

Armour Group plc Half Year Report 2010

armour GROUP

Who we are

Armour Group is the UK's leading consumer electronics group within the home and in-car communications and entertainment markets, committed to designing, manufacturing and distributing leading-edge audio and visual products and solutions.

Our business model

The Group's business model is based on five elements. To maintain and develop:

- Brands that are award winning and have market presence
- A quality product portfolio
- Product innovation and proprietary technology
- An unrivalled UK customer base and distribution platform
- A first class customer service

Unaudited Interim Statement

For the six months to 28 February 2010

Results and Dividend

The Group results for the six months to 28 February 2010 reflect a significant year-on-year improvement with sales up 12% at £29.7 million and profit after tax up 55% at £0.8 million. Both of the Group's operating divisions have traded profitably and continue to make satisfactory progress in these early stages of the wider economic recovery.

- Sales up 12% at £29.7 million (2009: £26.7 million).
- Profit from operations up 21% at £1.2 million (2009: £1.0 million).
- Profit after taxation up 55% at £0.8 million (2009: £0.5 million).
- Cash outflow from operating activities of £0.3 million (2009: inflow £3.0 million).
- Basic earnings per ordinary share up 63% at 1.3p (2009: 0.8p).

The Board is not recommending an interim dividend.

Operations

The Group's operations have benefited from the general improvement in the trading environment, which we started to see in August/September 2009. Our strategy to maintain investment in new product development throughout 2009 has undoubtedly helped sales, with new products such as QTV driving sales growth.

The Group's performance in the run into Christmas was very pleasing, particularly in Armour Home where sales were buoyant. The poor weather in the UK in the important January sales period was a setback which left stock unsold with retailers, depressed our sales and caused stock to be held up in our supply chain. This in turn left the Group with higher than anticipated working capital at the half year stage resulting in a weaker cash performance. An improvement in working capital is expected during the second half of the year. Overall, whilst our results for the six months to 28 February 2010 have been tempered by the inclement weather, they are nevertheless very pleasing given the difficulties of 2009.

Armour Home

Armour Home has delivered a solid performance in the first six months of the year with sales growing by 15% to £23.5 million. Market conditions have improved with the trading performance in the Christmas period well ahead of last year, although this outperformance has been partially offset by weaker trading in January and February caused by the heavy snow across the UK.

There have been strong sales performances from the Alphason brand of audio-visual furniture and Q Acoustics, particularly the new QTV discreet speaker system for flat screen televisions and the award winning Q 2000 series hi-fi speakers.

Sales into the retail channel have performed well with year-on-year growth across both the independent retailer channel and the national accounts. A combination of new products and additional product listings, both with existing and new customers, has helped to drive sales in the first six months.

The home automation sales channel has continued to be sluggish in terms of sales, caused by the subdued nature of the house building and renovation market. There are clear signs that market conditions are improving and we are seeing a significant increase in enquiries and specifications for our products. Whilst this is encouraging, the lead time on orders in this market is long, due to the build schedules, and consequently the positive impact of the improving market is unlikely to have a major effect in the current financial year.

The second half of the financial year presents grounds for continued cautious optimism with the Football World Cup expected to be a driver of consumer demand for televisions and associated accessories, which in turn is expected to benefit Armour Home's sales.

Armour Auto

The automotive market remains a tough environment. Whilst there are signs that markets will improve, progress has proved slow with Armour Auto's sales in the first six months being in line with last year.

In the retail market our sales performance has been mixed. We continue to see year-on-year improvement of sales into the independent retailer channel, which we believe comes from increased market share. Demand remains volatile from one month to another, but it is encouraging that the underlying trend with independent retailers is one of growth. In the national accounts channel, the trading performance has been more challenging with key customers continuing to reduce their stock levels and restrict new product listings.

Sales into the non-retail channels are in line with last year. Given the decline suffered through 2009, we see this stable platform as a positive sign going forward. The new contracts won in 2009 are all now on stream and it is very encouraging to report that further contract wins have been secured in the first six months of the current financial year which should start to generate revenues in the second half of the year. We expect that by the end of the financial year, this channel will show respectable year-on-year sales growth.

Our business in Scandinavia, Armour Nordic, which forms part of Armour Auto, has had a good first six months. The expansion of our operations into Norway continues to gather momentum which, when taken with the incorporation of our home product portfolio into the Swedish operations, have delivered strong incremental sales growth in the Nordic region.

Looking forward to the second half of the financial year, we believe that Armour Auto will deliver a modest year-on-year improvement, although the general conditions in the automotive aftermarket are expected to remain relatively subdued.

Outlook

The Group has made good progress in the first six months of the year. The conditions in the markets we serve have improved and we expect this to continue going forward, although we do anticipate further volatility as there are a number of uncertainties that remain concerning the strength and speed of the wider economic recovery. The Group's business model and strategy continues to deliver new contracts, new customers and new products. This underlines the Board's confidence in the Group's prospects and its ability to prosper as the economic recovery strengthens.

Bob Morton

Chairman

10 May 2010

George Dexter

Chief Executive

Consolidated Statement of Comprehensive Income

For the six months to 28 February 2010

	Notes	Six months to 28 February 2010 (Unaudited) £000	Six months to 28 February 2009 (Unaudited) £000	Twelve months to 31 August 2009 £000
Revenue	2	29,735	26,663	51,614
Profit from operations		1,225	1,010	1,528
Share of loss of associates		–	(20)	(16)
Finance income		4	12	17
Finance expense		(99)	(271)	(409)
Profit before taxation		1,130	731	1,120
Taxation expense	3	(309)	(201)	(234)
Profit for the financial period		821	530	886
Other comprehensive income				
Exchange gain/(loss) arising on translation of foreign operations		28	(23)	(5)
Total comprehensive income		849	507	881
Earnings per ordinary share	4			
Basic		1.3p	0.8p	1.4p
Diluted		1.3p	0.8p	1.4p

Consolidated Statement of Financial Position

At 28 February 2010

	28 February 2010 (Unaudited) £000	28 February 2009 (Unaudited) £000	31 August 2009 £000
Non-current assets			
Goodwill	21,084	21,082	21,084
Other intangible assets	3,877	2,317	3,112
Property, plant and equipment	1,930	2,014	2,044
Investment in associates	–	348	352
Total non-current assets	26,891	25,761	26,592
Current assets			
Inventories	13,075	11,710	11,681
Trade and other receivables	10,247	9,185	9,876
Cash and cash equivalents	88	115	72
Total current assets	23,410	21,010	21,629
Total assets	50,301	46,771	48,221
Current liabilities			
Bank overdrafts and borrowings	(5,459)	(5,418)	(3,521)
Trade and other payables	(12,261)	(8,898)	(12,465)
Corporation taxation liability	(652)	(639)	(580)
Provisions	(167)	(120)	(95)
Total current liabilities	(18,539)	(15,075)	(16,661)
Non-current liabilities			
Borrowings	(957)	(1,917)	(1,438)
Provisions	–	(197)	(141)
Deferred taxation liability	(806)	(659)	(656)
Total non-current liabilities	(1,763)	(2,773)	(2,235)
Total liabilities	(20,302)	(17,848)	(18,896)
Total net assets	29,999	28,923	29,325
Equity			
Share capital	6,848	6,848	6,848
Share premium	8,513	8,513	8,513
Other reserves	871	871	871
Retained earnings	14,248	13,218	13,602
Translation reserve	91	45	63
Share trust reserve	(572)	(572)	(572)
Total equity	29,999	28,923	29,325

Consolidated Statement of Changes in Shareholders' Equity

For the six months to 28 February 2010 (unaudited)

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Translation reserve £000	Share trust reserve £000	Total equity £000
At 1 September 2009	6,848	8,513	871	13,602	63	(572)	29,325
Total comprehensive income	-	-	-	821	28	-	849
Share-based payments	-	-	-	20	-	-	20
Dividend	-	-	-	(195)	-	-	(195)
At 28 February 2010	6,848	8,513	871	14,248	91	(572)	29,999

For the six months to 28 February 2009 (unaudited)

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Translation reserve £000	Share trust reserve £000	Total equity £000
At 1 September 2008	6,848	8,513	871	13,074	68	(572)	28,802
Total comprehensive income	-	-	-	530	(23)	-	507
Share-based payments	-	-	-	37	-	-	37
Dividend	-	-	-	(423)	-	-	(423)
At 29 February 2009	6,848	8,513	871	13,218	45	(572)	28,923

For the twelve months ended 31 August 2009

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Translation reserve £000	Share trust reserve £000	Total equity £000
At 1 September 2008	6,848	8,513	871	13,074	68	(572)	28,802
Total comprehensive income	-	-	-	886	(5)	-	881
Share-based payments	-	-	-	65	-	-	65
Dividend	-	-	-	(423)	-	-	(423)
At 31 August 2009	6,848	8,513	871	13,602	63	(572)	29,325

Consolidated Statement of Cash Flows

For the six months to 28 February 2010

	Notes	Six months to 28 February 2010 (Unaudited) £000	Six months to 28 February 2009 (Unaudited) £000	Twelve months to 31 August 2009 £000
Cash flow from operating activities				
Cash generated from operations	5	(321)	2,999	7,171
Income taxes (paid)/recovered		(88)	251	156
Net cash from operating activities		(409)	3,250	7,327
Investing activities				
Acquisition of subsidiary undertaking, net of cash acquired		-	-	(2)
Purchase of property, plant and equipment		(187)	(229)	(604)
Sale of property, plant and equipment		1	20	40
Expenditure on intangible assets		(770)	(608)	(1,853)
Interest received		4	12	17
Net cash used in investing activities		(952)	(805)	(2,402)
Financing activities				
Dividend paid		-	(423)	(423)
Repayment of bank loans		(500)	(360)	(720)
Interest paid		(89)	(326)	(475)
Net cash used in financing activities		(589)	(1,109)	(1,618)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts	6	(1,950)	1,336	3,307
Currency variations		27	(23)	(6)
Cash, cash equivalents and bank overdrafts at the start of the period		(2,491)	(5,792)	(5,792)
Cash, cash equivalents and bank overdrafts at the end of the period		(4,414)	(4,479)	(2,491)

Notes to the Interim Financial Statements

1. Basis of preparation

These interim financial statements have been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively "Adopted IFRS").

The principal accounting policies used in preparing these interim financial statements are those expected to apply to the Group's Consolidated Financial Statements for the year ending 31 August 2010 and are unchanged from those disclosed in the Group's Annual Report for the year ended 31 August 2009.

As a result of the application of IAS1 (Amendment): Presentation of Financial Statements, the Group has elected to present a single Consolidated Statement of Comprehensive Income which replaces the previously published Consolidated Income Statement.

The financial information for the six months ended 28 February 2010 and 28 February 2009 is unaudited and does not constitute statutory financial statements for those periods.

The comparative financial information for the twelve months ended 31 August 2009 has been derived from the audited statutory financial statements for that year. These financial statements were approved by shareholders at the Annual General Meeting and have been delivered to the Registrar of Companies. The Auditors' Report on those financial statements was unqualified, did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report and did not include a statement under Section 498(2) or 498(3) of the Companies Act 2006.

The Board of Directors approved this interim report on 10 May 2010.

2. Business segments

The Group operates in the following main business segments:

Armour Auto: The design, manufacture and supply of products for the in-car communications and entertainment market.

Armour Home: The design, manufacture and supply of products into the Hi-Fi, home theatre, home entertainment and office furniture markets.

Central operations: The provision of finance and support services, including future product concepts and Hong Kong based quality control, to the other business segments within the Group.

	Six months to 28 February 2010 (Unaudited) £000	Six months to 28 February 2009 (Unaudited) £000	Twelve months to 31 August 2009 £000
Revenue by business segment			
Armour Auto	6,217	6,264	13,092
Armour Home	23,518	20,399	38,522
Total	29,735	26,663	51,614
Revenue by location of customers			
United Kingdom	24,385	21,848	41,851
Hong Kong	862	848	2,074
Sweden	856	665	1,603
France	681	560	1,025
Other countries	2,951	2,742	5,061
Total	29,735	26,663	51,614

3. Taxation

The taxation charge for the six months to 28 February 2010 is based on the effective taxation rate, which is estimated will apply to earnings for the year ending 31 August 2010.

Notes to the Interim Financial Statements continued

4. Earnings per ordinary share

Basic earnings per ordinary share are calculated using the weighted average number of ordinary shares in issue during the financial period of 65,056,067 (28 February 2009: 65,056,067 and 31 August 2009: 65,056,067).

Diluted earnings per ordinary share are calculated using the weighted average number of ordinary shares in issue during the financial period of 65,056,067 (28 February 2009: 65,056,067 and 31 August 2009: 65,056,067). The effect of the exercise of options on the weighted average number of ordinary shares in issue is nil for all periods.

The weighted average number of ordinary shares held by the Armour Employees' Share Trust of 3,424,000 (28 February 2009: 3,424,000 and 31 August 2009: 3,424,000) are not included in either the weighted average, or diluted weighted average, ordinary shares in issue during the financial period.

Underlying earnings per ordinary share is also shown calculated by reference to earnings before share-based payments. The Directors consider that this gives a useful additional indication of underlying performance.

	Six months to 28 February 2010 (Unaudited)		Six months to 28 February 2009 (Unaudited)		Twelve months to 31 August 2009	
	£000	p	£000	p	£000	p
Basic earnings per ordinary share						
Profit for the financial period	821	1.3	530	0.8	886	1.4
Share-based payments	20	–	37	0.1	65	0.1
Underlying earnings	841	1.3	567	0.9	951	1.5
Diluted earnings per ordinary share						
Profit for the financial period	821	1.3	530	0.8	886	1.4
Share-based payments	20	–	37	0.1	65	0.1
Underlying earnings	841	1.3	567	0.9	951	1.5

5. Net cash inflow from operations

	Six months to 28 February 2010 (Unaudited) £000	Six months to 28 February 2009 (Unaudited) £000	Twelve months to 31 August 2009 £000
Profit from operations	1,225	1,010	1,528
Depreciation of property, plant and equipment	296	309	631
Amortisation of intangible assets	453	332	782
Share-based payments	20	37	65
Gain on sale of property, plant and equipment and fair value adjustments	(92)	(12)	(9)
(Increase)/decrease in inventories	(1,394)	1,116	1,145
(Increase)/decrease in trade and other receivables	(372)	1,035	344
(Decrease)/increase in trade, other payables and provisions	(457)	[828]	2,685
Net cash from operations	(321)	2,999	7,171

6. Reconciliation of net cash flow to movement in net debt

Net debt incorporates the Group's borrowings and bank overdrafts less cash and cash equivalents.

A reconciliation of the movement in the net debt is shown below:

	Six months to 28 February 2010 (Unaudited) £000	Six months to 28 February 2009 (Unaudited) £000	Twelve months to 31 August 2009 £000
Net (decrease)/increase in cash and cash equivalents	(1,950)	1,336	3,307
Net cash outflow from debt financing	500	360	720
Other non-cash movements	9	[42]	[40]
(Increase)/decrease in net debt in the financial period	(1,441)	1,654	3,987
Opening net debt	(4,887)	[8,874]	[8,874]
Closing net debt	(6,328)	[7,220]	[4,887]

Notes to the Interim Financial Statements continued

7. Copies of Interim Report

Copies of this interim report are being sent to shareholders and will also be made available upon request to members of the public at the Company's Registered Office, Lonsdale House, 7-9 Lonsdale Gardens, Tunbridge Wells, Kent TN1 1NU. This interim report can also be viewed on the Group's website: www.armourgroup.uk.com.

armour
GROUP

Armour Group plc

Lonsdale House
7-9 Lonsdale Gardens
Tunbridge Wells
Kent TN1 1NU
United Kingdom

t: +44 (0)1892 502700

f: +44 (0)1892 502707

www.armourgroup.uk.com