

James Halstead

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THE QUEEN'S AWARDS
FOR ENTERPRISE
2006

Interim Report 2007

Key Figures

James Halstead plc, manufacturer and international distributor of flooring, reports:

- Turnover increased to £71 million – an increase of 12.9%
- Pre-tax profit up to £11.05 million – an increase of 30.1%
- Net interim dividend proposed per 5p ordinary share of 5.25p – an increase of 23.5%
- Basic earnings per 5p ordinary share increased by 27%

The Chairman, Mr Geoffrey Halstead, commenting said:

“These interim figures, once again, show a record performance and are testimony to the combined efforts of our sales teams, our workforce and our management. I and the Board remain confident of continued success.”

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Chairman's Statement

The first six months of the year showed a healthy increase in turnover to £71 million (2005 : £62.89 million) an increase of 12.9%.

Turnover related to flooring was almost 14% ahead of the comparative half year and around 15% ahead based on like for like exchange rates. Our overseas sales progressed well with Central Europe increasing 17%, the Pacific region (Australia/New Zealand) ahead 11% and our home market 12.8%. Phoenix, our motorcycle accessories business, also showed growth in 'like for like' sales and the Arai motorcycle helmet brand increased sales by 20% in a difficult market, undoubtedly through increasing market share.

In the last six months we have re-organised sales activities in Australia and New Zealand under the banner of the 'Pacific Region' and synergy of management is already bringing added benefits.

Profit before tax of £11.05 million (2005: £8.49 million) represents a 30% increase, reflecting the benefit of increased turnover. I believe this to be a very creditable performance. These results are very encouraging considering intensive sales activity by our competitors, the challenging continuation of high raw material prices and high energy costs.

Our balance sheet remains robust. Cash, has again, increased but the balance at 31 December 2006, at £33.2 million, is before the 30p per share special dividend paid in February (some £15.3 million). The stock of £21.6 million (2005: £18.3 million) reflects stock build in advance of the production upgrade. This level of stock is mathematically 18% ahead of last year.

Our basic earnings per share for the six months to 31 December 2006 of 14.7p (2005: 11.6p) have increased 26.7% and we propose to pay an interim dividend in May 2007 of 5.25p (2005: 4.25p) an increase of 23.5% reflecting the improved results.

Our production facility in Radcliffe is achieving record levels of output and building work for the expansion of production is nearing completion, with equipment installation at an advanced stage. In anticipation of the production shutdown required to install the new machinery, stocks have been increased which will minimise and hopefully prevent stock shortages over the next few weeks. In addition, we have secured 80,000 sq ft of warehousing near to the Radcliffe facility which will reduce the pressure on logistics that has resulted from the increased level of sales over the last few years. This offers a medium term solution in dealing with our current warehousing requirements.

Gross margins in our flooring business improved. With selling prices largely unchanged due to competitor activity, this was achieved by increased production on largely fixed overheads and the benefits of product mix. At Polyflor the focus on environmentally sustainable development continues and the company, our core manufacturing unit, has achieved savings in excess of 5% in energy usage as measured by kilowatt-hours per square metre of product produced. These savings are independently assessed by The Carbon Trust. Gross margins in our motorcycle accessories business also improved.

At our Polyflor site, in Radcliffe, work has been taking place in allocating part of our site to a dedicated training facility for "grass-roots"

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floor layers. Our products are sold into the distribution trade and then fitted by specialist flooring contractors. Both the UK and Central Europe face skills shortages in this area and in the last 12 months we have offered a three day training course for over 500 floor layers in Germany. Polyflor (the UK manufacturing company) has for some time operated a floor-layer training scheme but will introduce a much broader based scheme similar to the scheme presented in Central Europe for a nominal charge, giving intensive training in products and techniques. We have allocated staff and resources to training which will increase key skills for our long term benefit (and no doubt that of our competitors). At a time when many flooring manufacturers are scaling back training facilities we plan significant expansion. I would also like to note that the Independent Flooring Distributors Association have voted Polyflor overall Supplier of the Year: recognition from customers is always welcome.

Outlook

It has been a good six month's trading and we are focused on building on this result. Our products continue to be sold throughout the world from the Olympic Stadium complex in Qazakh in Azerbaijan and the Sindh Institute (Pakistan's largest public health organisation) through to the use of Polyflor in wards and corridors at Reading's Royal Berkshire NHS Foundation Trust – rated in 2005 by the Healthcare Commission as joint first cleanest NHS acute hospital in the UK. Detailed plans are in place to ensure that plant upgrades are trouble free but in the next few weeks there will be a period when one of our three major

production lines is closed, hence the cautious building of stock as previously noted. Other infrastructure projects are in hand to improve productivity. Taking all things into consideration I remain solidly confident of another year of progress in the year to June 2007.

Geoffrey Halstead

Chairman

28 March 2007

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Interim Report

for the half-year ended 31 December 2006

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Turnover	70,999	62,890	126,024
Operating profit	10,440	7,845	16,567
Interest and other finance costs	608	646	914
Group profit on ordinary activities (before taxation)	11,048	8,491	17,481
Taxation	(3,549)	(2,630)	(5,647)
Group profit on ordinary activities (after taxation)	7,499	5,861	11,834
Earnings per ordinary share of 5p:			
– basic	14.7p	11.6p	23.3p
– diluted	14.6p	11.5p	23.2p

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

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Consolidated Balance Sheet

as at 31 December 2006

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Fixed assets			
Intangible assets	3,118	3,346	3,232
Tangible assets	18,341	19,985	18,687
	<u>21,459</u>	<u>23,331</u>	<u>21,919</u>
Current assets			
Stocks	21,592	18,284	19,770
Debtors	21,771	18,750	21,093
Cash at bank, in hand and on short-term deposits	33,202	40,236	30,050
	<u>76,565</u>	<u>77,270</u>	<u>70,913</u>
Creditors – amounts falling due within one year	<u>(40,724)</u>	<u>(34,245)</u>	<u>(37,685)</u>
Net current assets	35,841	43,025	33,228
Total assets less current liabilities	<u>57,300</u>	<u>66,356</u>	<u>55,147</u>
Creditors – amounts falling due after more than one year	<u>(3,316)</u>	<u>(6,062)</u>	<u>(4,441)</u>
Provisions for liabilities	<u>–</u>	<u>(205)</u>	<u>–</u>
Net assets excluding pension scheme deficit	53,984	60,089	50,706
Pension scheme deficit	<u>(8,530)</u>	<u>(10,480)</u>	<u>(8,681)</u>
	<u>45,454</u>	<u>49,609</u>	<u>42,025</u>
Capital and reserves			
Equity share capital	2,545	2,538	2,543
Equity share capital (B shares)	160	160	160
Called up share capital	2,705	2,698	2,703
Share premium account	364	223	321
Revaluation reserve	3,544	3,544	3,544
Capital reserve	3,449	2,942	3,449
Profit and loss account	35,392	40,202	32,008
	<u>45,454</u>	<u>49,609</u>	<u>42,025</u>

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Consolidated Cash Flow Statement

for the half-year ended 31 December 2006

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Net cash inflow from operating activities	12,915	14,876	25,130
Returns on investments and servicing of finance	634	474	856
Taxation paid	(3,844)	(3,008)	(6,866)
Capital expenditure	(1,081)	(641)	(1,035)
Equity dividends paid	(4,072)	(3,236)	(18,113)
Cash inflow/(outflow) before financing	4,552	8,465	(28)
Financing:			
Shares issued	45	182	285
Decrease in debt	(1,363)	(119)	(1,794)
Increase/(decrease) in cash	3,234	8,528	(1,537)
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash	3,234	8,528	(1,537)
Movement in debt	1,363	119	1,794
Change in net funds resulting from cash flows	4,597	8,647	257
Effect of exchange differences	(46)	(13)	(151)
Movement in net funds for the period	4,551	8,634	106
Net funds at start of period	25,621	25,515	25,515
Net funds at end of period	30,172	34,149	25,621

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Statement of Total Recognised Gains and Losses

for the half-year ended 31 December 2006

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Profit for the financial period	7,499	5,861	11,834
Currency translation differences on foreign currency net investments	(24)	133	(438)
Actuarial (loss)/gain on the pension scheme	(38)	(1,008)	1,546
Movement on deferred tax asset relating to the pension scheme	11	302	(464)
Share based payments	8	–	–
Total recognised gains relating to the financial period	7,456	5,288	12,478

Reconciliation of Movements in Shareholders' Funds

for the half-year ended 31 December 2006

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Profit for the financial period	7,499	5,861	11,834
Dividends	(4,072)	(3,236)	(18,113)
	3,427	2,625	(6,279)
Other recognised gains and losses relating to the financial period	(43)	(573)	644
New share capital subscribed	45	182	285
Net increase/(decrease) in shareholders' funds for the financial period	3,429	2,234	(5,350)
Opening shareholders' funds	42,025	47,375	47,375
Closing equity shareholders' funds	45,454	49,609	42,025

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Notes to the Accounts

1. Basis of preparation

The interim financial statements, which are unaudited, consolidate the accounts of the holding company and its subsidiaries made up to 31 December 2006, and have been prepared in accordance with applicable Accounting Standards and, save for the adoption of FRS 20 – Share Based Payments, on the basis of accounting policies as set out in the annual report and accounts for the year ended 30 June 2006. The comparative figures for the six months ended 31 December 2005 and year ended 30 June 2006, have not been restated from those previously published since the impact of the adoption of FRS 20 on the results for those periods is not material

2. Taxation

Taxation has been provided at the rate of 32.1% (2005: 31%).

3. Dividends

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Equity dividends paid:			
Final dividend for the year ended 30 June 2005	–	3,236	3,236
Special dividend of 25p	–	–	12,715
Interim dividend for the year ended 30 June 2006	–	–	2,162
Final dividend for the year ended 30 June 2006	4,072	–	–
	<u>4,072</u>	<u>3,236</u>	<u>18,113</u>
Equity dividends proposed at the end of the period			
Special dividend	15,269	12,715	–
Interim dividend	2,672	2,158	–
Final dividend	–	–	4,072

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

- 6.375p final dividend for the year ended 30 June 2005, paid on 5 December 2005
- 25p special dividend for the year ended 30 June 2006, paid on 17 February 2006
- 4.25p interim dividend for the year ended 30 June 2006, paid on 26 May 2006
- 8p final dividend for the year ended 30 June 2006, paid on 1 December 2006
- 30p special dividend for the year ended 30 June 2007, paid on 2 February 2007
- 5.25p interim dividend for the year ended 30 June 2007, payable on 23 May 2007 to those shareholders on the register at the close of business on 27 April 2007

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Notes to the Accounts

4. Calculation of earnings per ordinary share

	Half-year ended 31.12.06 £'000	Half-year ended 31.12.05 £'000	Year ended 30.6.06 £'000
Basic earnings	7,499	5,861	11,834
Goodwill amortisation charge	114	114	228
Underlying earnings	7,613	5,975	12,062
Weighted average number of 5p ordinary shares in issue	50,875,694	50,672,074	50,764,031
Weighted average number of 5p ordinary shares in issue (diluted for the effect of outstanding share options)	51,284,522	50,957,920	51,008,831
Underlying earnings per 5p ordinary share	15.0p	11.8p	23.8p
Basic earnings per 5p ordinary share	14.7p	11.6p	23.3p
Diluted earnings per 5p ordinary share	14.6p	11.5p	23.2p

5. Statutory accounts

The figures for the year ended 30 June 2006 are an abridged statement of the Group audited accounts for that year. The audited accounts, containing an unqualified audit report, have been delivered to the Registrar of Companies.

6. Copies of the interim results

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

Directors and Advisers

Directors

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J A Wild FCA

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