James Halstead

JAMES HALSTEAD plc

COVERING THE WORLD

Interim Report 2014

THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2011

Key Figures

- Operating profit slightly lower at £20.6 million – a decrease of 3.1%
- Pre-tax profit slightly lower a £20.4 million – a decrease of 4.0%
- Basic earnings per ordinary share 7.4p – a decrease of 1.3%
- Interim dividend increased to a record 3.0p – an increase of 9.1%
- Net cash at £38.6 million
- Improved current trading

The Chief Executive, Mr Mark Halstead, commented:

"It is clear market conditions are not easy but our strong market position remains and our increased dividend reflects our continued confidence."

Chairman's Statement

I am able to report a small increase in turnover to £110.9 million (2012: £109.0 million), growth of 1.7%. Pre-tax profit has fallen slightly to £20.4 million (2012: £21.2 million), a decline of 4.0%. Although disappointing to report a fall in profit I am nevertheless encouraged by the progress we have made against the backdrop of a very competitive marketplace, especially in Europe.

Trading

Our market position remains solid in the core territories of the UK, Central Europe and Australasia but it is clear that there is a lower level of new business tenders. In the UK we have increased sales by just over 5% and in Central Europe by just over 4%. Australia is on a par in local currency terms though lower by 8% when translated into sterling. Having said this, the net effects of currency translation are, overall, negligible.

There is noticeably less activity in the mining sector in Australia but underscoring the global nature of business in the 21st century we have seen an increase in flooring related sales to the mining sector in South America. The continued breadth of flooring installations such as the Mississippi Crime Laboratory in Jackson, the Sberbank in Moscow and Boryspil Airport in Kiev are a few examples of the diversity of our end users.

Growth markets include France (up 9%), South America (up 5%), Spain (up 18%) and Canada (up 10%).

Gross margin in the period is around 1% lower than the prior comparative which is mainly a result of product mix combined with a degree of price erosion. The product mix is a result of heterogeneous sales growth i.e. the product manufactured by Riverside Flooring in Teesside. This plant has increased output but is not yet operating on a 24 hour basis and therefore it is comparatively less productive than our Radcliffe plant. This will improve over the medium term. Price erosion has been a factor in Germany where it is clear that all manufacturers have excess capacity and are chasing sales vigorously on price.

Overheads have increased by 1%, which is creditable.

In terms of the balance sheet, working capital remains in good balance, although the level of stock is on a par with the end of the financial year it is ahead of the comparative by 19%. The reasons for this are threefold. Firstly, it is clear that several customers with 31 December year ends chose to minimise stock-holding over the year end which led to lower December 2013 sales (as we commented upon in our pre-close statement) – but with the sales returning in January 2014. Secondly, the prior comparative was low and thirdly, we have wider product ranges and several product launches that took place in February.

In January / February we exhibited at Domotex Germany, Euroshop and Domotex Shanghai and our portfolio was well received which bodes well for the coming months.

Cash balances remain healthy.

Earnings per Share

Our basic earnings per share at 7.4p are slightly down on the comparative 7.5p and notwithstanding the small fall in earnings the

Board is pleased to yet again propose an increased interim dividend.

A dividend of 3.0p (2012: 2.75p) will be paid, representing a 9.1% increase and this reflects both the strength of earnings and the cash reserves of the Company. This will be payable on 6 June 2014 to those shareholders on the register at the close of business on 9 May 2014.

Outlook

The first six months of our financial year have been challenging but I am pleased to report that trading in the period January - March is showing growth of 7-8%. Offsetting this is the adverse margin effects of a strong sterling and, in addition, it is clear that in Europe there is fierce price competition as manufacturers battle for volume in an overall market that is, at best, flat. Nevertheless, there are a number of factors that encourage future confidence: we have established a firm base in Canada, Polyflor India has now been created (with the ESIC Hospital in Mandi an early customer) and continued success with our long established homogenous floors (the new Cecilia Makiwane Hospital in South Africa being a good example). We have introduced new products over recent years but our classic ranges remain the bedrock for our business across the globe.

Looking forward, this is a year where we are increasing further the exports under our own control with our own sales team which will involve additional set up costs. The focus will initially be on India, North America and South America, markets where we have had sales for many years but which offer greater volume potential.

In terms of the bottom line it will be difficult to exceed last year's profit but I remain cautiously optimistic that we will not fall below that mark.

Geoffrey Halstead

Chairman

31 March 2014

Consolidated Income Statement

for the half-year ended 31 December 2013

	Half-year ended 31.12.13 £'000	Restated Half-year ended 31.12.12 £'000	Restated Year ended 30.06.13 £'000
Revenue	110,881	109,026	217,082
Operating profit	20,592	21,252	40,691
Net finance cost	(237)	(54)	(196)
Profit before income tax	20,355	21,198	40,495
Income tax expense	(5,132)	(5,653)	(10,446)
Profit for the period	15,223	15,545	30,049
Earnings per ordinary share of 5p:			
– basic	7.4p	7.5p	14.5p
– diluted	7.3p	7.5p	14.5p

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in Note 3.

The prior periods have been restated as explained in Note 5.

Consolidated Balance Sheet

as at 31 December 2013

	Half-year ended 31.12.13 £'000	Half-year ended 31.12.12 £'000	Year ended 30.06.13 £'000
Non-current assets			
Property, plant and equipment	31,093	33,212	33,391
Intangible assets	3,232	3,232	3,232
Deferred tax assets	5,339	4,656	5,545
	39,664	41,100	42,168
Current assets			
Inventories	56,567	47,439	56,761
Trade and other receivables	27,653	26,581	33,158
Derivative financial instruments	989	184	827
Cash and cash equivalents	38,557	51,927	34,866
	123,766	126,131	125,612
Current liabilities			
Trade and other payables	49,769	49,192	55,903
Derivative financial instruments	694	686	63
Current income tax liabilities	5,350	7,491	5,647
	55,813	57,369	61,613
Net current assets	67,953	68,762	63,999
Non-current liabilities			
Retirement benefit obligations	14,805	9,430	13,902
Deferred tax liabilities	815	850	815
Borrowings	200	200	200
Other payables	432	430	454
	16,252	10,910	15,371
Net assets	91,365	98,952	90,796
Equity			
Equity share capital	10,356	5,166	10,335
Equity share capital (B shares)	160	160	160
	10,516	5,326	10,495
Share premium account	2,659	2,056	2,101
Retained earnings	73,082	80,132	70,977
Other reserves	5,108	11,438	7,223
Total equity attributable to shareholders of the parent	91,365	98,952	90,796

Consolidated Cash Flow Statement

for the half-year ended 31 December 2013

	Half-year ended 31.12.13 £'000	Half-year ended 31.12.12 £'000	Year ended 30.06.13 £'000
Cash inflow from operations	20,178	31,613	42,147
Net interest received	99	194	327
Taxation paid	(5,045)	(4,637)	(11,353)
Cash inflow from operating activities	15,232	27,170	31,121
Purchase of property, plant and equipment	(1,088)	(2,804)	(3,731)
Proceeds from disposal of property, plant and equipment	1,581	143	242
Cash inflow/(outflow) from investing activities	493	(2,661)	(3,489)
Equity dividends paid	(12,428)	(11,366)	(31,518)
Shares issued	579	84	131
Cash outflow from financing activities	(11,849)	(11,282)	(31,387)
Net increase/(decrease) in cash and cash equivalents	3,876	13,227	(3,755)
Effect of exchange differences	(185)	(4)	(83)
Cash and cash equivalents at start of the period	34,866	38,704	38,704
Cash and cash equivalents at end of the period	38,557	51,927	34,866

Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2013

	Half-year ended 31.12.13 £'000	Restated Half-year ended 31.12.12 £'000	Restated Year ended 30.06.13 £'000
Profit for the period	15,223	15,545	30,049
Other comprehensive income net of tax:			
Actuarial (loss)/gain on the defined benefit pension scheme	(690)	629	(2,913)
Deferred taxation – change of rate	–	–	35
Foreign currency translation differences	(1,637)	(426)	(93)
Fair value movements on hedging instruments	(478)	148	767
Other comprehensive income for the period net of tax	(2,805)	351	(2,204)
Total comprehensive income for the period	12,418	15,896	27,845
Attributable to equity holders of the parent	12,418	15,896	27,845

The prior periods have been restated as explained in Note 5.

Notes to the Interim Results

1. Basis of preparation

The interim financial statements are unaudited and do not constitute statutory accounts as defined within the Companies Act 2006.

The principal accounting policies applied in the preparation of the consolidated interim statements are those set out in the annual report and accounts for the year ended 30 June 2013.

The figures for the year ended 30 June 2013 are an abridged statement of the group audited accounts for that year, as amended by the restatement explained in Note 5. The financial statements for the year ended 30 June 2013, were audited and have been delivered to the Registrar of Companies.

As is permitted by the AIM rules, the directors have not adopted the requirements of IAS34 'Interim Financial Reporting' in preparing the interim financial statements. Accordingly the interim financial statements are not in full compliance with IFRS.

2. Taxation

Income tax has been provided at the rate of 25.2% (2012: 26.7%).

3. Dividends

	Half-year ended 31.12.13 £'000	Half-year ended 31.12.12 £'000	Year ended 30.06.13 £'000
Equity dividends paid:			
Final dividend for the year ended 30 June 2012	–	11,366	11,366
Special dividend for the year ended 30 June 2013	–	–	14,468
Interim dividend for the year ended 30 June 2013	–	–	5,684
Final dividend for the year ended 30 June 2013	12,428	–	–
	12,428	11,366	31,518
Equity dividends proposed at the end of the period			
Interim dividend	6,210	5,684	–
Final dividend	–	–	12,428

Equity dividends per share, paid and proposed, are as follows:

- 5.5p* final dividend for the year ended 30 June 2012, paid on 7 December 2012
- 7.0p special dividend for the year ended 30 June 2013, paid on 10 May 2013
- 2.75p interim dividend for the year ended 30 June 2013, paid on 7 June 2013
- 6.0p final dividend for the year ended 30 June 2013, paid on 6 December 2013
- 3.0p interim dividend for the year ended 30 June 2014, payable on 6 June 2014, to those shareholders on the register at the close of business on 9 May 2014

* Reflects the effect of the one-for-one bonus issue on 11 January 2013.

Notes to the Interim Results

4. Earnings per share

	Half-year ended 31.12.13 £'000	Restated Half-year ended 31.12.12 £'000	Restated Year ended 30.06.13 £'000
Profit for the period	15,223	15,545	30,049
Weighted average number of shares in issue	206,878,570	206,624,017	206,643,767
Dilution effect of outstanding share options	699,831	1,000,095	954,657
Diluted weighted average number of shares	207,578,401	207,624,112	207,598,424
Basic earnings per 5p ordinary share	7.4p	7.5p	14.5p
Diluted earnings per 5p ordinary share	7.3p	7.5p	14.5p

The prior periods have been restated as explained in Note 5.

5. Prior periods restatement

IAS 19 "Employee benefits" was amended in June 2011. The amendment has been implemented in these interim results, including restating the results for the comparative periods.

The effects of the prior periods restatement were as follows:

	Half-year ended 31.12.12 £'000	Year ended 30.06.13 £'000
Profit for the period as previously reported	15,822	30,599
Increase in net pension finance cost	(365)	(714)
Deferred tax credit	88	164
Profit for the period as restated	15,545	30,049
Other comprehensive income for the period net of tax as previously reported	74	(2,754)
Adjustment to actuarial (loss)/gain on the defined benefit pension scheme	365	714
Deferred tax on the adjustment	(88)	(164)
Other comprehensive income for the period net of tax as restated	351	(2,204)

The total comprehensive income for the period is unchanged by the restatement.

The consolidated balance sheet and cash flow statement are not affected by the restatement.

Notes to the Interim Results

6. Copies of the interim results

Copies of the interim results have been sent to shareholders who requested them. Further copies can be obtained from the Company's registered office, Beechfield, Hollinhurst Road, Radcliffe, Manchester, M26 1JN.

Directors and Advisers

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