

AIREA plc

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

Chairman's Statement

The six months ended 30th June 2019 continued the strategic progress made in recent periods; however, high levels of market uncertainty within the economy resulted in tougher market conditions during the second quarter slowing the Group's financial performance.

Despite strong growth in the order book and increased sales internationally, revenue and operating profit are below the corresponding period driven by the uncertainty in the market and the economic environment. This affected the timing of customer call offs within the order book and the Group's decision to increase inventory to prepare for potential Brexit challenges, had the UK left the EU on 31st March 2019, had a significant financial impact on operating profit and cash flow.

These challenges have not held back our strategic development with further strengthening of the sales and design teams. In addition the Group has taken the opportunity to invest in the infrastructure of the business with new on-site storage facilities and a new finance and operating system to be put in place by the fourth quarter increasing our operational capabilities.

Group Results

Revenue for the period was £8.9m (2018: £9.1m). The operating profit was £1,085,000 (2018: £1,481,000). After charging pension related finance costs of £143,000 (2018: £158,000) and incorporating the appropriate tax charge the net profit for the period was £935,000 (2018: £955,000). Basic earnings per share were 2.26p (2018: 2.31p).

There were no losses and related costs for the discontinued Ryalux business (2018: £359,000 loss).

Operating cash flows before exceptional items and movements in working capital were £1.3m (2018: £1.7m). Working capital increased in the period by £0.8m (2018: £0.5m) mainly as a result of the timing of stock build. Contributions to the defined benefit pension scheme were £200,000 (2018: £200,000) in line with the agreement reached with the scheme trustees following the last triennial valuation as at 1st July 2017. Capital expenditure of £236,000 (2018: £61,000) was made in renovating additional storage facilities, renewing and enhancing manufacturing plant and equipment and supporting product launches.

Outlook

Although disappointed with the sales performance during the last six weeks of the first half we are pleased by the progress made during the period improving the foundations of the Group. Sales growth will continue to be challenging given the uncertainty that remains whilst awaiting the outcome of Brexit negotiations; however, as a UK manufacturer with a strong position in the UK and internationally and an ever increasing product portfolio, we are well placed to moderate these risks and take advantage of growth opportunities as they arise.

Given the financial performance of the Group and resulting cash flow we are pleased to be able to maintain the policy introduced in 2017 of paying an interim dividend of 0.8p (2018: 1.75p) to be paid on 24th October 2019 to shareholders on the register at close of business on 20th September 2019. The ex-dividend date is 19th September 2019.

MARTIN TOOGOOD

Chairman

2nd August 2019

Consolidated Income Statement

6 months ended 30th June 2019

| | Unaudited 6 months ended 30th June 2019 £000 | Unaudited 6 months ended 30th June 2018 £000 | Audited 12 months ended 31st December 2018 £000 |
|--|---|---|--|
| Continuing operations | | | |
| Revenue | 8,890 | 9,132 | 19,260 |
| Operating costs | (7,945) | (7,787) | (16,536) |
| Other operating income | 140 | 136 | 291 |
| Operating profit before exceptional items | 1,085 | 1,481 | 3,015 |
| Exceptional costs | – | – | – |
| Unrealised valuation gain | – | – | 250 |
| Operating profit | 1,085 | 1,481 | 3,265 |
| Finance income | 3 | – | 1 |
| Finance costs | (143) | (158) | (355) |
| Finance costs relating to GMP Equalisation | – | – | (299) |
| Profit before taxation | 945 | 1,323 | 2,612 |
| Taxation | (10) | (9) | 785 |
| Profit attributable to shareholders of the group from continuing operations | 935 | 1,314 | 3,397 |
| Discontinued operations | | | |
| Loss attributable to shareholders of the group from discontinued operations | – | (359) | (1,389) |
| Profit attributable to shareholders of the group for the period | 935 | 955 | 2,008 |
| Earnings per share (basic and diluted) for continuing operations | 2.26p | 3.18p | 8.21p |
| Earnings per share (basic and diluted) for the group | 2.26p | 2.31p | 4.86p |

Consolidated Statement of Comprehensive Income

6 months ended 30th June 2019

| | Unaudited 6 months ended 30th June 2019 £000 | Unaudited 6 months ended 30th June 2018 £000 | Audited 12 months ended 31st December 2018 £000 |
|---|---|---|--|
| Profit attributable to shareholders of the group | 935 | 955 | 2,008 |
| Actuarial loss recognised in the pension scheme | – | – | (1,284) |
| Related deferred taxation | – | – | 218 |
| | – | – | (1,066) |
| Unrealised valuation gain | – | 39 | 78 |
| Related deferred taxation | – | – | (13) |
| | – | 39 | 65 |
| Total other comprehensive income | – | 39 | (1,001) |
| Total comprehensive income attributable to shareholders of the group | 935 | 994 | 1,007 |

Consolidated Balance Sheet

as at 30th June 2019

| | Unaudited 30th June 2019 £000 | Unaudited 30th June 2018 £000 | Audited 31st December 2018 £000 |
|----------------------------------|--|--|--|
| Non-current assets | | | |
| Property, plant and equipment | 5,182 | 5,107 | 5,108 |
| Intangible assets | 69 | 114 | 95 |
| Investment property | 3,400 | 3,150 | 3,400 |
| Deferred tax asset | 1,457 | 1,415 | 1,466 |
| | 10,108 | 9,786 | 10,069 |
| Current assets | | | |
| Inventories | 7,363 | 6,918 | 6,797 |
| Trade and other receivables | 4,621 | 2,870 | 2,330 |
| Cash and cash equivalents | 1,436 | 2,448 | 2,732 |
| | 13,420 | 12,236 | 11,859 |
| Total assets | 23,528 | 22,022 | 21,928 |
| Current liabilities | | | |
| Trade and other payables | (3,614) | (4,793) | (3,571) |
| Provisions | (320) | – | (320) |
| Obligations under finance leases | (190) | (185) | (187) |
| | (4,124) | (4,978) | (4,078) |
| Non-current liabilities | | | |
| Pension deficit | (3,625) | (2,114) | (3,688) |
| Deferred tax | (304) | (268) | (305) |
| Loan | (1,551) | – | – |
| Obligation under finance leases | (227) | (417) | (323) |
| | (5,707) | (2,799) | (4,316) |
| Total liabilities | (9,831) | (7,777) | (8,394) |
| | 13,697 | 14,245 | 13,534 |
| Equity | | | |
| Called up share capital | 10,339 | 10,339 | 10,339 |
| Share premium account | 504 | 504 | 504 |
| Capital redemption reserve | 3,617 | 3,617 | 3,617 |
| Revaluation reserve | 3,096 | 3,165 | 3,096 |
| Retained earnings | (3,859) | (3,380) | (4,022) |
| | 13,697 | 14,245 | 13,534 |

Consolidated Cash Flow Statement

6 months ended 30th June 2019

| | Unaudited 6 months ended 30th June 2019 £000 | Unaudited 6 months ended 30th June 2018 £000 | Audited 12 months ended 31st December 2018 £000 |
|---|---|---|--|
| Cash flow from operating activities | | | |
| Profit for the period | 935 | 1,314 | 2,008 |
| Depreciation | 157 | 155 | 372 |
| Amortisation | 32 | 28 | 58 |
| Finance costs | 137 | 158 | 654 |
| Loss on disposal of property, plant and equipment | – | – | (291) |
| Taxation | 10 | 9 | (785) |
| Unrealised valuation gain | – | – | (250) |
| Operating cash flows before movements in working capital | 1,271 | 1,664 | 1,766 |
| (Increase)/decrease in inventories | (566) | (762) | 140 |
| (Increase)/decrease in trade and other receivables | (291) | (700) | 581 |
| Increase/(decrease) in trade and other payables | 43 | 972 | (174) |
| Increase/(decrease) in provisions for liabilities and charges | – | – | 20 |
| Cash generated from operations | 457 | 1,174 | 2,333 |
| Income tax received | – | – | – |
| Contributions to defined benefit pension scheme | (200) | (200) | (400) |
| Net cash generated from operating activities | 257 | 974 | 1,933 |
| Investing activities | | | |
| Payments to acquire intangible fixed assets | (6) | (43) | (399) |
| Payments to acquire tangible fixed assets | (230) | (18) | (29) |
| Receipts from sales of tangible fixed assets | – | – | 513 |
| | (236) | (61) | 85 |
| Financing activities | | | |
| Interest paid | (6) | (8) | (14) |
| Interest received | 3 | – | 1 |
| Proceeds from loan | 1,700 | – | – |
| Loan to Airea Employee Benefit Trust | (2,000) | – | – |
| Finance lease repayments | (93) | (91) | (183) |
| Repayment of loan | (149) | – | – |
| Equity dividends paid | (772) | (2,068) | (2,792) |
| Net cash used in financing activities | (1,317) | (2,167) | (2,988) |
| Net decrease in cash and cash equivalents | (1,296) | (1,254) | (970) |
| Cash and cash equivalents at start of the period | 2,732 | 3,702 | 3,702 |
| Cash and cash equivalents at end of the period | 1,436 | 2,448 | 2,732 |

Consolidated Statement of Changes in Equity

6 months ended 30th June 2019

| | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Revaluation reserve £000 | Profit and loss account £000 | Total equity £000 |
|---|--------------------------|-------------------------------------|--|--------------------------------|---------------------------------------|-------------------------|
| At 1st January 2018 | 10,339 | 504 | 3,617 | 3,126 | (2,267) | 15,319 |
| Comprehensive income for the period | | | | | | |
| Profit for the period | – | – | – | – | 2,008 | 2,008 |
| Actuarial loss recognised on the pension scheme | – | – | – | – | (1,066) | (1,066) |
| Revaluation of property | – | – | – | 65 | – | 65 |
| Total comprehensive income for the year | – | – | – | 65 | 942 | 1,007 |
| Contributions by and distributions | | | | | | |
| to owners | | | | | | |
| Dividend paid | – | – | – | – | (2,792) | (2,792) |
| Revaluation reserve transfer | – | – | – | (95) | 95 | – |
| Total contributions by and distributions | | | | | | |
| to owners | | | | | | |
| | – | – | – | (95) | (2,697) | (2,792) |
| At 31st December 2018 and 1st January 2019 | 10,339 | 504 | 3,617 | 3,096 | (4,022) | 13,534 |
| Comprehensive income for the period | | | | | | |
| Profit for the period | – | – | – | – | 935 | 935 |
| Actuarial loss recognised on the pension scheme | – | – | – | – | – | – |
| Total comprehensive income for the year | – | – | – | – | 935 | 935 |
| Contributions by and distributions | | | | | | |
| to owners | | | | | | |
| Dividend paid | – | – | – | – | (772) | (772) |
| Total contributions by and distributions | | | | | | |
| to owners | | | | | | |
| | – | – | – | – | (772) | (772) |
| At 30th June 2019 | 10,339 | 504 | 3,617 | 3,096 | (3,859) | 13,697 |

Notes to the Financial Statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six months ended 30th June 2019 and the six months ended 30th June 2018 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 31st December 2018 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 period ended 31st December 2018. These policies are set out in the annual report and accounts for the period ended 31st December 2018 which is available on the company's website at www.aireaplco.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 and are also available, along with this announcement, on the company's website at www.aireaplco.co.uk.

2. DISCONTINUED OPERATIONS

The residential carpets business was closed during 2018 with the below analysis for comparative purposes with no additional costs incurred during the current period.

| | Unaudited 6 months ended 30th June 2019 £000 | Unaudited 6 months ended 30th June 2018 £000 | Audited 12 months ended 31st December 2018 £000 |
|--|---|---|--|
| Discontinued operations | | | |
| Revenue | - | 920 | 935 |
| Operating costs | - | (2,313) | (2,324) |
| Loss before taxation | - | (1,393) | (1,389) |
| Taxation | - | 1,034 | - |
| Loss attributable to shareholders of the group from discontinued operations | - | (359) | (1,389) |

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