Airea PLC

Preliminary results

RNS Number : 9613O
Airea PLC
27 September 2011

AIREA plc

Preliminary results for the year ended 30th June 2011

Review of Operations

Overview

Faced with sustained suppressed demand in many of the markets in which we operate and exceptional raw material inflation, it is encouraging to report that the business continues to operate profitably and is supported by a strengthening balance sheet. At the same time we have made significant progress in the pursuit of our longer term objectives by enhancing our design capability, developing our sales resource and strengthening our product offer, as well as continuing to improve the reliability and agility of our manufacturing base.

The residential sector experienced the worst of the market conditions due to fragile consumer confidence and low housing activity. Our strategy remains based around superior choice, and our ongoing progress in shortening lead times allows us to provide excellent service across a wide product range.

On the contract side, strong deliveries against major retail store refurbishment programmes and public sector new build projects compensated for weak demand in the general maintenance and refurbishment market. Our developing portfolio of competitively priced products with strong design content is gaining market share and opening up new opportunities enabling us to invest in new sales resource to seek out new business sector opportunities.

Work continues to improve the quality of our international distribution channels to capitalise on the opportunities created by the enhanced product range. The Polish direct selling operation is now well established and we are looking to expand the model to neighbouring eastern European markets.

The business has been faced with exceptional raw material inflation driven by rapid cost increases in both wool and synthetic fibres, the former caused by market forces, the latter linked to oil prices. Given the fragile nature of the market it has been a challenge to increase selling prices.

Group results

Revenue for the period was £28.9m (2010: £30.9m). The rationalisation of the residential product range undertaken last year and previously reported accounted for £1.2m of the decline. After an encouraging start to the year sales of core residential products suffered in our second quarter and the depressed volumes continued through the second half. Sales to the contract sector were in line with the previous year as larger end user projects compensated for lower demand in the general maintenance and refurbishment sector. The operating profit before exceptional items was £0.8m (2010: £0.9m). The operating profit after charging exceptional operating costs of £0.3m (2010: £0.2m) was £0.5m (2010: £0.7m).

Basic adjusted earnings per share were 0.64p (2010: 0.86p), and basic earnings per share were 0.18p (2010 0.57p).

Operating cash flows before movements in working capital were in line with the prior year at £1.7m (2010: £1.7m). Working capital increased by £0.4m (2010 £0.6m decrease) as a result of cost inflation and inventory build to support new product launches. The outlay on onerous leases and other items previously provided for was £0.8m (2010: £0.4m), and contributions of £0.6m (2010: £0.6m) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2008 actuarial valuation. Capital expenditure of £0.6m (2010 £1.2m) was focussed on increasing capacity in the dye house, investment to realise the operational synergies in the business and supporting new product launches.

The pension deficit has been reassessed in the light of the Government announcement regarding the move to using the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the inflation measure for determining the minimum pension increases to be applied to the statutory index-linked features of retirement benefits. In general annual CPI increases have been lower than annual RPI increases. As a result, and in combination with other actuarial adjustments, the pension deficit reduced by £4.2m to £1.3m (2010: £5.5m).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2011 value added per employee amounted to £62,000 (2010: £60,000), operating return on sales was 2.8% (2010: 2.9%), return on average net operating assets was 5.8% (2009: 6.5%) and working capital to sales percentage was 24.4% (2010: 21.4%). The improvement in added value per employee demonstrates the ongoing improvement in productivity, whilst the small decline in return on sales and net operating assets reflects the difficult trading conditions, and the working capital ratio suffered from an increase in inventory.

Management and personnel

Our employees have faced a numbers of years of difficult trading conditions and considerable restructuring. It is a credit to our team that they have remained totally committed, and we take this opportunity to thank everyone in the business for the dedication and effort they have shown.

Current trading and future prospects

Airea plc operates in two of the most difficult market sectors. Hard pressed consumers faced with higher direct and indirect taxation, soaring inflation, and job insecurity faced with stark choices to make in almost all areas of their everyday life are, not surprisingly, reluctant to spend money on high ticket items for the home. The construction sector generally remains in the doldrums, and Government imposed public sector expenditure cuts are depressing some of our core, traditional contract markets.

The resultant squeeze of margins due to significant market over capacity, and high raw material price inflation requires us to demonstrate the very highest level of operational flexibility and performance.

So far, we have been able to maintain a steady course, and despite the pervasive sense of economic gloom we remain optimistic about the future. Both of our principal businesses continue to grow market share as we seek opportunities in less traditional market sectors and our new design team are adding new credibility to our growing product range in new and existing markets.

On a more general note, there are no specific details to report concerning the future of our Victoria Mills site, and its allocation for housing development as part of Wakefield Council's LDF .As stated in the last Interim Report we expect to exit two of our leased premises as part of our release of surplus property in the first half of the 2011-12 financial year, and so alleviate the cash effect of lease payments thereafter.

So, looking forward we see another year of challenging trading conditions as consumer confidence remains low and we start to see the full impact of the UK public sector cuts on a fragile economy. However, our strengthening product portfolio, new channels to market and flexible manufacturing base give us the capability to exploit the opportunities that do exist. In view of this and combined with our stable financial position the board is pleased to declare a final dividend of 0.5p per share. If approved, this dividend will be paid on 27th November 2011 to shareholders on the register at close of business on 28th October 2011. The board will keep the dividend policy under review and future dividends will be based upon future levels of profitability and cash flow.

Enquiries:

Neil Rylance Chief executive officer	01924 266561
Roger Salt Group finance director	01924 266561
Mark Brady Brewin Dolphin	0845 213 4729

The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 30 June 2011 or 30 June 2010. The financial information for the year ended 30 June 2010 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not include any statement under s498(2) or s498(3) of the Companies Act 2006. The consolidated balance sheet at 30th June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended have been extracted from the Group's 2011 statutory financial statements upon which the auditor's opinion is unqualified and does not include any statement under s498(2) or s498(3) of the Companies Act 2006.

The announcement has been agreed with the company's auditor for release.

Consolidated Income Statement

year ended 30th June 2011

	2011	2010
	£000	£000
Revenue	28,904	30,899
Operating costs	(28,396)	(30,188)
Operating profit after exceptional items	508	711
Analysed between:		
Operating profit before exceptional items	805	900
Exceptional operating costs	(297)	(189)
Finance income	-	16
Finance costs	(316)	(300)

Profit before taxation	192	427
Taxation	(111)	(164)
Profit for the year	81	263
Earnings per share (basic and diluted)	0.18 p	0.57 p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

year ended 30th June 2011

	2011		2010	
	£000	£000	£000	£000
Profit attributable to shareholders of the group		81		263
Other comprehensive income:				
Actuarial gains / (losses) recognised in the pension scheme	3,968		(379)	
Related deferred taxation	(1,091)		106	
		2,877		(273)
Total comprehensive income for the period		2,958		(10)

Consolidated Balance Sheet

as at 30th June 2011

	2011		2010	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		7,482		8,047
Deferred tax asset		876		2,131
		8,358		10,178
Current assets				
Inventories	8,723		7,579	
Trade and other receivables	4,475		5,387	
Cash and cash equivalents	3,048		3,772	
		16,246		16,738
Total assets		24,604		26,916
Current liabilities				
Trade and other payables	(6,157)		(6,338)	
Provisions	(482)		(627)	
		(6,639)		(6,965)
Non-current liabilities				
Provisions	(54)		(704)	
Pension deficit	(1,267)		(5,519)	
Deferred tax	(145)		(198)	
		(1,466)		(6,421)
Total liabilities		(8,105)		(13,386)
		16,499		13,530
Equity				

Called up share capital	11,561	11,561
Share premium account	504	504
Capital redemption reserve	2,395	2,395
Share option reserve	16	5
Retained earnings	2,023	(935)
	16,499	13,530

Consolidated Cash Flow Statement

year ended 30th June 2011

	2011 £000	2010 £000
Operating activities		
Cash (used in) / generated from operations	(144)	1,285
Interest received	-	16
Income tax received	-	159
	(144)	1,460
Investing activities		
Purchase of property, plant and equipment	(605)	(1,212)
Proceeds on disposal of property, plant and equipment	25	29
Earn out receipt	-	103
	(580)	(1,080)
Financing activities		
Redemption of loan notes	-	150
	-	150
Net (decrease) / increase in cash and cash equivalents	(724)	530
Cash and cash equivalents at start of the year	3,772	3,242
Cash and cash equivalents at end of the year	3,048	3,772

Consolidated Statement of Changes in Equity

year ended 30th June 2011

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Share option reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2009	11,561	504	2,395	-	(925)	13,535
Total comprehensive income for the year	-	-	-	-	(10)	(10)
Share based payment	-	-	-	5	-	5
At 30th June and 1st July 2010	11,561	504	2,395	5	(935)	13,530
Total comprehensive income for the year	-	-	-	-	2,958	2,958
Share based payment	-	-	-	11	-	11
At 30th June 2011	11,561	504	2,395	16	2,023	16,499

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2011 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk on 7th October 2011.

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