Airea PLC - Final Results

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Airea PLC
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AIREA plc
Preliminary results for the year ended 30th June 2008

Review of operations

Introduction
Over the last twelve months we have completed a number of previously advised projects. These include the sale of the specialist yarns division, the disposal of certain freehold properties, re-engineering the residential carpets business and streamlining the management team.

Financial statements
The consolidated financial statements are presented under International Financial Reporting Standards for the first time. There are a number of presentational changes, the most significant of which is the analysis of the results between continuing operations and discontinued operations on the face of the consolidated income statement.

The only significant changes to the consolidated results reported previously are changes to the deferred tax position at 30th June 2007 and the fact that goodwill is no longer amortised, with amounts previously amortised since 1st July 2006 being reinstated in the consolidated balance sheet. Provisions for impairment of the goodwill associated with the residential floor coverings business and the subsidiary yarn dyeing business have then been included in the income statement for the current period.

Continuing operations
Continuing operations consist of the Burmatex commercial floor coverings business and the Ryalux residential floor coverings business. Sales reduced by 1% to £48.7m (2007: £49.3m) with growth in commercial products being offset by a decline in residential products. Burmatex has continued to benefit from the changes to the product range and the greater focus on marketing activities implemented in recent years. The decline in sales of residential products was partly due to range rationalisation and partly due to the difficult market conditions. Whilst the board remains fully committed to the residential floor coverings business, in the light of the results from the business and the challenging market conditions, it has made a significant provision for the goodwill associated with this business.

The operating profit was £1.9m (2007: £0.8m) but the year to 30th June 2008 includes an exceptional profit on sale of property of £9.9m (2007: £nil) and a provision for impairment of goodwill of £8.0m (2007: nil). After excluding this exceptional profit, the provision for impairment of goodwill and other exceptional costs of £0.4m (2007: £0.7m), operating profit before exceptional items was £0.5m (2007: £1.5m).

Earnings per share from continuing operations were 0.94p (2007: 5.65p) and adjusted earnings per share, excluding the effect of the exceptional profit on sale of property, the related deferred tax movements, the provision for impairment of goodwill and the other exceptional costs, was 1.94p (2007: 1.03p).

Discontinued operations
Discontinued operations consist of the specialist yarns business which was sold on 2nd November 2007 and the yarn dyeing business which was closed in May 2008. Sales to the date of disposal or closure were £6.3m (2007: £16.1m). The operating loss was £3.8m (2007: profit £0.8m) but this includes a loss on disposal of £2.7m (2007: £nil), a provision for impairment of goodwill, consequent upon the closure of the yarn dyeing business, of £0.8m (2007: nil) and other exceptional costs of £0.5m (2007: £45,000). After excluding these items, operating profit was £0.2m (2007: £0.9m).

Discontinued operations generated a loss per share of 8.75p (2007: earnings per share 1.05p).

Adjusted loss per share, excluding the effect of the loss on disposal, the provision for impairment of goodwill and the other exceptional costs, was 0.42p (2007: adjusted earnings per share 1.12p).

Group results

Total turnover for the year was £55.0m (2007: £65.3m). This represents a reduction of 16% due to the disposal of the specialist yarns business part way through the year combined with a decline in the sales of residential carpets. The result for the year, after accounting for the operating results described above, finance income totalling £0.6m (2007: £nil), finance costs of £0.2m (2007: 0.8m) and a tax charge of £2.1m (2007: tax credit £2.3m), was a loss of £3.6m (2007: profit of £3.1m).

There was a net cash outflow from operating activities of £4.1m (2007: inflow of £4.5m). The main reasons for the change from last year were an increase in working capital, compared to a reduction the previous year, and increased contributions to the defined benefit pension scheme. After accounting for the sale of properties and the specialist yarns business there was a net increase in cash and cash equivalents of £7.5m from £1.5m negative to £6.1m positive and an elimination of £3.7m of debt. A further substantial reduction in the pension deficit was achieved in the year and this now stands at a gross figure of £5.5m (2007: £8.4m).

The loss per share was 7.81p (2007: earnings per share 6.70p) and adjusted earnings per share, excluding the effect of the exceptional profit on sale of property, the related deferred tax movements, the provisions for impairment of goodwill, the loss on sale of the specialist yarns business and other exceptional costs were 1.52p (2007: 2.15p).

An interim dividend of 0.80p per share was paid in May 2008. In view of the results for the year, the board have given careful consideration to the level of final dividend but having taken into account the cash generated from disposals during the year, the board consider it appropriate to propose a maintained final dividend of 1.60p per share. This gives an unchanged total dividend of 2.40p per share for the year. If approved, this dividend will be paid on 25th November 2008 to shareholders on the register at the close of business on 24th October 2008. The board will keep the dividend policy under review and future dividends will be based upon future levels of profitability and cash flow.

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2008 sales per employee amounted to £122,000 (2007: £107,000), operating return on sales was 1.3% (2007: 3.6%), return on average net operating assets was 2.2% (2007: 5.7%) and working capital to sales percentage was 16.1% (2007: 18.2%). Sales per employee improved due to the rationalisation of staffing within the residential floor coverings business. The operating return on sales and the return on average net operating assets reduced as a consequence of the challenging market conditions. The working capital ratio improved following the disposal of the specialist yarns business.

Management and personnel

Steve Harrison, the former chief operating officer, left the group on 29th February 2008. Neil Rylance joined the group as managing director of the floor coverings business on 2nd June 2008 and was appointed chief executive officer on 13th June 2008. We would like to thank all our team members throughout the group for their ongoing commitment and support during a challenging period.

Current trading and future prospects

We continue to operate in highly competitive market conditions. In view of this, and the economic downturn in the UK, the start to the new financial year has been mixed with sales ahead of last year at Burmatex but down on last year at Ryalux. Overall sales in continuing activities are currently running approximately 5% below last year and margins remain under pressure.

Despite these challenges, we continue to focus on streamlining the business, not only to reduce cost but also to increase effectiveness, flexibility and speed of response with a view to improving profitability and securing the future of the group.

Work on the residential business is a major priority and the current year will see further rationalisation of the product range, further streamlining of the manufacturing operations and a renewed focus on new product development. As we move forwards, we expect the Burmatex operation to continue to improve and the Ryalux business to start to move back into an acceptable trading position.

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The financial information set out in this preliminary announcement does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

The consolidated balance sheet at 30th June 2008 and the consolidated income statement, the statement of recognised income and expense and the consolidated cash flow statement for the year then ended have been extracted from the Group's 2008 statutory financial statements upon which the auditor's opinion is unqualified and does not include any statement under section 237 of the Companies Act 1985.

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

Consolidated Income Statement
year ended 30th June 2008

	2008 £000	2007 £000
CONTINUING OPERATIONS		
Revenue	48,713	49,270
Operating costs	(48,648)	(48,461)
Impairment of goodwill	(8,012)	-
Exceptional profit on sale of property	9,858	-
Operating profit after exceptional items	1,911	809
Analysed between:		
Operating profit before exceptional items	484	1,511
Exceptional operating costs	(419)	(702)
Impairment of goodwill	(8,012)	-
Exceptional profit on sale of property	9,858	-
Finance income	383	-
Finance costs	(237)	(671)
Profit before taxation	2,057	138
Taxation	(1,623)	2,475
Profit from continuing operations	434	2,613
DISCONTINUED OPERATIONS		
Revenue	6,329	16,060
Operating costs	(6,570)	(15,243)
Impairment of goodwill	(845)	-
Loss on disposal of discontinued operations	(2,668)	-
Operating (loss)/profit after exceptional items	(3,754)	817
Analysed between:		
Operating profit before exceptional items	245	862
Exceptional operating costs	(486)	(45)
Impairment of goodwill	(845)	-
Loss on disposal of discontinued operations	(2,668)	-
Finance income	188	-
Finance costs	-	(166)
(Loss)/profit before taxation	(3,566)	651
Taxation	(481)	(168)
(Loss)/profit from discontinued operations	(4,047)	483
(Loss)/profit for the year	(3,613)	3,096
(Loss)/earnings per share		
(basic and diluted)	(7.81)p	6.70p
Earnings per share from continuing operations		
(basic and diluted)	0.94p	5.65p

(Loss)/earnings per share from discontinued operations		
(basic and diluted)	(8.75)p	1.05p

Consolidated Balance Sheet
as at 30th June 2008

	2008		2007	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		8,865		10,086
Goodwill		4,000		12,857
Deferred tax asset		1,540		2,520
Loan notes		300		-
		14,705		25,463
Current assets				
Inventories	10,970		13,312	
Trade and other receivables	8,793		10,442	
Income tax receivable	448		240	
Deferred tax asset	-		1,260	
Cash and cash equivalents	6,063		176	
		26,274		25,430
Non-current assets classified as held for sale		452		5,643
Total assets		41,431		56,536
Current liabilities				
Trade and other payables	(10,891)		(11,849)	
Borrowings	-		(5,394)	
		(10,891)		(17,243)
Non-current liabilities				
Pension deficit	(5,500)		(8,400)	
Deferred tax	(252)		(738)	
		(5,752)		(9,138)
Total liabilities		(16,643)		(26,381)
		24,788		30,155
Equity				
Called up share capital		11,561		11,561
Share premium account		504		504
Capital redemption reserve		2,395		2,395
Retained earnings		10,328		15,695
		24,788		30,155

Consolidated Cash Flow Statement
year ended 30th June 2008

	2008	2007
	£000	£000
Operating activities		
Cash (used in)/from operations	(4,148)	4,482
Interest received/(paid)	187	(602)
Income tax received/(paid)	5	(635)
	(3,956)	3,245
Investing activities		
Purchase of property, plant and equipment	(2,323)	(2,574)
Proceeds on disposal of property, plant and equipment	16,261	658
Disposal of subsidiary undertaking	2,409	-
	16,347	(1,916)
Financing activities		
Equity dividends paid	(1,110)	(1,110)
Redemption of loan notes	(88)	(80)
New bank loans received	-	3,000

Repayment of bank loans		(3,652)		(2,914)
		(4,850)		(1,104)
Net increase in cash and cash equivalents		7,541		225
Cash and cash equivalents at start of the year		(1,478)		(1,703)
Cash and cash equivalents at end of the year		6,063		(1,478)

Statement of Recognised Income and Expense

year ended 30th June 2008	2008		2007	
	£000	£000	£000	£000
(Loss)/profit attributable to shareholders of the group		(3,613)		3,096
Actuarial (losses)/gains recognised in the pension scheme	(920)		3,620	
Related deferred taxation	276		(1,086)	
		(644)		2,534
Total recognised income and expense relating to the year		(4,257)		5,630

Notes:

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2008 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk.

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