Annual Report – 30th June 2013

AIREA plc

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burmatex and ryalux are trading brands of AIREA plc

AIREA plc

AIREA Brands

As a design led specialist flooring company Airea plc is a leading UK manufacturer serving both retail and contract markets. Our brands are Burmatex and Ryalux.

The company offers an extensive range of contract carpets and carpet tiles under the Burmatex brand, focussed on the design and creation of innovative products to meet the needs of architects, specifiers and contractors for the education, leisure, commercial, healthcare and public sectors. www.burmatex.co.uk

Ryalux is a high quality consumer brand, offering a broad choice of colours and textures. With an emphasis on quality and a focus on design, the Ryalux brand offers a unique service of custom made floor coverings as well as standard carpet ranges available through carpet retail outlets. www.ryalux.com

AIREA plc

Contents

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Review of Operations

Overview

Airea plc is once again able to report an improvement in profitability along with a strong cash flow in a year which saw challenging market conditions both in the UK and many of our international markets. We have successfully managed selling prices in the face of stiff competition and this, along with the introduction of new products with higher added value, rigorous product re-engineering and close control of overhead costs has driven profitability. Cash flow benefited from the rationalisation of leasehold properties and factory reorganisation undertaken last year, and we continue to make good progress in our strategic objectives of strengthening the product portfolio and constantly improving customer service through the development of a responsive manufacturing and logistics capability.

The year saw double digit percentage growth in our international sales, which benefited from the introduction of new products with international appeal together with a strengthening of channels to market. In the UK, demand for contract flooring products reflected a lacklustre construction market across both new build and refurbishment, exacerbated by cuts in public sector expenditure. This general state of demand weighed against the success achieved in the sale of new products and continuing improvement in our profile with the architect and design community as demonstrated by an increasing success rate in the winning of larger specifications. We have yet to see any improvement in underlying trading activity in the retail flooring market, as consumers continue to be squeezed by austerity, a stagnant economy and weak wage growth. Successful initiatives in luxury carpets and own label ranges were launched against a backdrop of low retail footfall and a general trading down by consumers.

Group results

Revenue for the period was £25.1m (2012: £26.3m) reflecting a broadly flat underlying sales performance, combined with a selective withdrawal from certain vinyl products. The operating profit was £709,000 (2012: £351,000). After accounting for pension related finance costs and incorporating the appropriate tax charge the profit for the year was £443,000 (2012: £269,000).

Basic earnings per share were 0.96p (2012: 0.58p).

Operating cash flows before movements in working capital were £1,846,000 (2012: £1,530,000). Working capital decreased by £416,000 (2012: increase £940,000) as a result of lower trade receivables due to the pattern of sales towards the year end. The expenditure on onerous leases and other items previously provided for was negligible (2012: outflow £907,000). Contributions of £415,000 (2012: £550,000) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2011 actuarial valuation. Capital expenditure of £257,000 (2012: £708,000) was focussed on supporting the continuous improvement in flexibility, reliability and productivity of the manufacturing process.

The pension deficit benefited from a gain in value of the scheme assets which, combined with other actuarial adjustments, led to a reduction of £2.6m in the pension deficit to £5.7m (2012: £8.3m).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2013 value added per employee amounted to £69,000 (2012: £62,000), operating return on sales was 3.1% (2012: 1.6%), return on average net operating assets was 5.1% (2012: 2.8%) and working capital to sales percentage was 30.3% (2012: 30.4%). The general improvement in the ratios reflects the progress made in improving sales margins and reducing costs.

Management and personnel

Our staff continue to rise to the challenges posed by the highly competitive environment in which we operate and we once again thank everyone in the business for the flexibility, hard work and commitment they have shown.

Current trading and future prospects

Trading conditions remain challenging in the UK and in many of the international markets that we serve. UK consumers remain cautious about spending reflecting tight disposable incomes and although there may be some reporting of tentative signs of increasing confidence, this has yet to work through into carpet sales. Demand from the private construction sector remains weak, with little speculative development outside of London and public sector construction activity remains well below pre-financial crisis levels. As yet we see no reliable signs of any significant upturn in market conditions, and we continue to focus on self-help initiatives.

We remain committed to our strategy of strengthening our product range and continuously improving customer service through the on-going development of our operational capability. We have invested in our sales structure to capture the opportunities created by our growing competitive strength and continue to explore new ways to market both at home and abroad.

Based on the progress we have made in our financial performance and the solid base of cash generation the board is pleased to declare a final dividend of 0.55p per share. If approved, this dividend will be paid on 27th November 2013 to shareholders on the register at close of business on 1st November 2013.

MARTIN TOOGOOD	NEIL RYLANCE	
Chairman	Chief Executive Officer	23rd September 2013

Directors' Report

The directors present their report for the year ended 30th June 2013.

Principal activity

The principal activity of the group is the manufacturing, marketing and distribution of floor coverings. Details of the activities of subsidiary companies are set out in note 2 of the financial statements of the company on page 34.

Results and review of the business

The group's consolidated income statement is set out on page 9. The Review of Operations contains a review of the group's business, including key performance indicators, its position at the year end and details of likely future developments.

Dividends

No interim dividend was paid during the year (2012: nil) and the directors recommend a final dividend of 0.55p (2012: 0.4p). The final dividend amounts to £254,000 and, if approved, will be paid on 27th November 2013 to those shareholders on the register at close of business on 1st November 2013.

Directors

The present directors are detailed below.

Neil Rylance joined the group as managing director of the group's floor coverings business on 2nd June 2008 and was appointed chief executive officer on 13th June 2008. He is an experienced business leader with a strong background in multinational manufacturing companies serving customers in competitive markets. Most recently he was Executive Vice President – Europe with Field Group.

Martin Toogood joined the group as an independent non-executive director on 1st April 2009, and was appointed non-executive chairman on 6th November 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe including ILVA, B&Q, Carpetright and Habitat. Martin retires by rotation in accordance with the company's articles of association and, being eligible, offers himself for re-election.

Roger Salt was appointed company secretary on 8th June 2009, and group finance director on 21st September 2010. Roger joined the business in 2004 from Carclo plc where he held a number of senior financial positions. He is a chartered accountant and holds an MBA.

A third party indemnity insurance policy is in place for the benefit of the directors.

Directors who held office at 30th June 2013 had the following interests in the ordinary shares of the company:

	30th June 2013	1st July 2012
Neil Rylance	2,510,360	2,510,360
Martin Toogood	2,100,361	2,100,361
Roger Salt	170,000	170,000

There were no other changes in directors' interests between 1st July 2013 and 23rd September 2013. None of the directors has an interest in the share capital of subsidiary companies other than as a nominee of the company.

Details of the directors' share options are as follows:

	At 1st July 2012	Granted in period	Market price on issue (p)	Earliest date of exercise	Lapsed in period	Exercised in period	At 30th June 2013
Neil Rylance	193,548	–	15.5	08/04/2013	193,548	–	–
Roger Salt	193,548	–	15.5	08/04/2013	193,548	–	–

Performance related bonus

The group established the AIREA plc Company Share Option Plan 2010 (CSOP) on 16th March 2010 in order to enable the company to grant options over shares in the capital of the company to employees of the company and its subsidiaries as selected by the directors. All the options previously granted have now lapsed as the minimum performance criteria were not met. The group remains committed to incentivising and motivating employees by enabling them to participate in the future success of the company and is currently reviewing the CSOP to ensure that any grant of options in the future is effective in delivering benefits to the company, its employees and its members.

Share capital

Details of the share capital of the company are set out in note 15 to the financial statements of the group.

Substantial shareholdings

At 23rd September 2013, in addition to the interests of Neil Rylance amounting to 5.43% and Martin Toogood amounting to 4.54% noted above, the company had been notified of the following interests representing 3.00% or more of the company's ordinary share capital:

	Number held	%
Lowland Investment Trust	4,125,000	8.92
Mrs. C. J. Tobin	3,502,668	7.57
Mr. & Mrs. G. A. Upsdell	2,106,614	4.56
Mrs. S. G. Ainslie	2,098,252	4.54
Parker Estates	2,015,000	4.36
Mr. M. H. Yeadon	1,608,787	3.48

Corporate Governance

The directors are committed to a high standard of corporate governance throughout the group.

Audit Committee

The audit committee is chaired by Martin Toogood and there are no other members. The committee normally meets twice during the financial year and is attended, by invitation, by the executive directors. It provides a forum through which the external auditors report to the board, and assists the board in ensuring that appropriate policies, internal controls and compliance procedures are in place.

Internal control

The directors acknowledge their responsibility for the group's systems of internal control. The group maintains systems of internal controls, including suitable monitoring procedures, in order to provide reasonable, but not absolute, assurance of the maintenance of proper accounting records and the consequent reliability of the financial information used within the business to identify and deal with any problems on a timely basis. The monitoring and control procedures include the specification of defined lines of responsibility and authorisation limits, the delegation of authority, the identification of risks and the continual process of the preparation of, and reporting against, annual budgets, forecasts and strategic plans.

Employees in the United Kingdom

The policy of the group for the employment of disabled persons is to give them equal opportunities with other employees to train for and attain any position having regard to the maintenance of a safe working environment and with regard to their particular aptitudes and abilities. The group also tries, where practical, to provide support and retraining in cases where disability is incurred during employment with the group.

The group continues its practice of keeping all of its employees informed on the performance of the group and other matters affecting them through regular meetings as well as through informal briefings.

The board is committed to the achievement of high standards of health and safety.

Charitable and political contributions

No charitable or political contributions were made during the year.

Directors' Report
(continued)

Principal risks and uncertainties
The board has responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and ensuring that risks are managed effectively across the group. Risks are identified as principal based on the likelihood of occurrence and potential impact on the group. The group's principal risks are identified below, together with a description of how the group mitigates those risks.

The key operational risk facing the business continues to be the competitive nature of the markets for the group's products. To mitigate this risk the group seeks to improve existing products, introduce new products and achieve high levels of customer service and efficiency.

The majority of the group's revenue arises from trade with flooring contractors and independent retailers. The activity levels within this customer base are determined by consumer demand created through a wide range of commercial refurbishment and building projects and activity in the housing market. The general level of activity in these underlying markets has the potential to affect the demand for products supplied by the group. The group mitigates these factors by closely monitoring sales trends and taking appropriate action early, along with strengthening the product range and developing new channels to market, both at home and abroad, to grow demand across a wider range of markets.

The group operates a defined benefit pension scheme. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities and the assets of the scheme. The amount of the deficit may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in the pension scheme deficit may require the group to increase the amount of cash contributions payable to the scheme, thereby reducing cash available to meet the group's other operating, investing and financing requirements. Following the triennial funding valuation of the group's pension scheme in 2011, a revised deficit recovery plan was agreed during the year. The performance of the group's pension scheme and deficit recovery plan is regularly reviewed by both the group and the trustees of the scheme, taking actuarial and investment advice as appropriate. The results of these reviews are discussed with the board and appropriate action taken.

Raw material costs are a significant constituent of overall product cost, and are impacted by global commodity markets. Significant fluctuation in raw material costs can have a material impact on profitability. The group continuously seeks out opportunities to develop a robust and competitive supply base, substitute new materials and closely monitors selling prices and margins.

The global nature of the group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, the most significant being the euro. In order to protect itself against currency fluctuations the group has taken advantage of the opportunity to naturally hedge euro revenue with euro payments by switching European suppliers from sterling to euro prices. This is done in combination with foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken.

Other risks include the availability of necessary materials, business interruption and the duty of care to our employees, customers and the wider public. These risks are managed through the combination of quality assurance and health and safety procedures, and insurance cover.

Going concern
As part of its ongoing responsibilities the board regularly reviews the cash flow projections of the business for the current and following financial year along with the key sensitivities and uncertainties that might affect the achievement of the projections. In summary, the group continues to be subject to the uncertainties in the current economic environment, particularly in respect of market demand, however the group's financial headroom means that it is well placed to manage its business risks successfully. The directors can reasonably expect that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis remains appropriate in preparing the annual report and accounts.

Payments to suppliers

It is the group's policy to agree the terms of payment with suppliers when negotiating each transaction or series of transactions and to abide by those terms. Group trade payables at 30th June 2013 represented 79 days (2012: 75 days) of trade purchases. The company does not have any trade payables.

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and have elected to prepare the parent company financial statements under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law (Section 393, Companies Act 2006) the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group and the parent company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed in the consolidated financial statements, and UK accounting standards in the parent company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

During the year the directors reviewed the provision of audit services to the group. Following this review BDO LLP were appointed auditors to replace Grant Thornton LLP. BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

ROGER SALT
Company Secretary

Victoria Mills, The Green
Ossett, WF5 0AN
23rd September 2013

Independent Auditor's Report to the members of AIREA plc

We have audited the financial statements of AIREA plc for the year ended 30th June 2013 which comprise the consolidated statement of financial position and parent company balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity, the parent company reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections Chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30th June 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Davies (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
1 Bridgewater Place
Water Lane
Leeds
LS11 5RU

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement

year ended 30th June 2013

	Note	2013 £000	2012 £000
Revenue	1	25,049	26,276
Operating costs	2	(24,340)	(25,925)
Operating profit		709	351
Finance income	4a	2	32
Finance costs	4b	(178)	–
Profit before taxation		533	383
Taxation	5	(90)	(114)
Profit attributable to shareholders of the group		443	269
Earnings per share (basic and diluted)	6	0.96p	0.58p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

year ended 30th June 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Profit attributable to shareholders of the group			443		269
Actuarial gain/(loss) recognised in the pension scheme	14	2,350		(7,572)	
Related deferred taxation	9a	(797)		1,931	
			1,553		(5,641)
Total comprehensive income/(loss) attributable to shareholders of the group			1,996		(5,372)

Consolidated Balance Sheet

as at 30th June 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Non-current assets					
Property, plant and equipment	8		6,428		7,308
Deferred tax asset	9a		1,476		2,589
			7,904		9,897
Current assets					
Inventories	10	8,874		8,661	
Trade and other receivables	11	4,331		4,659	
Cash and cash equivalents	12	2,747		1,342	
			15,952		14,662
Total assets			23,856		24,559
Current liabilities					
Trade and other payables	13		(5,440)		(5,365)
Non-current liabilities					
Pension deficit	14	(5,668)		(8,257)	
Deferred tax	9b	(41)		(41)	
			(5,709)		(8,298)
Total liabilities			(11,149)		(13,663)
			12,707		10,896
Equity					
Called up share capital	15		11,561		11,561
Share premium account			504		504
Capital redemption reserve			2,395		2,395
Share option reserve			–		16
Retained earnings			(1,753)		(3,580)
			12,707		10,896

The financial statements on pages 9 to 31 were approved by the board of directors on 23rd September 2013 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Consolidated Cash Flow Statement

year ended 30th June 2013

	Note	2013 £000	2012 £000
Operating activities			
Cash generated from/(used in) operations	18	1,847	(867)
Investing activities			
Purchase of property, plant and equipment		(257)	(708)
Proceeds on disposal of property, plant and equipment		–	100
		(257)	(608)
Financing activities			
Equity dividends paid		(185)	(231)
Net increase/(decrease) in cash and cash equivalents		1,405	(1,706)
Cash and cash equivalents at start of the year		1,342	3,048
Cash and cash equivalents at end of the year		2,747	1,342

Consolidated Statement of Changes in Equity

year ended 30th June 2013

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Share option reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2011	11,561	504	2,395	16	2,023	16,499
Profit attributable to shareholders of the group	–	–	–	–	269	269
Other comprehensive income for the year	–	–	–	–	(5,641)	(5,641)
Dividend paid	–	–	–	–	(231)	(231)
At 1st July 2012	11,561	504	2,395	16	(3,580)	10,896
Profit attributable to shareholders of the group	–	–	–	–	443	443
Other comprehensive income for the year	–	–	–	–	1,553	1,553
Reserve transfer relating to share-based payments	–	–	–	(16)	16	–
Dividend paid	–	–	–	–	(185)	(185)
At 30th June 2013	11,561	504	2,395	–	(1,753)	12,707

Accounting Policies for the Group

Basis of preparation

These consolidated financial statements have been prepared using International Financial Reporting Standards as adopted by the European Union (IFRS). The basis of preparation and accounting policies used in preparing the financial statements for the year ended 30th June 2013 remain unchanged from the previous year and are set out below. The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Significant accounting judgements and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is contained in the accounting policies and note 3 to the financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of AIREA plc and its subsidiaries. Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting. This method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities, of the subsidiary at the acquisition date regardless of whether or not they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Any difference between the fair value of assets acquired and the consideration paid is treated as goodwill in the consolidated balance sheet. The results of subsidiaries are included from the date that control commences to the date that control ceases.

All intra-group balances and transactions, including unrealised profits arising from intra-group transactions are eliminated on consolidation. The group has decided not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to the date of transition. Accordingly the classification of acquisitions remains unchanged from that used under UK GAAP.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable, after discounts and customer credits and excluding value added tax, of goods supplied to customers and is recognised when the risks and rewards of ownership pass to the customer upon delivery. Transactions between members of the group are excluded.

Interest payable and receivable

Interest payable and receivable is accounted for on an effective interest method.

Dividends payable

Dividends payable are recognised when the shareholders' right to receive payment is established and are only included in liabilities if approved in general meeting prior to the balance sheet date.

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges. Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment, which is reviewed annually, by equal instalments over their estimated useful economic lives as follows:

Property	2%
Plant and equipment	10–33%

Goodwill and business combinations

Goodwill results from the acquisition of subsidiary undertakings and equates to the amount by which the consideration for the subsidiary undertaking differs from the fair value of net assets acquired. Goodwill written off to reserves prior to the date of transition to IFRS has not been reinstated on the balance sheet. This goodwill is not written back to profit or loss on disposal. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Goodwill has been fully impaired.

Impairment testing of goodwill and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors the related cash flows.

Goodwill is not amortised but the cash-generating units which include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses for cash-generating units reduce first the carrying value of any goodwill allocated to that cash generating unit. Any remaining impairment loss is charged pro-rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Inventories

Inventories are stated at the lower of cost (on a first in, first out basis) and net realisable value. Cost includes materials, direct labour and works overhead based on a normal level of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow moving or defective items where appropriate.

Foreign currency

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were initially recorded are recognised in the income statement in the period in which they arise.

Accounting Policies of the Group
(continued)

Financial instruments – derivatives
The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Derivative instruments utilised are forward currency contracts. The fair value of forward currency contracts is assessed at the balance sheet date and any profit or loss is recognised in the income statement.

Financial assets – items carried at amortised cost
Financial assets comprise trade receivables and cash and cash equivalents. Financial assets are recognised in the group's consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument. Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Financial liabilities – items carried at amortised cost
Financial liabilities are obligations to pay cash or other financial assets and comprise trade payables and bank borrowings. Financial liabilities are recognised in the group's consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument. Trade payables are measured at initial recognition at fair value. Changes in fair value are recognised in the income statement. Bank borrowings are recorded at the proceeds received net of direct issue costs. Finance charges are accounted for under the effective interest method.

Taxation
Current tax payable is provided on taxable profits at prevailing rates for the period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Changes in deferred tax balances are recognised as a component of the tax expense in the income statement, except where they relate to items that are charged or credited to other comprehensive income (such as revaluation of land), in which case the related deferred tax is also charged or credited directly to other comprehensive income.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and on short-term deposit, together with other short-term, highly liquid, investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Pensions
The current service cost of providing retirement pensions and related benefits under the group defined benefit scheme is charged against operating profit as part of operating costs and the expected return on pension scheme assets and the interest on pension scheme liabilities is included in other finance costs. Actuarial gains and losses, net of the related deferred taxation, are recognised in other comprehensive income. Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates that have terms to maturity approximating to the terms of the related liability. The surplus or deficit as calculated by the scheme's actuary is presented separately on the balance sheet. The related deferred tax is shown with other deferred tax balances. A surplus is recognised only to the extent that it is recoverable by the group.

Amounts paid to defined contribution schemes are charged against operating profit as part of operating costs as incurred.

Provisions
A provision is recognised in the balance sheet when the group has a present legal or constructive obligation arising from past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions that are payable over a number of years are discounted to net present value at the balance sheet date using a discount rate appropriate to the particular provision concerned.

Leased assets
Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Equity
Equity is broken down into the elements listed below:

Share capital representing the nominal value of equity shares;

Share premium representing the excess over nominal value of the fair value of consideration received for equity shares;

Capital redemption reserve representing the nominal value of the company's own shares purchased by the company and cancelled;

Share option reserve representing the value of stock options charged; and

Retained earnings representing amounts retained from earnings.

Share-based payments
The group has applied the requirements of IFRS 2 Share-based payment. The group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value (excluding the effect of non-market based vesting conditions) at the grant date. The fair value determined at the grant date of the equity settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non-market vesting conditions. Fair value is measured by use of the Black-Scholes model. The expected life use in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural conditions.

Accounting Policies of the Group
(continued)

Changes in accounting policies
In the current year the following new and revised Standards and Interpretations have been adopted which have not resulted in any significant impact on the results or net assets of the group:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (effective 1st July 2012)
- This Amendment requires companies to group together items within Other Comprehensive Income (OCI) that may be reclassified to the profit or loss section of the income statement. The Amendment also seeks to reaffirm existing requirements that items in profit or loss and OCI should be presented as either a single statement or two consecutive primary statements.

The group has decided against early adoption of the following new and amended IFRS, IAS and IFRIC interpretations which are mandatory for future accounting periods and which are potentially relevant to the group:

- IAS 19 Employee Benefits (effective 1st January 2013)
- Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1st January 2013)
- Annual Improvements to IFRSs (2009–2011 Cycle) (effective 1st January 2013)
- IFRS 13 Fair Value Measurement (effective 1st January 2013)
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (effective 1st January 2013)
- IFRS 11 Joint Arrangements (effective 1st January 2014)
- IAS 27 Separate Financial Statements (effective 1st January 2014)
- IFRS 10 Consolidated Financial Statements (effective 1st January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1st January 2014)
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (effective 1st January 2014)
- Recoverable amounts disclosures for non-financial assets (Amendments to IAS 36) (effective 1st January 2014)

The following new and amended IFRS, IAS and IFRIC interpretations are mandatory for future accounting periods and are not expected at this stage to be relevant to the group or have any anticipated significant impact on the results or net assets of the group:

- Government Loans (Amendment to IAS1) (effective 1st January 2013)
- IAS 28 Investments in Associates and Joint Ventures (effective 1st January 2014)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective 1st January 2014)
- IFRIC 21 Levies (effective 1st January 2014)

The following IFRS, IAS and IFRIC interpretations, which are potentially relevant to the group, are not currently endorsed for use in the EU but are expected to be mandatory for future accounting periods:

- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (effective 1st January 2014)
- IFRS 9 Financial instruments (1st January 2015)

Where future new and amended standards have been identified as potentially relevant management are assessing their future impact.

Notes to the Financial Statements of the Group

1 SEGMENT REPORTING

The group presents its results in accordance with internal management reporting information which means that the group is reported as a single segment. The performance of the group is monitored and measured and strategic decisions made on the basis of the group's results, which include all items presented under IFRS. This management information therefore accords with group financial information presented in the consolidated income statement and consolidated balance sheet.

Revenue is reported by geographical location of customers, and by market sector.

All revenue is generated by operations within the United Kingdom and all assets are located in the United Kingdom.

Analysis of revenue by destination	2013 £000	2012 £000
United Kingdom	20,444	22,189
Eire	958	901
Rest of Europe	3,061	2,746
North America	152	137
Rest of the World	434	303
	25,049	26,276

Analysis of revenue by market sector	2013 £000	2012 £000
Contract floor coverings	17,778	17,980
Domestic floor coverings	7,271	8,296
	25,049	26,276

Notes to the Financial Statements of the Group

(continued)

2 OPERATING COSTS

	2013 £000	2012 £000
Changes in stocks of finished goods and work in progress	291	(194)
Raw materials and consumables	9,417	11,293
Other external charges	6,930	6,764
Staff costs (note 16)	6,154	6,535
Depreciation	1,072	1,085
Foreign exchange differences	34	(24)
Other operating charges	442	466
	24,340	25,925

Other external charges include the following amounts payable to BDO LLP, the company's auditor.

	2013 £000	2012 £000
Fees payable to the company's auditor for the audit of the financial statements	17	25
Fees payable to the company's auditor and its associates for other services:		
Audit of the financial statements of the company's subsidiaries pursuant to legislation	18	25
Other services relating to taxation	–	12
	35	62

3 KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the group's accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may vary from the position described in the consolidated balance sheet at 30th June 2013. The key sources of estimation uncertainty that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Deferred tax assets – £1,476,000 (2012: £2,589,000)
Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the assets will be realised in due course. This assumption is dependent upon the group's ability to generate sufficient future taxable profits. Details of the deferred tax asset are given in note 9.

Inventories – £8,874,000 (2012: £8,661,000)
Certain items of inventory are not expected to sell at prices which cover cost, either because they are remnants, come from discontinued ranges or are below the required quality standard. This inventory is carried at a value which reflects the director's best estimates of achievable selling prices.

Trade receivables – £3,521,000 (2012: £3,955,000)
Trade receivables have been reviewed for indicators of impairment taking into account the age of the debt, and any known disputes and credit rating information. Details of the provisions made against trade receivables are given in note 11.

Pension deficit – £5,668,000 (2012: £8,257,000)
The calculation of the pension deficit is subject to a number of assumptions as detailed in note 14. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The decrease of £2,589,000 in the year was due to the payments of £417,000 made during the year net of other experience gains and losses.

4 FINANCE INCOME AND FINANCE COSTS

(a) Finance income

	2013 £000	2012 £000
Other Interest	2	–
Finance income relating to the pension scheme (note 14)	–	32
	2	32

(b) Finance costs

	2013 £000	2012 £000
Finance cost relating to the pension scheme (note 14)	178	–

5 TAXATION

	2013 £000	2012 £000
Based on the profit for the year at 23.75% (2012: 25.5%)		
Corporation tax		
– Current year	(28)	70
– Prior year	(198)	–
Total current tax	(226)	70
Deferred tax		
– Current year	259	(104)
– Relating to pension deficit	57	148
Total deferred tax (note 9)	316	44
Tax charge on profit	90	114

The tax charge for the year can be reconciled to the profit per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 23.75% (2012: 25.5%) as follows:

	2013 £000	2012 £000
Profit before tax	533	383
Profit before tax multiplied by standard rate of corporation tax of 23.75% (2012: 25.5%)	127	98
Effects of:		
Disallowed expenditure	161	16
Prior year adjustment	(198)	–
Current corporation tax charge for the year	90	114

Notes to the Financial Statements of the Group
(continued)

6 EARNINGS PER SHARE
The calculation of earnings per share is based on the following data:

Number of shares

	2013	2012
Ordinary shares for the purpose of basic earnings per share	46,242,455	46,242,455

Earnings

	2013 £000	2012 £000
Earnings	443	269

Group earnings per share

	2013 pence	2012 pence
Basic	0.96	0.58

All options in issue at 30th June 2013 and 30th June 2012 were anti-dilutive.

7 DIVIDENDS

	2013 £000	2012 £000
Paid during the year:		
Final dividend for the prior year of 0.40p per share (2012: 0.50p per share)	185	231
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of 0.55p per share (2012: 0.40p per share)	254	185

If approved, this dividend will be paid on 27th November 2013 to shareholders on the register at close of business on 1st November 2013.

8 PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1st July 2011	5,910	21,993	27,903
Additions	4	704	708
Disposals	–	(3,125)	(3,125)
At 30th June and 1st July 2012	5,914	19,572	25,486
Additions	8	249	257
Disposals	–	(125)	(125)
At 30th June 2013	5,922	19,696	25,618
Depreciation			
At 1st July 2011	2,041	18,380	20,421
Charge for the year	151	989	1,140
Impairment	–	(324)	(324)
Disposals	–	(3,059)	(3,059)
At 30th June and 1st July 2012	2,192	15,986	18,178
Charge for the year	150	987	1,137
Disposals	–	(125)	(125)
At 30th June 2013	2,342	16,848	19,190
Net book amounts			
At 30th June 2012	3,722	3,586	7,308
At 30th June 2013	3,580	2,848	6,428

The property, plant and equipment have been pledged as security for the group's bank facilities by way of a fixed charge over property and a fixed and floating charge over plant and equipment.

Capital commitments

	2013 £000	2012 £000
Group	34	–

Notes to the Financial Statements of the Group
(continued)

9 DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non-current asset			
Balance as at 1st July 2011	376	500	876
Movement during the year:			
Income statement	(148)	(70)	(218)
Consolidated statement of comprehensive income	1,931	–	1,931
Balance at 30th June and 1st July 2012	2,159	430	2,589
Movement during the year:			
Income statement	(57)	(259)	(316)
Consolidated statement of comprehensive income	(797)	–	(797)
Balance at 30th June 2013	1,305	171	1,476

In addition to the recognised asset the group has an unrecognised deferred tax asset of approximately £968,000 (2012: £605,000) comprising of brought forward tax losses.

	2013 £000	2012 £000
(b) Deferred tax liability		
Balance brought forward	41	145
Movement during the year	–	(104)
Deferred tax liability carried forward	41	41
An analysis of the deferred tax liability is as follows:		
Accelerated capital allowances	1	1
Other timing differences	40	40
	41	41

10 INVENTORIES

	2013 £000	2012 £000
Raw materials and consumables	1,649	1,355
Work in progress	233	285
Finished goods	6,992	7,021
	8,874	8,661

The consolidated income statement includes £9,708,000 (2012: £11,099,000) as an expense for inventories.

11 TRADE AND OTHER RECEIVABLES

	2013 £000	2012 £000
Trade receivables	3,521	3,955
Corporation tax	226	–
Prepayments and accrued income	584	704
	4,331	4,659

The carrying value of trade receivables is considered a reasonable approximation of fair value.

Trade and other receivables have been reviewed for indicators of impairment and are shown net of the following provisions.

	2013 £000	2012 £000
Brought forward provisions	316	272
Bad and doubtful debts charged in the year	38	137
Amount utilised	–	(94)
	354	315

In addition some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is:

	2013 £000	2012 £000
More than three months but not more than six months	82	112
More than six months	92	19
	174	131

12 CASH AND CASH EQUIVALENTS

	2013 £000	2012 £000
Cash at bank and in hand	2,747	1,342

13 TRADE AND OTHER PAYABLES

	2013 £000	2012 £000
Trade payables	3,782	3,972
Social security and other taxes	673	728
Accruals and other creditors	985	665
	5,440	5,365

Notes to the Financial Statements of the Group

(continued)

14 PENSION COMMITMENTS

(a) Pension schemes

The group operates a defined benefit pension scheme for certain of its employees. The scheme is closed to new entrants and accrual of salary related benefits for current members has ceased. The scheme is managed independently and funded to cover future pension liabilities (including expected future earnings and pension increases) in respect of service up to the balance sheet date.

The scheme is subject to independent valuations at least every three years, on the basis of which the scheme actuary certifies the amount of the employer's contributions. These contributions, together with the proceeds from the scheme's assets, are intended to be sufficient to fund the benefits payable under the scheme over the long term.

Contributions of £417,000 in the year were made in accordance with the agreement based on the 1st July 2011 actuarial valuation. Contributions for the year ended 30th June 2014 are expected to be £400,000 based on the 1st July 2011 actuarial valuation.

The group also operates a number of defined contribution pension arrangements. The cost of providing benefits from these arrangements is calculated as the contributions paid during the year and amounted to £111,000 (2012: £116,000).

(b) Major assumptions

The main financial assumptions used in the valuation of the liabilities of the company's defined benefit scheme under IAS 19 are:

	2013 %	2012 %
Inflation assumption – CPI	2.20	1.90
Rate of increase in salaries	3.80	3.30
Rate of increase to pensions in payment	2.25	2.75
Revaluation of deferred pensions	2.20	1.90
Liabilities discount rate	4.55	4.50
Expected rate of return on scheme assets	4.55	5.58
Life expectancy	Years	Years
Current male pensioner at age 65	21.3	20.3
Current female pensioner at age 65	23.7	22.5
Future male pensioner at age 65	22.6	21.3
Future female pensioner at age 65	25.3	23.3

(c) Analysis of fair value of scheme assets

	Market value 2013 £000	 2012 £000
Equities	21,648	19,467
Bonds	16,090	16,099
Property	2,355	2,395
Other	205	440
	40,298	38,401

The expected return on plan assets is determined by reference to external indices and after taking advice from external advisors. The overall expected rate of return is the weighted average return appropriate to each class of asset within the scheme, allowing for anticipated balances held in each asset class according to the scheme's investment strategy.

14 PENSION COMMITMENTS (continued)

(d) Amounts included in financial statements

The amounts recognised in the consolidated balance sheet in respect of the company's defined benefit scheme are as follows:

	2013 £000	2012 £000
Fair value of scheme assets	40,298	38,401
Present value of obligations	(45,966)	(46,658)
Deficit in the scheme	(5,668)	(8,257)

Amounts recognised in the consolidated income statement in respect of the company's defined benefit scheme are as follows:

	2013 £000	2012 £000
Interest on obligation	2,050	2,192
Expected return on scheme assets	(1,872)	(2,224)
Pension expense/(income) (note 4)	178	(32)

Movements in the present value of obligations are as follows:

	2013 £000	2012 £000
At start of period	46,658	39,735
Interest on obligation	2,050	2,192
Actuarial (gain)/loss	(155)	6,957
Benefits paid	(2,587)	(2,226)
At end of period	45,966	46,658

Movements in the fair value of scheme assets are as follows:

	2013 £000	2012 £000
At start of period	38,401	38,468
Expected return on scheme assets	1,872	2,224
Actuarial gain/(loss)	2,195	(615)
Contributions from employers	417	550
Benefits paid	(2,587)	(2,226)
At end of period	40,298	38,401

Notes to the Financial Statements of the Group

(continued)

14 PENSION COMMITMENTS (continued)

Amounts recognised in the statement of comprehensive income in respect of the company's defined benefit scheme are as follows:

	2013 £000	2012 £000
Actuarial gain/(loss) in the present value of obligations	155	(6,957)
Actuarial gain/(loss) in the fair value of scheme assets	2,195	(615)
Pension income/(expense)	2,350	(7,572)

The cumulative amount recognised in the statement of comprehensive income is (£1,073,000).

The history of experience adjustments is as follows:

	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000
Experience adjustment on scheme liabilities	52	(2,118)	(608)	(280)	(90)
	%	%	%	%	%
Percentage of scheme liabilities	0.10%	4.54%	1.45%	0.69%	0.20%
	£000	£000	£000	£000	£000
Experience adjustment on scheme assets	1,851	(615)	2,632	3,306	(5,020)
	%	%	%	%	%
Percentage of scheme liabilities	4.59%	(1.60%)	6.84%	0.94%	(15.90%)

The transitional arrangements under IFRS 1 have been applied such that the amounts required by paragraph 120A (p) of IAS 19 have been disclosed prospectively from date of transition, rather than for the previous four annual periods.

15 CALLED UP SHARE CAPITAL

	2013		2012	
	Number	£000	Number	£000
Ordinary shares of 25p each				
Allotted, called up and fully paid	46,242,455	11,561	46,242,455	11,561

16 EMPLOYEES

	2013 £000	2012 £000
Staff costs		
Wages and salaries	5,534	5,890
Social security costs	455	457
Other pension costs	111	116
Termination costs	54	72
	6,154	6,535

	Number	Number
The average number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	42	47
Administration	19	21
Manufacturing and operations	160	176
	221	244

Directors' remuneration

	Salary and fees £000	Bonus £000	Taxable benefits £000	2013 Total (excl. pension) £000	2012 Total (excl. pension) £000	2013 Pension £000	2012 Pension £000
Executive							
Neil Rylance	180	27	11	218	194	18	17
Roger Salt	90	13	6	109	102	5	5
Non-Executive							
Martin Toogood	42	–	–	42	41	–	–
	312	40	17	369	337	23	22

Details of directors' share options are given in the directors' report on page 4.

Notes to the Financial Statements of the Group
(continued)

17 OPERATING LEASES

Details of operating lease arrangements for the group are as follows:

	2013 £000	2012 £000
Lease payments under operating leases charged to operating costs in the year	735	623

At the balance sheet date the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 £000	2012 £000
Within one year	795	846
In the second to fifth years inclusive	1,888	2,677
	2,683	3,523

Operating lease payments represent rentals payable by the group principally for vehicles and certain properties. Leases of vehicles are usually negotiated for a term of three to five years and rentals are fixed for the term of the lease. Leases of properties are usually negotiated for five to ten years and rentals are reviewed after five years.

18 RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH USED IN OPERATIONS

	2013 £000	2012 £000
Profit attributable to shareholders of the group	443	269
Tax charged	90	114
Finance costs/(income)	176	(32)
Depreciation	1,137	1,140
Loss on disposal of property, plant and equipment	–	39
Operating cash flows before movements in working capital	1,846	1,530
Decrease/(increase) in working capital	416	(940)
Increase/(decrease) in provisions for liabilities and charges	–	(907)
Contributions to defined benefit pension scheme	(415)	(550)
Net cash generated from/(used in) operations	1,847	(867)

19 FINANCIAL INSTRUMENTS

The group's financial instruments comprise, principally, cash and short-term deposits, and various items, such as trade receivables and trade payables, arising directly from its operations. The main purpose of these financial instruments is to raise finance for the group's operations. The main risks arising from the group's financial instruments are currency risk, interest risk and liquidity risk. The board's policies for managing these risks are summarised as follows:

Interest risk – the group finances its operations from retained profits. The group also holds cash and short-term deposits. The cash and short-term deposits attract floating rates of interest based on United Kingdom bank base rates.

Currency risk – The group's currency exposure derives from trading operations where goods are exported or raw materials and capital are imported. The group seeks to hedge its transactional foreign currency exposure through the use of foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken.

Liquidity risk – The group's capital management objectives are to ensure the group's ability to continue as a going concern and to provide an adequate return to shareholders. The board aims to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The directors monitor the demographic spread of shareholders as well as the return on capital and the level of dividends paid to shareholders. There were no changes to the group's approach to capital management during the year. The group is not subject to any externally imposed capital requirements.

Financial assets, the carrying values of which are a reasonable approximation to their fair value, are all categorised as loans and receivables within the meaning of IAS 39, Financial Instruments Recognition and Measurement and are included in the consolidated balance sheet within the following headings:

	2013 £000	2012 £000
Current assets		
Trade and other receivables	3,521	3,955
Cash and cash equivalents	2,747	1,342
	6,268	5,297

Financial liabilities included in the consolidated balance sheet are all financial liabilities measured at amortised costs in the terms of IAS 39 and are included in the consolidated balance sheet within the following headings:

	2013 £000	2012 £000
Current liabilities		
Trade and other payables	5,440	5,365

All trade and other payables are due in less than one year and therefore undiscounted.

Financial assets

The cash and cash equivalents represent, principally, amounts held with UK financial institutions to cover operational requirements and attract interest at floating rates related to UK bank base rates. It also includes smaller amounts held with foreign financial institutions, to cover exposure to currency fluctuations, that do not attract interest.

Financial liabilities

There are no interest bearing liabilities (2012: nil)

Notes to the Financial Statements of the Group
(continued)

19 FINANCIAL INSTRUMENTS (continued)

Borrowing facilities
The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 30th June 2013 or 30th June 2012. The group has a £0.5m overdraft facility available (2012: £1m).

Foreign currency
The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their functional currency of sterling. Foreign currency exchange differences on the re-translation of these assets and liabilities are taken to the profit and loss account of the subsidiary concerned and to the consolidated income statement of the group.

Net foreign currency monetary assets/liabilities

	2013 £000	2012 £000
US dollars	38	27
Euro	635	582
	673	609

Sensitivity analysis
Financial assets and liabilities are sensitive to movements in interest rates and/or euro exchange rates (being the currency to which the group has a significant exposure).

A 10% movement in exchange rates would result in a charge or credit to profit of £67,000 (2012: £69,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2012: £nil).

20 SHARE-BASED PAYMENTS

AIREA plc company share option plan (2010)

The group has a Company Share Option Plan (CSOP) which was established in 2010 and entitled directors and senior managers to purchase shares in the company subject to achievement of specific performance conditions. Details of the CSOP are set out in the Directors' Report.

	Number of shares	Exercise price (p)
CSOP		
As at 1st July 2011	1,953,000	15.5
Lapsed during period	(161,000)	15.5
As at 30th June and 1st July 2012	1,792,000	15.5
Lapsed during period	(1,792,000)	15.5
Outstanding at end of period	–	–
Exercisable at end of period	–	–

There were no outstanding options at 30th June 2013.

The total stock option expense recognised in the year is £nil (2012: £nil).

The fair value of the CSOP rights are calculated at the date of grant using the Black-Scholes model. The inputs into the Black-Scholes are as follows:

	2010
Weighted average exercise price (pence)	15.5
Expected volatility	50.18
Expected life	4.25
Risk-free interest rate	2.6%
Expected dividend yield	6.5%

Expected volatility was determined by calculating the historic volatility of the group's share price over the last five years. The expected useful life in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Company Balance Sheet

as at 30th June 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Investments	2		31,800		31,800
Current assets					
Debtors	3	2,466		11,822	
Creditors (amounts falling due within one year)	4	(878)		(323)	
Net current assets			1,588		11,499
			33,388		43,299
Shareholders' funds					
Called up share capital	5		11,561		11,561
Share premium account	6		504		504
Capital redemption reserve	6		2,395		2,395
Merger reserve	6		6,902		6,902
Profit and loss account	6		12,026		21,937
			33,388		43,299

The financial statements on pages 32 to 35 were approved by the board of directors on 23rd September 2013 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Accounting Policies of the Company

Statement of accounting policies
The following paragraphs summarise the principal accounting policies, all of which have been applied consistently throughout the year and throughout the previous year.

Basis of accounting
The financial statements have been prepared under the historical cost convention and in accordance with applicable financial reporting and accounting standards in the United Kingdom.

Investments
Investments are stated at cost less provision for any permanent impairment in value. The carrying value of investments is reviewed annually to determine the need for any provision for impairment.

Taxation
Current tax payable is provided on taxable profits at prevailing rates for the year.

Full provision has been made for deferred taxation in respect of timing differences that have originated but not reversed at the balance sheet date as the result of an event which results in an obligation to pay more or less tax in the future, except that:

- Provision is not made for the remittance of a subsidiary’s earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings;
- Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable tax profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discount basis at the tax rates expected to apply in the period in which the timing differences reverse, based on rates enacted at the balance sheet date.

Pensions
As the defined benefit scheme is a multi-employer scheme, the company is unable to identify its share of the underlying assets and liabilities and therefore accounts for the scheme as if it were a defined contribution scheme. Amounts paid to the scheme are charged against operating profit as part of operating costs as incurred.

Notes to the Financial Statements of the Company

1 LOSS FOR THE YEAR

AIREA plc has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The amount dealt with in the financial statements of the company is a loss of £9,726,000 (2012: £431,000).

2 INVESTMENTS

	2013 £000	2012 £000
Brought forward	31,800	33,000
Amount written off during the year	–	(1,200)
Carried forward	31,800	31,800

Investments in group undertakings are stated at cost less amounts written off. The write down of investments has been based on their value in use, with cash flows discounted at 10%. Details of the company's principal subsidiaries at 30th June 2013, all of which were wholly owned by the company or its subsidiary undertakings and all of which operate and are registered in England and Wales, unless otherwise stated, are set out below:

Burmatex Limited	Manufacturing and distribution of carpet and carpet tiles
Ryalux Carpets Limited	Manufacturing and distribution of carpet
Fope Limited*	Property holding company

Other subsidiary undertakings include:

AIREA Floor Coverings Limited*	Intermediate holding company
Burmatex SP ZOO*	Polish sales office, registered in Poland
William Lomas Carpets Limited	Non trading
William Pownall and Sons Limited	Non trading
Carpet Tile Company Limited	Non trading
Pennine Yarn Dyeing Limited	Non trading

*Held directly

3 DEBTORS

	2013 £000	2012 £000
Amounts owed by group companies	2,424	11,805
Prepayments and accrued income	42	17
	2,466	11,822

Amounts owed by group undertakings are included under current assets as there are no specific terms as to their repayment. The amount owed by group companies was reviewed during the year for impairment and it was assessed that an impairment of £10,443,000 was required.

4 CREDITORS

	2013 £000	2012 £000
Overdraft	435	237
Accruals and other creditors	45	86
Intercompany Payable	398	–
	878	323

The bank overdraft is part of a group arrangement. It is secured by a fixed charge over land and buildings and a fixed and floating charge over undertaking and assets. It is also guaranteed by other members of the group.

5 CALLED UP SHARE CAPITAL

	2013 Number	2013 £000	2012 Number	2012 £000
Ordinary shares of 25p each				
Authorised	72,000,000	18,000	72,000,000	18,000
Allotted, called up and fully paid	46,242,455	11,561	46,242,455	11,561

6 RESERVES

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Shareholders' funds £000
At 1st July 2011	11,561	504	2,395	6,902	22,599	43,961
Loss for the year	–	–	–	–	(431)	(431)
Equity dividends paid	–	–	–	–	(231)	(231)
As at 30th June and 1st July 2012	11,561	504	2,395	6,902	21,937	43,299
Loss for the year	–	–	–	–	(9,726)	(9,726)
Equity dividends paid	–	–	–	–	(185)	(185)
At 30th June 2013	11,561	504	2,395	6,902	12,026	33,388

The merger reserve relates to the premium arising on the issue of ordinary shares in connection with the acquisition of Burmatex Limited in the year ended 30th June 1987. This is eliminated on consolidation and therefore only appears in the accounts of the company.

Notice of Annual General Meeting

Notice is hereby given that the sixtieth annual general meeting of the company will be held at the Cedar Court Hotel, Wakefield, on Thursday 7th November 2013, at 2:00 p.m. for the following purposes:

Ordinary Business

1. To receive the financial statements for the year ended 30th June 2013 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the year ended 30th June 2013, of an amount of 0.55p per share, to be paid on 27th November to members whose names appear on the register of members at close of business on 1st November 2013.
3. To re-elect Mr M.Toogood who retires by rotation as a director of the company in accordance with article 113 of the company's articles of association.
4. To appoint BDO LLP as auditor of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix their remuneration.

By order of the board

ROGER SALT
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
23rd September 2013

Notes to the Notice of Annual General Meeting

A member of the company entitled to attend and vote at the meeting is entitled (unless they have pursuant to Article 96 of the company's articles of association, nominated someone else to enjoy such a right, in which case only the person so nominated may exercise the right) to appoint one or more proxies to exercise all or any of the rights to attend and speak and, to vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the company. A proxy card is enclosed with this report and should be completed and lodged at Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or returned using the pre-paid address on the reverse of the proxy card. To be valid the card must arrive no later than 2.00 p.m. on 5th November 2013. Alternatively, you may record your vote by using the CREST electronic appointment service. The return of a completed proxy card or any CREST proxy instruction will not prevent a shareholder attending the annual general meeting and voting in person if he/she wishes to do so.

The register of directors' share interests and copies of directors' service contracts and letters of appointment will be available for inspection at the registered office of the company during usual business hours on any weekday (Saturdays and public and bank holidays excluded) from the date of the notice until the date of the annual general meeting and will be available at that meeting for at least 15 minutes prior to and during the meeting.

Biographical details of each director who is being proposed for re-appointment or re-election by shareholders, including their membership of board committees, are set out in the Directors' Report on page 4.

The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the company as at 6.00 p.m. on 5th November 2013 or, in the event that the annual general meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6.00 p.m. on 5th November 2013 or, in the event that the annual general meeting is adjourned, less than 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the annual general meeting.

Recommendation

Your directors consider that the resolutions being put to shareholders are in the best interests of the shareholders as a whole. Accordingly, the directors recommend shareholders to vote in favour of the resolutions set out in the Notice of Annual General Meeting.

CREST proxy voting

CREST users should note that they can lodge their proxy votes for the meeting through the CREST Proxy Voting System. For further instructions, users should refer to the CREST User Manual. Any CREST Sponsored Member should contact their CREST Sponsor. The receiving agent ID for Capita Asset Services is RA10.

Directions to the Annual General Meeting

Please note that the annual general meeting will be held at the Cedar Court Hotel, Denby Dale Road, Calder Grove, Wakefield WF4 3QZ. The hotel is situated just off junction 39 of the M1 motorway. The telephone number of the hotel is 01924 276310.