

AIREA plc

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

Chairman's Statement

Airea is pleased to report earnings are broadly in line with the corresponding period last year despite the adverse impact on international sales due to the strength of sterling against the Euro in the first half of the financial year.

The first half of the current financial year has seen major progress across a number of strategic objectives. Most significant has been the recently announced consolidation of manufacturing operations from four locations onto two existing sites occupied by the company at Ossett and Wakefield. The move not only delivers significant cost savings and efficiency improvements, but enhances our operational capability, reducing lead-times and thereby improving customer service.

Inevitably there have been one-off costs incurred as a consequence of the move i.e. rationalisation of finished inventories, redundancy payments to staff who were not able to transfer, and the relocation of equipment and inventory. These exceptional costs have been highlighted in the income statement.

On-going costs will be significantly reduced going forward. These include cost savings following the expiry of the lease of one of the properties vacated. In addition, Airea has agreed to lease to a third party its freehold property in Bury, which is no

longer required for group operations as set out above, once it has been fully vacated by the company in the third quarter of this financial year.

The first six months also saw a reduction in the pension deficit arising from the completion of a Pension Increase Exchange exercise. The initiative allowed pensioners to opt for an income stream more aligned to their personal circumstances and preferences, whilst at the same time reducing the cost of past service benefits to the scheme. The gain to profit is highlighted as exceptional in the income statement.

Group results

Revenue for the period was £12.7m (2014: restated: £13.4m). The operating profit before exceptional items was £730,000 (2014: £700,000). The exceptional charge of £1.3m related to the costs associated with the consolidation of manufacturing operations, and the exceptional income of £1.3m related to the Pension Increase Exchange. The operating profit after exceptional items was £759,000 (2014: £700,000). After charging pension related finance costs of £246,000 (2014: £215,000) and incorporating the appropriate tax charge the net profit for the period was £372,000 (2014: £371,000). Basic earnings per share were 0.86p (2014: 0.80p).

Operating cash flows before exceptional items and movements in working capital were £1.1m (2014: £1.1m). The exceptional costs incurred a cash outflow of £0.5m (2014: £0.1m). Working capital decreased by £1.1m (2014: increase £0.4m) due to

reductions in inventories. Contributions to the defined benefit pension scheme were £200,000 (2014: £200,000) in line with the agreement reached with the scheme trustees following the last triennial valuation as at 1st July 2014. Capital expenditure of £518,000 (2014: £136,000) was focussed on supporting new product launches. Overall the cash balance increased by £678,000 to £2.6m.

Outlook

The Board does not detect any fundamental changes in the outlook for the markets that we serve, and competition for business is likely to remain intense. However, the business enters the second half of the year with a reduced cost base, simplified operation and a healthy new product pipeline. In line with its recent policy, the Board has resolved to determine the level of dividend at the year end, and there will not be a dividend payment at the interim stage.

Martin Toogood

Chairman

26th February 2016

Consolidated Income Statement

6 months ended 31st December 2015

	Note	Unaudited 6 months ended 31st December 2015 £000	Unaudited 6 months ended 31st December 2014 Restated £000	Audited Year ended 30th June 2015 £000
Revenue		12,674	13,379	25,538
Operating costs		(11,915)	(12,679)	(24,440)
Operating profit before exceptional items		730	700	1,212
Exceptional items:	1			
Pension credit		1,300	-	-
Restructure of operations		(1,271)	-	-
Property dispute		-	-	(15)
Share repurchase expenses		-	-	(99)
Operating profit		759	700	1,098
Finance income		-	1	1
Finance costs		(246)	(215)	(449)
Profit before taxation		513	486	650
Taxation		(141)	(115)	(69)
Profit attributable to shareholders of the group		372	371	581
Earnings per share (basic and diluted)		0.86p	0.80p	1.29p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

6 months ended 31st December 2015

	Unaudited 6 months ended 31st December 2015 £000	Unaudited 6 months ended 31st December 2014 £000	Audited Year ended 30th June 2015 £000
Profit attributable to shareholders of the group	372	371	581
Actuarial loss recognised in the pension scheme	(218)	-	(1,635)
Related deferred taxation	44	-	267
	(174)	-	(1,368)
Total comprehensive income attributable to shareholders of the group	198	371	(787)

Consolidated Balance Sheet

as at 31st December 2015

	Unaudited 6 months ended 31st December 2015 £000	Unaudited 6 months ended 31st December 2014 £000	Audited Year ended 30th June 2015 £000
Non-current assets			
Property, plant and equipment	5,447	5,427	5,333
Deferred tax asset	1,350	1,288	1,557
	<u>6,797</u>	<u>6,715</u>	<u>6,890</u>
Current assets			
Inventories	8,313	10,358	10,647
Trade and other receivables	3,451	3,832	4,412
Cash and cash equivalents	2,561	1,915	1,883
	<u>14,325</u>	<u>16,105</u>	<u>16,942</u>
Total assets	<u>21,122</u>	<u>22,820</u>	<u>23,832</u>
Current liabilities			
Trade and other payables	(3,503)	(4,457)	(5,308)
Provisions	(325)	-	-
	<u>(3,828)</u>	<u>(4,457)</u>	<u>(5,308)</u>
Non-current liabilities			
Pension deficit	(6,406)	(5,776)	(7,443)
Deferred tax	(1)	(1)	(1)
	<u>(6,407)</u>	<u>(5,777)</u>	<u>(7,444)</u>
Total liabilities	<u>(10,235)</u>	<u>(10,234)</u>	<u>(12,752)</u>
	<u>10,887</u>	<u>12,586</u>	<u>11,080</u>
Equity			
Called up share capital	10,851	11,561	10,851
Share premium account	504	504	504
Capital redemption reserve	3,105	2,395	3,105
Retained earnings	(3,573)	(1,874)	(3,380)
	<u>10,887</u>	<u>12,586</u>	<u>11,080</u>

Consolidated Cash Flow Statement

6 months ended 31st December 2015

	Unaudited 6 months ended 31st December 2015 £000	Unaudited 6 months ended 31st December 2014 £000	Audited year ended 30th June 2015 £000
Cash flow from operating activities			
Profit attributable to shareholders of the group	372	371	581
Tax charged	141	115	69
Finance costs	246	214	448
Pension credit	(1,300)	-	-
Exceptional costs	1,271	-	114
Depreciation	404	413	830
Operating cash flows before exceptional items & movements in working capital	1,134	1,113	2,042
Exceptional costs	(1,271)	-	(114)
Increase/(decrease) in provisions for liabilities and charges	325	(115)	(115)
Inventory impairment	468	-	-
Operating cash flows after exceptional items & movements in working capital	656	998	1,813
Decrease/(increase) in working capital	1,131	(400)	(375)
Cash generated from operations	1,787	598	1,438
Contributions to defined benefit pension scheme	(200)	(200)	(400)
Net cash generated from operations	1,587	398	1,038
Investing activities			
Purchase of property, plant and equipment	(518)	(136)	(459)
Financing activities			
Interest	-	-	(1)
Share repurchase	-	-	(348)
Equity dividends paid	(391)	(277)	(277)
	(391)	(277)	(626)
Net increase/(decrease) in cash and cash equivalents	678	(15)	(47)
Cash and cash equivalents at start of the period	1,883	1,930	1,930
Cash and cash equivalents at end of the period	2,561	1,915	1,883

Consolidated Statement of Changes in Equity

6 months ended 31st December 2015

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
At 1st July 2014	11,561	504	2,395	(1,968)	12,492
Profit attributable to shareholders of the group	-	-	-	371	371
Dividend paid	-	-	-	(277)	(277)
At 1st January 2015	11,561	504	2,395	(1,874)	12,586
Profit attributable to shareholders of the group	-	-	-	210	210
Other comprehensive income for the period	-	-	-	(1,368)	(1,368)
Share repurchase	(710)	-	710	-	-
Consideration paid on share repurchase	-	-	-	(348)	(348)
At 1st July 2015	10,851	504	3,105	(3,380)	11,080
Profit attributable to shareholders of the group	-	-	-	372	372
Other comprehensive income for the period	-	-	-	(174)	(174)
Dividend paid	-	-	-	(391)	(391)
At 31st December 2015	<u>10,851</u>	<u>504</u>	<u>3,105</u>	<u>(3,573)</u>	<u>10,887</u>

Notes to the Financial Statements

1. EXCEPTIONAL OPERATING COSTS

The pension credit of £1,300,000 resulted from a reduction in past service costs due to the completion of a pension increase exchange exercise.

The restructure of operations costs of £1,271,000 arise from the consolidation of the group's manufacturing operations from four locations onto two existing sites.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The financial information for the six month period ended 31st December 2015 and 31st December 2014 has not been audited and does not constitute full financial statements within the meaning of Section 434 of the Companies Act 2006. The revenue and operating costs for the six month period ended 31st December 2014 have been restated due to the reclassification of settlement discount as required by IAS 18, Revenue Recognition.

The financial information relating to the year ended 30th June 2015 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 year ended 30th June 2015. These policies are set out in the annual report and accounts for the year ended 30th June 2015 which is available on the Company's website at www.aireaplco.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.