Annual Report – 30th June 2012

AIREA plc

AIREA Brands

Our brands are Burmatex and Ryalux

Burmatex is one of the UK's leading manufacturers of contract carpets and carpet tiles. The company offers a product range spanning fibre bonded and tufted carpet in sheet and tile, as well as specialist barrier and entrance matting products. Its focus is 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

Leading the field in carpet innovation, Ryalux is one of the UK's leading tufted carpet manufacturers, offering an extensive range of colour and texture. 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

Although they operate in different sectors of the flooring market, our brands have a lot in common. Most importantly, they are both built on innovation. Not only in the way we design our products to meet the diverse needs of our customers – but also in terms of the exceptional service we provide, whatever the price level.

Contents

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Review of Operations

Overview

It is pleasing to report that during a period of continuing challenging market conditions we increased our net profit for the year and made good progress on a number of strategic objectives, including the rationalisation of surplus leased properties, the introduction of new Burmatex branding and the successful development and launch of new products with strong market appeal.

The residential sector saw no signs of recovery as customer demand remained fragile and the high street depressed. We have carefully managed our credit exposure to the beleaguered carpet retail sector, and have minimised the impact of debt defaults, whilst continuing to seek out new market opportunities.

Contract volumes held up well despite the cut backs in retail refurbishment programmes and the education sector, due to successful new product launches, a positive reaction to the new branding and excellent service levels. Mid market products with high design content have proved popular with both the architect and design communities as well as carpet fitters, and we now have a strong development pipeline to underpin future business.

The broadloom backing plant was successfully relocated during the year, allowing the vacation of leasehold properties at Heywood. The move was a considerable undertaking involving the commissioning of moth-balled plant and heavy expenditure on dilapidation commitments. The success of value engineering and reject reduction initiatives has helped to absorb the ongoing impact of commodity price inflation.

The reported figures are severely impacted by the well publicised issues surrounding pension accounting, which in the current economic circumstances cause huge volatility in reported deficits. Current economic factors have caused a distortion in the rates prescribed by accounting standards to be used in accounting for the legacy defined benefit pension fund, and in turn led to the increase in the reported deficit. We continue to work closely with the pension scheme trustees to ensure that the scheme remains adequately funded, and we are close to agreement on the recovery plan deriving from the July 2011 triennial valuation. It is important that we continue to plot an even course through these turbulent times and not over-react to potentially short-term distortions, whilst at the same time maintaining an appropriate level of prudence.

Group results

Revenue for the period was £26.3m (2011: £28.9m). The operating profit before exceptional items was £423,000 (2011: £805,000). The operating profit after charging exceptional operating costs of £72,000 (2011: £297,000) was £351,000 (2011: £508,000). After accounting for modest levels of finance income and incorporating the appropriate tax charge the net profit for the year was £269,000 (2011: £81,000).

Basic earnings per share were 0.58p (2011: 0.18p), and basic adjusted earnings per share were 0.70p (2011: 0.64p).

Operating cash flows before movements in working capital were £1,530,000 (2011: £1,664,000). Working capital increased by £940,000 (2011: £413,000) as a result of higher trade receivables due to stronger sales towards the year end, and a reduction in trade payables due to the timing issues. The outlay on onerous leases and other items previously provided for was £907,000 (2011: £795,000), and contributions of £550,000 (2011: £600,000) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2008 actuarial valuation. Capital expenditure of £708,000 (2011: £605,000) was focused on the investment in the new backing plant, enhancing tufting capability and supporting new product launches.

The pension deficit has been reassessed on the basis of a discount rate of 4.5% (2011: 5.7%) in line with the applicable accounting standard. As a result, and in combination with other actuarial adjustments, the pension deficit increased by £7.0m to £8.3m (2011: £1.3m).

Key performance indicators

As part of its internal financial control procedures, the board monitors certain financial ratios. For the year to 30th June 2012 value added per employee amounted to £62,000 (2011: £62,000), operating return on sales was 1.6% (2011: 2.8%), return on average net operating assets was 2.8% (2011: 5.8%) and working capital to sales percentage was 30.4% (2011: 24.4%). The ratios are a reflection of the difficult trading conditions and whilst much progress has been made in managing the cost base and financial resources of the group much remains to be done.

Management and personnel

To survive and prosper in the current difficult trading environment requires hard work and perseverance, and we take this opportunity to thank everyone in the business for the flexibility, commitment and effort they have shown.

Current trading and future prospects

Market conditions will remain challenging for the foreseeable future. Consumer confidence has yet to see any signs of improvement and the economic forecasters continue to put back the timing of any recovery. Similarly the construction sector has yet to show any signs of an up-turn. Quantitative easing and low interest rates are distorting economic models, leading to record pension deficits, but as yet have failed to revive the economy. In addition we face the uncertainties of the Euro zone and the government austerity programme.

However, we face the future with confidence. We have a stream of new products to launch in the market with international appeal as demonstrated by our export sales growth. We have increased margins through careful management of pricing and lowered our cost base as a result of operational efficiencies and overhead reduction. We are managing the pension deficit in line with our plan for deficit elimination and will enter the new financial year with lower property outgoings and with the significant cost of the backing plant move behind us.

In view of this the board is pleased to declare a final dividend of 0.4p per share. If approved, this dividend will be paid on 28th November 2012 to shareholders on the register at close of business on 2nd November 2012.

MARTIN TOOGOOD
Chairman

NEIL RYLANCE
Chief Executive Officer

25th September 2012

Directors' Report

The directors present their report for the year ended 30th June 2012.

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 35.

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 (2011: nil) and the directors recommend a final dividend of 0.4p (2011: 0.5p). The final dividend amounts to £185,000 and, if approved, will be paid on 28th November to those shareholders on the register at the close of business on 2nd November 2012.

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 a 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.

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. Roger retires by rotation in accordance with the company's articles of association and, being eligible, offers himself for re-election.

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

Directors who held office at 30th June 2012 had the following interests in the ordinary shares of the company:

	30th June 2012	1st July 2011
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 2012 and 25th September 2012. 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 2011	Granted in period	Market price on issue (p)	Earliest date of exercise	Lapsed in period	Exercised in period	At 30th June 2012
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. The CSOP was introduced to incentivise and motivate employees by enabling them to participate in the future success of the company and that accordingly, the grant of the options should be for the benefit of the company, its employees and its members. It is intended that the CSOP will allow for the grant of options over shares worth up to a maximum of £30,000 for each participant. Options will normally vest and become exercisable on the third anniversary of the date of the grant and remain exercisable until the sixth anniversary of the grant.

The performance target attached to the vesting of options is based on the company's growth in adjusted earnings per share (EPS). Options will vest on a sliding scale between EPS of 2.30p and 4.72p, 2.30p triggering 50% of the option vesting, and 4.72p triggering 100%. If the minimum performance conditions are not met, then those relevant options will lapse on the first date that they would otherwise have vested. There will be no retesting provisions if the performance conditions are not met. The performance criterion was chosen because EPS has a clear link to increase in shareholder value.

Share capital

Details of the share capital of the company are set out in note 17 to the financial statements of the group.

Substantial shareholdings

At 25th September 2012, 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	1,395,000	3.02

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. Meetings are also attended, by invitation, by the executive directors and company secretary. This committee normally meets twice during the financial year, around the time of the preparation of the group's interim and final results.

The committee assists the board in ensuring that appropriate accounting policies, internal financial controls and compliance procedures are in place. It also reviews the drafts of the interim and final results prior to submission to the board and provides a forum through which the external auditors report to the board.

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.

Directors' Report
(continued)

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.

Principal risks and uncertainties
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:

Currency risk – the group seeks to hedge its transactional foreign currency exposures arising from the underlying business activities of operating units, through the use of foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken.

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.

Liquidity risk – the group seeks to ensure sufficient liquidity is available to meet its foreseeable needs. The board regularly reviews cash flow projections and the headroom position in respect of its banking facilities and its policy is to maintain gearing at an appropriate level.

Further details of the group's financial instruments are detailed in note 22.

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.

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 2012 represented 75 days (2011: 69 days) of trade purchases. The company does not have any trade payables.

Directors' Responsibilities Statement

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 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 company for that period. In preparing these financial statements, the directors are required to:

– select suitable accounting policies and then apply them consistently;

– make judgements and accounting 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

Grant Thornton UK 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
25th September 2012

Independent Auditor's Report to the members of AIREA plc

We have audited the group financial statements of AIREA plc for the year ended 30th June 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with 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 Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the group 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 group 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 30th June 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS's as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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.

Other matters

We have reported separately on the parent company financial statements of AIREA plc for the year ended 30th June 2012.

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

25th September 2012

Consolidated Income Statement

year ended 30th June 2012

	Note	2012 £000	2011 £000
Revenue	1	26,276	28,904
Operating costs	2	(25,925)	(28,396)
Operating profit after exceptional items		351	508
Analysed between:			
Operating profit before exceptional items		423	805
Exceptional operating costs	3	(72)	(297)
Finance income	4a	32	–
Finance costs	4b	–	(316)
Profit before taxation		383	192
Taxation	5	(114)	(111)
Profit for the year		269	81
Earnings per share (basic and diluted)	6	0.58p	0.18p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

year ended 30th June 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Profit attributable to shareholders of the group			269		81
Actuarial (losses)/gains recognised in the pension scheme	16	(7,572)		3,968	
Related deferred taxation	10a	1,931		(1,091)	
			(5,641)		2,877
Total comprehensive (loss)/income for the period			(5,372)		2,958

Consolidated Balance Sheet

as at 30th June 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Non-current assets					
Property, plant and equipment	8		7,308		7,482
Deferred tax asset	10a		2,589		876
			9,897		8,358
Current assets					
Inventories	11	8,661		8,723	
Trade and other receivables	12	4,659		4,475	
Cash and cash equivalents	13	1,342		3,048	
			14,662		16,246
Total assets			24,559		24,604
Current liabilities					
Trade and other payables	14	(5,339)		(6,157)	
Provisions	15	(26)		(482)	
			(5,365)		(6,639)
Non-current liabilities					
Provisions	15	–		(54)	
Pension deficit	16	(8,257)		(1,267)	
Deferred tax	10b	(41)		(145)	
			(8,298)		(1,466)
Total liabilities			(13,663)		(8,105)
			10,896		16,499
Equity					
Called up share capital	17		11,561		11,561
Share premium account	18		504		504
Capital redemption reserve	18		2,395		2,395
Share option reserve	18		16		16
Retained earnings	18		(3,580)		2,023
			10,896		16,499

The financial statements on pages 9 to 31 were approved by the board of directors on 25th September 2012 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Consolidated Cash Flow Statement

year ended 30th June 2012

	Note	2012 £000	2011 £000
Operating activities			
Cash used in operations	21	(867)	(144)
Investing activities			
Purchase of property, plant and equipment		(708)	(605)
Proceeds on disposal of property, plant and equipment		100	25
		(608)	(580)
Financing activities			
Equity dividends paid		(231)	–
Net decrease in cash and cash equivalents		(1,706)	(724)
Cash and cash equivalents at start of the year		3,048	3,772
Cash and cash equivalents at end of the year		1,342	3,048

Consolidated Statement of Changes in Equity

year ended 30th June 2012

	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 2010	11,561	504	2,395	5	(935)	13,530
Profit for the year	–	–	–	–	81	81
Other comprehensive income for the year	–	–	–	–	2,877	2,877
Transactions with equity shareholders, recorded directly in equity						
Share-based payment	–	–	–	11	–	11
At 30th June and 1st July 2011	11,561	504	2,395	16	2,023	16,499
Profit for the year	–	–	–	–	269	269
Other comprehensive income for the year	–	–	–	–	(5,641)	(5,641)
Transactions with equity shareholders, recorded directly in equity						
Dividend paid	–	–	–	–	(231)	(231)
At 30th June 2012	11,561	504	2,395	16	(3,580)	10,896

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 2012 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 23 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 transferred 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.

Exceptional items
The group seeks to highlight certain items as exceptional operating income or costs. These are considered to be exceptional in size and/or nature rather than indicative of the underlying trading of the group. These may include items such as restructuring costs, material profits or losses on disposal of property, plant and equipment, impairment of goodwill and profits or losses on the disposal of subsidiaries. All of these items are charged before calculating operating profit or loss. Material profits or losses on disposal of property, plant and equipment, impairment of goodwill and profits or losses on the disposal of subsidiaries are shown as separate items in arriving at operating profit or loss whereas other exceptional items are charged or credited within operating costs and highlighted by analysis. Management apply judgement in assessing the particular items, which by virtue of their size and nature are disclosed separately in the income statement and the notes to the financial statements as exceptional items. Management believe that the separate disclosure of these items is relevant to understanding the group's financial performance.

Interest payable and receivable
Interest payable and receivable is accounted for using the 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.

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.

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.

Accounting Policies of the Group

(continued)

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. 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.

Financial liabilities

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 rate 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.

Standards in issue not yet effective
The following issued IFRS's and interpretations were available for early adoption but have not been applied by the group in these financial statements:

- IFRS 9 Financial Instruments (effective 1st January 2015)
- IFRS 10 Consolidated Financial Statements (effective 1st January 2013)
- IFRS 12 Disclosure of interests in other entities (effective 1st January 2013)
- IFRS 13 Fair Value Measurement (effective 1st January 2013)
- IAS 19 Employee Benefits (Revised June 2011) (effective 1st January 2013)
- IAS 27 (Revised), Separate Financial Statements (effective 1st January 2013)
- Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12 Income Taxes (effective 1st January 2012)
- Presentation of items of Other Comprehensive Income – Amendments to IAS 1 (effective 1st July 2012)
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7 (effective 1st January 2013)
- Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32 (effective 1st January 2014)
- Mandatory Effective Date and Transition Disclosures – Amendments to IFRS 9 and IFRS 7 (effective 1st January 2015)

It is anticipated that the adoption of these standards will not have a significant impact on the financial statements of the group except for additional disclosure and presentational requirements.

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 following the integration of the business the group is now 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 turnover is generated by operations within the United Kingdom and all assets are located in the United Kingdom.

Analysis of turnover by destination	2012 £000	2011 £000
United Kingdom	22,189	25,094
Eire	901	787
Rest of Europe	2,746	2,638
North America	137	123
Rest of the World	303	262
	26,276	28,904

Analysis of turnover by market sector	2012 £000	2011 £000
Contract floor coverings	17,980	18,038
Domestic floor coverings	8,296	10,866
	26,276	28,904

2 OPERATING COSTS

	2012 Excluding exceptional costs £000	2012 Exceptional costs £000	2012 Including exceptional costs £000	2011 Excluding exceptional costs £000	2011 Exceptional costs £000	2011 Including exceptional costs £000
Changes in inventories of finished goods and work in progress	(194)	–	(194)	(1,215)	–	(1,215)
Raw materials and consumables	11,293	–	11,293	13,546	–	13,546
Other external charges	6,764	–	6,764	7,379	–	7,379
Staff costs (note 19)	6,463	72	6,535	6,701	297	6,998
Depreciation	1,085	–	1,085	1,163	–	1,163
Foreign exchange differences	(24)	–	(24)	22	–	22
Other operating charges	466	–	466	503	–	503
	25,853	72	25,925	28,099	297	28,396

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

Fees payable to the company's auditor for the audit of the financial statements	25	–	25	23	–	23
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	25	–	25	28	–	28
Other services relating to taxation	12	–	12	9	–	9
For all other services	–	–	–	2	–	2
	62	–	62	62	–	62

Notes to the Financial Statements of the Group

(continued)

3 EXCEPTIONAL OPERATING COSTS

Exceptional costs of £72,000 (2011: £297,000) comprise of severance payments and incentives relating to the streamlining of the operating business.

4 FINANCE INCOME AND FINANCE COSTS

(a) Finance income

	2012 £000	2011 £000
Finance income relating to the pension scheme (note 16)	32	–

(b) Finance costs

	2012 £000	2011 £000
Finance cost relating to the pension scheme (note 16)	–	316

5 TAXATION

	2012 £000	2011 £000
Based on the profit for the year at 25.5% (2011: 27.5%)		
Corporation tax		
– Current year	70	86
Total current tax	70	86
Deferred tax		
– Current year	(104)	(53)
– Relating to pension deficit	148	78
Total deferred tax (note 10)	44	25
Tax charge on profit on ordinary activities	114	111

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 25.5% (2011: 27.5%) as follows:

	2012 £000	2011 £000
Profit on ordinary activities before tax	383	192
Profit on ordinary activities before tax multiplied by standard rate of corporation tax of 25.5% (2011: 27.5%)	98	53
Effects of:		
Disallowed expenditure	16	58
Current corporation tax charge for the year	114	111

Notes to the Financial Statements of the Group
(continued)

6 EARNINGS PER SHARE

The calculation of basic, adjusted and diluted earnings per share is based on the following data:

Number of shares

	2012	2011
Ordinary shares for the purpose of basic earnings per share	46,242,455	46,242,455

Earnings

	2012 £000	2011 £000
Earnings	269	81
Exceptional operating costs (net of tax)	54	215
Adjusted earnings	323	296

The group's earnings per share are as follows:

	2012 pence	2011 pence
Basic adjusted	0.70	0.64
Basic	0.58	0.18

Diluted EPS
All options in issue at 30th June 2012 and 2011 were anti-dilutive.

7 DIVIDENDS

	2012 £000	2011 £000
Paid during the year:		
Final dividend for the prior year of 0.50p per share (2011: nil per share)	231	–
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of 0.40p per share (2011: 0.50p per share)	185	231

If approved, this dividend will be paid on 28th November 2012 to shareholders on the register at close of business on 2nd November 2012.

8 PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1st July 2010	5,905	21,543	27,448
Additions	5	600	605
Disposals	–	(150)	(150)
At 30th June and 1st July 2011	5,910	21,993	27,903
Additions	4	704	708
Disposals	–	(3,125)	(3,125)
At 30th June 2012	5,914	19,572	25,486
Depreciation			
At 1st July 2010	1,890	17,511	19,401
Charge for the year	151	1,019	1,170
Disposals	–	(150)	(150)
At 30th June and 1st July 2011	2,041	18,380	20,421
Charge for the year	151	989	1,140
Impairment (note 15)	–	(324)	(324)
Disposals	–	(3,059)	(3,059)
At 30th June 2012	2,192	15,986	18,178
Net book amounts			
At 1st July 2011	3,869	3,613	7,482
At 30th June 2012	3,722	3,586	7,308

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.

An impairment review of non-current assets has been performed in accordance with the group's accounting policy, and the impairment review has concluded that no change is required.

Capital commitments

	2012 £000	2011 £000
Group	–	82

Notes to the Financial Statements of the Group
(continued)

9 GOODWILL

	2012 £000	2011 £000
Gross carrying amount		
At the beginning and end of the year	12,857	12,857
Accumulated impairment		
At the beginning and end of the year	12,857	12,857
Net carrying amount		
At the beginning and the end of the year	–	–

10 DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non-current asset			
Balance as at 1st July 2010	1,545	586	2,131
Movement during the year:			
Income statement	(78)	(86)	(164)
Consolidated statement of comprehensive income	(1,091)	–	(1,091)
Balance at 30th June and 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 2012	2,159	430	2,589

In addition to the recognised asset the group has an unrecognised deferred tax asset of approximately £605,000 (2011: £820,000) comprising of brought forward tax losses.

	2012 £000	2011 £000
(b) Deferred tax liability		
Balance brought forward	145	198
Movement during the year	(104)	(53)
Deferred tax liability carried forward	41	145
An analysis of the deferred tax liability is as follows:		
Accelerated capital allowances	1	105
Other timing differences	40	40
	41	145

11 INVENTORIES

	2012 £000	2011 £000
Raw materials and consumables	1,355	1,611
Work in progress	285	318
Finished goods	7,021	6,794
	8,661	8,723

Inventories carried at fair value less costs to sell amounted to £609,000 (2011: £486,000).

The consolidated income statement includes £11,099,000 (2011: £12,331,000) as an expense for inventories.

12 TRADE AND OTHER RECEIVABLES

	2012 £000	2011 £000
Trade receivables	3,955	3,531
Prepayments and accrued income	704	944
	4,659	4,475

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.

	2012 £000	2011 £000
Brought forward provisions	272	343
Bad and doubtful debts charged in the year	137	47
Amount utilised	(94)	(181)
	315	209

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:

	2012 £000	2011 £000
More than three months but not more than six months	112	118
More than six months	19	23
	131	141

13 CASH AND CASH EQUIVALENTS

	2012 £000	2011 £000
Cash at bank and in hand	1,342	3,048

The assets of the company are pledged as security by way of fixed and floating charge in order to provide security in respect of a £1m group overdraft facility.

Notes to the Financial Statements of the Group
(continued)

14 TRADE AND OTHER PAYABLES

	2012 £000	2011 £000
Trade payables	3,972	4,408
Social security and other taxes	728	594
Accruals and other creditors	639	1,155
	5,339	6,157

15 PROVISIONS

	£000
At 1st July 2010	1,331
Amount utilised	(795)
At 30th June and 1st July 2011	536
Provisions charged in the year	324
Amount utilised	(834)
At 1st July 2012	26

	2012 £000	2011 £000
Analysed between:		
Current liabilities	26	482
Non-current liabilities	–	54
	26	536

The provisions charged in the year relate to the re-commissioning of previously impaired plant and equipment.

16 PENSION COMMITMENTS

(a) Pension schemes

The group operates a pension scheme for certain of its employees of the defined benefit, final salary, type. 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 £550,000 in the year were made in accordance with the agreement based on the 1st July 2008 actuarial valuation. Contributions for the year ended June 2013 will be subject to the 1st July 2011 actuarial valuation. The 1st July 2011 triennial valuation has yet to be completed.

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 £116,000 (2011: £112,000).

16 PENSION COMMITMENTS (continued)

(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:

	2012 %	2011 %
Inflation assumption – CPI	1.90	2.60
Rate of increase in salaries	3.30	4.00
Rate of increase to pensions in payment	2.75	3.40
Revaluation of deferred pensions	1.90	3.50
Liabilities discount rate	4.50	5.70
Expected rate of return on scheme assets	5.58	6.23
Life expectancy	Years	Years
Current male pensioner at age 65	20.3	20.2
Current female pensioner at age 65	22.5	22.4
Future male pensioner at age 65	21.3	21.2
Future female pensioner at age 65	23.3	23.3

(c) Analysis of fair value of scheme assets and expected rate of return

	Expected rate of return		Market value	
	2012 %	2011 %	2012 £000	2011 £000
Equities	7.50	7.50	19,467	19,995
Bonds	3.10	4.30	16,099	16,005
Property	7.50	7.40	2,395	2,355
Other	0.50	0.50	440	113
			38,401	38,468

The expected returns on individual classes of pension scheme assets are determined by reference to external indices and after taking advice from external advisers. The overall expected rate of return is the weighted average of the returns above, allowing for anticipated balances held in each asset class according to the scheme's investment strategy.

(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:

	2012 £000	2011 £000
Fair value of scheme assets	38,401	38,468
Present value of obligations	(46,658)	(39,735)
Deficit in the scheme	(8,257)	(1,267)

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

	2012 £000	2011 £000
Interest on obligation	2,192	2,216
Expected return on scheme assets	(2,224)	(1,900)
Pension (income)/expense (note 4)	(32)	316

Notes to the Financial Statements of the Group
(continued)

16 PENSION COMMITMENTS (continued)

Movements in the present value of obligations are as follows:

	2012 £000	2011 £000
At start of period	39,735	40,700
Interest on obligation	2,192	2,216
Actuarial loss/(gain)	6,957	(1,336)
Benefits paid	(2,226)	(1,845)
At end of period	46,658	39,735

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

	2012 £000	2011 £000
At start of period	38,468	35,181
Expected return on scheme assets	2,224	1,900
Actuarial (loss)/gain	(615)	2,632
Contributions from employers	550	600
Benefits paid	(2,226)	(1,845)
At end of period	38,401	38,468

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

	2012 £000	2011 £000
Actuarial (loss)/gain in the present value of obligations	(6,957)	1,336
Actuarial (loss)/gain in the fair value of scheme assets	(615)	2,632
Pension (expense)/income (note 4)	(7,572)	3,968

The cumulative amount recognised in other comprehensive income is (£3,423,000).

Other defined benefit plan information:

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Fair value of plan assets	38,401	38,468	35,159	31,560	34,650
Defined benefit obligation	(46,658)	(39,735)	(40,700)	(37,000)	(40,150)
Plan deficit	(8,257)	(1,267)	(5,541)	(5,440)	(5,500)
Experience adjustments:					
Experience adjustment on scheme liabilities	(2,118)	(608)	(280)	(90)	–
	%	%	%	%	%
Percentage of scheme liabilities	4.54%	1.53%	0.69%	0.20%	0.00%
	£000	£000	£000	£000	£000
Experience adjustment on scheme assets	(615)	2,632	3,306	(5,020)	(3,960)
	%	%	%	%	%
Percentage of scheme liabilities	(1.60%)	6.84%	0.94%	(15.90%)	(11.43%)

17 CALLED UP SHARE CAPITAL

	2012 Number	2012 £000	2011 Number	2011 £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

18 RESERVES

	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	5	(935)	13,530
Profit for the year	–	–	–	–	81	81
Other comprehensive income	–	–	–	–	2,877	2,877
Share-based payments	–	–	–	11	–	11
At 30th June and 1st July 2011	11,561	504	2,395	16	2,023	16,499
Profit for the year	–	–	–	–	269	269
Other comprehensive income	–	–	–	–	(5,641)	(5,641)
Equity dividends paid	–	–	–	–	(231)	(231)
At 30th June 2012	11,561	504	2,395	16	(3,580)	10,896

Cumulative goodwill amounting to £13,944,000 (2011: £13,944,000) has been previously written off to group reserves and has not been recycled as the IFRS 1 exemption has been taken.

19 EMPLOYEES

	2012 £000	2011 £000
Staff costs		
Wages and salaries	5,890	6,055
Social security costs	457	523
Other pension costs	116	112
Share-based payment	–	11
Termination costs	72	297
	6,535	6,998

	Number	Number
The average number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	47	52
Administration	21	21
Manufacturing and operations	176	191
	244	264

Notes to the Financial Statements of the Group

(continued)

19 EMPLOYEES (continued)

Directors' remuneration

	Salary and fees £000	Taxable benefits £000	2012 Total (excl. pension) £000	2011 Total (excl. pension) £000	2012 Pension £000	2011 Pension £000
Executive						
Neil Rylance	180	14	194	182	17	17
Roger Salt	90	12	102	66	5	4
Non-Executive						
Martin Toogood	41	–	41	39	–	–
	311	26	337	287	22	21

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

Key management personnel are considered to be the directors of the company. Key management personnel are also the only related parties of the group.

20 OPERATING LEASES

Details of operating lease arrangements for the group are as follows

	2012 £000	2011 £000
Lease payments under operating leases charged to operating costs in the year	623	814

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:

	2012 £000	2011 £000
Within one year	846	903
In the second to fifth years inclusive	2,677	2,489
After five years	–	420
	3,523	3,812

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.

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

	2012 £000	2011 £000
Profit for the year	269	81
Share-based payment	–	11
Tax charged	114	111
Finance (income)/cost	(32)	316
Depreciation	1,140	1,163
Loss/(profit) on disposal of property, plant and equipment	39	(18)
Operating cash flows before movements in working capital	1,530	1,664
Increase in working capital	(940)	(413)
Decrease in provisions for liabilities and charges	(907)	(795)
Contributions to defined benefit pension scheme	(550)	(600)
Net cash used in operations	(867)	(144)

22 FINANCIAL ASSETS AND LIABILITIES

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:

	2012 £000	2011 £000
Current assets		
Trade and other receivables	3,955	3,531
Cash and cash equivalents	1,342	3,048
	5,297	6,579

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:

	2012 £000	2011 £000
Current liabilities		
Trade and other payables	5,339	6,157

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 (2011: nil).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 30th June 2012 or 30th June 2011. The group has a £1 million overdraft facility available.

Notes to the Financial Statements of the Group

(continued)

22 FINANCIAL ASSETS AND LIABILITIES (continued)

Foreign currency

The group's currency exposure derives from trading operations where goods are exported or raw materials and capital are imported. These exposures are managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at the times when currencies are particularly volatile.

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

	2012 £000	2011 £000
US dollars	27	59
Euro	582	848
	609	907

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 £69,000 (2011: £90,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2011: £nil).

Capital management

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.

23 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 2012. 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 – £2,589,000 (2011: £876,000)

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 10.

Inventories – £8,661,000 (2011: £8,723,000)

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. The inventory is carried at a value which reflects the director's best estimates of achievable selling prices. Details of the provisions made against inventory are given in note 11.

23 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Trade receivables – £3,955,000 (2011: £3,531,000)

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 12.

Pension deficit – £8,257,000 (2011: £1,267,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 16. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The increase of £6,990,000 in the year was due to the payments of £550,000 made during the year net of other experience gains and losses.

24 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 entitles directors and senior managers to purchase shares in the company subject to achievement of specific performance conditions. Details of the CSOP, including performance conditions are set out in the Directors' Report.

	Number of shares	Exercise price (p)
CSOP		
As at 1st July 2010	2,518,000	15.5
Lapsed during period	(565,000)	15.5
As at 30th June and 1st July 2011	1,953,000	15.5
Lapsed during period	(161,000)	15.5
Outstanding at end of period	1,792,000	15.5
Exercisable at end of period	–	–

The options outstanding at 30th June 2012 had an exercise price of 15.5p and have a vesting date of 8th April 2013. The options were granted in April 2010. The aggregate of the estimated fair value of the options granted in the current year is £102,000 (2011:£nil).

The total stock option expense recognised in the year is £nil (2011: £11,000).

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.

Independent Auditor's Report to the members of AIREA plc

We have audited the parent company financial statements of AIREA plc for the year ended 30th June 2012 which comprise the parent company balance sheet, the accounting policies and the related notes. The financial reporting framework that has been applied in the preparation of the 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 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 Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the parent company 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 parent company 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 (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on company financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 30th June 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter 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 parent company 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 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.

Other matters

We have reported separately on the group financial statements of AIREA plc for the year ended 30th June 2012.

Andrew Wood
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Leeds

25th September 2012

Company Balance Sheet
as at 30th June 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Investments	2		31,800		33,000
Current assets					
Debtors	3	11,822		10,538	
Cash at bank and in hand		–		598	
		11,822		11,136	
Creditors (amounts falling due within one year)	4	(323)		(175)	
Net current assets			11,499		10,961
			43,299		43,961
Capital and Reserves					
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		21,937		22,599
Total shareholders' funds			43,299		43,961

The financial statements on pages 33 to 36 were approved by the board of directors on 25th September 2012 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 period.

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 PROFIT 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 £431,000 (2011: profit £572,000).

2 INVESTMENTS

	2012 £000	2011 £000
Shares in group companies		
Brought forward	33,000	33,000
Amount written off during the year	(1,200)	–
Carried forward	31,800	33,000

Investments in group undertakings are stated at cost less amounts written off. The write down of investments has been assessed on their value in use, with cash flows discounted at 10% based on a growth rate of 3.5% over four years and 2% thereafter. Details of the company's principal subsidiaries at 30th June 2012, 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 fibre bonded sheet carpet and carpet tiles
Ryalux Carpets Limited	Manufacturing and distribution of carpet

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

	2012 £000	2011 £000
Amounts owed by group companies	11,805	10,489
Prepayments and accrued income	17	49
	11,822	10,538

Amounts owed by group undertakings are included under current assets as there are no specific terms as to their repayment.

Notes to the Financial Statements of the Company

(continued)

4 CREDITORS

	2012 £000	2011 £000
Overdraft	237	–
Social security and other taxes	–	81
Accruals and other creditors	86	94
	323	175

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

5 CALLED UP SHARE CAPITAL

	2012 Number	2012 £000	2011 Number	2011 £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 CAPITAL AND 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 2010	11,561	504	2,395	6,902	22,027	43,389
Profit for the year	–	–	–	–	572	572
As at 30th June and 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)
At 30th June 2012	11,561	504	2,395	6,902	21,937	43,299

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 fifty-ninth annual general meeting of the company will be held at the Holiday Inn Wakefield, Queens Drive, Ossett, WF5 9BE, on Thursday 8th November 2012, at 2.00 p.m. for the following purposes:

Ordinary Business

1. To receive the financial statements for the year ended 30th June 2012 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the year ended 30th June 2012, of an amount of 0.40p per share, to be paid on 28th November to members whose names appear on the register of members at close of business on 2nd November 2012.
3. To re-elect Mr. R. Salt who retires by rotation as a director of the company in accordance with article 113 of the company's articles of association.
4. To re-appoint Grant Thornton UK 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
25th September 2012

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 Registrars, 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 6th November 2012. 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 6th November 2012 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 6th November 2012 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 Registrars is RA10.

Directions to the Annual General Meeting

Please note that the annual general meeting will be held at the Holiday Inn Wakefield, Queens Drive, Ossett, WF5 9BE. The hotel is situated just off junction 40 of the M1 motorway. The telephone number of the hotel is 0871 942 9082.

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