



Interim Financial Results 2005

Europe's leading floorcovering distributor

- 01 Financial Highlights
- 02 Chairman's Statement
- 04 Consolidated Income Statement
- 04 Consolidated Statement of Recognised Income and Expense
- 05 Consolidated Balance Sheet
- 06 Consolidated Cash Flow Statement
- 07 Consolidated Statement of Changes in Shareholders' Equity
- 08 Notes to the Interim Financial Results

Financial Highlights

	2005 £'000	2004 £'000	Change
Revenue	232,336	217,811	+6.7%
Profit from operations	18,501	16,974	+9.0%
Profit before tax	18,205	16,744	+8.7%
Earnings per share	14.7p	13.5p	+8.9%
Dividend per share	4.4p	4.0p	+10.0%

Key Points

- Revenues from UK operations increase by 2.8% on a like-for-like basis
- Profit before tax increased by 8.7%
- Cash generated from operations up 11.7% to £10.6 million
- Net capital investment during the period amounted to £7.9 million
- Interim dividend increased by 10.0% from 4.0p to 4.4p

Chairman's Statement

During the first six months of 2005, revenues from UK operations have shown an increase of 2.8% on a like-for-like basis. We believe this result has out-performed market conditions and therefore the group has continued to increase its market share.

Group revenues for the first six months increased by 6.7% from £217.8 million to £232.3 million, an improvement principally attributable to the organic growth referred to above combined with a full six months contribution from National Carpets. Profit from operations increased by 9.0% from £17.0 million to £18.5 million.

Earnings and dividend

Basic earnings per share increased by 8.9% from 13.5p to 14.7p. The board have declared an interim dividend of 4.4p per share, an increase of 10.0% on last year's interim dividend of 4.0p per share. The dividend will be paid on 3 January 2006 to shareholders on the register at 2 December 2005.

Operations

In the UK this positive sales performance was achieved through our 48 autonomous businesses and their 292 external sales personnel who visit their customers to maximise market opportunities. These businesses are defined into four sectors; regional multi-product, national multi-product, residential specialist and commercial specialist. Each of these sectors has shown an increased sales performance during the period.

The businesses constantly work with our suppliers to develop and subsequently launch new products, into both the residential and commercial sectors. This has resulted in 2,377 new product lines being launched in the first six months of 2005, with the sales and marketing of these products supported by over

555,000 new point of sale items being positioned within our customers' premises.

This positive sales trend is also reflected in the performance of our customers who are principally independent floorcovering retailers and flooring contractors. A further illustration of the widespread financial strength amongst our customers is their commitment to paying their bills on time. Our average credit allowed on trade receivables has remained constant at 40 days.

During the first quarter of 2005, we finalised the construction of our new purpose built freehold distribution centre in Tamworth and this is now fully operational. As intended, we have also moved four businesses previously operating from Coleshill into the new Tamworth facility, therefore releasing capacity for further growth of the eight businesses remaining in the Coleshill facility. Planning permission has now been granted for a new distribution centre to re-house Wilkies, our regional distribution business in Leeds and this will be operational in July 2006.

Our Continental European businesses in France, Holland and Switzerland continue to improve their performance and have made an increased contribution to group profitability.

Acquisitions

During the last six months we have acquired the intellectual property rights of Clarendon Carpets and the business of Gaskell Wool Rich. Both of these acquisitions have complemented our existing residential speciality businesses focused on higher quality products. We continue to evaluate potential acquisitions in each of our core sectors and these would be made to further enhance the market position and earnings of the group.

Cash flow

Cash generated from operations during the first six months was £10.6 million compared with £9.5 million for the equivalent period last year. Net working capital investment increased from £9.4 million to £10.0 million.

Net investment in property, plant and equipment totalled £7.9 million, the majority of which related to completing the Tamworth distribution centre.

During the six month period cash and cash equivalents declined by £6.7 million to £31.0 million and net funds at 30 June 2005 amounted to £28.9 million compared with £22.6 million at 30 June 2004.

Outlook

We are particularly encouraged by the positive sales performance of the group in the first six months of 2005 which has continued through July and into August. With the traditional busy autumn period before us, the group remains confident of achieving its operating objectives for the year.

**TG Larman, Chairman**

16 August 2005

Consolidated Income Statement

unaudited

	Note	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Revenue	3	232,336	217,811	464,789
Cost of sales		(161,475)	(153,074)	(323,924)
Gross profit		70,861	64,737	140,865
Distribution costs		(38,087)	(34,705)	(70,592)
Administration expenses		(14,273)	(13,058)	(31,349)
Profit from operations		18,501	16,974	38,924
Net financing costs		(296)	(230)	(440)
Profit before tax		18,205	16,744	38,484
Income tax expense		(5,564)	(5,193)	(11,738)
Profit for the period	3	12,641	11,551	26,746
Dividend per share	4	4.40p	4.00p	16.25p
Earnings per share				
Basic	5	14.7p	13.5p	31.3p
Diluted	5	14.5p	13.4p	31.0p

Consolidated Statement of Recognised Income and Expense

unaudited

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Actuarial gains/(losses) on defined benefit pension schemes	328	180	(2,667)
Exchange differences arising on translation of overseas operations	(815)	(457)	(256)
Net losses not recognised in the income statement	(487)	(277)	(2,923)
Profit for the period	12,641	11,551	26,746
Total recognised income and expense	12,154	11,274	23,823

Consolidated Balance Sheet

unaudited

	At 30 June 2005 £'000	At 30 June 2004 £'000	At 31 December 2004 £'000
ASSETS			
Non-current assets			
Goodwill	13,210	13,210	13,210
Other intangible assets	418	1,271	836
Property, plant and equipment	77,631	64,786	71,753
Deferred taxation	8,245	7,145	8,167
	99,504	86,412	93,966
Current assets			
Inventories	92,505	80,835	79,692
Trade and other receivables	68,900	66,385	66,274
Other current assets	10,981	9,527	19,276
Cash and cash equivalents	30,969	26,309	37,747
	203,355	183,056	202,989
Non-current assets classified as held for sale	203	151	203
	203,558	183,207	203,192
Total assets	303,062	269,619	297,158
LIABILITIES			
Current liabilities			
Trade and other payables	(153,004)	(134,132)	(145,509)
Short-term borrowings	(430)	(458)	(280)
Current proportion of long-term borrowings	(1,089)	(2,303)	(1,124)
Current tax payable	(11,640)	(8,964)	(11,053)
	(166,163)	(145,857)	(157,966)
Non-current liabilities			
Long-term borrowings	(537)	(973)	(738)
Deferred taxation	(1,214)	(2,078)	(1,212)
Retirement benefit obligation	(18,321)	(14,513)	(18,365)
	(20,072)	(17,564)	(20,315)
Total liabilities	(186,235)	(163,421)	(178,281)
Net assets	116,827	106,198	118,877
EQUITY			
Equity attributable to the holders of the parent			
Issued share capital	4,310	4,281	4,306
Share premium account	51,875	51,118	51,731
Retained earnings	60,642	50,799	62,840
Total equity	116,827	106,198	118,877

Consolidated Cash Flow Statement

unaudited

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Operating activities			
Net profit before tax	18,205	16,744	38,484
Adjustments for:			
Depreciation	2,265	2,083	4,313
Equity based transactions	29	29	57
Investment income	(8)	(13)	11
Interest expense	296	230	440
Operating profit before working capital changes	20,787	19,073	43,305
Increase in inventories	(12,839)	(6,160)	(3,753)
Decrease/(increase) in trade and other receivables	4,969	515	(8,118)
(Decrease)/increase in trade and other payables	(2,316)	(3,940)	14,588
Cash generated from operations	10,601	9,488	46,022
Interest paid	(659)	(545)	(1,093)
Income taxes paid	(5,661)	(6,432)	(12,082)
Net cash from operating activities	4,281	2,511	32,847
Investing activities			
Acquisition of subsidiary net of cash acquired	(435)	(3,452)	(3,779)
Purchase of property, plant and equipment	(8,034)	(4,737)	(14,374)
Proceeds from sale of property, plant and equipment	108	62	282
Interest received	643	506	1,055
Net cash used in investing activities	(7,718)	(7,621)	(16,816)
Financing activities			
Proceeds from issuance of share capital	149	2,125	2,763
Repayment of borrowings	174	304	(1,071)
Payment of finance lease liabilities	(208)	(243)	(498)
Dividends paid	(3,421)	(3,030)	(11,795)
Net cash used in financing activities	(3,306)	(844)	(10,601)
Net (decrease)/increase in cash and cash equivalents	(6,743)	(5,954)	5,430
Cash and cash equivalents at beginning of period	37,747	32,336	32,336
Effect of exchange rate fluctuations on cash and cash equivalents held	(35)	(73)	(19)
Cash and cash equivalents at end of period	30,969	26,309	37,747

Consolidated Statement of Changes in Shareholders' Equity

unaudited

	Share capital £'000	Share premium £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2003	4,213	49,061	—	51,993	105,267
Total recognised income and expense	—	—	(457)	11,731	11,274
Dividends	—	—	—	(12,048)	(12,048)
Equity based transactions	—	—	—	29	29
Deferred taxation on share options	—	—	—	(449)	(449)
Share options exercised by employees	68	2,057	—	—	2,125
Balance at 30 June 2004	4,281	51,118	(457)	51,256	106,198
Total recognised income and expense	—	—	201	12,348	12,549
Dividends	—	—	—	(138)	(138)
Equity based transactions	—	—	—	28	28
Deferred taxation on share options	—	—	—	(398)	(398)
Share options exercised by employees	25	613	—	—	638
Balance at 31 December 2004	4,306	51,731	(256)	63,096	118,877
Total recognised income and expense	—	—	(815)	12,969	12,154
Dividends	—	—	—	(14,325)	(14,325)
Equity based transactions	—	—	—	29	29
Deferred taxation on share options	—	—	—	(56)	(56)
Share options exercised by employees	4	144	—	—	148
Balance at 30 June 2005	4,310	51,875	(1,071)	61,713	116,827

Notes to the Interim Financial Results

unaudited

1. GENERAL INFORMATION

The interim financial results have been prepared using updated accounting policies stated in the Financial Information on the Transition to International Financial Reporting Standards which was published on 15 August 2005 on the group's website www.headlam.com. The accounting policies of the group have changed to enable the group to comply with International Financial Reporting Standards (IFRS). The directors of the group have elected to not comply with International Accounting Standard (IAS) 34 *Interim financial reporting and IAS 39 Financial instruments: recognition and measurement*.

The information for the year ended 31 December 2004 does not constitute full financial statements as defined in section 240 of the Companies Act 1985. The report and full financial statements for that period were prepared under UK GAAP and have been filed with the Registrar of Companies, they contain an unqualified audit report within the meaning of the Companies Act 1985 and the auditors have not made any statement under section 237(2) or 237(3) of the Companies Act 1985.

2. ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with IFRS. The financial periods ending 30 June 2004 and 31 December 2004 have been restated under IFRS.

Notes to the Interim Financial Results

continued

3. BUSINESS SEGMENTS

For management purposes, the group is currently organised into two operating divisions UK and Continental Europe. These divisions are the basis on which the group reports its primary segment information.

Segment information about these businesses is presented below.

	UK			Continental Europe			Total		
	30 June 2005 £'000	30 June 2004 £'000	31 Dec 2004 £'000	30 June 2005 £'000	30 June 2004 £'000	31 Dec 2004 £'000	30 June 2005 £'000	30 June 2004 £'000	31 Dec 2004 £'000
Revenue									
External sales	197,460	184,695	395,696	34,876	33,116	69,093	232,336	217,811	464,789
Result									
Segment result	18,243	16,629	38,445	803	778	1,719	19,046	17,407	40,164
Unallocated corporate expenses							(545)	(433)	(1,240)
Profit from operations							18,501	16,974	38,924
Net financing costs							(296)	(230)	(440)
Taxation							(5,564)	(5,193)	(11,738)
Profit for the period							12,641	11,551	26,746

Notes to the Interim Financial Results

continued

4. DIVIDENDS

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Amounts proposed and declared as distributions to equity holders in the period:			
Final proposed dividend for the year ended 31 December 2004 of 12.25p per share (final proposed dividend for the year ended 31 December 2003 of 10.25p per share)	10,536	8,627	10,536
Declared interim dividend for the year ended 31 December 2005 of 4.40p (2004: 4.0p) per share	3,789	3,421	3,421

The declared interim dividend was approved by Directors on 30 June 2005 and therefore has been included as a liability as at 30 June 2005.

5. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data.

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Earnings			
Earnings for the purposes of basic earnings per share being net profit attributable to equity holders of the parent	12,641	11,551	26,746
Earnings for the purposes of diluted earnings per share	12,641	11,551	26,746
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	86,178,980	85,313,350	85,352,589
Effect of dilutive potential ordinary shares:			
Share options	1,411,138	1,924,789	1,534,175
Number of shares that would have been issued at fair value	(624,241)	(858,589)	(737,011)
Weighted average number of ordinary shares for the purposes of diluted earning per share	86,965,877	86,379,550	86,149,753

Notes to the Interim Financial Results

continued

6. SHARE CAPITAL

During the six months ended 30 June 2005 the issued share capital increased by 95,362 to 86,206,799 shares. This was due to the exercise of 67,000 share options from the Headlam approved executive scheme, 25,000 from the unapproved executive scheme and 3,362 from the savings related scheme.

7. ACQUISITIONS

On 4 April 2005, the group acquired the retail division of Gaskell Flooring Limited, trading as Gaskell Wool Rich and Tomkinson Carpets for a cash consideration of £0.5 million. The transaction has been accounted for by the purchase method of accounting.

8. ANALYSIS OF CASH AND CASH EQUIVALENTS

	Six months ended 30 June 2005 £'000	Six months ended 30 June 2004 £'000	The year ended 31 December 2004 £'000
Cash at bank and in hand	30,969	26,309	37,747

9. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2005 £'000	Cash flows £'000	Translation differences £'000	At 30 June 2005 £'000
Cash and cash equivalents	37,747	(6,743)	(35)	30,969
Bank overdrafts	(279)	(174)	18	(435)
Debt due within one year	37,468	(6,917)	(17)	30,534
Finance leases and similar hire purchase contracts	(687)	—	34	(653)
	(1,176)	208	—	(968)
	35,605	(6,709)	17	28,913

10. RELATED PARTY TRANSACTIONS

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Notes

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Registration

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