Airea PLC - Half Yearly Report

RNS Number : 3372P
Airea PLC
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AIREA plc

Interim Results for the six months ended 31st December 2008.

Introduction

The six month period to 31st December 2008 has been one of difficult trading conditions and considerable uncertainty. During this period we have undertaken a fundamental review of our manufacturing operations in order to reduce costs and simplify our business.

Sales declined in the period mainly due to the erosion of consumer confidence as a consequence of growing economic uncertainty. Towards the end of the period there was a similar, but less pronounced, decline in confidence in the commercial sector as a result of the tightening in credit facilities.

As foreshadowed in the announcement in December 2008, the group has incurred an operating loss in the period. Following a critical review of our asset base these accounts include significant provisions for impairment of property, plant and equipment, surplus inventories, onerous leases and impairment of goodwill.

During the period we have invested heavily in new product development, particularly in the residential sector. By the end of the financial year the vast majority of our product range will have been redesigned and relaunched into the market.

The results

Within continuing operations, sales of floor covering products reduced by 9% to £23.0m (2007: £25.4m) in the period, with maintained sales in commercial products combined with a decline in sales of residential products. The operating result was a loss of £9.0m (2007: operating profit £9.9m) but the period to 31st December 2008 includes exceptional operating costs of £4.1m (2007: £0.3m) and a provision for impairment of goodwill of £4.0m (2007: £nil). The period to 31st December 2007 included an exceptional profit on sale of property of £9.6m. After excluding these items, the operating result from continuing activities was a loss of £0.9m (2007: profit £0.6m).

After accounting for modest levels of finance income and finance costs, minor costs in connection with discontinued activities and incorporating the appropriate credit or charge for taxation, the result for the period was a loss of £8.8m (2007: profit £4.7m). The loss per share was 18.99p (2007: earnings per share 10.14p) and the adjusted loss per share, after excluding the effect of the exceptional operating costs, the provision for impairment of goodwill this year and the exceptional profit on sale of property, the related release of deferred tax and the loss on sale of the specialist yarns business last year, was 1.53p (2007: earnings per share 1.54p).

There was a cash outflow from operating activities of £2.9m (2007: £4.3m), due to a combination of the operating loss, an increase in working capital, net of provisions, and the continuing contributions to the defined benefit pension scheme. There was a decrease in cash and cash equivalents of £2.9m (2007: increase £7.8m). Total cash and cash equivalents at the end of the period amounted to £3.2m down from £6.1m at the start of the period.

As we announced in December 2008, the board are not intending to pay an interim dividend for the current financial year.

Management and personnel

Carolyn Tobin stepped down from the board on 31st December 2008 after several years' service as a non-executive director. We are pleased to announce that Martin Toogood will join the board on 1st April 2009 as a non-executive director. Martin has considerable experience at executive and non-executive level, most recently with ILVA in Scandinavia and the UK and with Carpetright in the UK and Europe. He brings considerable knowledge of retail markets which will be of great assistance in these difficult times.

Current trading and future prospects

Like-for-like sales in the early part of 2009 are around 23% below last year. Although both segments are down, the effect is more significant within residential carpets.

In the current challenging conditions, we are focussed on reducing the cost base to position the business for the future. There has been a significant reduction in headcount since the start of the financial year and numbers are expected to fall further as the year progresses.

Our cost reduction programme has resulted in a much leaner manufacturing operation, particularly in the residential sector. In recent months, we have started to see the benefits of a streamlined manufacturing footprint and this enables us to look forward with cautious optimism despite uncertainties in the market place. We have been encouraged by the sales growth from new products and have therefore accelerated our new product development plans.

In the meantime, we are looking to conserve cash and will be reducing both our working capital and capital expenditure going forward. In view of this need to conserve cash, the board do not expect to recommend the payment of a final dividend for the current financial year.

Although there is considerable uncertainty about future market conditions, we expect the commercial market to hold up reasonably well and the residential market to start to flatten out. As a consequence of our reduced operational base and an unprecedented level of new product development, we are well placed to withstand the current challenges and enjoy the benefits of an improvement in market conditions when this occurs.

Following a period of unsatisfactory results, our major priority has been to stabilise the residential carpets business and then return it to profitability. We are encouraged by the positive effects of our cost reduction programme and by consumer reaction to our new product launches and as a result of these major changes we believe that this return to profitability can be achieved in the near future. However we remain realistic about the difficulties we are all experiencing as a result of conditions in the global economy.

Enquiries:

Neil Rylance 01924 266561
Chief executive officer

Kevin Henry 01924 266561
Group finance director

Andrew Kitchingman 0845 270 8610
Managing Director - Corporate Finance
Brewin Dolphin

Consolidated Income Statement

6 months ended 31st December 2008

	Note	Unaudited 6 months ended 31st December 2008	Unaudited 6 months ended 31st December 2007	Audited year ended 30th June 2008
		£000	£000	£000
CONTINUING OPERATIONS				
Revenue		23,040	25,378	48,713
Operating costs		(28,018)	(25,073)	(48,648)
Impairment of goodwill		(4,000)	-	(8,012)
Exceptional profit on sale of property		-	9,616	9,858
Operating (loss)/profit after exceptional items		(8,978)	9,921	1,911
Analysed between:				
Operating (loss)/profit before exceptional items		(901)	555	484
Exceptional operating costs	2	(4,077)	(250)	(419)
Impairment of goodwill		(4,000)	-	(8,012)
Exceptional profit on sale of property		-	9,616	9,858
Finance income		41	-	383
Finance costs		(150)	(137)	(237)
(Loss)/profit before taxation		(9,087)	9,784	2,057
Taxation		363	(1,905)	(1,623)
(Loss)/profit from continuing operations		(8,724)	7,879	434
DISCONTINUED OPERATIONS				
Revenue		-	6,097	6,329
Operating costs		(57)	(5,780)	(6,570)
Impairment of goodwill		-	(845)	(845)
Loss on disposal of discontinued operations		-	(2,668)	(2,668)
Operating loss after exceptional items		(57)	(3,196)	(3,754)
Analysed between:				
Operating profit before exceptional items		-	317	245
Exceptional operating costs	2	(57)	-	(486)

Impairment of goodwill		-	(845)	(845)
Loss on disposal of discontinued operations		-	(2,668)	(2,668)
Finance income		-	168	188
Loss before taxation		(57)	(3,028)	(3,566)
Taxation		-	(162)	(481)
Loss from discontinued operations		(57)	(3,190)	(4,047)
(Loss)/profit for the period		(8,781)	4,689	(3,613)
(Loss)/earnings per share (basic and diluted)	4a	(18.99)p	10.14p	(7.81)p
(Loss)/earnings per share from continuing operations (basic and diluted)	4b	(18.87)p	17.04p	0.94p
Loss per share from discontinued operations (basic and diluted)	4c	(0.12)p	(6.90)p	(8.75)p

Consolidated Balance Sheet

as at 31st December 2008

	Note	Unaudited 31st December 2008 £000	Unaudited 31st December 2007 £000	Audited 30th June 2008 £000
Non-current assets				
Property, plant and equipment		7,809	9,828	8,865
Goodwill		-	12,012	4,000
Deferred tax asset	5a	1,260	1,780	1,540
Loan notes		300	300	300
		9,369	23,920	14,705
Current assets				
Inventories		8,249	10,084	10,970
Trade and other receivables		7,198	8,569	8,793
Income tax receivable		813	348	448
Cash and cash equivalents		3,171	6,272	6,063
		19,431	25,273	26,274
Non-current assets held for sale		-	140	452
Total assets		28,800	49,333	41,431
Current liabilities				
Trade and other payables		(7,107)	(8,682)	(10,891)
Non-current liabilities				
Trade and other payables		(1,715)	-	-
Pension deficit		(4,500)	(5,930)	(5,500)
Deferred tax	5c	(211)	(617)	(252)
		(6,426)	(6,547)	(5,752)
Total liabilities		(13,533)	(15,229)	(16,643)
		15,267	34,104	24,788
Equity				
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
Retained earnings	6	807	19,644	10,328
		15,267	34,104	24,788

Consolidated Cash

Flow Statement

6 months ended 31st December 2008

	Note	Unaudited 6 months ended 31st December 2008	Unaudited 6 months ended 31st December 2007	Audited year ended 30th June 2008
		£000	£000	£000
Operating activities				
Cash used in operations	8	(2,856)	(4,342)	(4,148)
Interest received		19	37	187
Income tax received/(paid)		238	(9)	5
		(2,599)	(4,314)	(3,956)
Investing activities				
Purchase of property, plant and equipment		(191)	(1,603)	(2,323)
Proceeds on disposal of property, plant and equipment		638	15,738	16,261
Disposal of subsidiary undertaking		-	2,409	2,409
		447	16,544	16,347
Financing activities				
Equity dividends paid	3	(740)	(740)	(1,110)
Redemption of loan notes		-	(88)	(88)
Repayment of bank loans		-	(3,652)	(3,652)
		(740)	(4,480)	(4,850)
Net (decrease)/increase in cash and cash equivalents		(2,892)	7,750	7,541
Cash and cash equivalents at start of period		6,063	(1,478)	(1,478)
Cash and cash equivalents at end of period		3,171	6,272	6,063

Statement of Recognised Income and Expense

6 months ended 31st December 2008

	Unaudited 6 months ended 31st December 2008	Unaudited 6 months ended 31st December 2007	Audited year ended 30th June 2008
	£000	£000	£000
(Loss)/profit attributable to shareholders of the group	(8,781)	4,689	(3,613)
Actuarial losses recognised in the pension scheme	-	-	(644)
Total recognised income and expense relating to the period	(8,781)	4,689	(4,257)

Notes

1 SEGMENTAL INFORMATION

For management purposes the group is organised into three business segments. These comprise the commercial carpet operation carried out by Burmatex Limited, the residential carpet operation carried out by Ryalux Carpets Limited and a group cost centre.

	Commercial carpets	Residential carpets	Group cost centre	Total
6 months ended 31st December 2008	£000	£000	£000	£000
Revenue	10,786	12,254	-	23,040

Operating costs	(9,876)	(17,768)	(374)	(28,018)
Impairment of goodwill	-	(4,000)	-	(4,000)
Operating profit/(loss) after exceptional items	910	(9,514)	(374)	(8,978)
Analysed between				
Operating profit/(loss) before exceptional items	999	(1,554)	(346)	(901)
Exceptional operating costs	(89)	(3,960)	(28)	(4,077)
Impairment of goodwill	-	(4,000)	-	(4,000)
Finance income	15	26	-	41
Finance costs	(138)	-	(12)	(150)
Profit/(loss) before taxation	787	(9,488)	(386)	(9,087)
Depreciation charge	215	308	-	523
Capital expenditure	69	122		191
Segment assets/(liabilities)	9,069	8,038	(1,408)	15,699
6 months ended 31st December 2007	£000	£000	£000	£000
Revenue	10,822	14,556	-	25,378
Operating costs	(9,546)	(15,158)	(369)	(25,073)
Exceptional profit on sale of property	-	-	9,616	9,616
Operating profit/(loss) after exceptional items	1,276	(602)	9,247	9,921
Analysed between				
Operating profit/(loss) before exceptional items	1,299	(413)	(331)	555
Exceptional operating costs	(23)	(189)	(38)	(250)
Exceptional profit on sale of property	-	-	9,616	9,616
Finance costs	-	-	(137)	(137)
Profit/(loss) before taxation	1,276	(602)	9,110	9,784
Depreciation charge	255	346	-	601
Capital expenditure	153	1,163	-	1,316
Segment assets/(liabilities)	10,580	21,249	(361)	31,468
Year ended 30th June 2008	£000	£000	£000	£000
Revenue	21,119	27,594	-	48,713
Operating costs	(18,703)	(29,124)	(821)	(48,648)
Impairment of goodwill	-	(8,012)	-	(8,012)
Exceptional profit on sale of property	-	-	9,858	9,858
Operating profit/(loss) after exceptional items	2,416	(9,542)	9,037	1,911
Analysed between				
Operating profit/(loss) before exceptional items	2,527	(1,341)	(702)	484
Exceptional operating costs	(111)	(189)	(119)	(419)
Impairment of goodwill	-	(8,012)	-	(8,012)
Exceptional profit on sale of property	-	-	9,858	9,858
Finance income	88	-	295	383
Finance costs	(17)	-	(220)	(237)
Profit/(loss) before taxation	2,487	(9,542)	9,112	2,057
Depreciation charge	434	657	-	1,091
Capital expenditure	308	1,603	-	1,911
Segment assets/(liabilities)	8,814	14,391	(1,155)	22,050

2 EXCEPTIONAL OPERATING COSTS

	6 months ended 31st December	6 months ended 31st December	Year ended 30th June

	2008 £000	2007 £000	2008 £000
Impairment of property, plant and equipment	588	-	276
Provision against inventories	1,071	-	10
Provision for onerous leases and related costs	2,124	-	-
Severance payments and incentives	252	215	459
Relocation costs	26	12	101
Provision for bad debts	37	-	24
Legal and professional expenses	36	23	35
	4,134	250	905

The impairment of property, plant and equipment, the provision against inventories, the provision for onerous leases and related costs and part of the severance payments and incentives relate to the ongoing reorganisation of the residential carpets business. The remainder of the severance payments and incentives and part of the relocation costs relate to the commercial carpets business. The remainder of the relocation costs and the provision for bad debts relate to the discontinuation of the yarn dyeing operation. The legal and professional expenses relate to the streamlining of the group structure.

£4,077,000 (31st December 2007: £250,000, 30th June 2008: £419,000) of the exceptional operating costs related to continuing operations and £57,000 (31st December 2007: £nil, 30th June 2008: £486,000) related to discontinued operations.

3 DIVIDENDS

	6 months ended 31st December 2008 £000	6 months ended 31st December 2007 £000	Year ended 30th June 2008 £000
Paid during the period:			
Final dividend for the year ended 30th June 2008 - 1.60p per share	740	-	-
Interim dividend for the year ended 30th June 2008 - 0.80p per share	-	-	370
Final dividend for the year ended 30th June 2007 - 1.60p per share	-	740	740
	740	740	1,110
Proposed after the period end (not recognised as a liability):			
Final dividend for the year ended 30th June 2008 - 1.60p per share	-	-	740
Interim dividend for the year ended 30th June 2008 - 0.80p per share	-	370	-
	-	370	740

4 EARNINGS PER SHARE

(a) Group results

The calculation of basic earnings per share is based on a loss of £8,781,000 (31st December 2007: earnings £4,869,000, 30th June 2008: loss £3,613,000) and on 46,242,455 (31st December 2007: 46,242,455, 30th June 2008: 46,242,455) ordinary shares, being the number in issue during the period.

Adjusted earnings per share is calculated after excluding exceptional operating costs, impairment of goodwill, the exceptional profit on sale of property, the related movements on deferred tax and the loss on disposal of discontinued operations as set out below.

	6 months ended 31st December 2008		6 months ended 31st December 2007		Year ended 30th June 2008	
	£000	pence	£000	pence	£000	pence
(Loss)/earnings and basic (loss)/earnings per share	(8,781)	(18.99)	4,689	10.14	(3,613)	(7.81)
Exceptional operating costs (net of tax)	4,073	8.81	175	0.38	634	1.37
Impairment of goodwill	4,000	8.65	845	1.82	8,857	19.15
Exceptional profit on sale of property (net of tax)	-	-	(8,982)	(19.42)	(9,158)	(19.81)
Deferred tax movements on sale of property	-	-	1,316	2.85	1,316	2.85
Loss on disposal of discontinued operations	-	-	2,668	5.77	2,668	5.77
Adjusted (loss)/earnings and basic (loss)/earnings per share	(708)	(1.53)	711	1.54	704	1.52

(b) Continuing operations

The calculation of basic earnings per share from continuing operations is based on a loss of £8,724,000 (31st December 2007: earnings £7,879,000, 30th June 2008: earnings £434,000) and on 46,242,455 (31st December 2007: 46,242,455, 30th June 2008: 46,242,455) ordinary shares.

Adjusted earnings per share from continuing operations is calculated after excluding exceptional operating costs, impairment of goodwill, the exceptional profit on sale of property and the related movements on deferred tax as set out below.

	6 months ended 31st December 2008		6 months ended 31st December 2007		Year ended 30th June 2008	
	£000	pence	£000	pence	£000	pence
(Loss)/earnings and basic (loss)/earnings per share	(8,724)	(18.87)	7,879	17.04	434	0.94
Exceptional operating costs (net of tax)	4,016	8.69	175	0.38	293	0.63
Impairment of goodwill	4,000	8.65	-	-	8,012	17.33
Exceptional profit on sale of property (net of tax)	-	-	(8,982)	(19.42)	(9,158)	(19.81)
Deferred tax movements on sale of property	-	-	1,316	2.85	1,316	2.85
Adjusted (loss)/earnings and basic (loss)/earnings per share	(708)	(1.53)	388	0.85	897	1.94

(c) Discontinued operations

The calculation of basic earnings per share from discontinued operations is based on a loss of £57,000 (31st December 2007: loss £3,190,000, 30th June 2008: loss £4,047,000) and on 46,242,455 (31st December 2007: 46,242,455, 30th June 2008: 46,242,455) ordinary shares. Adjusted earnings per share from discontinued operations is calculated after excluding exceptional operating costs, impairment of goodwill and the loss on disposal of discontinued operations as set out below.

	6 months ended 31st December 2008		6 months ended 31st December 2007		Year ended 30th June 2008	
	£000	pence	£000	pence	£000	pence
(Loss)/earnings and basic (loss)/earnings per share	(57)	(0.12)	(3,190)	(6.90)	(4,047)	(8.75)

Exceptional operating costs (net of tax)	57	0.12	-	-	341	0.74
Impairment of goodwill	-	-	845	1.82	845	1.82
Loss on disposal of discontinued operations	-	-	2,668	5.77	2,668	5.77
Adjusted earnings/(loss) and basic earnings/(loss) per share	-	-	323	0.69	(193)	(0.42)

5 DEFERRED TAX

	31st December 2008 £000	31st December 2007 £000	30th June 2008 £000
(a) Deferred tax non-current asset			
Brought forward	1,540	2,520	2,520
Movement during the period	(280)	(740)	(980)
Carried forward	1,260	1,780	1,540

The above amounts are in respect of the deferred tax asset relating to the gross pension deficit.

(b) Deferred tax current asset			
Brought forward	-	1,260	1,260
Movement during the period	-	(1,260)	(1,260)
Carried forward	-	-	-

The above amounts are in respect of the deferred tax asset relating to the assets previously held for sale.

(c) Deferred tax current liability			
Brought forward	252	738	738
Movement during the period	(41)	(121)	(386)
Disposal of subsidiary undertaking	-	-	(100)
Carried forward	211	617	252

The above amounts are in respect of accelerated capital allowances and other timing differences.

6 RETAINED EARNINGS

	31st December 2008 £000	31st December 2007 £000	30th June 2008 £000
Brought forward	10,328	15,695	15,695
(Loss)/profit for the period	(8,781)	4,689	(3,613)
Other recognised losses	-	-	(644)
Equity dividends paid	(740)	(740)	(1,110)
Carried forward	807	19,644	10,328

7 STATEMENT OF CHANGES IN TOTAL EQUITY

	31st December 2008 £000	31st December 2007 £000	30th June 2008 £000
Brought forward	24,788	30,155	30,155
(Loss)/profit for the period	(8,781)	4,689	(3,613)
Other recognised losses	-	-	(644)
Equity dividends paid	(740)	(740)	(1,110)
Carried forward	15,267	34,104	24,788

8 RECONCILIATION OF (LOSS)/PROFIT FOR THE PERIOD TO NET CASH USED IN OPERATIONS

	6 months ended 31st December 2008 £000	6 months ended 31st December 2007 £000	Year ended 30th June 2008 £000
(Loss)/profit for the period	(8,781)	4,689	(3,613)
Tax (credited)/charged	(363)	2,067	2,104
Finance costs/(income)	109	(31)	(334)
Impairment of property, plant and equipment	588	-	276
Exceptional profit on sale of property	-	(9,616)	(9,858)
Impairment of goodwill	4,000	845	8,857
Loss on disposal of discontinued operations	-	2,668	2,668
Depreciation	523	749	1,245
(Profit)/loss on disposal of property, plant and equipment	(49)	(16)	38
Current service pension cost	-	130	-
Decrease/(increase) in inventories	2,721	153	(733)
Decrease/(increase) in receivables	1,553	(2,289)	(2,747)
(Decrease)/increase in payables	(2,007)	(1,091)	1,609
Contributions to defined benefit pension scheme	(1,150)	(2,600)	(3,660)
Net cash used in operations	(2,856)	(4,342)	(4,148)

9 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six months ended 31st December 2008 and the six months ended 31st December 2007 is unreviewed and unaudited. The comparative figures for the financial year ended 30th June 2008 are not the statutory financial statements of AIREA plc for that financial year. Those financial statements have been reported on by the Company's auditors and delivered to the registrar of companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

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 2008. These policies are set out in the annual report and accounts for the year ended 30th June 2008 which is available on the Company's website at www.aireaplc.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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