1 October 2014

JAMES HALSTEAD PLC

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2014

"Record flooring revenue, record profit and record dividends"

Key Figures

- Revenue at £223.5 million (2013: £217.1 million) – up 3%
- Profit before tax £41.8 million (2013: £40.5 million) – up 3.1%
- Earnings per 5p ordinary share of 15.2p (2013: 14.5p) – up 4.8%
- Final dividend per ordinary share proposed of 7.0p (2013: 6.0p) – up 16.7%
- Nil net gearing

Mr Mark Halstead, Chief Executive, commenting on the results, said:

"We remain on track to continue growth, and following a decade which has seen a financial crisis and a global construction contraction and in which we have doubled turnover, tripled our profit after tax and quadrupled the dividend, I can only say not bad at all."

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CHAIRMAN’S STATEMENT

Results

It is pleasing to report growth in turnover of 3% to £223.5 million (2013: £217.1 million) and a growth in profit before tax of 3.1% to £41.8 million (2013: £40.5 million). This is a record profit before tax for the group. Our geographic reach continues to such locations as the Tesco’s stores in Poland and the new Japanese School in India. Our core involvement in hospitals continues whether locally, such as the Royal Liverpool Children’s Hospital or overseas, as with the new Oncology Hospital in Baku, Azerbaijan.

Strategy

Our companies operate in different economic environments but our strategy is to ensure our products, manufactured by us or sourced in bulk, are stocked by distributors and sold on to contractors for either refurbishment or new build. Our sales forces are multi-focused to not only ensure the sale in volume to stockists, but also to promote sales directly to end-users whether they are contractors, architects or specifiers. Hand in hand with the sales process, we advise on the suitability of product, glues and accessories, and offer technical back-up during and post installation as part of our customer service. Our businesses are totally flooring focused and our strategy is designed to enhance our brand identity, to proliferate goodwill and customer satisfaction with the aim of continued repeat business and the expansion of revenue which will then create wealth for our shareholders in the form of dividend as reward for their investment in our company; and secure the employment of our employees and partners.

Dividend

Our profit and earnings per share have increased and our cash reserves remain robust. It is pleasing to report that the Board proposes, once again, an increased final dividend. The final dividend will be 7.0p (2013: 6.0p) representing a 16.7% increase which combined with the interim dividend, paid in June 2013, of 3.0p (2013: 2.75p) makes a total of 10.0p (2013: 8.75p) for the year, an increase of 14.3%.

Acknowledgements

Given our achievements against a backdrop of difficult market conditions I wish to extend our appreciation to our staff and customers for their continued support. It was gratifying to be awarded the “Manufacturer of the Year” by the Contract Flooring Journal and our thanks to the UK flooring contractors for their votes.

Outlook

Our performance in the latter months of the financial year was improved with a much welcome tailwind following 18 months of doldrums. Emerging markets continue to demand fashion retail outlets and this is a fast growing sector. Examples of our recent successes are “Tom-Tailor” clothing stores in Russia and Vodafone retail outlets in Turkey. The new financial year has continued with positive growth. Next year will be our centenary and I look forward to celebrating continued success at that anniversary.

Geoffrey Halstead
Chairman

CHIEF EXECUTIVE'S REVIEW

Our progress in the second half has brought about record flooring turnover and record profit but it has been a difficult year. Growth has been hard won and the end result is a satisfying one.

Our UK position as market leader continues and the UK growth of 7% has been the bedrock of the year's results. Europe continues to represent a sizeable portion of our business (some 43%) and it is pleasing to note that this has grown by 3% in markets that, overall, are still largely showing no growth. There were continued, and anticipated, difficulties in the Australasian market but going forward the outlook looks to be more positive.

Gross margins are on a par with last year, which, given the pressure of competition in our markets is encouraging. Manufacturing efficiencies and stable raw material prices have helped to protect margins, as indeed has the ever increasing use of reclaimed material. On this latter point I would note that five years ago we, together with one of our competitors, founded Recofloor to collect vinyl wastage – both off-cuts/remnants and uplifted floors. Without Government grants, this self-funded business is recognised across Europe as a great success and a model recycling initiative. Today there are nearly 600 collection points in the UK. The waste that would otherwise go to landfill is returned to our manufacturing processes.

We have our own warehousing in many parts of the world but our exports continue to reach a myriad of locations. I am pleased to be able to report upturn in specifications and installations such as the Baghdad Medical Hospital and the General Hospital of Samawa, of Iraq, being good examples. We have also shipped significant volumes of flooring to fit out temporary accommodation to house the workforce that is undertaking a very substantial amount of new build in Qatar, no doubt for the future World Cup. Our nascent presence in India continues its early promise having delivered our flooring to the Aditya Birla Memorial Hospital, in Jaipur

Reviewing the businesses in more detail:

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

Turnover was broadly on a par with previous years. Our businesses in Scandinavia have had a stable year with sales at a similar level to that of the prior year. The businesses continue to operate a wide portfolio of products both manufactured by the group and sourced from outside. There has been good progress in the sale of manufactured product and, in particular, with the introduction of product manufactured at our Teesside facility.

In the year we have installed the most northerly Polyflor in the world in Longyearbyen (a city shared between Norway and Russia well inside the Arctic Circle) including "Sjøskrenten studenthybler" (seaside students' apartments).

Objectflor/Karndean and James Halstead France, our European organisations

Objectflor has shown positive growth with sales 3.7% ahead of the prior year. European businesses are under pressure and the flooring sector is suffering: there are lower numbers of contractors and distributors with dozens of flooring manufacturers and importers. All are chasing a slightly lower market. Gross margin has been slightly eroded but our sales prices have been maintained with price increases to new ranges. Considering the economic environment we extended the practice of retrospective rebates (against agreed targets) to preserve market share and increased the quality and quantity of point of sale materials (to promote our products to end users). With turnover secured and sales progress it is disappointing to report that there was a 5% decline in net profit but in the current climate it was a solid performance.

In France, James Halstead France SAS continues to develop with turnover circa 9% ahead of the prior year. The variety of day to day installations is impressive such as the refurbishment of the Louis Vuitton HQ in Paris and the Monaco Government offices. It is clear that since general conditions in the French flooring market are negative our growth is due to increased market share. Our presence in France is smaller and more focussed than our much larger competitors and continued growth is to be expected.

Objectflor celebrated its 25th anniversary this year and it has grown hugely since its small beginnings. In January, at the DOMOTEX exhibition in Hannover, the company re-launched its Expona Domestic luxury vinyl tile collection and reinforced our market leading position. The readers of EuroDecor (the leading trade journal for interior designers) voted Objectflor's range the "Best Quality Product" and the collection has sold very well.

Given the profile of our business and the skills shortages that Germany faces our management organised the creation of the "BundesBodenleger Trophy". Under the lead of Objectflor, and supported by various adhesive and accessory suppliers, a competition was held to find the best floor layer in Germany. This promoted our products in the press and wasn't just of benefit to the winners because high-quality training was provided before each of the five qualifying rounds and before the final to all attendees.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

The three main businesses in this region are located in Hong Kong/China, Australia and New Zealand. Projects for new build have been buoyant in the Chinese market but remain a scarcity in the Australian and New Zealand markets.

Australian turnover was on a par with last year but there has been a decline in the gross margin as lines were cleared to allow stock to be refreshed with new designs. Net profits declined quite significantly as a result, but ultimately this was a commercial necessity. In the latter part of the year margins have recovered following this purge. In Australia, the last indigenous (though foreign owned) manufacturer of vinyl flooring closed their local plant during the year and this has opened further sales opportunities, one example being the rebuild of the Mount Stromlo Observatory that was destroyed a few years ago in the Canberra bushfires.

New Zealand turnover declined 6% and the shortfall was on commercial sheet vinyl which is a reflection of the dearth of school and hospital projects. Margins were consequently better as the sheet vinyl/project sector is lower margin. Overheads remain tight and, as last year, the company made a profit, albeit modest. Our company is consistently the market leader in New Zealand and has again been awarded the accolade of “Supplier of the Year” by the distribution chain “Flooring Xtra”. One of the few large vinyl flooring projects in the year was Housing NZ (the crown agent for social housing). Our company has been awarded this contract (once again) for a three year term. Our business remains robust.

Polyflor & Riverside Flooring, based in UK

It has been a solid year for our UK operations in Greater Manchester and Teesside with UK turnover increasing by 4%.

In terms of major investment we have updated our IT systems which were, for a time, a distraction from day to day business but are already helping to streamline many of our administrative procedures. We have translated many of our SKUs into BIM (Business Information Modelling) objects, which for UK government contracts will be increasingly important and this has been very well received by architects. Earlier in the year we launched “Polyflor App” to allow our customers to have direct access to high quality sample scans and technical information which complements our digital presence. Although we are a classic business manufacturing in bulk and shipping to stockists the internet is an important part of 21st century trading and we have grasped this facet of modern business with vigour.

Polyflor Canada, based in Toronto

We have traded in Canada for many years and two years ago opened a warehouse and incorporated the business, to enhance growth. The new company is going well. Our Expona Control is being rolled out in the Royal Bank of Canada’s retail outlets as indeed in the Rogers retail chain and the GoodLife Fitness gyms. Dealing with the premier bank, the leading mobile phone retailer and the number one gym chain is good progress. On a larger scale we supplied the flooring for the new “megahospital” in Montreal - the McGill University Health Centre.

Outlook

In many of our markets confidence in growth has returned. Towards the end of the financial year we launched Polysafe Verona, as an addition to the Polysafe range slip resistant floor covering. Polysafe is the industry benchmark and Verona’s decorative appeal will raise its prominence.

Much has been written about the strength of Sterling and the possible negative effect on exporters but there are large offsetting factors not least the effect of cheaper input prices of raw materials and we remain positive. Our portfolio and our commercial reputation hold us in good stead and I am positive about the future.

In short, we are focused on increasing our market share in established markets and expanding our direct sales teams in the next target group of territories.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement
for the year ended 30 June 2014

	Year ended 30.06.14 £'000	Restated Year Ended 30.06.13 £'000
Revenue	**223,488**	217,082
Cost of sales	**(131,765)**	(126,799)
Gross profit	**91,723**	90,283
Selling and distribution costs	**(40,559)**	(39,877)
Administration expenses	**(8,928)**	(9,715)
Operating profit	**42,236**	40,691
Finance income	**203**	394
Finance cost	**(686)**	(590)
Profit before income tax	**41,753**	40,495
Income tax expense	**(10,301)**	(10,446)
Profit for the period attributable to equity shareholders	**31,452**	30,049
Earnings per ordinary share of 5p:		
-basic	**15.2p**	14.5p
-diluted	**15.1p**	14.5p

The prior period has been restated as explained in note 5

Audited Consolidated Balance Sheet

as at 30 June 2014

	As at 30.06.14 £'000	As at 30.06.13 £'000
Non-current assets		
Property, plant and equipment	**31,358**	33,391
Intangible assets	**3,232**	3,232
Deferred tax assets	**4,755**	5,545
	39,345	42,168
Current assets		
Inventories	**57,423**	56,761
Trade and other receivables	**36,621**	33,158
Derivative financial instruments	**342**	827
Cash and cash equivalents	**38,677**	34,866
	133,063	125,612
Current liabilities		
Trade and other payables	**53,334**	55,903
Derivative financial instruments	**211**	63
Current income tax liabilities	**3,350**	5,647
	56,895	61,613
Net current assets	**76,168**	63,999
Non-current liabilities		
Retirement benefit obligations	**15,554**	13,902
Deferred tax liabilities	**744**	815
Borrowings	**200**	200
Other payables	**428**	454
	16,926	15,371
Net assets	**98,587**	90,796
Equity		
Equity share capital	**10,353**	10,335
Equity share capital (B shares)	**160**	160
	10,513	10,495
Share premium account	**2,740**	2,101
Capital redemption reserve	**1,174**	1,167
Currency translation reserve	**3,086**	5,346
Hedging reserve	**104**	710
Retained earnings	**80,970**	70,977
Total equity attributable to shareholders of the parent	**98,587**	90,796

Audited Consolidated Cash Flow Statement

for the year ended 30 June 2014

	Year ended 30.06.14 £'000	Year ended 30.06.13 £'000
Cash inflow from operations	**35,034**	42,147
Interest received	**203**	394
Interest paid	**(47)**	(67)
Taxation paid	**(11,500)**	(11,353)
Cash inflow from operating activities	**23,690**	31,121
Purchase of property, plant and equipment	**(2,941)**	(3,731)
Proceeds from disposal of property, plant and equipment	**1,719**	242
Cash outflow from investing activities	**(1,222)**	(3,489)
Equity dividends paid	**(18,638)**	(31,518)
Shares issued	**664**	131
Purchase of own shares	**(433)**	-
Cash outflow from financing activities	**(18,407)**	(31,387)
Net increase/(decrease) in cash and cash equivalents	**4,061**	(3,755)
Effect of exchange differences	**(250)**	(83)
Cash and cash equivalents at start of year	**34,866**	38,704
Cash and cash equivalents at end of year	**38,677**	34,866

Audited Consolidated Statement of Comprehensive Income

for the year ended 30 June 2014

	Year ended 30.06.14 £'000	Restated Year ended 30.06.13 £'000
Profit for the year	**31,452**	30,049
Other comprehensive income net of tax		
Items that will not be reclassified subsequently to the income statement :		
Actuarial loss on the defined benefit pension scheme	**(2,459)**	(2,913)
Deferred taxation – change of rate	**71**	35
	(2,388)	(2,878)
Items that could be reclassified subsequently to the income statement:		
Foreign currency translation differences	**(2,260)**	(93)
Fair value movements on hedging instruments	**(606)**	767
	(2,866)	674
Other comprehensive income for the year	**(5,254)**	(2,204)
Total comprehensive income for the year	**26,198**	27,845
Attributable to equity holders of the Company	**26,198**	27,845

The prior period has been restated as explained in note 5

NOTES

1. The final dividend of 7p per ordinary share will be paid on 5 December 2014 to shareholders on the register as at 7 November 2014. The full report and accounts will be posted to shareholders on 24 October 2014.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2013 have been delivered to the Registrar of Companies, carrying an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

3. Statutory accounts for the year ended 30 June 2014 have not yet been delivered to the Registrar of Companies. They will carry an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

4. Earnings per ordinary share

	2014 £'000	2013 £'000
Profit for the year attributable to equity shareholders	**31,452**	30,049
Weighted average number of shares in issue	**206,955,099**	206,643,767
Dilution effect of outstanding share options	**669,102**	954,657
Diluted weighted average number of shares	**207,624,201**	207,598,424
Basic earnings per ordinary share	**15.2p**	14.5p
Diluted earnings per ordinary share	**15.1p**	14.5p

The prior period has been restated as explained in note 5

5. Prior period restatement

IAS19 “employee benefits” was amended in June 2011 and this has been implemented in these financial statements and the prior period has been restated. The effects of this prior period restatement are as follows:

	2013 £’000
Profit for the year, as previously reported	30,599
Increase in net pension interest cost	(714)
Deferred tax credit	164
Profit for the year - restated	30,049
Other comprehensive income, as previously reported	(2,754)
Adjustment to actuarial loss on pension scheme	714
Deferred tax on adjustment	(164)
Total comprehensive income as restated	(2,204)

The consolidated balance sheet and the cash flow statement are unchanged.