

James Halstead

JAMES HALSTEAD plc

COVERING THE WORLD

Interim Report 2016



THE QUEEN'S AWARDS
FOR ENTERPRISE:
INTERNATIONAL TRADE
2011

Key Figures

- Revenue lower at £114.7 million – a decrease of 2.1% (on a constant exchange rate basis increased by 2.9%)
- Operating profit higher at £23.3 million – an increase of 7.7%
- Pre-tax profit higher at £23.0 million – an increase of 7.5%
- Basic earnings per ordinary share 8.6p – an increase of 10.3%
- Interim dividend increased to a record 3.5p – an increase of 11.4%
- Net cash at £55.9 million

The Chief Executive, Mr Mark Halstead, commented:

“We continue to build on the robust performance of the last 15 years and despite having the strength of sterling as a strong headwind to our exports in the first half we have again reported a record profit.”

James Halstead

Chairman's Statement

Given the strength of our currency here in the UK and the consequential effects on the translation of our results it is gratifying to report improved pre-tax profit of £23.0 million (2014: £21.4 million), an increase of 7.5%.

I can report that revenue of £114.7 million (2014: £117.2 million) was 2.1% below the comparative, owing to the strength of sterling over the first six months. This adverse situation has mathematically lowered the currency equivalent. At constant exchange rates sales were 2.9% ahead.

Trading

As already noted, the translation of overseas sales was affected by adverse exchange rates but there was growth in most markets when measured in local currency. Polyflor Canada Inc. continues to expand with a 32% growth in turnover. It is pleasing to report that our flooring is refurbishing store chains such as Loblaws and Indigo Kids in many cities. James Halstead France reported a near 10% increase and notable projects include the Alstrom Epsilon building complex in the heart of Lyon.

In our more established markets, Objectflor, our central European operation based in Cologne reported 4% growth in sales. Our latest range, "Expona Flow" has already been fitted in sales areas within Ikea stores in Kaiserlautern, Berlin and Ravensburg and long term customers such as the fashion

retail chain Modemark Röther continue to expand. It is pleasing to report that "Simplay", our loose lay vinyl tile, was awarded a "Pro K Award" for innovative product development in the area of consumer plastics.

In looking at our home territory, it is clear that Polyflor UK maintains its strong presence, with notable projects such as Croydon University Hospital, the Vision Express retail chain and the new Pontypridd Lido at Ynysangharad Park. The UK market, representing about 39% of total turnover, has shown a solid performance with growth of 4.5% in the period, which is ahead of the market growth over that period.

Australia and New Zealand have reported 8-9% growth with the former providing flooring to Aldi stores across the country and the latter to Burwood Hospital in Christchurch (the country's largest ever healthcare project) and are just two examples of the growth in this region.

Gross margins have improved by 1.5% despite the adverse effects of foreign exchange rates on overseas trading. The reasons for this are threefold: being the effects of increased output of heterogeneous flooring, reduced raw material prices (in part helped by the strength of sterling) and energy savings. Overheads are 3.2% below the comparative period but on a par when viewed on a constant exchange rate basis.

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The balance sheet is, as usual, robust with the component showing the largest change being cash which stands at £55.9 million some 19.5% ahead of the comparative of last year (2014: £46.7 million) and after dividends paid out of £22.8 million.

Earnings per Share

Our basic earnings per share at 8.6p are 10.3% ahead of the comparative of 7.8p and the Board is pleased to propose an increased interim dividend.

Having regard to cash, I am pleased to say that a dividend of 3.5p will be paid (2015: 3.142p), representing an 11.4% increase and this reflects both the strength of earnings and the cash reserves of the Company. This will be payable on 3 June 2016 to those shareholders on the register at the close of business on 6 May 2016.

Outlook

We have delivered a solid first half performance.

Early trading in the second half has been challenging, with the UK noticeably facing rougher trading conditions. Nevertheless, our global footprint continues to provide good opportunities for advancement and I am confident that the depth of our experience of this industry, which has stood us in good stead for a generation, will continue to lead us to greater success.

Many are quick to apply hindsight to business but I think that the accumulation of knowledge our team offers James Halstead something better- insight.

Our group remains focused on sales growth and has every expectation of continued progress in the second half year.

Geoffrey Halstead

Chairman

31 March 2016

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Consolidated Income Statement

for the half-year ended 31 December 2015

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|------------------------------------|---|---|------------------------------------|
| Revenue | 114,675 | 117,168 | 227,261 |
| Operating profit | 23,311 | 21,640 | 44,720 |
| Net finance cost | (272) | (215) | (536) |
| Profit before income tax | 23,039 | 21,425 | 44,184 |
| Income tax expense | (5,304) | (5,222) | (10,250) |
| Profit for the period | 17,735 | 16,203 | 33,934 |
| Earnings per ordinary share of 5p: | | | |
| – basic | 8.6p | 7.8p | 16.4p |
| – diluted | 8.5p | 7.8p | 16.3p |

All amounts relate to continuing operations.

Details of dividends paid and proposed are given in Note 4.

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Consolidated Balance Sheet

as at 31 December 2015

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|--|---|---|------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 32,185 | 31,954 | 31,172 |
| Intangible assets | 3,232 | 3,232 | 3,232 |
| Deferred tax assets | 5,061 | 5,641 | 4,908 |
| | <u>40,478</u> | <u>40,827</u> | <u>39,312</u> |
| Current assets | | | |
| Inventories | 58,567 | 58,025 | 58,707 |
| Trade and other receivables | 27,909 | 29,438 | 31,402 |
| Derivative financial instruments | 696 | 2,427 | 2,242 |
| Cash and cash equivalents | 55,850 | 46,716 | 47,428 |
| | <u>143,022</u> | <u>136,606</u> | <u>139,779</u> |
| Current liabilities | | | |
| Trade and other payables | 50,634 | 54,235 | 48,022 |
| Derivative financial instruments | 635 | 286 | 8 |
| Current income tax liabilities | 5,346 | 4,902 | 4,814 |
| Dividend payable | 16,303 | – | – |
| | <u>72,918</u> | <u>59,423</u> | <u>52,844</u> |
| Net current assets | <u>70,104</u> | <u>77,183</u> | <u>86,935</u> |
| Non-current liabilities | | | |
| Retirement benefit obligations | 18,904 | 20,115 | 18,492 |
| Deferred tax liabilities | 709 | 744 | 709 |
| Borrowings | 200 | 200 | 200 |
| Other payables | 390 | 389 | 386 |
| | <u>20,203</u> | <u>21,448</u> | <u>19,787</u> |
| Net assets | <u>90,379</u> | <u>96,562</u> | <u>106,460</u> |
| Equity | | | |
| Equity share capital | 10,373 | 10,363 | 10,364 |
| Equity share capital (B shares) | 160 | 160 | 160 |
| | <u>10,533</u> | <u>10,523</u> | <u>10,524</u> |
| Share premium account | 3,096 | 2,899 | 2,917 |
| Capital redemption reserve | 1,174 | 1,174 | 1,174 |
| Currency translation reserve | 87 | 1,455 | (782) |
| Hedging reserve | 14 | 1,237 | 1,427 |
| Retained earnings | 75,475 | 79,274 | 91,200 |
| | <u>90,379</u> | <u>96,562</u> | <u>106,460</u> |
| Total equity attributable to shareholders of the parent | <u>90,379</u> | <u>96,562</u> | <u>106,460</u> |

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Consolidated Cash Flow Statement

for the half-year ended 31 December 2015

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|---|---|---|------------------------------------|
| Cash inflow from operations | 31,059 | 28,315 | 42,015 |
| Net interest received | 96 | 138 | 150 |
| Taxation paid | (4,729) | (3,671) | (8,416) |
| Cash inflow from operating activities | 26,426 | 24,782 | 33,749 |
| Purchase of property, plant and equipment | (2,180) | (2,297) | (3,855) |
| Proceeds from disposal of property, plant and equipment | 166 | 91 | 187 |
| Cash outflow from investing activities | (2,014) | (2,206) | (3,668) |
| Equity dividends paid | (16,302) | (14,507) | (21,020) |
| Shares issued | 188 | 169 | 188 |
| Cash outflow from financing activities | (16,114) | (14,338) | (20,832) |
| Net increase in cash and cash equivalents | 8,298 | 8,238 | 9,249 |
| Effect of exchange differences | 124 | (199) | (498) |
| Cash and cash equivalents at start of the period | 47,428 | 38,677 | 38,677 |
| Cash and cash equivalents at end of the period | 55,850 | 46,716 | 47,428 |

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Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2015

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|--|---|---|------------------------------------|
| Profit for the period | 17,735 | 16,203 | 33,934 |
| Other comprehensive income net of tax: | | | |
| Actuarial loss on the defined benefit pension scheme | (855) | (3,392) | (2,720) |
| Deferred taxation – change of rate | – | – | 35 |
| Foreign currency translation differences | 869 | (1,631) | (3,868) |
| Fair value movements on hedging instruments | (1,413) | 1,133 | 1,323 |
| Other comprehensive income for the period net of tax | (1,399) | (3,890) | (5,230) |
| Total comprehensive income for the period | 16,336 | 12,313 | 28,704 |
| Attributable to equity holders of the parent | 16,336 | 12,313 | 28,704 |

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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 2015.

The figures for the year ended 30 June 2015 are an abridged statement of the group audited accounts for that year. The financial statements for the year ended 30 June 2015, 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 23.0% (2014: 24.4%).

3. Earnings per share

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|--|---|---|------------------------------------|
| Profit for the period | 17,735 | 16,203 | 33,934 |
| Weighted average number of shares in issue | 207,392,532 | 207,200,361 | 207,238,042 |
| Dilution effect of outstanding share options | 541,827 | 530,901 | 562,584 |
| Diluted weighted average number of shares | 207,934,359 | 207,731,262 | 207,800,626 |
| Basic earnings per 5p ordinary share | 8.6p | 7.8p | 16.4p |
| Diluted earnings per 5p ordinary share | 8.5p | 7.8p | 16.3p |

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Notes to the Interim Results

4. Dividends

| | Half-year ended 31.12.15 £'000 | Half-year ended 31.12.14 £'000 | Year ended 30.06.15 £'000 |
|---|---|---|------------------------------------|
| Equity dividends paid: | | | |
| Final dividend for the year ended 30 June 2014 | – | 14,507 | 14,507 |
| Interim dividend for the year ended 30 June 2015 | – | – | 6,513 |
| Final dividend for the year ended 30 June 2015 | 16,302 | – | – |
| | <hr/> 16,302 | <hr/> 14,507 | <hr/> 21,020 |
| Equity dividends proposed after the end of the period | | | |
| Interim dividend | 7,261 | 6,513 | – |
| Final dividend | – | – | 16,302 |
| | <hr/> – | <hr/> – | <hr/> 16,302 |

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

7.0p final dividend for the year ended 30 June 2014, paid on 5 December 2014

3.142p interim dividend for the year ended 30 June 2015, paid on 5 June 2015

7.858p final dividend for the year ended 30 June 2015, paid on 4 December 2015

3.5p interim dividend for the year ended 30 June 2016, payable on 3 June 2016, to those shareholders on the register at the close of business on 6 May 2016

In addition a 7.858p special dividend amounting to £16,303,000 was declared on 27 November 2015 and paid on 26 February 2016.

5. 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.

James Halstead

Directors and Advisers

Directors

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