

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.

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Review of Operations

Introduction

We are pleased to report a year of significant progress set against a backdrop of continuing global recessionary conditions and depressed demand in the markets in which we operate. The work done in lowering our cost base combined with improved sales margins from our repositioned product offer delivered a return to profitability and positive cash flow.

The transformation of the product portfolio and point of sales estate of our residential carpet business is now largely complete and the brand continues to regain its reputation for innovation and design. However, the second half saw particularly challenging market conditions with soft trading conditions adversely affecting sales. As described in our interim report, the success achieved in winning major contracts demonstrates the improved awareness of the Burmatex brand within the architect and specification community sector, building on the traditional strength in the flooring contractor sector. Underlying demand suffered from low levels of activity in the construction and refurbishment market, with the new contracts only coming on stream in the final weeks of the year.

Group results

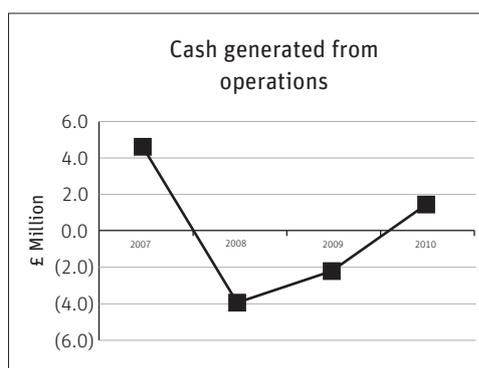
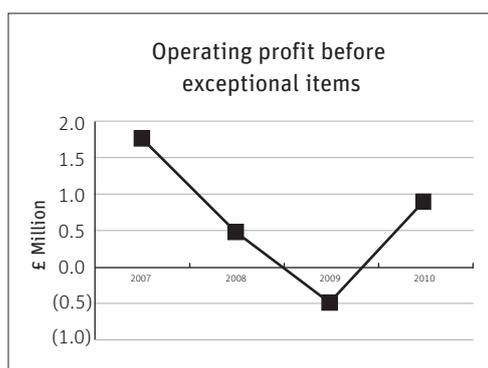
Revenue reduced by £10.1m to £30.9m (2009: £41.0m). Of the decline, circa £6.5m is directly attributable to the exit from loss-making contracts and the withdrawal of products as part of the rationalisation of the domestic product range. Of the remaining business, sales to the residential sector declined by 14.8% and to the contract sector by 6.7%.

The operating result before exceptional items was a profit of £0.9m (2009: loss £0.5m). The operating result after charging exceptional operating costs of £0.2m (2009: exceptional operating costs £4.3m and goodwill impairment £4.0m) was an operating profit of £0.7m (2009: loss £8.8m).

After accounting for finance income and finance costs, and incorporating the appropriate tax charge the result for the year was a profit of £0.3m (2009: loss £9.0m). Basic earnings per share were 0.57p (2009: loss per share 19.40p).

Net cash generated from operating activities in the year amounted to £1.3m (2009: used in operations £2.4m). Working capital reduced by £0.6m (2009: £1.7m) despite a build up of inventory to service new contracts. Capital expenditure of £1.2m (2009: £0.9m) was largely related to the completion of the product range renewal projects. Contributions of £0.6m (2009: £2.5m) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2008 actuarial valuation.

The progression in trading performance over the last four years is demonstrated below:



Key performance indicators

As part of its internal financial control procedures, the board monitors certain financial ratios. For the year to 30th June 2010 value added per employee amounted to £60,000 (2009: £58,000), operating return on sales was 2.9% (2009: 1.2% negative), return on average net operating assets was 6.5% (2009: 2.7% negative) and working capital to sales percentage was 21.4% (2009: 18.0%). The general improvement in ratios reflects the improved sales margins and cost reductions. The working capital ratio suffered from an increase in inventory and trade receivables relating to the start up of new contract business.

Management and personnel

As reported in the interim report, Martin Toogood succeeded Tim Vernon as non-executive chairman on 6th November 2009. Tim stepped down from the board after over five years service, and we would like to thank him for his contribution and wish him well for the future. Roger Salt was appointed to the position of group finance director on 21st September 2010, a role he takes on in addition to his duties as company secretary.

Current trading and future prospects

Both sides of our business experience seasonal changes in demand for their products, and the second half of the financial year represents a quieter period for both businesses. So with this in mind and despite poor consumer demand for residential carpets in the immediate post Christmas period it was encouraging to see that the business was able to produce an operating profit (before exceptional items) of £0.9m for the year.

As forecast at the half year the commercial flooring business started deliveries on several major new contracts and despite the unexpected delays in the commencement of the contracts, this represents a significant breakthrough in sales outside traditional core markets. There has also been significant progress in developing markets outside the UK following a thorough overhaul of the international sales and distribution network including the creation of Burmatex SP ZOO in Poland now selling direct to customers and specifiers.

In the last six months the company has invested in plant and equipment to expand the capability of its Wakefield dyeing facility. This will facilitate further exploitation of the manufacturing and operational synergies presented by the joint capabilities of both operations.

So, in summary both businesses are now well placed to meet the new challenges presented by continuing economic uncertainty and are less reliant on traditional sources of business both inside and outside the UK. It still remains to be seen what the long-term effect of UK public sector expenditure cuts will have on the UK economy as a whole, and UK demand for household goods in particular. However, we remain optimistic but prudent in terms of strict control of cash resources. The board have concluded that it would not be appropriate to propose a final dividend, but remains committed to introducing a progressive dividend policy when circumstances allow.

MARTIN TOOGOOD
Chairman

NEIL RYLANCE
Chief executive officer

28th September 2010

Directors' Report

The directors present their report for the year ended 30th June 2010.

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 (2009: nil) and the directors do not recommend a final dividend (2009: nil).

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

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

Directors who held office at 30th June 2010 had the following interests in the ordinary shares of the company:

	30th June 2010	1st July 2009
Neil Rylance	1,500,000	1,500,000
Martin Toogood	1,090,000	700,000

Roger Salt held 20,000 at the date of his appointment. There were no other changes in directors' interests between 1st July 2010 and 28th September 2010. 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 2009	Granted in period	Market price on issue (p)	Earliest date of exercise	Lapsed in period	Exercised in period	At 30th June 2010
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 4.72 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 19 to the financial statements.

Substantial shareholdings

At 28th September 2010, in addition to the interest of Neil Rylance noted above which amounts to 3.24%, 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	2,000,000	4.33
HBOS plc	1,570,721	3.40

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.

Risk management

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 24.

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 2010 represented 37 days (2009: 49 days) of trade purchases. The company does not have any trade payables.

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 the parent company financial statements under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed in the consolidated 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 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.

In 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 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
28th September 2010

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 2010 which comprise the accounting policies, 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 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 (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 statement of directors' responsibilities 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 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/UKNP

Opinion on group 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 2010 and of its profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the group financial statements 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 where the Companies Act 2006 requires us 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 2010.

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

28th September 2010

Consolidated Income Statement

year ended 30th June 2010

	Note	2010 £000	2009 £000
CONTINUING OPERATIONS			
Revenue	1	30,899	40,970
Operating costs	2	(30,188)	(45,792)
Impairment of goodwill		-	(4,000)
Operating profit/(loss) after exceptional items		711	(8,822)
Analysed between:			
Operating profit/(loss) before exceptional items		900	(496)
Exceptional operating costs	3a	(189)	(4,326)
Impairment of goodwill	3b	-	(4,000)
Finance income	4a	16	97
Finance costs	4b	(300)	(340)
Profit/(loss) before taxation		427	(9,065)
Taxation	5	(164)	103
Profit/(loss) from continuing operations		263	(8,962)
Loss from discontinued operations	6	-	(10)
Profit/(loss) for the year		263	(8,972)
Earnings/(loss) per share (basic and diluted)	7a	0.57p	(19.40)p
Earnings/(loss) per share from continuing operations (basic and diluted)	7b	0.57p	(19.38)p

Consolidated Statement of Comprehensive Income

year ended 30th June 2010

	Note	2010 £000		2009 £000	
Profit/(loss) attributable to shareholders of the group			263		(8,972)
Actuarial losses recognised in the pension scheme	18	(379)		(2,140)	
Related deferred taxation	11	106		599	
	20		(273)		(1,541)
Total comprehensive income for the period			(10)		(10,513)

Consolidated Balance Sheet

as at 30th June 2010

	Note	2010		2009	
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	9		8,047		7,938
Deferred tax asset	11a		2,131		2,217
			<u>10,178</u>		<u>10,155</u>
Current assets					
Loan notes	12	-		150	
Inventories	13	7,579		6,995	
Trade and other receivables	14	5,387		5,622	
Income tax receivable		-		121	
Cash and cash equivalents	15	3,772		3,242	
			<u>16,738</u>		<u>16,130</u>
Total assets			<u>26,916</u>		<u>26,285</u>
Current liabilities					
Trade and other payables	16	(6,338)		(5,391)	
Provisions	17	(627)		(722)	
			<u>(6,965)</u>		<u>(6,113)</u>
Non-current liabilities					
Provisions	17	(704)		(1,038)	
Pension deficit	18	(5,519)		(5,440)	
Deferred tax	11b	(198)		(159)	
			<u>(6,421)</u>		<u>(6,637)</u>
Total liabilities			<u>(13,386)</u>		<u>(12,750)</u>
			<u>13,530</u>		<u>13,535</u>
Equity					
Called up share capital	19		11,561		11,561
Share premium account	20		504		504
Capital redemption reserve	20		2,395		2,395
Share option reserve	20		5		-
Retained earnings	20		(935)		(925)
			<u>13,530</u>		<u>13,535</u>

The financial statements on pages 9 to 31 were approved by the board of directors on 28th September 2010 and signed on its behalf by:

ROGER SALT
Group Finance Director
Company number 526657

Consolidated Cash Flow Statement

year ended 30th June 2010

	Note	2010 £000	2009 £000
Operating activities			
Cash generated from/(used in) operations	23	1,285	(2,401)
Interest received		16	64
Income tax received		159	435
		<u>1,460</u>	<u>(1,902)</u>
Investing activities			
Purchase of property, plant and equipment		(1,212)	(878)
Proceeds on disposal of property, plant and equipment		29	549
Earn-out receipt		103	-
		<u>(1,080)</u>	<u>(329)</u>
Financing activities			
Equity dividends paid		-	(740)
Redemption of loan notes		150	150
		<u>150</u>	<u>(590)</u>
Net increase/(decrease) in cash and cash equivalents		530	(2,821)
Cash and cash equivalents at start of the year		3,242	6,063
Cash and cash equivalents at end of the year		<u><u>3,772</u></u>	<u><u>3,242</u></u>

Consolidated Statement of Changes in Equity

year ended 30th June 2010

	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 2008	11,561	504	2,395	-	10,328	24,788
Total comprehensive income for the year	-	-	-	-	(10,513)	(10,513)
Equity dividends paid	-	-	-	-	(740)	(740)
At 30th June and 1st July 2009	11,561	504	2,395	-	(925)	13,535
Total comprehensive income for the year	-	-	-	-	(10)	(10)
Share-based payment	-	-	-	5	-	5
At 30th June 2010	<u><u>11,561</u></u>	<u><u>504</u></u>	<u><u>2,395</u></u>	<u><u>5</u></u>	<u><u>(935)</u></u>	<u><u>13,530</u></u>

Accounting Policies of 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 2010 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 accompanying notes 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, for all classes of business, 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 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.

Discontinued operations

A discontinued operation is a cash-generating unit, or a group of cash-generating units, that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations. The disclosures for discontinued operations in prior periods relate to all operations that have been discontinued by the balance sheet date for the latest period presented.

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 machinery	10–33%
Computer equipment	20%
Motor vehicles	25%

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 – 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, including premiums payable on settlement or redemption are accounted for at amortised cost 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 the statement of 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; 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.

Adoption of new and revised standards

During the year the group has applied IAS 1 Presentation of Financial Statements (Revised 2007). IAS 1 Presentation of Financial Statements (Revised 2007) requires presentation of a comparative balance sheet as at the beginning of the first comparative period, in some circumstances. Management considers that this is not necessary this year because the 2009 balance sheet is the same as that previously published.

The adoption of IAS 1 Presentation of Financial Statements (Revised 2007) has introduced a number of terminology changes (including titles for the primary statements) and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the group.

Standards in issue not yet effective

There are a number of new standards and interpretations issued but not yet effective which the group has not applied in these financial statements. 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, particularly in respect to:

IFRS 9 Financial Instruments (effective 1st January 2013)

IAS 24 (Revised 2009) Related Party Disclosures (effective 1st January 2011) Group Cash-settled Share-based Payment Transactions – Amendment to IFRS 2 (effective 1st January 2010)

Improvements to IFRSs 2009 (various effective dates, earliest of which is 1st July 2009, but mostly 2010)

Improvements to IFRS issued May 2010 (some changes effective 1st July 2010, others effective 1st January 2011).

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.

	2010 £000	2009 £000
Analysis of turnover by destination		
United Kingdom	26,636	35,925
Eire	953	1,183
Rest of Europe	2,978	3,495
North America	98	135
Rest of the World	234	232
	<u>30,899</u>	<u>40,970</u>
Analysis of turnover by market sector		
Contract floor coverings	18,177	19,545
Domestic floor coverings	12,722	21,425
	<u>30,899</u>	<u>40,970</u>

2 OPERATING COSTS

	2010			2009		
	Excluding exceptional costs £000	Exceptional costs £000	Including exceptional costs £000	Excluding exceptional costs £000	Exceptional costs £000	Including exceptional costs £000
CONTINUING OPERATIONS						
Changes in inventories of finished goods and work in progress	(550)	-	(550)	1,943	1,071	3,014
Raw materials and consumables	13,430	119	13,549	18,278	-	18,278
Other external charges	7,998	-	7,998	10,482	2,642	13,124
Staff costs (note 21)	8,006	165	8,171	9,217	613	9,830
Depreciation	1,086	-	1,086	1,146	-	1,146
Foreign exchange differences	(511)	-	(511)	(285)	-	(285)
Other operating charges	540	8	548	685	-	685
Other operating income	-	(103)	(103)	-	-	-
	<u>29,999</u>	<u>189</u>	<u>30,188</u>	<u>41,466</u>	<u>4,326</u>	<u>45,792</u>
DISCONTINUED OPERATIONS						
Other external charges	-	-	-	-	187	187
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	20	-	20	26	-	26
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	21	-	21	34	-	34
Other services relating to taxation	5	-	5	27	-	27
For all other services	2	-	2	7	-	7
	<u>48</u>	<u>-</u>	<u>48</u>	<u>94</u>	<u>-</u>	<u>94</u>

Notes to the Financial Statements of the Group

(continued)

3 EXCEPTIONAL ITEMS

(a) Exceptional operating costs/(credits)

	2010 £000	2009 £000
Impairment of property plant and equipment	-	588
Provision against inventories	119	1,071
Provision for onerous leases and related costs	-	2,037
Severance payments and incentives	165	613
Relocation costs	-	154
Provision for bad debts	-	40
Legal and professional expenses	8	10
Earn-out receipt	(103)	-
	<u>189</u>	<u>4,513</u>

The impairment of property, plant and equipment, the provision against inventories, the provisions for onerous leases and related costs and relocation costs relate to the ongoing reorganisation of the residential carpets business. The severance payments and incentives relates to the streamlining of the operating business and management team. The remainder of the relocation costs and the provision for bad debts relate to the discontinuation of the yarn dyeing operation. The legal and professional expenses relate to the streamlining of the group structure.

The earn-out receipt relates to Sirdar Spinning Limited. This disposal was disclosed in previous periods.

All of the exceptional operating costs related to continuing operations (30th June 2009: £4,326,000 of the exceptional operating costs related to continuing operations and £187,000 related to discontinued operations).

(b) Impairment of goodwill

	2010 £000	2009 £000
Impairment of goodwill relating to the residential carpets business	-	4,000

The impairment of goodwill is included in the results of continuing operations.

4 FINANCE INCOME AND FINANCE COSTS

(a) Finance income

	2010 £000	2009 £000
Bank interest receivable	-	46
Loan note interest	6	21
Other interest	10	31
	<u>16</u>	<u>98</u>

All the finance income relates to continuing operations (2009: £97,000 of the finance income related to continuing operations and £1,000 related to discontinued operations).

(b) Finance costs

	2010 £000	2009 £000
Finance cost relating to the pension scheme (note 18)	300	340

All of the finance costs are included in the results of continuing operations.

5 TAXATION

	2010 £000	2009 £000
Based on the profit/(loss) for the year at 28.0% (2009: 28.0%)		
Corporation tax		
– Current year	144	(694)
– Prior year	(103)	(108)
Total current tax	<u>41</u>	<u>(802)</u>
Deferred tax		
– Current year	(1)	(93)
– Prior year	40	–
– Relating to pension deficit	84	616
Total deferred tax (note 11)	<u>123</u>	<u>523</u>
Tax charge/(credit) on profit/(loss) on ordinary activities	<u>164</u>	<u>(279)</u>

The tax charge/(credit) for the year can be reconciled to the profit/(loss) per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 28.0% (2009: 28.0%) as follows:

	2010 £000	2009 £000
Profit/(loss) on ordinary activities before tax	<u>427</u>	<u>(9,251)</u>
Profit/(loss) on ordinary activities before tax multiplied by standard rate of corporation tax of 28.0% (2009: 28.0%)	120	(2,590)
Effects of:		
Impairment of goodwill not allowable	–	1,120
Other disallowed expenditure	68	20
Earn-out payment taxed in prior periods	(29)	–
Tax relief on losses not anticipated	68	1,279
Adjustments to tax charge in respect of prior years	(63)	(108)
Tax charge/(credit) for the year	<u>164</u>	<u>(279)</u>

A tax charge of £164,000 (2009: credit £103,000) has been included in the results of continuing operations and a tax credit of £nil (2009: credit £176,000) has been included in the results of discontinued operations.

6 DISCONTINUED OPERATIONS

	Note	2010 £000	2009 £000
The result from discontinued operations is made up as follows:			
Exceptional operating costs	3a	–	(187)
Operating loss after exceptional items		–	(187)
Finance income	4a	–	1
Loss before taxation		–	(186)
Taxation	5	–	176
Loss from discontinued operations		<u>–</u>	<u>(10)</u>

Net cash generated from discontinued operations in 2009 was £420,000.

Notes to the Financial Statements of the Group

(continued)

7 EARNINGS PER SHARE

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

Number of shares

	2010	2009
Ordinary shares for the purpose of basic earnings per share	<u>46,242,455</u>	<u>46,242,455</u>

Earnings

	2010 Earnings £000	2009 Earnings £000
Group results:		
– Earnings/(loss)	263	(8,972)
– Exceptional operating costs (net of tax)	136	3,249
– Impairment of goodwill	–	4,000
Adjusted earnings/(loss)	<u>399</u>	<u>(1,723)</u>
Continuing operations:		
– Earnings/(loss)	263	(8,962)
– Exceptional operating costs (net of tax)	136	3,115
– Impairment of goodwill	–	4,000
Adjusted earnings/(loss)	<u>399</u>	<u>(1,847)</u>
Discontinued operations:		
– Loss	–	(10)
– Exceptional operating costs (net of tax)	–	11
Adjusted earnings	<u>–</u>	<u>1</u>

The group's earnings per share are as follows:

	2010 pence	2009 pence
(a) Group:		
– Basic adjusted	0.86p	(3.72)p
– Basic	0.57p	(19.40)p
(b) Continuing operations:		
– Basic adjusted	0.86p	(3.99)p
– Basic	0.57p	(19.38)p
(c) Discontinued operations:		
– Basic adjusted	–	0.00p
– Basic	–	(0.02)p

Diluted EPS

All options in issue at 30th June 2010 were anti-dilutive.

8 DIVIDENDS

	2010 £000	2009 £000
Paid during the year:		
Final dividend for the prior year ended 30th June 2008, 1.6p per share	-	740

9 PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1st July 2008	5,873	19,965	25,838
Additions	22	871	893
Disposals	-	(394)	(394)
At 30th June and 1st July 2009	5,895	20,442	26,337
Additions	10	1,202	1,212
Disposals	-	(101)	(101)
At 30th June 2010	<u>5,905</u>	<u>21,543</u>	<u>27,448</u>
Depreciation			
At 1st July 2008	1,588	15,385	16,973
Charge for the year	151	995	1,146
Impairment (note 10)	-	588	588
Disposals	-	(308)	(308)
At 30th June and 1st July 2009	1,739	16,660	18,399
Charge for the year	151	936	1,087
Disposals	-	(85)	(85)
At 30th June 2010	<u>1,890</u>	<u>17,511</u>	<u>19,401</u>
Net book amounts			
At 1st July 2008	<u>4,285</u>	<u>4,580</u>	<u>8,865</u>
At 30th June and 1st July 2009	<u>4,156</u>	<u>3,782</u>	<u>7,938</u>
At 30th June 2010	<u>4,015</u>	<u>4,032</u>	<u>8,047</u>

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

	2010 £000	2009 £000
Group	<u>135</u>	<u>-</u>

Notes to the Financial Statements of the Group

(continued)

10 GOODWILL

	2010 £000	2009 £000
Gross carrying amount		
At the beginning and end of the year	<u>12,857</u>	<u>12,857</u>
Accumulated impairment		
At the beginning of the year	12,857	-
Impairment previously recognised under IFRS	-	8,857
Impairment during the year	-	4,000
At the end of the year	<u>12,857</u>	<u>12,857</u>
Net carrying amount		
At the end of the year	<u>-</u>	<u>-</u>

During the financial year ended 30th June 2009, the board carried out an impairment review of the residential business resulting in a charge of £4,000,000 for impairment of goodwill, and a charge of £3,696,000 for the impairment of other business assets. The board has concluded no further impairment adjustments are required in the current year.

11 DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non-current asset			
Balance as at 1st July 2008	1,540	-	1,540
Movement during the year:			
Income statement	(616)	694	78
Consolidated statement of comprehensive income	599	-	599
Balance at 30th June and 1st July 2009	1,523	694	2,217
Movement during the year:			
Income statement	(84)	(108)	(192)
Consolidated statement of comprehensive income	106	-	106
Balance at 30th June 2010	<u>1,545</u>	<u>586</u>	<u>2,131</u>
	2010 £000		2009 £000
(b) Deferred tax liability			
Balance brought forward	159		252
Movement during the year	39		(93)
Deferred tax liability carried forward	<u>198</u>		<u>159</u>
An analysis of the deferred tax liability is as follows:			
Accelerated capital allowances	158		177
Other timing differences	40		(18)
	<u>198</u>		<u>159</u>

Tax relief on losses not recognised amount to £1,376,000.

12 LOAN NOTES

The loan notes formed part of the consideration for the disposal of Sirdar Spinning Limited and bore interest at 6% per annum. £150,000 of loan notes were redeemed on 18th June 2009 and the remaining £150,000 were redeemed on 15th February 2010.

13 INVENTORIES

	2010 £000	2009 £000
Raw materials and consumables	1,682	1,648
Work in progress	334	266
Finished goods	5,563	5,081
	<u>7,579</u>	<u>6,995</u>

Inventories carried at fair value less costs to sell amounted to £534,000 (2009: £591,000).

The consolidated income statement includes £12,999,000 (2009: £21,292,000) as an expense for inventories. This includes £nil (2009: £1,217,000) resulting from the write down of inventories.

14 TRADE AND OTHER RECEIVABLES

	2010 £000	2009 £000
Trade receivables	4,279	4,732
Prepayments and accrued income	1,108	890
	<u>5,387</u>	<u>5,622</u>

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.

	2010 £000	2009 £000
Brought forward provisions	519	527
Bad and doubtful debts charged in the year	120	218
Amount utilised	(296)	(226)
	<u>343</u>	<u>519</u>

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:

	2010 £000	2009 £000
More than three months but not more than six months	64	118
More than six months	40	144
	<u>104</u>	<u>262</u>

15 CASH AND CASH EQUIVALENTS

	2010 £000	2009 £000
Cash at bank and in hand	<u>3,772</u>	<u>3,242</u>

Notes to the Financial Statements of the Group

(continued)

16 TRADE AND OTHER PAYABLES

	2010 £000	2009 £000
Trade payables	4,361	3,176
Social security and other taxes	954	852
Accruals and other creditors	1,023	1,363
	<u>6,338</u>	<u>5,391</u>

17 PROVISIONS

	£000	
At 1st July 2008	-	
Provisions charged in the year	2,182	
Amount utilised	(422)	
At 30th June and 1st July 2009	1,760	
Provisions charged in the year	-	
Amount utilised	(429)	
At 30th June 2010	<u>1,331</u>	
	2010 £000	2009 £000
Analysed between:		
Current liabilities	627	722
Non-current liabilities	704	1,038
	<u>1,331</u>	<u>1,760</u>

The provision relates to the ongoing costs of the reorganisation of the residential carpets business including onerous lease and other contractual issues.

18 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 £600,000 in the year were made in accordance with the agreement based on the 1st July 2008 actuarial valuation. Contributions for the year ending June 2011 have been agreed at £600,000.

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 £135,000 (2009: £124,000).

18 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:

	2010 %	2009 %
Inflation assumption	3.20	3.20
Rate of increase in salaries	3.70	3.70
Rate of increase to pensions in payment	3.10	3.10
Revaluation of deferred pensions	3.20	3.20
Liabilities discount rate	5.60	6.40
Expected rate of return on scheme assets	5.97	6.44
Life expectancy	Years	Years
Current male pensioner at age 65	20.2	20.1
Current female pensioner at age 65	22.4	22.3
Future male pensioner at age 65	21.2	21.2
Future female pensioner at age 65	23.3	23.2

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

	Expected rate of return		Market value	
	2010 %	2009 %	2010 £000	2009 £000
Equities	7.40	7.60	16,901	15,340
Bonds	4.30	5.20	15,719	14,070
Property	7.40	6.60	2,335	2,050
Other	0.50	0.50	226	100
			<u>35,181</u>	<u>31,560</u>

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:

	2010 £000	2009 £000
Fair value of scheme assets	35,181	31,560
Present value of obligations	(40,700)	(37,000)
Deficit in the scheme	<u>(5,519)</u>	<u>(5,440)</u>

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

	2010 £000	2009 £000
Interest on obligation	2,280	2,520
Expected return on scheme assets	(1,980)	(2,180)
Pension expense (note 4b)	<u>300</u>	<u>340</u>

Notes to the Financial Statements of the Group

(continued)

18 PENSION COMMITMENTS (continued)

Movements in the present value of obligations are as follows:

	2010 £000	2009 £000
At start of period	37,000	40,150
Interest on obligation	2,280	2,520
Actuarial loss/(gain)	3,685	(2,880)
Benefits paid	(2,265)	(2,790)
At end of period	<u>40,700</u>	<u>37,000</u>

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

	2010 £000	2009 £000
At start of period	31,560	34,650
Expected return on scheme assets	1,980	2,180
Actuarial gain/(loss)	3,306	(5,020)
Contributions from employers	600	2,540
Benefits paid	(2,265)	(2,790)
At end of period	<u>35,181</u>	<u>31,560</u>

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

	2010 £000	2009 £000
Actuarial (loss)/gain in the present value of obligations	(3,685)	2,880
Actuarial gain/(loss) in the fair value of scheme assets	3,306	(5,020)
Pension expense	<u>(379)</u>	<u>(2,140)</u>

The cumulative amount recognised in the consolidated statement of comprehensive income is £181,000.

The history of experience adjustments is as follows:

	2010 £000	2009 £000	2008 £000
Experience adjustment on scheme liabilities	(280)	(90)	-
Percentage of scheme liabilities	0.69%	0.20%	0.00%
Experience adjustment on scheme assets	3,306	(5,020)	(3,960)
Percentage of scheme liabilities	0.94%	(15.90%)	(11.43%)

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.

19 CALLED UP SHARE CAPITAL

	2010		2009	
	Number	£000	Number	£000
Ordinary shares of 25p each				
Authorised	72,000,000	<u>18,000</u>	72,000,000	<u>18,000</u>
Allotted, called up and fully paid	46,242,455	<u>11,561</u>	46,242,455	<u>11,561</u>

20 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 2008	11,561	504	2,395	-	10,328	24,788
Loss for the year	-	-	-	-	(8,972)	(8,972)
Other comprehensive income	-	-	-	-	(1,541)	(1,541)
Equity dividends paid	-	-	-	-	(740)	(740)
At 30th June and 1st July 2009	11,561	504	2,395	-	(925)	13,535
Profit for the year	-	-	-	-	263	263
Other comprehensive income	-	-	-	-	(273)	(273)
Share-based payments	-	-	-	5	-	5
At 30th June 2010	<u>11,561</u>	<u>504</u>	<u>2,395</u>	<u>5</u>	<u>(935)</u>	<u>13,530</u>

Cumulative goodwill amounting to £13,944,000 (2009: £13,944,000) has been previously written off to group reserves and has not been recycled as the IFRS 1 exemption has been taken.

21 EMPLOYEES

	2010 £000	2009 £000
Staff costs		
Wages and salaries	7,093	8,286
Social security costs	703	807
Other pension costs	205	124
Share-based payment	5	-
Termination costs	165	613
	<u>8,171</u>	<u>9,830</u>
	Number	Number
The average number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	59	56
Administration	21	31
Manufacturing and operations	218	268
	<u>298</u>	<u>355</u>

Notes to the Financial Statements of the Group

(continued)

21 EMPLOYEES (continued)

Directors' remuneration

	Salary and fees £000	Bonus £000	Social security costs £000	Taxable benefits £000	Share- based payments £000	2010 Total (excl. pension) £000	2009 Total (excl. pension) £000	2010 Pension £000	2009 Pension £000
Executive									
Neil Rylance	170	85	32	11	1	299	200	17	17
Kevin Henry	15	-	2	-	-	17	246	1	8
Non-executive									
Martin Toogood	39	-	-	-	-	39	18	-	-
Tim Vernon	14	-	2	-	-	16	62	-	-
Carolyn Tobin	-	-	-	-	-	-	28	-	-
	<u>238</u>	<u>85</u>	<u>36</u>	<u>11</u>	<u>1</u>	<u>371</u>	<u>554</u>	<u>18</u>	<u>25</u>

The bonus paid to Neil Rylance covers an 18 month period.

22 OPERATING LEASES

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

	2010 £000	2009 £000
Lease payments under operating leases charged to operating costs in the year	<u>1,161</u>	<u>1,015</u>

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:

	2010 £000	2009 £000
Within one year	1,120	1,019
In the second to fifth years inclusive	2,713	3,022
After five years	925	1,515
	<u>4,758</u>	<u>5,556</u>

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.

23 RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH GENERATED/(USED IN) OPERATIONS

	2010 £000	2009 £000
Profit/(loss) for the year	263	(8,972)
Share-based payment	5	–
Tax charged/(credited)	164	(279)
Finance costs	284	242
Impairment of property, plant and equipment	–	588
Impairment of goodwill	–	4,000
Profit on earn-out receipt	(103)	–
Depreciation	1,087	1,146
Profit on disposal of property, plant and equipment	(13)	(25)
(Increase)/decrease in inventory	(584)	3,975
Decrease in receivables	264	3,127
Increase/(decrease) in payables	947	(5,423)
(Decrease)/increase in provisions for liabilities and charges	(429)	1,760
Contributions to defined benefit pension scheme	(600)	(2,540)
Net cash generated/(used in) operations	<u>1,285</u>	<u>(2,401)</u>

24 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:

	2010 £000	2009 £000
Current assets		
Loan notes	–	150
Trade and other receivables	4,279	4,732
Cash and cash equivalents	3,772	3,242
	<u>8,051</u>	<u>8,124</u>

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

	2010 £000	2009 £000
Current liabilities		
Trade and other payables	<u>6,338</u>	<u>5,391</u>

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 (2009: nil).

Notes to the Financial Statements of the Group

(continued)

24 FINANCIAL ASSETS AND LIABILITIES (continued)

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 30th June 2010 or 30th June 2009.

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)

	2010 £000	2009 £000
US dollars	22	(62)
Euro	667	1,112
	<u>689</u>	<u>1,050</u>

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 (2009: £105,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2009: £30,000).

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.

25 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 2010. 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 – £2,131,000 (2009: £2,217,000)

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.

Inventories – £7,579,000 (2009: £6,995,000)

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 13.

25 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Trade receivables – £4,279,000 (2009: £4,732,000)

Trade and other receivables have been reviewed for indicators of impairment taking into account the age of the debt, any known disputes and credit rating information. Details of the provisions made against trade debtors are given in note 14.

Provisions – £1,331,000 (2009: £1,760,000)

The directors have provided for certain costs in regard to the ongoing reorganisation of the residential carpet business. The provision is based on the directors' best estimate of the likely obligations arising from surplus leased property and other contractual issues.

Pension deficit – £5,519,000 (2009: £5,440,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 18. 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 £79,000 in the year was due to the payments of £600,000 made during the year net of other experiences gains and losses.

26 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		
At start of period	–	–
Granted during the period	2,518,000	15.5
Exercised during period	–	–
Lapsed during period	–	–
Outstanding at end of period	<u>2,518,000</u>	<u>15.5</u>
Exercisable at end of period	<u>–</u>	<u>–</u>

The options outstanding at 30th June 2010 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 (2009: £nil).

The total stock option expense recognised in the year is £5,000 (2009: £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.

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 2010 which comprise the accounting policies, the company balance sheet 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 statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the 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/UKNP

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 2010;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the company financial statements 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 company financial statements are prepared is consistent with the 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 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 2010.

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

28th September 2010

Company Balance Sheet

as at 30th June 2010

	Note	2010		2009	
		£000	£000	£000	£000
Fixed assets					
Investments	2		33,000		33,000
Current assets					
Deferred tax	3	-		18	
Loan notes	4	-		150	
Debtors	5	10,627		11,076	
Creditors (amounts falling due within one year)	6	(238)		(2,090)	
Net current assets			<u>10,389</u>		<u>9,154</u>
			<u>43,389</u>		<u>42,154</u>
Shareholders' funds					
Called up share capital	7		11,561		11,561
Share premium account	8		504		504
Capital redemption reserve	8		2,395		2,395
Merger reserve	8		6,902		6,902
Profit and loss account	8		<u>22,027</u>		<u>20,792</u>
			<u>43,389</u>		<u>42,154</u>

The financial statements on pages 33 to 36 were approved by the board of directors on 28th September 2010 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 profit of £1,235,000 (2009: loss £5,299,000).

2 INVESTMENTS

	2010 £000	2009 £000
Shares in group companies		
Brought forward	33,000	41,000
Amount written off during the year	–	(8,000)
Carried forward	<u>33,000</u>	<u>33,000</u>

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 12%. Details of the company's principal subsidiaries at 30th June 2010, 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 are set out below, with the exception of Burmatex SP ZOO which operates and is registered in Poland.

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
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 DEFERRED TAX

	2010 £000	2009 £000
Balance brought forward	18	–
Movement during the year	(18)	18
Amount carried forward	<u>–</u>	<u>18</u>

The above amount is in respect of timing differences.

4 LOAN NOTES

The loan notes formed part of the consideration for the disposal of Sirdar Spinning Limited and bear interest at 6% per annum. £150,000 of loan notes were redeemed on 18th June 2009 and the remaining £150,000 were redeemed on 15th February 2010.

Notes to the Financial Statements of the Company

(continued)

5 DEBTORS

	2010 £000	2009 £000
Amounts owed by group companies	10,490	10,907
Prepayments and accrued income	137	48
Corporation tax	-	121
	<u>10,627</u>	<u>11,076</u>

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

6 CREDITORS

	2010 £000	2009 £000
Bank overdraft	181	1,809
Amounts owed to group companies	-	65
Accruals and other creditors	57	216
	<u>238</u>	<u>2,090</u>

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.

7 CALLED UP SHARE CAPITAL

	2010		2009	
	Number	£000	Number	£000
Ordinary shares of 25p each				
Authorised	72,000,000	<u>18,000</u>	72,000,000	<u>18,000</u>
Allotted, called up and fully paid	46,242,455	<u>11,561</u>	46,242,455	<u>11,561</u>

8 RESERVES

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
At 1st July 2008	504	2,395	6,902	26,831
Loss for the year	-	-	-	(5,299)
Equity dividends paid	-	-	-	(740)
At 30th June and 1st July 2009	504	2,395	6,902	20,792
Profit for the year	-	-	-	1,235
At 30th June 2010	<u>504</u>	<u>2,395</u>	<u>6,902</u>	<u>22,027</u>

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-seventh annual general meeting of the company will be held at the Cedar Court Hotel, Wakefield, on Thursday 4th November 2010, at 2.00 p.m. for the following purposes:

Ordinary Business

1. To receive the financial statements for the year ended 30th June 2010 together with the reports of the directors and auditors thereon.
2. To re-elect Mr. M. Toogood who retires as a director of the company in accordance with article 104 of the company's articles of association as a director of the company.
3. To elect Mr. R. Salt as a director of the company.
4. To re-appoint Grant Thornton UK LLP as auditor of 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
8th October 2010

Notes to the Notice of Annual General Meeting

A member of the company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of the rights to attend and speak and, on a poll, 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, PXS, 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 2nd November 2010. 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 2nd November 2010 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 2nd November 2010 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 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.

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burmatex and ryalux are trading brands of AIREA plc