headlam group plc

Interim Financial Results 2007

Financial Highlights

	2007 £000	2006 £000	Change
Sales	**259,076**	245,672	+5.5%
Adjusted profit*	**21,155**	19,743	+7.2%
Profit from operations	**20,740**	19,743	+5.1%
Profit before tax	**20,593**	19,543	+5.4%
Basic earnings per share	**16.6p**	15.6p	+6.4%
Interim dividend per share	**5.35p**	4.85p	+10.3%

Key Points

- Sales on a like for like basis increased by 3.1% in the UK and 7.2% in Continental Europe
- Profit before amortisation of intangibles, interest and tax increased by 7.2%
- 2007 interim dividend increased by 10.3% from 4.85p to 5.35p

* Adjusted profit is profit before amortisation of intangibles, interest and tax

Chairman's Statement

Group sales for the first six months increased by 5.5% from £245.7 million to £259.1 million including a contribution of £4.3 million from the businesses acquired since July last year. Profit before amortisation of intangibles, interest and tax increased by 7.2% from £19.74 million to £21.16 million.

Sales on a like for like basis increased by 3.1% in the UK and 7.2% in Continental Europe.

Earnings and dividend
Basic earnings per share increased by 6.4% from 15.6p to 16.6p. The board is pleased to declare an interim dividend of 5.35p per share, an increase of 10.3% on last year's interim dividend of 4.85p per share. The dividend will be paid on 2 January 2008 to shareholders on the register at 7 December 2007.

UK operations
With the establishment of the ***regional commercial*** business sector, the group operates with five clearly defined business sectors. These sectors now incorporate 50 businesses operating from 21 principal distribution centres and 7 service centres. The management teams in these businesses enjoy product, sales and marketing autonomy whilst complying with consistent operating procedures and strict financial reporting disciplines.

The 5 business sectors are:

Regional multi-product: these 20 regional businesses, which account for 60% of UK sales and market and distribute a comprehensive range of residential and commercial floorcovering, increased their sales by 2.5%.

National multi-product: due to the ongoing success of the Mercado business and its national infrastructure, we currently have a project underway to expand its Leeds distribution hub by 20,000 square feet to 205,000 square feet. This will further enhance the opportunity for Mercado to develop its residential and commercial business throughout England and Wales.

Regional commercial: this newly formed sector is growing ahead of expectations with the benefit of the acquisitions of Concept (Midlands) in October 2006 and 3D Flooring Supplies in March 2007. Total sales of the 10 businesses grew by 26.6%. It is our intention, either through acquisition or establishing new operations, to increase the geographical coverage of this sector.

Residential specialist: the 13 specialist businesses operating in this sector continue to prosper with sales growing by 8.1%, principally in medium and high quality carpet products. The recent acquisition of the trade and assets of Plantation Rug Company during July 2007, gives the group an opportunity to further develop sales of rugs in addition to our existing activities through Crucial Trading and National Carpets.

Commercial specialist: the original three businesses in this sector have enjoyed a positive first half with sales increasing by 12.7%. The sector has been enhanced by the acquisition during April 2007 of Florprotec, a leading supplier of floor protection products in the UK.

Fundamental to the group's strategy and policy is the ongoing development and relationships with the leading floorcovering manufacturers of residential and commercial products. This ensures that the group and subsequently its customers are at the forefront of all new product development for the UK marketplace.

The group continues to maximise its market presence through 337 employed external sales people who, during the first six months, have positioned 448,000 point of sale items into independent floorcovering retailers and flooring contractors to support the launch of 2,165 new product ranges. This has enabled growth through each of our product segments of carpet, residential vinyl, wood, laminate and commercial flooring.

Investments
The new 105,000 square foot purpose built freehold facility for Wilkies in Leeds became operational in October 2006 and this business is operating ahead of expectations. We have now commenced construction of a new freehold facility for MCD Wales in Bridgend which will be operational in the spring of 2008. The group continues to assess other opportunities to re-house existing businesses, increasing capacity in conjunction with the latest material handling capability, to allow them to continue to develop their business and exploit market opportunities.

Continental Europe
Our three businesses in France, Switzerland and the Netherlands have continued their significantly improved performance from 2006 into 2007. The management teams of these businesses have capitalised on improving marketing conditions and each business contributed to a combined increase in sales of 7.2%. This has resulted in operating margins improving from 2.7% to 3.6%.

Acquisitions
The three recently acquired businesses; 3D Flooring Supplies, Florprotec and Plantation Rug Company enlarge our activities in the business sectors of regional commercial, commercial specialist and residential specialist respectively. Each of these acquisitions, including Concept (Midlands) acquired in October 2006, are performing ahead of expectations. The group continues to evaluate acquisitions in both the UK and Continental Europe. We would anticipate making further acquisitions which enhance our market position and contribute to an increase in profitability.

Purchase of own shares
Earlier this year, the board decided to commence a share buy-back programme to return cash to shareholders and improve balance sheet efficiency. Further to our announcement on 25 May 2007 regarding the introduction of a share buy-back programme, I can report that as at 30 June 2007, the company had acquired 2,118,006 shares at an average price of £5.85 per share. Since then, a further 1,185,000 million shares have been acquired at an average price of £5.54 per share bringing expenditure during the year to date to £18.96 million.

Adjusted profit
Profit before amortisation of intangibles, interest and tax has been calculated as follows:

	2007 £000	2006 £000
Profit for the period	**14,415**	13,582
Add:		
Taxation	**6,178**	5,961
Net financing costs	**147**	200
Amortisation of intangibles	**415**	–
Adjusted profit	**21,155**	19,743

Cash flow
In keeping with our policy of providing our customers with an extensive product offering and high levels of service, we invested a further £7.5 million in inventory during the first six months of 2007. This was the primary reason for cash generated from operations declining from £11.7 million last year to £6.9 million.

Cash outflows from investing activities included £2.9 million expended on acquisitions during the first half. Included within this amount is £1.5 million relating to the purchase of intangible assets. In line with our policy on intangible assets, £0.4 million has been amortised through the income statement during the first six months and the balance will be amortised in full during the six month period to 31 December 2007.

Cash flows from financing activities include £12.4 million relating to the purchase of shares during the first six months.

The combination of additional inventory investment, acquisition activity and the share buy-back programme meant that net cash decreased by £22.1 million during the first half of 2007 compared with a decrease of £3.4 million during the equivalent period last year.

Outlook
During 2007, the group has enjoyed a progressively improving sales trend and we are well positioned entering the traditionally busy autumn selling period. The management teams of our individual businesses in the UK and Continental Europe are clearly focused on their product, sales and operations and we look forward to achieving our objectives for the year.

Graham Waldron
11 September 2007

Consolidated Income Statement

unaudited

	Note	**Six months ended 30 June 2007 £000**	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Revenue	4	**259,076**	245,672	509,899
Cost of sales		**(179,281)**	(170,112)	(350,506)
Gross profit		**79,795**	75,560	159,393
Distribution expenses		**(42,810)**	(40,662)	(81,623)
Administrative expenses		**(16,245)**	(15,155)	(33,829)
Operating profit	4	**20,740**	19,743	43,941
Financial income	6	**3,214**	2,270	4,926
Financial expenses	6	**(3,361)**	(2,470)	(5,309)
Net financing costs		**(147)**	(200)	(383)
Profit before tax		**20,593**	19,543	43,558
Taxation	7	**(6,178)**	(5,961)	(13,067)
Profit for the period	4	**14,415**	13,582	30,491
Dividend per share	9	**20.15p**	18.00p	18.00p
Earnings per share				
Basic	8	**16.6p**	15.6p	35.1p
Diluted	8	**16.4p**	15.5p	34.8p

Consolidated Statement of Recognised Income and Expense

unaudited

	Note	**Six months ended 30 June 2007 £000**	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Foreign exchange translation differences arising on translation of overseas operations		**(199)**	(174)	(419)
Actuarial gains and losses on defined benefit pension plans		**5,028**	(1,500)	(173)
Tax recognised on income and expenses recognised directly in equity		**(1,776)**	234	1,057
Net income recognised directly in equity		**3,053**	(1,440)	465
Profit for the period		**14,415**	13,582	30,491
Total recognised income and expense	9	**17,468**	12,142	30,956

Consolidated Balance Sheet

unaudited

	Note	At 30 June 2007 £000	At 30 June 2006 £000	At 31 December 2006 £000
Non-current assets				
Property, plant and equipment		**86,999**	78,292	85,032
Intangible assets		**14,265**	13,210	13,210
Deferred tax assets		**6,815**	8,286	9,182
		108,079	99,788	107,424
Current assets				
Inventories		**102,947**	92,720	94,217
Trade and other receivables		**93,616**	86,246	91,284
Cash and cash equivalents		**19,169**	33,146	41,861
		215,732	212,112	227,362
Non-current assets classified as held for sale		**–**	3,436	–
Total assets		**323,811**	315,336	334,786
Current liabilities				
Bank overdraft		**(416)**	(333)	(1,010)
Other interest-bearing loans and borrowings		**–**	(430)	(267)
Trade and other payables		**(155,460)**	(145,692)	(149,422)
Employee benefits		**(1,484)**	(1,078)	(1,102)
Income tax payable		**(11,801)**	(11,723)	(10,184)
		(169,161)	(159,256)	(161,985)
Non-current liabilities				
Other interest-bearing loans and borrowings		**–**	(80)	–
Employee benefits		**(10,819)**	(20,766)	(16,124)
Deferred tax liabilities		**(3,280)**	(1,256)	(3,665)
		(14,099)	(22,102)	(19,789)
Total liabilities		**(183,260)**	(181,358)	(181,774)
Net assets		**140,551**	133,978	153,012
Equity attributable to equity holders of the parent				
Share capital	9	**4,292**	4,352	4,354
Share premium	9	**53,512**	53,336	53,428
Translation reserves	9	**(815)**	(751)	(616)
Retained earnings	9	**83,562**	77,041	95,846
Total equity		**140,551**	133,978	153,012

Consolidated Cash Flow Statement

unaudited

	Note	**Six months ended 30 June 2007 £000**	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Cash flows from operating activities				
Profit before tax for the period		**20,593**	19,543	43,558
Adjustments for:				
Depreciation, amortisation and impairment		**2,735**	2,088	4,974
Financial income		**(3,214)**	(2,270)	(4,926)
Financial expense		**3,361**	2,470	5,309
(Profit)/loss on sale of property, plant and equipment		**(14)**	(1)	10
Equity settled share-based payment expenses		**250**	208	472
Operating profit before changes in working capital and provisions		**23,711**	22,038	49,397
Increase in trade and other receivables		**(864)**	(1,802)	(6,810)
Increase in inventories		**(7,524)**	(1,519)	(2,930)
(Decrease)/increase in trade and other payables		**(8,401)**	(7,016)	7,987
Cash generated from the operations		**6,922**	11,701	47,644
Interest paid		**(1,224)**	(904)	(2,023)
Tax paid		**(4,845)**	(5,966)	(11,622)
Additional contributions to defined benefit pension plan		**(742)**	(479)	(3,927)
Net cash from operating activities		**111**	4,352	30,072
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		**144**	61	1,816
Interest received		**1,544**	964	2,001
Acquisition of subsidiary, net of cash acquired		**(2,864)**	–	(1,369)
Acquisition of property, plant and equipment		**(4,231)**	(5,826)	(12,884)
Net cash from investing activities		**(5,407)**	(4,801)	(10,436)
Cash flows from financing activities				
Proceeds from the issue of share capital		**86**	1,082	1,176
Payment to acquire own shares		**(12,392)**	–	–
Payment of finance lease liabilities		**(267)**	(228)	(497)
Dividends paid		**(4,218)**	(3,789)	(15,612)
Net cash from financing activities		**(16,791)**	(2,935)	(14,933)
Net (decrease)/increase in cash and cash equivalents		**(22,087)**	(3,384)	4,703
Cash and cash equivalents at 1 January		**40,851**	36,193	36,193
Effect of exchange rate fluctuations of cash held		**(11)**	4	(45)
Cash and cash equivalents at end of period	10	**18,753**	32,813	40,851

Notes to the Interim Financial Results

unaudited

1 ACCOUNTING POLICIES

The interim financial information has been prepared applying the accounting policies and presentation that were applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2006.

The comparative figures for the financial year ended 31 December 2006 are not the group's statutory accounts for that financial year. Those accounts have been reported on by the group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

2 ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2006.

3 FINANCIAL RISK MANAGEMENT

All aspects of the group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2006.

Notes to the Interim Financial Results continued

unaudited

4 SEGMENT REPORTING

The group's activities are wholly aligned to the sales, marketing, supply and distribution of floorcovering products. These activities are carried out from business centres located in both the UK and Continental Europe. The group's internal management structure and financial reporting systems treat the UK and Continental Europe as two separate segments because of the difference in reward arising from these two markets and this forms the basis for the geographical presentation of the primary segment information given below.

	UK			Continental Europe			Total		
	30 June 2007 £000	30 June 2006 £000	31 Dec 2006 £000	**30 June 2007 £000**	30 June 2006 £000	31 Dec 2006 £000	**30 June 2007 £000**	30 June 2006 £000	31 Dec 2006 £000
Revenue									
External sales	**219,414**	208,668	434,321	**39,662**	37,004	75,578	**259,076**	245,672	509,899
Result									
Segment result	**20,451**	19,201	43,670	**1,408**	1,017	2,044	**21,859**	20,218	45,714
Unallocated corporate expenses							**(1,119)**	(475)	(1,773)
Operating profit							**20,740**	19,743	43,941
Financial income							**3,214**	2,270	4,926
Financial expense							**(3,361)**	(2,470)	(5,309)
Taxation							**(6,178)**	(5,961)	(13,067)
Profit for the period							**14,415**	13,582	30,491
Other information									
Segment assets	**282,295**	270,186	293,280	**34,701**	33,428	32,324	**316,996**	303,614	325,604
Unallocated assets							**6,815**	11,722	9,182
Consolidated total assets							**323,811**	315,336	334,786
Segment liabilities	**(124,140)**	(116,899)	(133,493)	**(18,499)**	(17,811)	(17,206)	**(142,639)**	(134,710)	(150,699)
Unallocated liabilities							**(40,621)**	(46,648)	(31,075)
Consolidated total liabilities							**(183,260)**	(181,358)	(181,774)
Capital expenditure	**3,908**	4,184	10,882	**323**	1,642	2,002	**4,231**	5,826	12,884
Depreciation	**2,009**	1,759	3,610	**311**	329	674	**2,320**	2,088	4,284
Amortisation	**415**	–	690	**–**	–	–	**415**	–	690

Each segment is a continuing operation.

Unallocated assets comprise deferred tax assets and assets held for sale. Unallocated liabilities comprise income tax, deferred tax liabilities and employee benefits.

Notes to the Interim Financial Results continued

unaudited

4 SEGMENT REPORTING – continued

Management has access to information that provides details on sales and gross margin by principal product group and across the five principal business sectors which comprise Regional multi-product, National multi-product, Regional commercial, Residential specialist and Commercial specialist. However, this information is not provided as a secondary segment since the group's operations are not managed by reference to these sub classifications and the presentation would require an arbitrary allocation of overheads, assets and liabilities undermining the presentation's validity and usefulness.

5 ACQUISITION OF SUBSIDIARIES

On 30 March 2007, the company acquired 3D Flooring Supplies Limited, a regional commercial floorcovering distributor located in south Wales and south west England, for a cash consideration of £1,377,500. On 27 April 2007, the company acquired Florprotec Limited for a cash consideration of £1,249,600. Florprotec is a leading supplier, throughout the UK, of floor protection products for the construction industry and refurbishment projects.

	Acquiree's book values £000	Fair value adjustments £000	Acquisition amounts £000
Acquiree's net assets at the acquisition date			
Intangible assets	**–**	1,470	1,470
Plant and machinery	**293**	(27)	266
Inventories	**1,297**	(8)	1,289
Trade and other receivables	**1,664**	–	1,664
Cash and cash equivalents	**9**	–	9
Bank overdraft	**(246)**	–	(246)
Trade and other payables	**(1,683)**	–	(1,683)
Income tax payable	**(67)**	–	(67)
Deferred tax liabilities	**(4)**	–	(4)
Net identifiable assets and liabilities	**1,263**	1,435	2,698
Goodwill on acquisition			–
Consideration paid			2,698
Satisfied by:			
Cash			2,627
Acquisition costs capitalised			71
			2,698

No goodwill has arisen on the transactions and the intangible assets have been attributed to the customer order books.

Notes to the Interim Financial Results continued

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6 FINANCE INCOME AND EXPENSE

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Interest income			
Bank interest	**1,432**	984	1,823
Other	**–**	47	124
Return on defined pension plan assets	**1,782**	1,239	2,979
Financial income	**3,214**	2,270	4,926
Interest expense			
Bank loans, overdrafts and other financial expenses	**(1,474)**	(953)	(1,931)
Interest on defined benefit pension plan obligation	**(1,887)**	(1,494)	(3,342)
Finance leases and similar hire purchase contracts	**–**	(23)	(36)
Financial expenses	**(3,361)**	(2,470)	(5,309)

7 TAXATION

The group's consolidated effective tax rate in respect of continuing operations for the six months ended 30 June 2007 was 30.0% (for the six months ended 30 June 2006: 30.5%, for the year ended 31 December 2006: 30.0%).

Notes to the Interim Financial Results continued

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8 EARNINGS PER SHARE

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

	Six months ended 30 June 2007 £000	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Earnings			
Earnings for the purposes of basic and diluted earnings per share being profit attributable to equity holders of the parent	**14,415**	13,582	30,491

	2007	2006	2006
Number of shares			
Issued ordinary shares at 1 January	**87,079,521**	86,512,854	86,512,854
Effect of share movement during the period	**(241,741)**	407,028	416,237
Weighted average number of ordinary shares for the purposes of basic earnings per share	**86,837,780**	86,919,882	86,929,091
Effect of diluted potential ordinary shares:			
Weighted average number of ordinary shares at period end	**86,837,780**	86,919,882	86,929,091
Share options	**2,209,691**	1,878,034	2,046,461
Number of shares that would have been issued at fair value	**(1,377,574)**	(1,381,753)	(1,422,270)
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**87,669,897**	87,416,163	87,553,282

Notes to the Interim Financial Results continued

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9 CAPITAL AND RESERVES

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium £000	Translation reserve £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2006	4,326	52,280	(577)	–	79,798	135,827
Total recognised income and expense	–	–	(174)	–	12,316	12,142
Equity-settled share based payment transactions, net of tax	–	–	–	–	208	208
Share options exercised by employees	26	1,056	–	–	–	1,082
Deferred tax on Schedule 23 share options (pre November 2002)	–	–	–	–	331	331
Dividends	–	–	–	–	(15,612)	(15,612)
Balance at 30 June 2006	4,352	53,336	(751)	–	77,041	133,978
Transfer between reserves	–	–	380	–	(380)	–
Total recognised income and expense	–	–	(245)	–	19,059	18,814
Equity-settled share based payment transactions, net of tax	–	–	–	–	264	264
Share options exercised by employees	2	92	–	–	–	94
Deferred tax on Schedule 23 share options (pre November 2002)	–	–	–	–	(138)	(138)
Balance at 31 December 2006	**4,354**	**53,428**	**(616)**	**–**	**95,846**	**153,012**
Total recognised income and expense	**–**	**–**	**(199)**	**–**	**17,667**	**17,468**
Equity-settled share based payment transactions, net of tax	**–**	**–**	**–**	**–**	**250**	**250**
Cancellation of own shares	**(64)**	**–**	**–**	**64**	**(7,627)**	**(7,627)**
Consideration for purchase of own shares	**–**	**–**	**–**	**–**	**(4,765)**	**(4,765)**
Share options exercised by employees	**2**	**84**	**–**	**–**	**–**	**86**
Deferred tax on Schedule 23 share options (pre November 2002)	**–**	**–**	**–**	**–**	**(418)**	**(418)**
Dividends	**–**	**–**	**–**	**–**	**(17,455)**	**(17,455)**
Balance at 30 June 2007	**4,292**	**53,512**	**(815)**	**64**	**83,498**	**140,551**

Notes to the Interim Financial Results continued

unaudited

9 CAPITAL AND RESERVES – continued

Purchase of own shares

Following the announcement on 25 May 2007 of the intention to initiate a share buy-back programme, the company acquired 2,118,006 of its own shares for a total consideration of £12.4 million. Of the shares acquired, 1,286,478, with a value of £7.6 million, were cancelled and 831,528, with a value of £4.8 million are held as treasury shares.

Dividends	**Six months ended 30 June 2007 £000**	Six months ended 30 June 2006 £000	The year ended 31 December 2006 £000
Interim dividend for 2006 of 4.85p paid 2 January 2007	**4,218**	–	–
Final dividend for 2006 of 15.30p proposed	**13,237**	–	–
Interim dividend for 2005 of 4.40p paid 3 January 2006	**–**	3,789	3,789
Final dividend for 2005 of 13.60p proposed	**–**	11,823	11,823
	17,455	15,612	15,612

The final proposed dividend for 2006 of 15.30p per share was authorised by shareholders at the Annual General Meeting on 25 May 2007. The final proposed dividend for 2005 of 13.60p per share was authorised by shareholders at the Annual General Meeting on 1 June 2006.

10 CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS

	At 30 June 2007 £000	At 30 June 2006 £000	At 31 December 2006 £000
Cash and cash equivalents per balance sheet	**19,169**	33,146	41,861
Bank overdrafts	**(416)**	(333)	(1,010)
Cash and cash equivalents per cash flow statements	**18,753**	32,813	40,851

11 SUBSEQUENT EVENTS

Since 30 June 2007, the company has acquired a further 1,185,000 million shares for a total consideration of £6.56 million. Total expenditure during the year to date now amounts to £18.96 million.

Notes

Notes

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