

## Airea PLC

### Half Yearly Report

RNS Number : 4428D

Airea PLC

23 March 2011

AIREA plc

## Review of Operations

### Introduction

Market conditions remained depressed in many of the markets in which we operate. Despite this it is pleasing to report that the group remained profitable albeit at a reduced level, and continues to be debt free with a strong balance sheet.

The business has faced and indeed continues to face a volatile trading environment with a mix of erratic demand and raw material inflation. Residential sector sales were hit by an extremely weak High Street performance in December, but we remain encouraged by progress in the sales of new products and the winning of new business with a major multiple retailer, which should start to come on stream in our fourth quarter. Contract volumes did however hold up well as deliveries against new major contracts commenced. Raw material price inflation has become a major factor in the business, requiring careful management of selling prices to protect margins

### Group results

Sales for the period were £15.1m (2009: £16.7m). The rationalisation of the residential product range undertaken last year and previously reported accounted for £0.7m of the decline. Sales of core products were ahead by 1.2% year on year at the end of our first quarter, however the normal uplift in demand in the second quarter did not materialise and a particularly poor December left sales of ongoing residential products 16% down. Sales to the contract sector increased by 0.6%. The operating profit before exceptional items was £514,000 (2009: £757,000). The operating result after charging exceptional operating costs of £165,000 (2009 £97,000) was £349,000 (2009 £660,000).

After accounting for pension related finance costs and incorporating the appropriate tax charge the result for the period was a profit of £94,000 (2009: £362,000). Basic earnings per share were 0.20p (2009: 0.78p). Cash and cash equivalents totalled £2,430,000 (2009: £4,195,000).

Net cash used in operations in the period amounted to £946,000 (2009: generated from operations £1,313,000). The increase in working capital of £1,686,000 (2009: reduction £1,014,000) was largely due to timing issues caused by the low residential sales in the second quarter and delays in deliveries against major contracts which required action to correct excess inventories. Whilst this was achieved prior to the half year end, the impact on cash had still to work through trade payables, which showed a significant reduction. Capital expenditure of £396,000 (2009: £613,000) was largely focussed on the increased capacity of the dye house and investment to realise the operational synergies in the business. Contributions of £300,000 (2009: £600,000) were paid to the defined benefit pension scheme.

### Current trading and future prospects

The trading environment remains challenging especially in the residential sector with consumer confidence weakening in the face of an increasing tax burden, government cuts and fears over job security. We have yet to see how changes in government expenditure will impact demand for floor-coverings in the public sector markets that we serve. Increasing raw material prices resulting from commodity price inflation only add to the challenges we face but so far we have been able to pass on appropriate price increases to the market.

On a more optimistic note against this backdrop of difficult trading conditions we continue to demonstrate our ability to manage costs. Major progress has been made in the reduction of waste and distribution costs. In addition, our residential product offer is well placed to serve the mid to upper end of the market, where consumer confidence has proved most resilient. Our selection as a supplier to a major multiple retailer will support volumes towards the end of our financial year. The winning of business in new contract markets has cushioned the dip in general maintenance and refurbishment work, and we would expect to benefit from any switch of expenditure in education from major capital projects to greater refurbishment. Burmatex Sp z.o.o.

our newly established business in Poland, is making excellent progress and achieved sales growth of 50% in that market, and our international sales progress generally is extremely encouraging. Our new dyeing capability is now fully operational, and delivering a lower cost, better quality product to the business.

Margins have been impacted due to increases in selling prices lagging behind raw material prices, but we expect this to be corrected in the second half as the price increases implemented in January 2011 come through.

2011 should see some relief from the cost of surplus property. We will exit 2 large leased properties in September 2011, and so alleviate the cash effect of lease payments. In addition, following representations from the company Wakefield Council have proposed that the property owned by the Group and known as Victoria Mills, Ossett be allocated for housing development. This draft allocation is part of the council's Local Development Framework Site Specific Proposals Development Plan Document. This document was published on the 24<sup>th</sup> February 2011 and is open to public view and comment for a period of 6 weeks prior to submission to the Secretary of State. Due to the consultation process, the document is not likely to be adopted by Wakefield Council until 2012, but this emerging allocation represents a significant part of the Group's strategic review of its property portfolio and manufacturing footprint.

The board remains committed to restoring a progressive dividend policy at the earliest opportunity, and continues to implement operational improvements to mitigate difficult trading conditions and strengthen the financial position of the business to allow the restoration of dividend payments. However, at this time the need to retain financial flexibility must remain paramount and as a result the board has decided that it would be imprudent to make a dividend payment at the interim stage.

In summary despite the great uncertainty over future trading conditions the business retains the operational flexibility and financial strength to respond to changing market conditions and take advantage of opportunities when economic conditions improve.

Enquiries:

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### Consolidated Income Statement

6 months ended 31st December 2010

	Unaudited	Unaudited	Audited
	6 months ended	6 months ended	year ended
	31st December 2010	31st December 2009	30th June 2010
	£000	£000	£000
<b>Continuing operations</b>			
<b>Revenue</b>	15,080	16,679	30,899
Operating costs	(14,731)	(16,019)	(30,188)
<b>Operating profit after exceptional items</b>	349	660	711
Analysed between:			
Operating profit before exceptional items	514	757	900

Exceptional operating costs	(165)	(97)	(189)
Finance income	-	5	16
Finance costs	(160)	(150)	(300)
<b>Profit before taxation</b>	<b>189</b>	<b>515</b>	<b>427</b>
Taxation	(95)	(153)	(164)
<b>Profit for the period</b>	<b>94</b>	<b>362</b>	<b>263</b>
<b>Earnings per share</b> (basic and diluted)	<b>0.20p</b>	<b>0.78p</b>	<b>0.57p</b>

### Consolidated statement of comprehensive income

6 months ended 31st December 2010

	Unaudited	Unaudited	Audited
	6 months ended	6 months ended	year ended
	31st December 2010	31st December 2009	30th June 2010
	£000	£000	£000
Profit attributable to shareholders of the group	94	362	263
Actuarial losses recognised in the pension scheme	-	-	(379)
Related deferred taxation	-	-	106
<b>Total comprehensive income for the period</b>	<b>94</b>	<b>362</b>	<b>(10)</b>

### Consolidated Balance Sheet

as at 31st December 2010

	Unaudited	Unaudited	Audited
	31st December 2010	31st December 2009	30th June 2010
	£000	£000	£000
<b>Non-current assets</b>			
Property, plant and equipment	7,862	8,037	8,047
Deferred tax asset	2,001	2,024	2,131
	<b>9,863</b>	<b>10,061</b>	<b>10,178</b>
<b>Current assets</b>			
Loan notes	-	150	-
Inventories	7,024	6,462	7,579
Trade and other receivables	4,308	5,082	5,387
Cash and cash equivalents	2,430	4,195	3,772

	<del>13,762</del>	<del>15,889</del>	<del>16,738</del>
<b>Total assets</b>	23,625	25,950	26,916
<b>Current liabilities</b>			
Trade and other payables	(3,518)	(5,300)	(6,338)
Provisions	(830)	(672)	(627)
	(4,348)	(5,972)	(6,965)
<b>Non-current liabilities</b>			
Provisions	(100)	(929)	(704)
Pension deficit	(5,379)	(4,990)	(5,519)
Deferred tax	(163)	(162)	(198)
	(5,642)	(6,081)	(6,421)
<b>Total liabilities</b>	(9,990)	(12,053)	(13,386)
	13,635	13,897	13,530
<b>Equity</b>			
Called up share capital	11,561	11,561	11,561
Share premium account	504	504	504
Capital redemption reserve	2,395	2,395	2,395
Share option reserve	16	-	5
Profit and loss account	(841)	(563)	(935)
	13,635	13,897	13,530

**Consolidated Cash Flow Statement**

6 months ended 31st December 2010

Unaudited	Unaudited	Audited
6 months ended	6 months ended	year ended
31st December 2010	31st December 2009	30th June 2010
£000	£000	£000

**Operating activities**

Cash generated from operations	(946)	1,313	1,285
Interest received	-	5	16
Income tax received	-	132	159

	(946)	1,450	1,460
<b>Investing activities</b>			
Purchase of property, plant and equipment	(396)	(613)	(1,212)
Proceeds on disposal of property, plant and equipment	-	13	29
Earn-out receipt	-	103	103
	(396)	(497)	(1,080)
<b>Financing activities</b>			
Redemption of loan notes	-	-	150
	-	-	150
<b>Net (decrease)/increase in cash and cash equivalents</b>	(1,342)	953	530
<b>Cash and cash equivalents at start of period</b>	3,772	3,242	3,242
<b>Cash and cash equivalents at end of period</b>	2,430	4,195	3,772

### Consolidated Statement of Changes in Equity

6 months ended 31st December 2010

	Share capital	Share premium account	Capital redemption reserve	Share option reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
At 1st July 2009	11,561	504	2,395	-	(925)	13,535
Total comprehensive income for the period	-	-	-	-	362	362
At 1st January 2010	11,561	504	2,395	-	(563)	13,897
Total comprehensive income for the period	-	-	-	-	(372)	(372)
Share based payment	-	-	-	5	-	5
At 1st July 2010	11,561	504	2,395	5	(935)	13,530
Total comprehensive income for the period	-	-	-	-	94	94
Share based payment	-	-	-	11	-	11

**Notes**

## EXCEPTIONAL OPERATING

## 1 COSTS

	Unaudited 6 months ended 31st December 2010	Unaudited 6 months ended 31st December 2009	Audited Year ended 30th June 2010
	£000	£000	£000
Provision against inventories	-	120	119
Severance payments & incentives	165	80	165
Legal & professional expenses	-	-	8
Earn-out receipt	-	(103)	(103)
	<u>165</u>	<u>97</u>	<u>189</u>

The provision against inventories relate to the ongoing reorganisation of the residential carpets business. The severance payments and incentives relate to the streamlining of the operating business. The legal and professional expenses relate to the streamlining of the group structure.

The earn-out receipt relates to Sirdar Spinning Limited. This disposal was disclosed in previous periods.

## 2 EARNINGS PER SHARE

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

**Number of shares**

	Unaudited 6 months ended 31st December 2010	Unaudited 6 months ended 31st December 2009	Audited Year ended 30th June 2010
Ordinary shares for the purpose of basic earnings per share	46,242,455	46,242,455	46,242,455

**Earnings**

	Unaudited Earnings 6 months ended 31st December 2010	Unaudited Earnings 6 months ended 31st December 2009	Audited Earnings Year ended 30th June 2010
	£000	£000	£000
Group results:			
Earnings	94	362	263
Exceptional operating costs (net)			

of tax)	119	70	136
Adjusted earnings	213	432	399

**Group earnings per share**

	Unaudited 6 months ended 31st December 2010 pence	Unaudited 6 months ended 31st December 2009 pence	Audited Year ended 30th June 2010 pence
Basic adjusted	0.46	0.93	0.86
Basic	0.20	0.78	0.57

**Diluted EPS**

All options in issue were anti-dilutive.

**3 DEFERRED TAX**

	Pension deficit £000	Tax losses £000	Total £000
<b>(a) Deferred tax non-current asset</b>			
At 1st July 2009	1,523	694	2,217
Movement during the period:			
Income statement	(126)	(67)	(193)
At 1st January 2010	1,397	627	2,024
Movement during the period:			
Income statement	42	(41)	1
Statement of comprehensive income	106	-	106
At 1st July 2010	1,545	586	2,131
Movement during the period:			
Income statement	-	(130)	(130)
At 31st December 2010	1,545	456	2,001

	Unaudited 6 months ended 31st December 2010 £000	Unaudited 6 months ended 31st December 2009 £000	Audited Year ended 30th June 2010 £000
<b>(b) Deferred tax current liability</b>			
Balance brought forward	198	159	159

Movement during the period	(35)	3	39
Amount carried forward	163	162	198
The above amounts are in respect of accelerated capital allowances and other temporary differences			

4 RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH GENERATED FROM OPERATIONS

	Unaudited 6 months ended 31st December 2010 £000	Unaudited 6 months ended 31st December 2009 £000	Audited Year ended 30th June 2010 £000
Profit for the period	94	362	263
Share based payment	11	-	5
Tax charged	95	153	164
Finance costs	160	145	284
Profit on earn-out receipt	-	(103)	(103)
Depreciation	581	498	1,087
Loss/(profit) on disposal of property, plant and equipment	-	3	(13)
Decrease/(increase) in inventories	555	533	(584)
Decrease in receivables	1,079	541	264
(Decrease)/increase in payables	(2,820)	(60)	947
Decrease in provisions	(401)	(159)	(429)
Contributions to defined benefit pension scheme	(300)	(600)	(600)
Net cash (used in)/generated from operations	(946)	1,313	1,285

5 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six month period ended 31<sup>st</sup> December 2010 and 31<sup>st</sup> December 2009 has not been audited and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006.

The financial information relating to the year ended 30<sup>th</sup> June 2010 does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. This information is based on the Group's statutory accounts for that period. The statutory accounts were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and received an unqualified audit report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006. These financial statements have been filed with the Registrar of Companies.

These interim financial statements have been prepared using the recognition and measurement principles of International Financial Reporting Standards as adopted by the European Union ("IFRS"). The accounting policies used are the same as those used in preparing the financial statements for the year ended 30th June 2010. These policies are set out in the annual report and accounts for the year ended 30th June 2010 which is available on the Company's website at [www.aireapl.co.uk](http://www.aireapl.co.uk).

Further copies of this report are available from the Company Secretary at the registered office at Victoria Mills, The Green, Ossett, Wakefield, West Yorkshire WF5 0AN.

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