Airea PLC

Preliminary Results

RNS Number : 3962T
Airea PLC
28 September 2010

AIREA plc

Preliminary results for the year ended 30th June 2010

Review of Operations

Introduction

We are pleased to report a year of significant progress set against a backdrop of continuing global recessionary conditions and depressed demand in the markets in which we operate. The work done in lowering our cost base combined with improved sales margins from our repositioned product offer delivered a return to profitability and positive cash flow.

The transformation of the product portfolio and point of sales estate of our residential carpet business is now largely complete and the brand continues to regain its reputation for innovation and design. However, the second half saw particularly challenging market conditions with soft trading conditions adversely affecting sales. As described in our interim report, the success achieved in winning major contracts demonstrates the improved awareness of the Burmatex brand within the architect and specification community sector, building on the traditional strength in the flooring contractor sector. Underlying demand suffered from low levels of activity in the construction and refurbishment market, with the new contracts only coming on stream in the final weeks of the year.

Group results

Revenue reduced by £10.1m to £30.9m (2009: £41.0m). Of the decline, circa £6.5m is directly attributable to the exit from loss making contracts and the withdrawal of products as part of the rationalisation of the domestic product range. Of the remaining business, sales to the residential sector declined by 14.8% and to the contract sector by 6.7%.

The operating result before exceptional items was a profit of £0.9m (2009: loss £0.5m). The operating result after charging exceptional operating costs of £0.2m (2009: exceptional operating costs £4.3m and goodwill impairment £4.0m) was an operating profit of £0.7m (2009: loss £8.8m).

After accounting for finance income and finance costs, and incorporating the appropriate tax charge the result for the year was a profit of £0.3m (2009: loss £9m). Basic earnings per share were 0.57p (2009: loss per share 19.40p).

Net cash generated from operating activities in the year amounted to £1.3m (2009: used in operations £2.4m). Working capital reduced by £0.6m (2009: £1.7m) despite a build up of inventory to service new contracts. Capital expenditure of £1.2m (2009: £0.9m) was largely related to the completion of the product range renewal projects. Contributions of £0.6m (2009: £2.5m) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2008 actuarial valuation.

The progression in trading performance over the last four years is demonstrated below:

Financial years ended 30 June:	2007	2008	2009	2010
	£m	£m	£m	£m
Cash generated from (used in) continuing operations	4.5	(4.1)	(2.4)	1.3
Operating profit/(loss) before exceptional items from continuing operations	1.5	0.5	(0.5)	0.9

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2010 value added per employee amounted to £60,000 (2009: £58,000), operating return on sales was 2.9% (2009: 1.2% negative), return on average net operating assets was 6.5% (2009: 2.7% negative) and working capital to sales percentage was 21.4% (2009: 18.0%). The general improvement in ratios reflects the improved sales margins and cost reductions. The working capital ratio suffered from an increase in inventory and trade receivables relating to the start up of new contract business.

Management and personnel

As reported in the interim report, Martin Toogood succeeded Tim Vernon as non-executive chairman on 6th November 2009**.** Tim stepped down from the board after over five years service, and we would like to thank him for his contribution and wish him well for the future. Roger Salt was appointed to the position of group finance director on 21 September 2010, a role he takes on in addition to his duties as company secretary.

Current trading and future prospects

Both sides of our business experience seasonal changes in demand for their products, and the second half of the financial year represents a quieter period for both businesses. So with this in mind and despite poor consumer demand for residential carpets in the immediate post Christmas period it was encouraging to see that the business was able to produce an operating profit (before exceptional items) of £0.9m for the year.

As forecast at the half year the commercial flooring business started deliveries on several major new contracts and despite the unexpected delays in the commencement of the contracts this represents a significant breakthrough in sales outside traditional core markets. There has also been significant progress in developing markets outside the UK following a thorough overhaul of the international sales and distribution network including the creation of Burmatex SP ZOO in Poland now selling direct to customers and specifiers.

In the last six months the company has invested in plant and equipment to expand the capability of its Wakefield dyeing facility. This will facilitate further exploitation of the manufacturing and operational synergies presented by the joint capabilities of both operations.

So, in summary both businesses are now well placed to meet the new challenges presented by continuing economic uncertainty and are less reliant on traditional sources of business both inside and outside the UK. It still remains to be seen what the long term effect of UK public sector expenditure cuts will have on the UK economy as a whole, and UK demand for household goods in particular. However, we remain optimistic but prudent in terms of strict control of cash resources. The board have concluded that it would not be appropriate to propose a final dividend, but remains committed to introducing a progressive dividend policy when circumstances allow.

Enquiries:

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The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 30 June 2010 or 30 June 2009. The financial information for the year ended 30 June 2009 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 2010, 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 2010 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 2010

	2010	2009
	£000	£000
CONTINUING OPERATIONS		
Revenue	30,899	40,970
Operating costs	(30,188)	(45,792)
Impairment of goodwill	-	(4,000)
Operating profit / (loss) after exceptional items	711	(8,822)
Analysed between:		
Operating profit / (loss) before exceptional items	900	(496)
Exceptional operating costs	(189)	(4,326)
Impairment of goodwill	-	(4,000)
Finance income	16	97
Finance costs	(300)	(340)
Profit / (loss) before taxation	427	(9,065)
Taxation	(164)	103
Profit / (loss) from continuing operations	263	(8,962)
Loss from discontinued operations	-	(10)
Profit / (loss) for the year	263	(8,972)
Earnings / (loss) per share (basic and diluted)	0.57 p	(19.40)p
Earnings / (loss) per share from continuing operations		
(basic and diluted)	0.57 p	(19.38)p

Consolidated Statement of Comprehensive Income

year ended 30th June 2010

	2010		2009	
	£000	£000	£000	£000
Profit / (loss) attributable to shareholders of the group		263		(8,972)
Actuarial losses recognised in the pension scheme	(379)		(2,140)	
Related deferred taxation	106		599	
		(273)		(1,541)
Total comprehensive income for the period		(10)		(10,513)

Consolidated Balance Sheet

as at 30th June 2010

	2010		2009	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		8,047		7,938
Deferred tax asset		2,131		2,217
		10,178		10,155
Current assets				
Loan notes	-		150	
Inventories	7,579		6,995	
Trade and other receivables	5,387		5,622	
Income tax receivable	-		121	
Cash and cash equivalents	3,772		3,242	
		16,738		16,130
Total assets		26,916		26,285
Current liabilities				
Trade and other payables	(6,338)		(5,391)	
Provisions	(627)		(722)	
		(6,965)		(6,113)
Non-current liabilities				
Provisions	(704)		(1,038)	
Pension deficit	(5,519)		(5,440)	
Deferred tax	(198)		(159)	
		(6,421)		(6,637)
Total liabilities		(13,386)		(12,750)
		13,530		13,535
Equity				
Called up share capital		11,561		11,561
Share premium account		504		504
Capital redemption reserve		2,395		2,395
Share option reserve		5		-
Retained earnings		(935)		(925)
		13,530		13,535

Consolidated Cash Flow Statement

year ended 30th June 2010

	2010	2009
	£000	£000
Operating activities		
Cash generated from / (used in) operations	1,285	(2,401)
Interest received	16	64
Income tax received	159	435
	1,460	(1,902)
Investing activities		
Purchase of property, plant and equipment	(1,212)	(878)
Proceeds on disposal of property, plant and equipment	29	549
Earn out receipt	103	-
	(1,080)	(329)
Financing activities		
Equity dividends paid	-	(740)
Redemption of loan notes	150	150
	150	(590)

Net increase / (decrease) in cash and cash equivalents	530	(2,821)
Cash and cash equivalents at start of the year	3,242	6,063
Cash and cash equivalents at end of the year	3,772	3,242

Consolidated Statement of Changes in Equity

year ended 30th June 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 2008	11,561	504	2,395	-	10,328	24,788
Total comprehensive income for the year	-	-	-	-	(10,513)	(10,513)
Equity dividends paid	-	-	-	-	(740)	(740)
At 30th June and 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 2010	11,561	504	2,395	5	(935)	13,530

Notes:

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2010 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk on 8th October 2010.

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