

AIREA plc

The principal activity of the group is the manufacturing, marketing and distribution of floor coverings.

Chairman's Statement

Airea plc is pleased to report earnings are significantly ahead of the corresponding period.

- Operating profit up 51%
- Basic earnings per share up 76%
- EBITDA up 28%

New product launches targeted at the residential market have driven growth in this sector. On the contract side however, delays in projects led to a slow down in growth and as indicated in the annual report sales in the Euro zone took some time to recover. Exports grew steadily in the period and we are seeing sales ahead of last year as we enter the second six months of the accounting period.

Investment in new technology during the second half of the last financial year will facilitate the further extension of our product range with several new designs currently being finalised for launch.

The site consolidation exercise is largely complete with discussions concerning our last leasehold operation in Wakefield reaching an advanced stage. The business continues to reap the benefits of shorter lead times, cost synergies and reduced waste.

Group Results

Revenue for the period was £12.8m (2015: £12.7m). The operating profit was £1,149,000 (2015: £759,000). After charging pension related finance costs of £305,000 (2015: £246,000) and incorporating the appropriate tax charge, the net profit for the period was £696,000 (2015: £372,000). Basic earnings per share were 1.51p (2015: 0.86p)

Operating cash flows before exceptional items and movements in working capital were £1.5m (2015: £1.1m). Working capital increased in the period by £1.2m mainly as a result of timing of payments to trade creditors. Contributions to the defined benefit pension scheme were £200,000 (2015: £200,000) in line with the agreement reached with the scheme trustees following the last triennial valuation as at 1st July 2014. Capital expenditure of £1,009,000 (2015: £518,000) was made in renewing and enhancing manufacturing plant and equipment.

The increase in the pension deficit of £579,000 resulted from a deterioration in corporate bond yields. It is an accounting standards requirement that the reported pension valuation is based on corporate bond yields even though this does not reflect the investment strategy of the plan. In reality the plan is now largely hedged against interest rate movements and inflation, which, combined with a diversified growth asset base, has produced an improved underlying position.

Outlook

Recent experience suggests that current exchange rate conditions will, in overall terms, prove to be beneficial for the company but in recent months there has been significant input price pressure resulting from commodity price rises. It is therefore difficult at this point in time to predict the longer term effect on our competitive position. As ever our margins remain the subject of careful management as we look to exploit any advantage.

Of far greater concern is the medium to long term impact of economic uncertainty on market demand. Our position is not unique of course but there has been a notable increase in volatility in an already cyclical market.

The board intends to maintain the recent pattern of dividend payments, and taking into consideration the changes in accounting period announced in December, will determine the level of interim dividend on the basis of the twelve month period ended 30th June 2017. Therefore there will not be a dividend payment at this interim stage.

Martin Toogood

Chairman

20th February 2017

Consolidated Income Statement

6 months ended 31st December 2016

	Unaudited 6 months ended 31st December 2016 £000	Unaudited 6 months ended 31st December 2015 £000	Audited Year ended 30th June 2016 £000
Revenue	12,771	12,674	24,577
Operating costs	(11,622)	(11,915)	(22,535)
Operating profit before exceptional items	1,149	730	2,013
Exceptional items:			
Exceptional costs	-	(1,271)	(1,271)
Pension credit	-	1,300	1,300
Operating profit	1,149	759	2,042
Finance income	-	-	-
Finance costs	(305)	(246)	(651)
Profit before taxation	844	513	1,391
Taxation	(148)	(141)	(114)
Profit attributable to shareholders of the group	696	372	1,277
Earnings per share (basic and diluted)	1.68p	0.86p	3.01p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

6 months ended 31st December 2016

	Unaudited 6 months ended 31st December 2016 £000	Unaudited 6 months ended 31st December 2015 £000	Audited Year ended 30th June 2016 £000
Profit attributable to shareholders of the group	696	372	1,277
Actuarial gain recognised in the pension scheme	(480)	(218)	(291)
Related deferred taxation	96	44	(83)
	(384)	(174)	(374)
Unrealised valuation gain	-	-	3,009
Related deferred taxation	-	-	(240)
	-	-	2,769
Total comprehensive income attributable to shareholders of the group	312	198	3,672

Consolidated Balance Sheet

as at 31st December 2016

	Unaudited 6 months ended 31st December 2016 £000	Unaudited 6 months ended 31st December 2015 £000	Audited Year ended 30th June 2016 £000
Non-current assets			
Property, plant and equipment	6,164	5,447	5,489
Investment property	2,701	–	2,701
Deferred tax asset	1,326	1,350	1,264
	<u>10,191</u>	<u>6,797</u>	<u>9,454</u>
Current assets			
Inventories	9,017	8,313	9,338
Trade and other receivables	4,076	3,451	4,601
Cash and cash equivalents	2,499	2,561	3,114
	<u>15,592</u>	<u>14,325</u>	<u>17,053</u>
Total assets	<u>25,783</u>	<u>21,122</u>	<u>26,507</u>
Current liabilities			
Trade and other payables	(3,656)	(3,503)	(5,505)
Provisions	(125)	(325)	(125)
	<u>(3,781)</u>	<u>(3,828)</u>	<u>(5,630)</u>
Non-current liabilities			
Obligation under finance leases	(854)	–	–
Pension deficit	(7,264)	(6,406)	(6,685)
Deferred tax	(241)	(1)	(241)
	<u>(8,359)</u>	<u>(6,407)</u>	<u>(6,926)</u>
Total liabilities	<u>(12,140)</u>	<u>(10,235)</u>	<u>(12,556)</u>
	<u>13,643</u>	<u>10,887</u>	<u>13,951</u>
Equity			
Called up share capital	10,339	10,851	10,339
Share premium account	504	504	504
Capital redemption reserve	3,617	3,105	3,617
Revaluation reserve	3,009	–	3,009
Retained earnings	(3,826)	(3,573)	(3,518)
	<u>13,643</u>	<u>10,887</u>	<u>13,951</u>

Consolidated Cash Flow Statement

6 months ended 31st December 2016

	Unaudited 6 months ended 31st December 2016 £000	Unaudited 6 months ended 31st December 2015 £000	Audited year ended 30th June 2016 £000
Cash flow from operating activities			
Profit for the year	696	372	1,277
Tax charged	148	141	114
Finance costs	305	246	651
Depreciation	334	404	837
Profit on disposal of property, plant and equipment	-	-	(6)
Pension credit	-	(1,300)	(1,300)
Inventory impairment	-	468	468
Operating cash flows before movements in working capital	1,483	331	2,041
Decrease in inventories	321	1,866	841
Decrease/(increase) in trade and other receivables	525	961	(189)
(Decrease)/increase in trade and other payables	(2,015)	(1,696)	232
Increase in provisions for liabilities and charges	-	325	125
Cash generated from operations	314	1,787	3,050
Income tax received	52	-	61
Contributions to defined benefit pension scheme	(200)	(200)	(400)
Net cash generated from operations	166	1,587	2,711
Investing activities			
Purchase of property, plant and equipment	(1,009)	(518)	(704)
Proceeds on disposal of property, plant and equipment	-	-	25
	(1,009)	(518)	(679)
Financing activities			
Interest	(6)	-	-
Obligations under finance leases	854	-	-
Share repurchase	-	-	(410)
Equity dividends paid	(620)	(391)	(391)
	228	(391)	(801)
Net (decrease)/increase in cash and cash equivalents	(615)	678	1,231
Cash and cash equivalents at start of the year	3,114	1,883	1,883
Cash and cash equivalents at end of the year	2,499	2,561	3,114

Consolidated Statement of Changes in Equity

6 months ended 31st December 2016

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2015	10,851	504	3,105	-	(3,380)	11,080
Comprehensive income for the period						
Profit for the period	-	-	-	-	372	372
Other comprehensive income for the period	-	-	-	-	(174)	(174)
	-	-	-	-	198	198
Contributions by and distributions to owners						
Dividend paid	-	-	-	-	(391)	(391)
At 31st December 2015	10,851	504	3,105	-	(3,573)	10,887
Comprehensive income for the period						
Profit for the period	-	-	-	-	905	905
Other comprehensive income for the period	-	-	-	3,009	(440)	2,569
	-	-	-	3,009	465	3,474
Contributions by and distributions to owners						
Share repurchase	(512)	-	512	-	-	-
Consideration paid on share purchase	-	-	-	-	(410)	(410)
	(512)	-	512	-	(410)	(410)
At 30th June 2016	10,339	504	3,617	3,009	(3,518)	13,951
Comprehensive income for the period						
Profit for the year	-	-	-	-	696	696
Other comprehensive income for the year	-	-	-	-	(384)	(384)
	-	-	-	-	312	312
Contributions by and distributions to owners						
Dividend paid	-	-	-	-	(620)	(620)
At 31st December 2016	<u>10,339</u>	<u>504</u>	<u>3,617</u>	<u>3,009</u>	<u>(3,826)</u>	<u>13,643</u>

Notes to the Financial Statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six month period ended 31st December 2016 and 31st December 2015 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 30th June 2016 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 2016. These policies are set out in the annual report and accounts for the year ended 30th June 2016 which is available on the company's website at www.aireaplco.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.