16 December 2016

UNITED CARPETS GROUP PLC

Interim results for the 6 month period ended 30 September 2016

United Carpets Group plc (the "Group" or "Company" or "United Carpets"), the third largest chain of specialist retail carpet and floor covering stores in the UK, today announces its interim results for the 6 month period ended 30 September 2016.

Key points

- Network sales* were £27.5m (2015: £27.1m)
- Revenue was £10.2m (2015: £10.4m)
- Like for like sales* increased by 2.1%
- Operating profit increased 9.1% to £636,000 (2015: £583,000)
- Profit before tax increased 8.8% to £640,000 (2015: £588,000)
- Earnings per share increased 8.2% to 0.66p (2015: 0.61p)
- Net funds were £1.8m (31 March 2016: £1.6m)
- Interim dividend of 0.13p per share payable on 20 January 2017 (2015: 0.125p)
- Like for like sales* since the period end continue to be positive against tough comparatives

* Network sales and like for like sales are defined in the financial review

Paul Eyre, Chief Executive, said:

"Notwithstanding a fairly challenging backdrop, the good momentum from last year has continued into the first half of the current financial year with trading performance proving robust. From a smaller store base we have largely maintained revenues and continued to improve Group profitability reflecting the growing quality of the store portfolio together with the careful management of costs. Demand for a good value, high quality flooring proposition remains reasonable and the Group's bed proposition is increasingly making a good contribution. United Carpets is well placed to deliver results in line with management expectations for the year overall."

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Chairman's statement

I am pleased to report on a positive trading performance. During the period under review, the Group increased its profit before tax by 8.8% and recorded a 2.1% increase in like for like sales, a creditable performance in what has been and continues to be a slightly unsettled market environment. The Board is recommending an increased interim dividend and believes the business to be well placed to achieve a satisfactory outcome for the year.

At 30 September 2016, the store network totalled 59 (2015: 62) of which 51 were franchised (2015: 48) and 8 were corporate stores (2015: 14).

The political and economic backdrop continues to be uncertain, regarding Britain's exit from the EU, and while consumer confidence has fluctuated, it does not seem to have weakened overly for the Group in the period since the Brexit vote. Demand has varied during the period, but overall the trading environment has evened out. The housing market in the UK has continued to move forward supported by the continuation of low interest rates and the expectation that this is likely to be the case for some time still.

Financial review

Network sales across the Group, including the value of retail sales by our franchisees to give a measure of the Group's turnover on a more comparable basis to a conventional retailer, were £27.5m (2015: £27.1m). Revenue, which as in previous years includes marketing and rental costs incurred by the Group and recharged to franchisees, was £10.2m (2015: £10.4m). The reduction in sales as a result of decreased corporate store numbers has been largely offset by increased franchise commissions and marketing contributions (arising from increased franchisee numbers and improving performance) together with increased warehousing throughput.

Like for like sales across the whole of the network (based on stores that have traded throughout both the period under review and the corresponding period in the prior year and thus excluding stores that closed during either period) were up 2.1%, a satisfactory performance in the current economic climate.

Gross margin was 61.9% compared to 62.3% in the same period in 2015 reflecting a reduction in the average number of corporate stores and a significant increase in the proportion of sales from the warehousing division offset by some improvement in underlying gross margins. Distribution costs and administrative expenses were 55.8% of revenue, a reduction from 57.1% in the same period last year. The improvement arose from reduced corporate store numbers, further savings in the ongoing costs of supporting the franchise network as a result of improving performance offset by increased distribution costs reflecting increased throughput. The period under review saw an increase in the provision for estimated costs associated with vacating properties. However, this was more than offset by a reduction in the provision for impairment of trade receivables and the release of the provision for deferred consideration that is no longer considered to be required. Further details are provided in note 3 to the condensed consolidated interim financial statements.

Operating profit increased by 9.1% to £636,000 (2015: £583,000) and profit before tax increased to £640,000 (2015: £588,000). As a result of a small increase in the effective tax rate compared to the same period in 2015, basic earnings per share improved by 8.2% to 0.66p (2015: 0.61p).

Net funds were £1.8m at 30 September 2016 (31 March 2016: £1.6m).

Dividend

As part of the Board's intention to pay a progressive dividend broadly in line with the growth of the business, the Board is pleased to recommend an interim dividend of 0.13 pence per share to be paid on 20 January 2017 to all shareholders on the register at the close of business on 6 January 2017. The ex-dividend date will be on 5 January 2017.

Operations review

The management focus on improving the quality of the store portfolio over the last 4 years underpins the improved profitability which historically has been held back by underperforming stores.

At 31 March 2016, there were 61 stores of which 52 were franchised and 9 were corporate. During the period under review, 3 franchised stores were re-franchised to new franchisees, a franchised store and a corporate store were closed and 2 franchised stores were relocated in their respective towns. As a result, at 30 September 2016, there were 59 stores of which 51 were franchised and 8 were corporate. Since then 2 more stores have closed, one franchise and one corporate, so that today there are 57 stores in operation.

Significant benefits from the restructuring programme have been a reduction in rental costs and greater flexibility across the portfolio, with generally shorter lease terms and tenant break clauses. This has meant there has been a degree of movement to new sites including, on a very selective basis, a handful of stores moving to slightly more expensive locations where the Company has started to see some encouraging results.

Chairman's statement *(continued)*

Operations review *(continued)*

The Group has continued to enhance its training programme across the business for all sales staff within the network. The focus continues to be on customer service and providing value for money. The customer proposition remains centred on delivering excellent quality products at highly competitive price points and this message is supported through the Group's centralised programme of marketing, pushing awareness of the United Carpets brand and group-wide offers on specific products designed to increase footfall across the store network.

Franchising and Retail

Floor coverings are the Group's primary driver of sales (predominantly carpet, laminate and vinyl floorings) through both franchised stores and the Group's own corporate stores. In the period under review, the portfolio performed well generating a satisfactory 1.7% increase in like for like sales in a less settled market environment. This reflects the efforts that continue to be made across the business from increasing our focus on customer service, developing new targeted marketing campaigns and providing 'on-trend' product ranges that appeal to our customers' aspirations.

The sale of beds alongside flooring continues to make good progress across the portfolio as part of the core sales proposition. Management continues to believe that the combination of the two is a natural partnership and have worked hard to encourage all franchisees to adopt the same approach. This has largely worked and bed sales have continued to be positive, with like for like bed sales for the period increasing by 6.8%.

Warehousing

Our in-house cutting operation continues to support the whole network, providing a quick, efficient cutting and delivery service enabling attractive retail price points with good margins. It is now 9 years since we brought these services in-house and in that time we have settled upon an efficient model which is enhancing the whole back-end support for the business and building upon our Warehousing division's recent success as "most improved supplier", as voted by the store network.

Property

The property division leases properties from third parties and sublets those properties to the store network.

People

The business is performing well and this is due to the consistent efforts of the franchisees, employees, suppliers and all stakeholders connected to the Group and on behalf of the Board I would like to thank them all for their hard work during this period.

Outlook

Like for like sales for the 10 weeks since the period end to 8 December 2016 have continued to be positive.

Despite the challenging political and economic background, the outlook for the financial year is positive having completed a successful first half. Our markets are driven to a large extent by consumer confidence and while we have ongoing political uncertainty over Brexit, the underlying base case is satisfactory, supported by a low interest rate environment combined with a housing market that continues to function reasonably well. Consequently, this should mean that our business will continue to perform. We are focused on maximising the opportunities in front of us and will continue to seek to improve on specific areas whilst protecting the profitable core of the business.

Peter Cowgill
Chairman
16 December 2016

Independent review report to United Carpets Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 6 month period ended 30 September 2016 which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing and presenting the half-yearly financial report in accordance with the AIM Rules for Companies issued by the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410'Review of Interim Financial Information performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 6 month period ended 30 September 2016 is not prepared, in all material respects, in accordance with the presentation, recognition and measurement criteria of International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements, as adopted by the European Union, and the AIM Rules of the London Stock Exchange.

RSM UK Audit LLP

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16 December 2016

Consolidated statement of comprehensive income

For the 6 month period ended 30 September 2016

	Note	6 month period ended 30 September 2016 Unaudited £'000	6 month period ended 30 September 2015 Unaudited As restated £'000	Year ended 31 March 2016 Audited £'000
Revenue	2	10,201	10,413	21,369
Cost of sales		(3,890)	(3,926)	(7,730)
Gross profit		6,311	6,487	13,639
Distribution costs		(177)	(139)	(299)
Administrative expenses		(5,512)	(5,805)	(11,925)
Other operating income		14	40	63
Operating profit	3	636	583	1,478
Financial income		6	6	12
Financial expenses		(2)	(1)	(3)
Profit before tax		640	588	1,487
Income tax expense	4	(103)	(90)	(258)
Profit for the period*	2	537	498	1,229
Earnings per share	6			
- Basic (pence per share)		0.66p	0.61p	1.51p
- Diluted (pence per share)		0.65p	0.61p	1.49p

*All activities relate to continuing operations and are attributed to the owners of the parent.

There were no items of other comprehensive income and therefore no separate section of other comprehensive income has been presented.

Consolidated statement of financial position

As at 30 September 2016

	Note	At 30 September 2016 Unaudited £'000	At 30 September 2015 Unaudited £'000	At 31 March 2016 Audited £'000
Non-current assets				
Property, plant and equipment	5	2,124	1,315	2,105
Investment property		99	-	100
Deferred tax assets		184	153	208
		2,407	1,468	2,413
Current assets				
Inventories		1,785	1,332	1,628
Trade and other receivables		2,530	2,391	2,651
Cash and cash equivalents		1,854	2,166	1,671
		6,169	5,889	5,950
Total assets		8,576	7,357	8,363
Capital and reserves				
Issued capital		814	814	814
Retained earnings		3,682	2,935	3,361
Total equity attributable to owners of the parent		4,496	3,749	4,175
Non-current liabilities				
Borrowings – finance leases		11	50	24
Trade and other payables		561	441	640
Provisions		-	75	-
		572	566	664
Current liabilities				
Borrowings – finance leases		39	52	52
Trade and other payables		2,751	2,652	2,984
Provisions		388	193	240
Current tax liabilities		330	145	248
		3,508	3,042	3,524
Total liabilities		4,080	3,608	4,188
Total equity and liabilities		8,576	7,357	8,363

Consolidated statement of changes in equity

For the 6 month period ended 30 September 2016

	Note	Issued capital £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
At 31 March 2015		814	3,251	4,065
Profit for the period		-	498	498
Equity dividends		-	(814)	(814)
At 30 September 2015		814	2,935	3,749
Profit for the period		-	731	731
Equity dividends		-	(305)	(305)
At 31 March 2016		814	3,361	4,175
Profit for the period		-	537	537
Equity dividends	7	-	(216)	(216)
At 30 September 2016		814	3,682	4,496

Consolidated statement of cash flows

For the 6 month period ended 30 September 2016

	Note	6 month period ended 30 September 2016 Unaudited Total £'000	6 month period ended 30 September 2015 Unaudited Total £'000	Year ended 31 March 2016 Audited Total £'000
Cash flows from operating activities				
Cash generated from operations	8	420	378	1,396
Interest paid		(2)	(1)	(3)
Income tax received		3	256	136
Net cash flows from operating activities		421	633	1,529
Cash flows from investing activities				
Acquisition of property, plant and equipment		(218)	(250)	(1,216)
Acquisition of investment property		-	-	(100)
Proceeds from sale of property, plant and equipment		-	5	5
Interest received		6	6	12
Net cash flows from investing activities		(212)	(239)	(1,299)
Cash flows from financing activities				
Payment of finance lease liabilities		(26)	(24)	(50)
Equity dividends paid		-	(814)	(1,119)
Net cash flows from financing activities		(26)	(838)	(1,169)
Increase/(decrease) in cash and cash equivalents in the period		183	(444)	(939)
Cash and cash equivalents at the start of the period		1,671	2,610	2,610
Cash and cash equivalents at the end of the period		1,854	2,166	1,671

Notes to the condensed consolidated interim financial statements

1. Basis of preparation

United Carpets Group plc (the "Company") is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Company for the 6 month period ended 30 September 2016 comprise the Company and its subsidiary undertakings (together referred to as the "Group").

The Group financial statements for the year ended 31 March 2016 were prepared in accordance with International Financial Reporting Standards and International Financial Reporting Interpretations Committee pronouncements as adopted by the European Union, approved by the Board of Directors on 19 August 2016 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498(2) and 498(3) of the Companies Act 2006. These condensed consolidated interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. These condensed consolidated interim financial statements for the 6 month period ended 30 September 2016 are unaudited but have been reviewed by the auditors in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity' and their Independent Review Report is included within these statements.

The accounting policies applied are consistent with those of the financial statements for the year ended 31 March 2016 and those that are expected to be adopted in the financial statements for the year ending 31 March 2017.

The Group is considering the impact of IFRS 16 'Leases' and IFRS 15 'Revenue from Contracts with Customers', which have been issued but are not yet effective. The Group does not consider that any other standards or interpretations issued by the International Accounting Standards Board (IASB) but not yet applicable will have a significant impact on the financial statements of the Group when the relevant standards come into effect for periods commencing on or after 1 April 2016.

A number of reclassifications between revenue, cost of sales and administrative expenses were made in the consolidated statement of comprehensive income in the year ended 31 March 2016 which are considered to better reflect the Group's operations. There was no impact on reported profits. The comparative numbers for the 6 month period ended 30 September 2015 have been restated to ensure comparability with an increase in revenue of £267,000 and an increase in cost of sales of £267,000.

2. Segment reporting

Segment information is presented in the condensed consolidated interim financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Franchising and Retail is the income that the Group receives from its franchise activities together with the results of its corporate stores. Warehousing reflects the results of the Group's in-house cutting operation which services the franchised and corporate stores and a small number of third parties. The Property division leases properties from third parties and sublets those properties to the store network.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Notes to the condensed consolidated interim financial statements *(continued)*

2. Segment reporting *(continued)*

	Franchising and Retail		Warehousing		Property		Consolidated	
	2016	2015	2016	2015	2016	2015	6 month period ended 30 September 2016	6 month period ended 30 September 2015 As restated
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross sales	5,516	6,490	4,348	4,057	1,503	1,534	11,367	12,081
Inter-segment sales	-	-	(854)	(1,275)	(312)	(393)	(1,166)	(1,668)
Segment revenue	5,516	6,490	3,494	2,782	1,191	1,141	10,201	10,413
Segment results	496	487	106	89	(5)	(58)	597	518
Unallocated income							25	25
Other operating income							14	40
Operating profit							636	583
Financial income							6	6
Financial expenses							(2)	(1)
Income tax expense							(103)	(90)
Profit for the period							537	498

3. Operating profit

Operating profit is arrived at after charging/(crediting):

	6 month period ended 30 September 2016 £'000	6 month period ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Release of the deferred consideration creditor relating to the acquisition of the trade, assets and certain liabilities of United Carpets (Northern) Limited	(148)	-	-
Provision for the estimated costs associated with vacating properties	253	20	84
(Release of provision)/charge for impairment of trade receivables	(135)	(21)	42

The liquidators of United Carpets (Northern) Limited have indicated that the potential dividend owed to United Carpets Group plc is likely to exceed the remaining deferred consideration of £148,000 owed by United Carpets Group plc. While the final amount of the dividend has not yet been announced, the Directors consider that the provision previously held in respect of the deferred consideration is no longer required.

Two stores and a small warehouse have closed since the period end and two further locations are anticipated to close within the next 12 months (due to lease expiry) resulting in a charge to the provision for vacating properties of £253,000 in the period.

Progress continues to be made working with franchisees to recover historic debts and consequently the provision for impairment of trade receivables has reduced by £135,000 in the period.

Notes to the condensed consolidated interim financial statements *(continued)*

4. Income tax expense

The tax charge accrued in these interim results reflects an estimated effective tax rate of 16.1% (6 month period ended 30 September 2015: 15.3%, year ended 31 March 2016: 17.4%). This includes a net credit of £36,000 (6 month period ended 30 September 2015: £38,000 credit, year ended 31 March 2016: £52,000 credit) which relates to adjustments in respect of prior periods. Excluding those items, the effective tax rate was 21.7% (6 month period ended 30 September 2015: 21.8%, year ended 31 March 2016: 20.8%), slightly higher than the standard rate of corporation tax of 20% due to expenses not deductible for tax purposes.

5. Property, plant and equipment

Acquisitions and disposals

During the 6 month period ended 30 September 2016 the Group acquired assets with a cost of £218,000 (6 month period ended 30 September 2015: £294,000, year ended 31 March 2016: £1,260,000). Assets with a net book value of £82,000 were disposed of during the 6 month period ended 30 September 2016 (6 month period ended 30 September 2015: £4,000, year ended 31 March 2016: £69,000), resulting in utilisation of the property provision of £82,000 (6 month period ended 30 September 2015: profit of £1,000, year ended 31 March 2016: loss of £2,000 and utilisation of provisions of £62,000). No investment property was acquired during the period (6 month period ended 30 September 2015: £nil, year ended 31 March 2016: £100,000).

6. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the 6 month period ended 30 September 2016 was based on the profit attributable to ordinary shareholders of £537,000 (6 month period ended 30 September 2015: £498,000, year ended 31 March 2016: £1,229,000) and a weighted average number of ordinary shares outstanding of 81,400,000 for each period.

Diluted earnings per share

The calculation of diluted earnings per share for the 6 month period ended 30 September 2016 was based on the profit attributable to ordinary shareholders of £537,000 (6 month period ended 30 September 2015: £498,000, year ended 31 March 2015: £1,229,000) and a weighted average number of ordinary shares outstanding and potential ordinary shares during the 6 month period ended 30 September 2016 of 81,994,604 (6 month period ended 30 September 2015: 82,095,901, year ended 31 March 2016: 82,286,571).

7. Equity dividends

	6 month period ended 30 September 2016 £'000	6 month period ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Special dividend paid during the period on ordinary shares of 1.0p per share	-	814	814
Final dividend in respect of 2015/16 approved during the period on ordinary shares of 0.265p per share (year ended 31 March 2016: £203,000 paid during the period on ordinary shares of 0.25p per share)	216	-	203
Interim dividend in respect of 2015/16 paid during the period on ordinary shares of 0.125p	-	-	102
	216	814	1,119

An interim dividend in respect of 2016/17 of £106,000 (2015: £102,000) being 0.13p per share (2015: 0.125p per share) has been declared but not provided in these financial statements.

Notes to the condensed consolidated interim financial statements *(continued)*

8. Cash generated from operations

	6 month period ended 30 September 2016 £'000	6 month period ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Profit before tax	640	588	1,487
Depreciation and other non-cash items:			
Depreciation of property, plant and equipment	117	97	208
Depreciation of investment property	1	-	62
(Profit)/loss on disposal of property, plant and equipment	-	(1)	2
Changes in working capital:			
(Increase)/decrease in inventories	(158)	42	(254)
Decrease/(increase) in trade and other receivables	121	(28)	(288)
(Decrease)/increase in trade and other payables	(527)	(335)	196
Increase/(decrease) in provisions	230	20	(8)
Financial income	(6)	(6)	(12)
Financial expenses	2	1	3
Cash generated from operations	420	378	1,396