
Final dividend for previous year of 5.50p (2022: 11.00p)	22,921	22,921
Interim dividend for current year of 2.25p (2022: 2.25p)	9,377	9,377
Amounts recognised as distributions to equity shareholders in the year	32,298	32,298

A final dividend of 5.75p per share for the year ended 30 June 2023, amounting to £23,963,000 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 £36,226,000 (2022: £30,797,000). The aggregate amount of directors' emoluments excluding pension contributions was £2,067,000 (2022: £2,029,000) of which the highest paid director's emoluments were £994,000 (2022: £978,000). The directors' salaries or fees for the year ended 30 June 2023 were Mr J A Wild £40,000 (2022: £40,000), Mr M Halstead £485,000 (2022: £463,000), Mr G R Oliver £457,000 (2022: £436,000), Mr S D Hall £25,000 (2022: £25,000), Mr M J Halstead £20,000 (2022: £20,000) and Mr R P Whiting £20,000 (2022: £20,000).

James Halstead

15. Intangible assets

	Goodwill £'000
Cost and net book value at 30 June 2021, 2022 and 2023	3,232

An impairment review of goodwill was done by reference to value in use. Value in use was determined using conservative five year plus terminal value cash flow projections, based on current levels of profitability and assumed conservative growth rates of 5% (2022: 0% to 5%) and discount rates of 7% (2022: 7% to 11%). The result of the review indicated that no impairment was required with no reasonable sensitivities indicating an impairment.

16. Property, plant and equipment

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 30 June 2021	28,042	75,730	103,772
Additions	311	2,937	3,248
Disposals	–	(783)	(783)
Exchange differences	27	119	146
At 30 June 2022	28,380	78,003	106,383
Additions	–	2,854	2,854
Disposals	–	(713)	(713)
Transfer	(133)	133	–
Exchange differences	(31)	(286)	(317)
At 30 June 2023	28,216	79,991	108,207
Depreciation			
At 30 June 2021	11,054	55,476	66,530
Charge for the year	676	3,118	3,794
Disposals	–	(701)	(701)
Exchange differences	13	76	89
At 30 June 2022	11,743	57,969	69,712
Charge for the year	686	2,775	3,461
Disposals	–	(663)	(663)
Exchange differences	(15)	(175)	(190)
At 30 June 2023	12,414	59,906	72,320
Net book value			
At 30 June 2021	16,988	20,254	37,242
At 30 June 2022	16,637	20,034	36,671
At 30 June 2023	15,802	20,085	35,887

James Halstead

Notes to the Consolidated Financial Statements

continued

17. Right of use assets

	Land and buildings £'000	Motor vehicles £'000	Total £'000
Cost			
At 30 June 2021	9,088	2,238	11,326
Additions	2,625	16	2,641
Disposals	(1,142)	(134)	(1,276)
Exchange differences	250	1	251
At 30 June 2022	10,821	2,121	12,942
Additions	4,322	973	5,295
Disposals	(5,115)	(1,212)	(6,327)
Exchange differences	(451)	–	(451)
At 30 June 2023	9,577	1,882	11,459
Depreciation			
At 30 June 2021	4,448	863	5,311
Charge for the year	2,503	636	3,139
Disposals	(1,142)	(134)	(1,276)
Exchange differences	131	3	134
At 30 June 2022	5,940	1,368	7,308
Charge for the year	2,465	595	3,060
Disposals	(5,040)	(892)	(5,932)
Exchange differences	(140)	(1)	(141)
At 30 June 2023	3,225	1,070	4,295
Net book value			
At 30 June 2021	4,640	1,375	6,015
At 30 June 2022	4,881	753	5,634
At 30 June 2023	6,352	812	7,164

James Halstead

18. Deferred tax assets and liabilities

	2023	2022
	£'000	£'000
Deferred tax assets	114	234
Deferred tax liabilities	(585)	(2,929)
	<u>(471)</u>	<u>(2,695)</u>

	Retirement benefit obligations	Accelerated tax depreciation	Other timing differences	Total
	£'000	£'000	£'000	£'000
At 30 June 2021	828	(1,709)	1,135	254
Credited/(charged) to income statement	(349)	(87)	(505)	(941)
Charged to other comprehensive income	(2,015)	–	–	(2,015)
Exchange differences	–	–	7	7
At 30 June 2022	(1,536)	(1,796)	637	(2,695)
Credited/(charged) to income statement	(511)	(529)	861	(179)
Credited to other comprehensive income	2,412	–	–	2,412
Exchange differences	–	–	(9)	(9)
At 30 June 2023	365	(2,325)	1,489	(471)

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

	2023	2022
	£'000	£'000
Raw materials and consumables	7,437	8,161
Work in progress	2,883	2,258
Finished goods	77,120	101,860
	<u>87,440</u>	<u>112,279</u>
Opening balance	112,279	60,684
(Decrease)/increase in inventories	(22,966)	50,272
Exchange differences	(1,873)	1,323
Closing balance	<u>87,440</u>	<u>112,279</u>

An amount of £3,868,000 has been charged (2022: £1,283,000 charged) to the income statement in respect of movements in inventory write-downs. The cost of inventory recognised as an expense was £188,099,000 (2022: £178,355,000).

James Halstead

Notes to the Consolidated Financial Statements

continued

20. Trade and other receivables

	2023 £'000	2022 £'000
Trade receivables	42,941	46,734
Other receivables	1,373	1,781
Prepayments	2,665	2,656
	<u>46,979</u>	<u>51,171</u>
Opening balance	51,171	42,949
(Decrease)/increase in trade and other receivables	(3,031)	7,451
Exchange differences	(1,161)	771
Closing balance	<u>46,979</u>	<u>51,171</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 £1,911,000 (2022: £1,820,000). 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:

	2023 £'000	2022 £'000
Opening balance	1,820	1,746
Debts written off	(28)	(135)
Charged to income statement	138	197
Exchange differences	(19)	12
Closing balance	<u>1,911</u>	<u>1,820</u>

	Loss rate 2023 %	Gross 2023 £'000	Provision 2023 £'000	Loss rate 2022 %	Gross 2022 £'000	Provision 2022 £'000
Not past due	1	28,189	374	2	34,143	541
Up to three months past due	5	15,822	777	5	13,736	651
Over three months past due	90	841	760	93	675	628
		<u>44,852</u>	<u>1,911</u>		<u>48,554</u>	<u>1,820</u>

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

	2023 £'000	2022 £'000
Sterling	21,512	22,896
Euro	10,803	13,985
Australian Dollar	3,376	3,650
New Zealand Dollar	1,335	844
Canadian Dollar	993	792
Norwegian Krone	1,195	977
US Dollar	3,750	3,818
Other currencies	1,350	1,553
Total	<u>44,314</u>	<u>48,515</u>

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:

	2023 £'000	2022 £'000
Sterling	46,500	29,483
Euro	7,000	3,533
Australian Dollar	866	2,023
New Zealand Dollar	441	599
Canadian Dollar	1,159	1,396
Norwegian Krone	584	335
US Dollar	4,667	13,223
Other currencies	2,005	1,552
Total	63,222	52,144

22. Trade and other payables

	2023 £'000	2022 £'000
Amounts falling due within one year		
Trade payables	40,267	61,466
Value added, payroll and other taxes	4,974	5,565
Other payables	2,314	1,355
Accruals	13,183	16,121
	60,738	84,507
Amounts falling due after more than one year		
Other payables	400	453
	61,138	84,960
Opening balance	84,960	65,998
(Decrease)/increase in trade and other payables	(20,365)	15,905
Exchange differences	(3,457)	3,057
Closing balance	61,138	84,960

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

23. Lease liabilities

	2023 £'000	2022 £'000
Opening balance	5,714	6,184
Leases started	5,295	2,641
Leases cancelled	(395)	–
Lease interest	224	143
Lease payments	(3,239)	(3,376)
Exchange differences	(321)	122
Closing balance	7,278	5,714
Amounts payable in less than one year	2,696	2,166
Amounts payable in more than one year	4,582	3,548
	7,278	5,714

All amounts are payable within five years.

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Notes to the Consolidated Financial Statements

continued

24. Preference shares

	2023	2022
	£'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. The fair value of the preference shares was not materially different from their book value.

25. Net funds analysis

	Cash and cash equivalents £'000	Lease liabilities £'000	Preference shares £'000	Net funds £'000
At 30 June 2021	83,261	(6,184)	(200)	76,877
Cash flow	(31,262)	3,376	–	(27,886)
Other changes	–	(2,784)	–	(2,784)
Exchange differences	145	(122)	–	23
At 30 June 2022	52,144	(5,714)	(200)	46,230
Cash flow	11,454	3,239	–	14,693
Other changes	–	(5,124)	–	(5,124)
Exchange differences	(376)	321	–	(55)
At 30 June 2023	63,222	(7,278)	(200)	55,744

26. Retirement benefit obligations

In the UK the group operates a defined benefit pension scheme which was closed to new members in 2002 and to future accrual in 2023. Executive directors Mr M Halstead and Mr G R Oliver are deferred members of the defined benefit scheme and their employer pension contributions for the year were £nil (2022: £25,000) and £nil (2022: nil) respectively. At 30 June 2023 the accrued pension for the highest paid director was £131,000 (2022: £131,000) and the transfer value of this accrued benefit was £2,203,000 (2022: £2,557,000).

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.

The scheme closed to future accrual with effect from 31 January 2023. At this point former active members of the scheme stopped paying contributions.

Before 31 January 2023 active members of the scheme paid 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. Furthermore, the scheme's investments are designed to hedge against some of these risks.

All of the scheme's assets are held in quoted funds with the exception of the cash balance in the trustees' bank account.

The scheme's investment strategy is to invest broadly 80% in return seeking assets and 20% in matching assets. This strategy reflects the scheme's liability profile and the trustees' attitude to risk.

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26. Retirement benefit obligations (continued)

The trustees' investment strategy includes investing in liability driven investment, the value of which will increase with decreases in interest rates and/or increases in future inflation expectations. The scheme's assets are hedged to around 90% of interest rate and inflation risk as at the year end. The investment strategy is reviewed regularly by the trustees in consultation with the company.

The scheme's growth assets are also expected to provide protection from inflation over the long term. Note that the scheme hedges interest rate risk on a gilts basis, whereas AA corporate bonds are used to set the IAS19 discount rate and so there is potential for the IAS19 position to diverge from the trustees' strategic target should yields on gilts and corporate bonds diverge.

The scheme does not directly hold any financial derivatives but invests in funds which hold the derivatives required to hedge the scheme's interest rate, inflation and currency risks. The main risks associated with financial derivatives include: losses may exceed the initial margin, counterparty risk, and liquidity risk. These risks are managed by the monitoring of investment managers to ensure they have reasonable levels of market exposure relative to initial margin and positions are fully collateralised on a regular basis.

The scheme is subject to regular actuarial valuations, which must be carried out at least 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.

An actuarial valuation was carried out as at 31 August 2022. The results of that valuation have been projected forward to 30 June 2023 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.

At 30 June 2022 the scheme was in surplus as measured under the principles of IAS19. Under the accounting standard an entity is allowed to recognise a pension scheme surplus on its balance sheet to the extent that it is able to realise an economic benefit from that surplus.

The directors have reviewed the rules of the scheme and have concluded that the company can gain full economic benefit from the scheme on the basis that the rules provide it access to any surplus after the last member has no further benefits in the scheme (referred to in the standard as gradual settlement). Furthermore, the rules are such that the trustees are not able to take any actions that would reduce the accounting surplus, such as benefit augmentations or triggering a scheme wind-up, without the company's action or consent.

	2023	2022
Principal actuarial assumptions at the balance sheet date		
Discount rate at end of year	5.50%	4.00%
Future salary increases	2.65%	2.45%
Future pension increases	3.10%	2.95%
Rate of inflation – RPI	3.25%	3.05%
– CPI	2.65%	2.45%
Future expected lifetime of current pensioner at age 65:		
Male born in 1958	21.0 years	21.0 years
Female born in 1958	23.4 years	23.4 years
Future expected lifetime of future pensioner at age 65:		
Male born in 1978	22.4 years	22.3 years
Female born in 1978	24.9 years	24.9 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 £0.6m
Rate of inflation	Increase by 0.1%	Increase by £0.4m
Expected lifetime	Increase by 1 year	Increase by £2.0m

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.

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Notes to the Consolidated Financial Statements

continued

26. Retirement benefit obligations (continued)

	2023	2022
	£'000	£'000
Amounts recognised in the balance sheet		
Present value of funded obligations	(57,609)	(63,092)
Fair value of scheme assets	56,149	69,236
Net (liability)/asset before deferred taxation	(1,460)	6,144
Related deferred tax asset/(liability)	365	(1,536)
Net (liability)/asset after deferred taxation	(1,095)	4,608
	2023	2022
	£'000	£'000
Amounts recognised in the income statement		
Current service cost	(178)	(500)
Net interest income/(cost)	281	(74)
	103	(574)
	2023	2022
	£'000	£'000
Amounts recognised in other comprehensive income		
Return on assets excluding amount included in net interest cost	(14,236)	(8,553)
Gain arising from changes in financial assumptions	5,207	18,303
Loss arising from changes in demographic assumptions	(230)	–
Experience loss	(390)	(645)
	(9,649)	9,105
Deferred tax	2,412	(2,015)
Remeasurement of the net defined benefit liability	(7,237)	7,090
The actual return on the scheme assets in the year was a £11,498,000 loss (2022: £6,980,000 loss).		
	2023	2022
	£'000	£'000
Changes in the present value of the scheme assets		
Opening fair value of scheme assets	69,236	77,265
Interest income	2,738	1,573
Return on assets excluding interest income	(14,236)	(8,553)
Employer contributions	1,942	1,970
Employee contributions	88	152
Benefits paid	(3,619)	(3,171)
Closing fair value of scheme assets	56,149	69,236
	2023	2022
	£'000	£'000
Changes in the present value of the scheme obligations		
Opening defined benefit obligations	(63,092)	(81,622)
Service cost	(178)	(500)
Interest cost	(2,457)	(1,647)
Employee contributions	(88)	(152)
Gain arising from changes in financial assumptions	5,207	18,303
Loss arising from changes in demographic assumptions	(230)	–
Experience loss	(390)	(645)
Benefits paid	3,619	3,171
Closing defined benefit obligations	(57,609)	(63,092)

26. Retirement benefit obligations (continued)

	2023 £'000	2022 £'000
Changes in the net defined benefit (liability)/asset		
Opening net defined benefit asset/(liability)	6,144	(4,357)
Service cost	(178)	(500)
Net interest income/(cost)	281	(74)
Return on assets excluding interest income	(14,236)	(8,553)
Gain arising from changes in financial assumptions	5,207	18,303
Loss arising from changes in demographic assumptions	(230)	–
Experience loss	(390)	(645)
Employer contributions	1,942	1,970
Closing net defined benefit (liability)/asset	(1,460)	6,144
Major categories of scheme assets		
	2023 £'000	2022 £'000
Diversified growth fund	42,244	55,154
Liability driven assets	13,485	6,256
Cash	420	7,826
Total market value of assets	56,149	69,236

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

Scheme liabilities by category of membership

	2023 £'000	2022 £'000
Active members	11,700	22,559
Deferred pensioners	14,523	7,883
Pensions in payment	31,386	32,650
	57,609	63,092

Average duration of scheme liabilities

	2023 years	2022 years
Active members	15	15
Deferred pensioners	12	16
Pensions in payment	9	9
All scheme liabilities	11	12

Company contributions of £2,048,000 are expected to be paid into the scheme during the year ended 30 June 2024.

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Notes to the Consolidated Financial Statements

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27. Share capital

Ordinary shares – allotted, issued and fully paid	2023 Number	2022 Number	2023 £'000	2022 £'000
Opening ordinary shares of 5p each	416,744,052	208,159,916	20,837	10,408
Ordinary shares of 5p each issued	10,000	212,110	1	11
Ordinary shares of 5p each bonus issue	–	208,372,026	–	10,418
Closing ordinary shares of 5p each	416,754,052	416,744,052	20,838	20,837
Ordinary B shares of 1p each	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			20,998	20,997

The ordinary shares of 5p each were issued during the year for a consideration of £14,000 (2022: £823,000).

The issued share capital was increased by a bonus issue of one fully paid ordinary share for each fully paid ordinary share held on the register at 14 January 2022.

The preference shares detailed below are included as financial instruments within creditors. Full details of these are given in note 11 of the financial statements of the company.

	2023 £'000	2022 £'000
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

Ordinary shares under option

Under the terms of the executive share option scheme approved on 3 December 1998, share options were granted and exercised during the year. The share options outstanding are as follows:

	Date of grant	Date exercisable	Date of expiry	Exercise price (pence)	Number 30.06.22	Exercised in the year	Granted (lapsed) in the year	Number 30.06.23
M Halstead	21 Jul 14	21 Jul 17	20 Jul 24	135.145	17,802	–	–	17,802
	12 Jun 17	12 Jun 20	11 Jun 27	238.250	100,000	–	–	100,000
	18 Oct 18	18 Oct 21	17 Oct 28	195.415	120,000	–	–	120,000
	10 Aug 22	10 Aug 25	9 Aug 32	206.000	–	–	100,000	100,000
G R Oliver	21 Jul 14	21 Jul 17	20 Jul 24	135.145	24,582	(10,000)	–	14,582
	12 Jun 17	12 Jun 20	11 Jun 27	238.250	100,000	–	–	100,000
	18 Oct 18	18 Oct 21	17 Oct 28	195.415	120,000	–	–	120,000
	10 Aug 22	10 Aug 25	9 Aug 32	206.000	–	–	100,000	100,000
Total – directors					482,384	(10,000)	200,000	672,384
Employees	12 Jun 17	12 Jun 20	11 Jun 27	238.250	340,000	–	–	340,000
	22 Dec 17	22 Dec 20	21 Dec 27	218.040	40,000	–	–	40,000
	18 Oct 18	18 Oct 21	17 Oct 28	195.415	235,780	–	(830)	234,950
	4 Oct 21	4 Oct 24	3 Oct 31	262.665	690,000	–	(80,000)	610,000
	27 Jun 22	27 Jun 25	26 Jun 31	205.330	20,000	–	–	20,000
	10 Aug 22	10 Aug 25	9 Aug 32	206.000	–	–	830,000	830,000
Total – employees					1,325,780	–	749,170	2,074,950
Grand total					1,808,164	(10,000)	949,170	2,747,334

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27. Share capital (continued)

The market price of the shares at 30 June 2023 was 211p (2022: 203p). The share price during the year ranged from 176p to 222p.

Directors exercised 10,000 (2022: nil) share options during the year. Aggregate gains on exercising the share options by directors in the year amounted to £7,000 (2022: £nil) of which £nil (2022: £nil) related to the highest paid director.

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

	Number of options	Weighted average exercise price
At 30 June 2021	1,522,384	209p
Exercised in the year	(424,220)	194p
Granted in the year	710,000	261p
At 30 June 2022	<u>1,808,164</u>	231p
Exercised in the year	(10,000)	135p
Lapsed in the year	(80,830)	262p
Granted in the year	1,030,000	206p
At 30 June 2023	<u>2,747,334</u>	222p

At 30 June 2023 there were 1,087,334 (2022: 1,098,164) share options exercisable at a weighted average exercise price of 217p (2023: 215p).

The weighted average remaining contractual life of share options outstanding at 30 June 2023 was 7.1 years (2022: 7.0 years).

Share based payments

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

An expense based on the fair value calculated at the date of grant was recognised in the income statement over the vesting period of the options. The share based payment expense for the year ended 30 June 2023 was £26,000 (2022: £6,000).

The inputs into the Black Scholes model for the share options granted in the year were as follows:

Expected life of option	3.5 years
Expected share price volatility	20.0%
Expected dividend yield	4.0%
Risk free interest rate	0.9%
Exercise price	206p

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Notes to the Consolidated Financial Statements

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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.

The share premium account and capital redemption reserve were utilised in paying up at par the new ordinary shares issued for the bonus issue on 14 January 2022.

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:

	2023 Book value £'000	2023 Fair value £'000	2022 Book value £'000	2022 Fair value £'000
Current:				
Trade and other receivables	44,314	44,314	48,515	48,515
Forward exchange contracts	773	773	2,166	2,166
Cash and cash equivalents	63,222	63,222	52,144	52,144
Trade and other payables	(55,764)	(55,764)	(78,942)	(78,942)
Forward exchange contracts	(213)	(213)	(517)	(517)
Lease liabilities	(2,696)	(2,696)	(2,166)	(2,166)
Total	49,636	49,636	21,200	21,200
Non-current:				
Other payables	(400)	(400)	(453)	(453)
Lease liabilities	(4,582)	(4,582)	(3,548)	(3,548)
Preference shares	(200)	(200)	(200)	(200)
Total	(5,182)	(5,182)	(4,201)	(4,201)

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.

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.

	2023 £'000	2022 £'000
Forward exchange contracts at fair value through profit and loss account	2	24
Forward exchange contracts at fair value through hedging reserve	558	1,625
	560	1,649

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 £370,000 (2022: £239,000). 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.

	2023 Post-tax profits £'000	2023 Equity £'000	2022 Post-tax profits £'000	2022 Equity £'000
Euro 5% stronger against sterling	16	16	36	36
Euro 5% weaker against sterling	(15)	(15)	(32)	(32)

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Notes to the Consolidated Financial Statements

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31. Group companies

At 30 June 2023, the trading subsidiaries of the group and the proportion of ordinary share capital owned 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
Polyflor (M) SDN BHD	Flooring distribution	Malaysia	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
Polyflor Nordic Sweden 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.

32. Exchange rates

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

	2023 Closing	2023 Average	2022 Closing	2022 Average
Euro	1.17	1.15	1.16	1.18
Australian dollar	1.91	1.79	1.77	1.83
New Zealand dollar	2.08	1.95	1.95	1.96
Canadian dollar	1.68	1.61	1.57	1.68
Swedish krona	13.73	12.70	12.44	12.18
Indian rupee	104.30	98.17	95.91	100.05
Malaysian ringgit	5.93	5.40	5.35	5.62
UAE dirham	4.67	4.42	4.46	4.89

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 £265,000 (2022 £41,000) and the outstanding lease commitments at 30 June 2023 were £126,000 (2022: £128,000).

James Halstead

Company Balance Sheet

as at 30 June 2023

	Note	2023 £'000	2022 £'000
Fixed assets			
Tangible fixed assets	3	4,077	4,291
Investments	4	40,982	40,152
		<u>45,059</u>	<u>44,443</u>
Current assets			
Debtors due within one year	5	53,244	63,042
Debtors due after one year	5	132	–
Retirement benefit obligations	10	–	6,144
Total debtors		<u>53,376</u>	<u>69,186</u>
Derivative financial instruments	7	773	2,166
Cash at bank and in hand		<u>51,389</u>	<u>41,171</u>
Total current assets		105,538	112,523
Creditors due within one year	8	(9,639)	(11,063)
Derivative financial instruments	7	(213)	(517)
Net current assets		<u>95,686</u>	<u>100,943</u>
Total assets less current liabilities		140,745	145,386
Creditors due after more than one year	9	(200)	(200)
Provision for liabilities	6	–	(1,765)
Retirement benefit obligations	10	(1,460)	–
Net assets		<u>139,085</u>	<u>143,421</u>
Capital and reserves			
Equity share capital		20,838	20,837
Equity share capital (B shares)		160	160
Called up share capital	11	20,998	20,997
Share premium account		13	–
Hedging reserve		558	1,625
Profit and loss account		<u>117,516</u>	<u>120,799</u>
Total shareholders' funds		<u>139,085</u>	<u>143,421</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 £36,226,000 (2022: £30,797,000).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 29 September 2023.

M Halstead
Director

G R Oliver
Director

James Halstead plc Registration Number 140269



Company Statement of Changes in Equity

for the year ended 30 June 2023

	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 2021	10,568	4,122	1,174	749	119,514	136,127
Profit for the year	–	–	–	–	30,797	30,797
Remeasurement of the net defined benefit liability	–	–	–	–	7,090	7,090
Fair value movements on hedging instruments	–	–	–	876	–	876
Total comprehensive income for the year	–	–	–	876	37,887	38,763
Transactions with equity shareholders						
Dividends	–	–	–	–	(32,298)	(32,298)
Issue of share capital	11	812	–	–	–	823
Bonus issue of share capital	10,418	(4,934)	(1,174)	–	(4,310)	–
Share based payments	–	–	–	–	6	6
Balance at 30 June 2022	20,997	–	–	1,625	120,799	143,421
Profit for the year	–	–	–	–	36,226	36,226
Remeasurement of the net defined benefit liability	–	–	–	–	(7,237)	(7,237)
Fair value movements on hedging instruments	–	–	–	(1,067)	–	(1,067)
Total comprehensive income for the year	–	–	–	(1,067)	28,989	27,922
Transactions with equity shareholders						
Dividends	–	–	–	–	(32,298)	(32,298)
Issue of share capital	1	13	–	–	–	14
Share based payments	–	–	–	–	26	26
Balance at 30 June 2023	20,998	13	–	558	117,516	139,085

James Halstead

Notes to the Company Financial Statements

1. Accounting policies

Basis of preparation

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

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

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.



Notes to the Company Financial Statements

continued

2. Staff costs and numbers

	2023 £'000	2022 £'000
Staff costs comprised:		
Wages and salaries	3,433	3,493
Social security costs	458	472
Pension costs	94	98
Share based payments expense	26	6
	4,011	4,069

The average monthly number of employees during the year was 23 (2022: 22).

3. Tangible fixed assets

	Investment land and buildings £'000	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
At 30 June 2022	8,091	1,326	596	10,013
Disposals	–	–	(18)	(18)
At 30 June 2023	8,091	1,326	578	9,995
Depreciation				
At 30 June 2022	4,954	350	418	5,722
Charge for the year	160	24	30	214
Disposals	–	–	(18)	(18)
At 30 June 2023	5,114	374	430	5,918
Net book value				
At 30 June 2023	2,977	952	148	4,077
At 30 June 2022	3,137	976	178	4,291

The investment land and buildings relates to a freehold property that is occupied by a subsidiary company. The rental income was £600,000 (2022: £600,000).

4. Investments

	Shares in subsidiary undertakings £'000
Cost	
At 30 June 2022	49,552
At 30 June 2023	49,552
Provision for impairment	
At 30 June 2022	9,400
Provision reduced in the year	(830)
At 30 June 2023	8,570
Net book value	
At 30 June 2023	40,982
At 30 June 2022	40,152

The provision for impairment of the investment in Titan Leisure Group Limited was reduced in the year.

At 30 June 2023, 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	Dormant company	England	100
Halstead Flooring International Limited	Dormant company	England	100
Expona Limited	Dormant company	England	100
JHL 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
Polyflor (M) SDN BHD	Flooring distribution	Malaysia	100
Polyflor North Asia Limited	Dormant company	Hong Kong	100
Objectflor Art und Design Belags GmbH	Flooring distribution	Germany	100
James Halstead France SAS	Flooring distribution	France	100
Polyflor Nordic Sweden AB	Flooring distribution	Sweden	100
Owned by subsidiaries			
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

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Notes to the Company Financial Statements

continued

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
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
Polyflor (M) SDN BHD	802, 8th Floor, Block C
	Kelana Square
	17 Jalan 557/26
	Petaling Jaya
	Salangor 47301
	Malaysia
Polyflor North Asia Limited	Units 1607-8
	16th floor
	Citicorp Centre
	18 Whitfield Road
	Causeway Bay
	Hong Kong
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
Polyflor Nordic Sweden AB	Box 102 51
	434 23 Kungsbacka
	Besöksadress
	Energigatan 9
	Sweden
Polyflor New Zealand Limited	2 Narek Place
	Manukau City
	Auckland 2104
	New Zealand

5. Debtors

	2023 £'000	2022 £'000
Trade debtors	–	172
Amounts owed by group undertakings	53,081	62,084
Corporation tax	–	544
Other debtors	72	86
Prepayments	91	156
Debtors due within one year	53,244	63,042
Deferred tax assets (note 6)	132	–
Debtors due after one year	132	–

6. Deferred tax assets/(liabilities)

	Retirement benefit obligations £'000	Accelerated tax depreciation £'000	Total £'000
At 30 June 2022	(1,536)	(229)	(1,765)
Charged to income statement	(511)	(4)	(515)
Credited to other comprehensive income	2,412	–	2,412
At 30 June 2023	365	(233)	132

7. Derivative financial instruments

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

8. Creditors due within one year

	2023 £'000	2022 £'000
Trade creditors	136	370
Amounts due to group undertakings	6,631	6,631
Other taxation and social security	125	122
Other creditors	414	427
Accruals	2,333	3,513
	9,639	11,063

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Notes to the Company Financial Statements

continued

9. Creditors due after more than one year

	2023	2022
	£'000	£'000
Preference shares (note 11)	200	200

10. Retirement benefit obligations

	2023	2022
	£'000	£'000
Present value of funded obligations	(57,609)	(63,092)
Fair value of scheme assets	56,149	69,236
Net (liability)/asset	(1,460)	6,144

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	2023	2022	2023	2022
	Number	Number	£'000	£'000
Opening ordinary shares of 5p each	416,744,052	208,159,916	20,837	10,408
Ordinary shares of 5p each issued	10,000	212,110	1	11
Ordinary shares of 5p each bonus issue	–	208,372,026	–	10,418
Closing ordinary shares of 5p each	416,754,052	416,744,052	20,838	20,837
Ordinary B shares of 1p each	16,042,530	16,042,530	160	160
Total allotted, issued and fully paid			20,998	20,997

The ordinary shares of 5p each were issued during the year for a consideration of £14,000 (2022: £823,000).

The issued share capital was increased by a bonus issue of one fully paid ordinary share for each fully paid ordinary share held on the register at 14 January 2022.

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"), which were issued on 14 January 2005. Following the issue of the B shares, holders received a single dividend of 60 pence per B share. The B shares are not listed, have extremely limited rights and are of negligible value.

The preference shares detailed below are included as financial instruments within creditors.

	2023	2022
	£'000	£'000
Allotted, issued and fully paid		
200,000 5.5% preference shares of £1 each	200	200

11. Share capital (continued)

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 shares 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)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	223,488	227,261	226,141	240,784	249,510	253,038	238,630	266,362	291,860	303,562
Profit before income tax	41,753	44,184	45,499	46,616	46,702	48,276	43,857	51,268	52,063	52,099
Income tax	(10,301)	(10,250)	(10,243)	(10,106)	(9,994)	(10,484)	(9,502)	(11,407)	(11,735)	(9,695)
Profit after income tax	31,452	33,934	35,256	36,510	36,708	37,792	34,355	39,861	40,328	42,404

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Basic earnings per 5p share	7.6p	8.2p	8.5p	8.8p	8.8p	9.1p	8.3p	9.6p	9.7p	10.2p
Dividends per 5p share	5.0p	5.5p	6.0p	6.5p	6.8p	7.0p	7.1p	7.6p	7.8p	8.0p

Figures for the previous years have been restated to take account of the one-for-one bonus share issue in the year ended 30 June 2022.

Special dividends are not included.

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Shareholder Information

Financial calendar

Annual general meeting 1 December 2023

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 15 September 2023

	Number of holders	Number of shares	%
By size of holding			
1-20,000	1,365	8,327,362	2.0
20,001-100,000	391	17,946,064	4.3
100,001-200,000	67	9,201,016	2.2
200,001-1,000,000	76	33,634,479	8.1
1,000,001 and over	54	347,645,131	83.4
	<u>1,953</u>	<u>416,754,052</u>	<u>100.0</u>

	Number of holders	Number of shares	%
By category			
Private individuals	1,649	201,480,944	48.4
Banks and nominee companies	264	213,490,454	51.2
Other limited companies/corporate bodies	29	1,535,684	0.4
Miscellaneous bodies/pension funds	7	146,074	0.0
Investment trusts and funds	4	100,896	0.0
	<u>1,953</u>	<u>416,754,052</u>	<u>100.0</u>

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Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the ONE HUNDREDTH and EIGHTH ANNUAL GENERAL MEETING of the company will be held at Platinum Suite, Toughsheet Community Stadium, Burnden Way, Bolton, BL6 6JW, on 1 December 2023 at 12pm.

Ordinary business

- 1 To receive and adopt the report of the directors and the statement of accounts for the year ended 30 June 2023 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 2023.
- 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 and 7 shall be proposed as ordinary resolutions and resolutions 8 and 9 will be proposed as special resolutions:

- 6 That, subject to the passing of the ordinary and special resolutions numbered 8 and 9 below, the directors be and they are hereby authorised, pursuant to article 35.14 of the company's articles of association:
 - (i) to exercise the power contained in article 35.14 so that, to the extent determined by the directors, the holders of ordinary shares be permitted to elect to receive new ordinary shares of 5.0p each in the capital of the company, credited as fully paid, instead of all or part of any interim or final dividends which shall be declared before the conclusion of the next annual general meeting of the company after the passing of this resolution; and
 - (ii) to capitalise the appropriate amount of new ordinary shares falling to be allotted pursuant to any elections made as aforesaid out of profits, or sums standing to the credit of any share premium account or capital reserves of the company, to apply such sums in paying up such new ordinary shares and to allot such new ordinary shares to the members of the company making such elections in accordance with their respective entitlements.
- 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 £6,945,901 to such persons at such times and generally on such terms and conditions as the directors may determine (subject always to the articles of association of the company) PROVIDED THAT this authority shall, unless previously renewed, varied or revoked by the company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is six months after the next accounting reference date of the company (if earlier) save that the directors of the company may, before the expiry of such period, make an offer or agreement which would or might require relevant securities or equity securities (as the case may be) to be allotted after the expiry of such period and the directors of the company may allot relevant securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred hereby had not expired.
- 8 That subject to the passing of the ordinary resolution numbered 8 above the directors be and they are hereby empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (within the meaning of Section 560 subsection (1) of the said Act) for cash pursuant to the authority conferred by resolution numbered 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

James Halstead

- (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).

By order of the board
D N Fletcher
Secretary

13 October 2023

Beechfield
Hollinhurst Road
Radcliffe
Manchester
M26 1JN



Notice of Annual General Meeting

continued

Notes

- 1 Preference shareholders are advised that they are not entitled to attend or vote at the annual general meeting.
- 2 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 Group 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 By appointing a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the company. Please consider appointing the Chairman of the AGM as your proxy, with voting instructions, to ensure your vote is counted. You may request a form of proxy directly from the registrars, Link Group using the telephone number above (same call terms and conditions apply). 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 Group, Central Square, 29 Wellington Street, Leeds, LS1 4DL by 12pm on 29 November 2023.
 - iii By attending the meeting in person at the address and time set out at the beginning of this notice, bringing either your attendance card or other appropriate form of identification so that you can be identified by the company's registrars. It is recommended that you arrive at least 15 minutes before the time appointed for the meeting to begin. To be entitled to attend and vote at the meeting (and for the purpose of the determination by the company of the votes they may cast), shareholders must be entered in the register of members of the company at close of business on 29 November 2023.
 - iv. In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.
- 3 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
- 4 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 12pm on 29 November 2023. 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.
- 5 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 their 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.
- 6 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.
- 7 As at 28 September 2023 (being the latest practicable business day prior to the publication of this Notice), the company's ordinary issued share capital consisted of 416,754,052 ordinary shares, carrying one vote each. Therefore, the total voting rights in the company as at 28 September 2023 were 416,754,052.
- 8 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.
- 9 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.
- 10 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.
- 11 The final dividend, if approved, will be paid on 15 December 2023 to shareholders on the register as at 17 November 2023.

James Halstead

James Halstead

JAMES HALSTEAD PLC



Classic Mystique PUR
Imperial War Museum, Cambridgeshire, UK

James Halstead

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