Annual Report & Financial Statements – 30th June 2009

AIREA plc

AIREA plc

Contents

Professional Advisers

Auditor
Grant Thornton UK LLP
No 1 Whitehall Riverside,
Leeds,
West Yorkshire LS1 4BN

Bankers
Barclays Bank PLC
Wood Street,
Wakefield,
West Yorkshire WF1 2EA

Registrars
Capita Registrars
Northern House,
Woodsome Park,
Huddersfield,
West Yorkshire HD8 0LA

Solicitors
Eversheds LLP
Bridgewater Place,
Water Lane,
Leeds,
West Yorkshire LS11 5DR

Hammonds LLP
2 Park Lane,
Leeds,
West Yorkshire LS3 1ES

Nominated advisers and stockbrokers
Brewin Dolphin Limited
34 Lisbon Street,
Leeds,
West Yorkshire LS1 4LX

Registered Office

Victoria Mills,
The Green,
Ossett,
West Yorkshire WF5 0AN
Registered in England no. 526657
www.aireaplc.co.uk

Review of Operations

Introduction

In our Interim Report we described the difficult trading conditions facing our floor coverings businesses as a consequence of the global economic downturn. In response we had initiated a fundamental overhaul of our manufacturing footprint and a far reaching company wide cost reduction programme. Our interim report included the consequent provisions for impairment of property, plant and equipment, surplus inventory and onerous leases. At the same time we have invested heavily in new products for both businesses and we are encouraged by initial market reaction as these new products are progressively introduced.

It is therefore pleasing to report that after incurring a loss in the first half, the group returned to profitability and positive cash generation at the operating level in the final six months of the period. We have made excellent progress against our key objective of stabilising our residential business which was close to break even in the second half of the financial year.

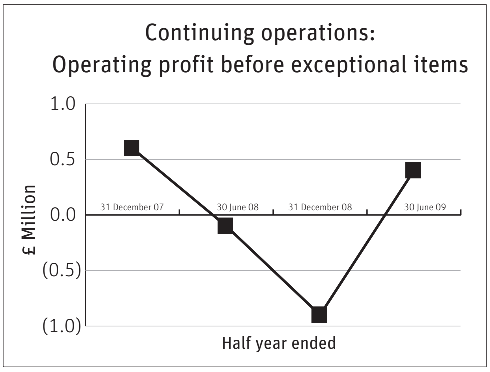
Group results

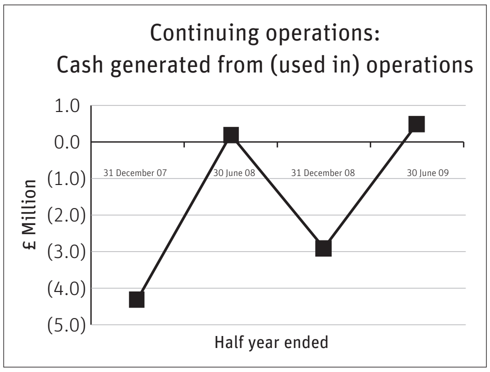
Within continuing operations, sales of floor covering products reduced by 15.8% to £41.0m (2008: £48.7m). The operating loss was £8.8m (2008: profit £1.9m). This result was after exceptional operating costs of £4.3m (2008: £0.4m) and goodwill impairment of £4.0m (2008: £8.0m). The exceptional operating costs arose out of a critical review of our asset base and relate to significant provisions for impairment of property, plant and equipment, surplus inventories and onerous leases. The goodwill impairment completes the write-off of the goodwill relating to the residential floor coverings business. The operating result before these exceptional items was a loss of £0.5m (2008: profit £0.5m). It was pleasing to note that the operating result before exceptional items in the second half of the year was a profit of £0.4m (2008: loss £0.1m) demonstrating the effectiveness of our cost reduction measures in stemming the losses within the residential floor coverings business.

After accounting for modest levels of finance income and finance costs, minor adjustments in connection with discontinued activities and incorporating the appropriate tax credit the result for the year was a loss of £9.0m (2008: £3.6m). However, it should be noted that the results to 30th June 2008 included an exceptional profit on sale of fixed assets of £9.9m and a loss on disposal of discontinued operations of £2.7m.

Net cash used in operating activities in the year amounted to £2.4m (2008: £4.1m). Working capital reduced by £1.7m (2008 increase £1.9m) as a result of the focus on inventory reduction and receivables management. Capital expenditure was reduced from £2.3m to £0.9m, and was largely focussed on the range renewal projects. Contributions of £2.5m (2008: £3.7m) were made to the defined benefit pension scheme. The pension deficit reduced to £5.4m (2008: £5.5m), and the group is in discussions with the trustees to agree an appropriate level of future contributions based on the July 2008 actuarial review.

The progression in results is illustrated in the following graphs.





The loss per share was 19.40p (2008: 7.81p). No interim dividend was paid (2008: 0.80p per share) and the directors do not recommend the payment of a final dividend (2008: 1.60p per share).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2009 sales per employee amounted to £115,000 (2008: £122,000), operating return on sales was 1.2% negative (2008: 1.3% positive), return on average net operating assets was 2.7% negative (2008: 2.2% positive) and working capital to sales percentage was 18.0% (2008: 16.1%). The decline in the ratios reflects the difficult trading conditions, and the management action taken during the year addressed these issues. The working capital ratio suffered from a reduction in trade and other payables due to the tightening trade credit environment, and outweighed the improved performance in inventory management and trade receivables control.

Management and personnel

Carolyn Tobin stepped down from the board on 31st December 2008 and Kevin Henry stepped down from the board on 8th June 2009. Carolyn served the company for over ten years as a non-executive director and Kevin served the company for over 25 years, most recently as group finance director and company secretary. We would like to thank Carolyn and Kevin for their service and wish them well for the future.

Martin Toogood joined the group as a non-executive director on 1st April 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe and his knowledge of retail markets will be of great assistance in these challenging times.

Roger Salt was appointed company secretary of the company on 8th June 2009. Roger has been with the group for over five years and continues to act as finance director – operations in addition to his new role.

At the completion of his second term of office, Tim Vernon will be retiring from the board at the annual general meeting on 6th November. He will be succeeded as non-executive chairman by Martin Toogood.

There have been a number of changes in key personnel during the year and we would like to thank all our team members throughout the group for their dedication and commitment and for helping the group face the current challenges.

Current trading and future prospects

Market conditions are extremely challenging and our plans do not assume that there will be any improvement at least for the next twelve months. However as a consequence of the actions taken during the period both of our businesses are well placed to withstand further economic uncertainty and take advantage of any improvement in business and consumer confidence as and when this happens.

Our Residential business has undergone a period of major change. We are already benefitting from the streamlined manufacturing footprint, but just as important are the changes made to the product portfolio with the vast majority of products having been redesigned and repackaged in recent months and we are greatly encouraged by the positive reaction they have received so far from both the independent and multiple retail sector.

Our Commercial floor coverings business continues to demonstrate notable resilience to the uncertainty of market conditions, and has undoubtedly benefitted from its strength in the public sector. In anticipation of expected weakening of public sector spending the business has successfully targeted additional non public sector opportunities and broadened its product range.

We are confident we are pursuing the right strategy for the business, but market conditions remain uncertain, and will probably remain so for some time to come, therefore we will remain highly focussed on preserving and improving our cash resources.

TIM VERNON	NEIL RYLANCE	
Chairman	Chief executive officer	29th September 2009

Directors' Report

The directors present their report for the year ended 30th June 2009.

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 parent company on page 39.

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 (2008: 0.80p per share) and the directors do not recommend a final dividend (2008: 1.60p per share).

Directors

The present directors are detailed below.

Tim Vernon joined the group as an independent non-executive director in March 2004 and was appointed independent non-executive chairman on 1st May 2004. He has extensive experience in sales, marketing, procurement and operations gained with the Reckitt & Colman group of companies. Tim will be stepping down from the board and leaving the group at the conclusion of this year's annual general meeting.

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. Neil retires by rotation in accordance with the company's Articles of Association, and, being eligible, offers himself for re-election.

Martin Toogood joined the group as an independent non-executive director on 1st April 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 in accordance with the company's articles of association and, being eligible, offers himself for election.

Carolyn Tobin resigned from her position as a non-executive director on 31st December 2008.

Kevin Henry resigned from his position as group finance director and company secretary on 8th June 2009.

Roger Salt was appointed company secretary on 8th June 2009.

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

Directors who served during the year and their interests and that of their families in the ordinary share capital of the company were as follows:

	30th June 2009 (or date of resignation)	1st July 2008 (or date of appointment)
Tim Vernon	–	–
Neil Rylance	1,500,000	–
Kevin Henry (resigned 8th June 2009)	82,775	82,775
Carolyn Tobin (resigned 31st December 2008)	3,502,668	3,502,668
Martin Toogood (appointed 1st April 2009)	700,000	–

There were no changes in directors' interests between 1st July 2009 and 29th September 2009 other than the purchase of 25,000 ordinary shares by Martin Toogood on 7th July 2009. None of the directors has an interest in the share capital of subsidiary companies other than as a nominee of the company.

Share capital

Details of the share capital of the company are set out in note 20 to the financial statements.

The Notice of Annual General Meeting on pages 42 and 43 includes two resolutions, numbered 5 and 6, relating to the company's share capital and one resolution, numbered 7, which asks shareholders to renew the authority granted to the directors at last year's annual general meeting to purchase the company's own shares. Further details are set out in the notes on pages 44 to 48.

Substantial shareholdings

At 29th September 2009, 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
HBOS plc	2,350,000	5.08
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
Post Office Staff Superannuation Scheme	1,580,000	3.42

Corporate Governance

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

Audit Committee

The audit committee is chaired by Tim Vernon and its other member is the other non-executive director, Martin Toogood. 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.

Directors' Report
(continued)

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

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

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

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

Charitable and political contributions
No charitable or political contributions were made during the year.

Risk management
The group's financial instruments comprise, principally, cash and short-term deposits, loan notes 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, short-term deposits and loan notes. The cash and short-term deposits attract floating rates of interest based on United Kingdom bank base rates and the loan notes attract a fixed rate of interest of 6.00%.

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

Further details of the group's financial instruments are detailed in note 25.

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, whilst the group is not immune to the uncertainties in the current economic environment, particularly in respect of market demand, 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 2009 represented 49 days (2008: 56 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 judgments 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
29th September 2009

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 2009 which comprise the accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the statement of recognised income and expense 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 Sections 495 and 496 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 2009 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- 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:

- adequate accounting records have not been kept by the group, or returns adequate for our audit have not been received from branches not visited by us; or
- the group 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 parent company financial statements of AIREA plc for the year ended 30th June 2009.

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

No 1 Whitehall Riverside
Leeds, LS1 4BN
29th September 2009

Consolidated Income Statement
year ended 30th June 2009

	Note	2009 £000	2008 £000
CONTINUING OPERATIONS			
Revenue	1	40,970	48,713
Operating costs	2	(45,792)	(48,648)
Impairment of goodwill		(4,000)	(8,012)
Exceptional profit on sale of property		–	9,858
Operating (loss)/profit after exceptional items		(8,822)	1,911
Analysed between:			
Operating (loss)/profit before exceptional items		(496)	484
Exceptional operating costs	3a	(4,326)	(419)
Impairment of goodwill	3b	(4,000)	(8,012)
Exceptional profit on sale of property	3c	–	9,858
Finance income	4a	97	383
Finance costs	4b	(340)	(237)
(Loss)/profit before taxation		(9,065)	2,057
Taxation	5	103	(1,623)
(Loss)/profit from continuing operations		(8,962)	434
Loss from discontinued operations	6	(10)	(4,047)
Loss for the year		(8,972)	(3,613)
Loss per share (basic and diluted)	7a	(19.40)p	(7.81)p
(Loss)/earnings per share from continuing operations (basic and diluted)	7b	(19.38)p	0.94p

Consolidated Balance Sheet
as at 30th June 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Non-current assets					
Property, plant and equipment	9		7,938		8,865
Goodwill	10		–		4,000
Deferred tax asset	11a		2,217		1,540
Loan notes			–		300
			10,155		14,705
Current assets					
Loan notes	12	150		–	
Inventories	13	6,995		10,970	
Trade and other receivables	14	5,622		8,793	
Income tax receivable		121		448	
Cash and cash equivalents	15	3,242		6,063	
			16,130		26,274
Non-current assets held for sale	16		–		452
Total assets			26,285		41,431
Current liabilities					
Trade and other payables	17	(5,391)		(10,891)	
Provisions	18	(722)		–	
			(6,113)		(10,891)
Non-current liabilities					
Provisions	18	(1,038)		–	
Pension deficit	19	(5,440)		(5,500)	
Deferred tax	11b	(159)		(252)	
			(6,637)		(5,752)
Total liabilities			(12,750)		(16,643)
			13,535		24,788
Equity					
Called up share capital	20		11,561		11,561
Share premium account	21		504		504
Capital redemption reserve	21		2,395		2,395
Retained earnings	21		(925)		10,328
			13,535		24,788

The financial statements on pages 9 to 35 were approved by the board of directors on 29th September 2009 and signed on its behalf by:

NEIL RYLANCE
Group Chief Executive

Consolidated Cash Flow Statement

year ended 30th June 2009

	Note	2009 £000	2008 £000
Operating activities			
Cash used in operations	24	(2,401)	(4,148)
Interest received		64	187
Income tax received		435	5
		(1,902)	(3,956)
Investing activities			
Purchase of property, plant and equipment		(878)	(2,323)
Proceeds on disposal of property, plant and equipment		549	16,261
Disposal of subsidiary undertaking		–	2,409
		(329)	16,347
Financing activities			
Equity dividends paid		(740)	(1,110)
Redemption of loan notes		150	(88)
Repayment of bank loans		–	(3,652)
		(590)	(4,850)
Net (decrease)/increase in cash and cash equivalents		(2,821)	7,541
Cash and cash equivalents at start of the year		6,063	(1,478)
Cash and cash equivalents at end of the year		3,242	6,063

Statement of Recognised Income and Expense

year ended 30th June 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Loss attributable to shareholders of the group			(8,972)		(3,613)
Actuarial losses recognised in the pension scheme	19	(2,140)		(920)	
Related deferred taxation		599		276	
	21		(1,541)		(644)
Total recognised income and expense relating to the year			(10,513)		(4,257)

Accounting Policies of the Group

Basis of preparation
These consolidated financial statements have been prepared, under the historical cost basis of accounting and 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 2009 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 accruals basis.

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.

Accounting Policies of the Group

(continued)

Financial instruments – derivatives

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

Financial assets – items carried at amortised cost

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

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 directly to equity (such as revaluation of land), in which case the related deferred tax is also charged or credited directly to equity.

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.

Non-current assets held for sale

Assets held for sale include assets that the group intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

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 recognised income and expense.

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.

Standards adopted early

The group has decided to adopt early IFRS 8 Operating Segments, which replaces IAS 14 Segment Reporting. The group therefore now presents segment results in accordance with internal management reporting information. This means that the results are analysed between commercial carpets, residential carpets and group costs with segment results based on the operating results for each segment.

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:

IAS 1 Presentation of Financial Statements (revised 2007) (effective 1st January 2009)

IAS 27 Consolidated and Separate Financial Statements (Revised 2008) (effective 1st July 2009)

Amendment to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures About Financial Instruments (effective 1 January 2009)

Improvements to IFRSs 2008 (effective 1st January 2009 other than certain amendments effective 1st July 2009)

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

Notes to the Financial Statements of the Group

1 SEGMENTAL INFORMATION

For management purposes the group is organised into two business segments and a group cost centre. The business segments comprise the commercial carpet operation carried out by Burmatex Limited and the residential carpet operation carried out by Ryalux Carpets Limited.

	Commercial carpets £000	Residential carpets £000	Reconciling items £000	Total £000
Year ended 30th June 2009				
Revenue	19,545	21,425	–	40,970
Operating costs	(17,942)	(27,058)	(792)	(45,792)
Impairment of goodwill	–	(4,000)	–	(4,000)
Operating profit/(loss)	1,603	(9,633)	(792)	(8,822)
Analysed between				
Operating profit/(loss) before exceptional items	1,729	(1,563)	(662)	(496)
Exceptional operating costs	(126)	(4,070)	(130)	(4,326)
Impairment of goodwill	–	(4,000)	–	(4,000)
Finance income	37	60	–	97
Finance costs	(328)	–	(12)	(340)
Profit/(loss) before taxation for continuing operations	1,312	(9,573)	(804)	(9,065)
Depreciation/amortisation charge	431	715	–	1,146
Capital expenditure	71	807	–	878
Segment assets	12,119	12,119	2,047	26,285
Segment liabilities	(2,977)	(3,970)	(5,803)	(12,750)
Segment assets/(liabilities)	9,142	8,149	(3,756)	13,535
Year ended 30th June 2008				
Revenue	21,119	27,594	–	48,713
Operating costs	(18,703)	(29,124)	(821)	(48,648)
Impairment of goodwill	–	(8,012)	–	(8,012)
Exceptional profit on sales of property	–	–	9,858	9,858
Operating profit/(loss)	2,416	(9,542)	9,037	1,911
Analysed between				
Operating profit/(loss) before exceptional items	2,527	(1,341)	(702)	484
Exceptional operating costs	(111)	(189)	(119)	(419)
Impairment of goodwill	–	(8,012)	–	(8,012)
Exceptional profit on sales of property	–	–	9,858	9,858
Finance income	88	–	295	383
Finance costs	(17)	–	(220)	(237)
Profit/(loss) before taxation	2,487	(9,542)	9,112	2,057
Depreciation/amortisation charge	434	657	–	1,091
Capital expenditure	308	1,603	–	1,911
Segment assets	13,229	19,262	8,940	41,431
Segment liabilities	(4,415)	(4,871)	(7,357)	(16,643)
Segment assets	8,814	14,391	1,583	24,788

Analysis of turnover by destination	2009 £000	2008 £000
United Kingdom	35,925	42,656
Eire	1,183	2,207
Rest of Europe	3,495	3,225
North America	135	239
Rest of the World	232	386
	40,970	48,713

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

2 OPERATING COSTS

	Excluding exceptional costs 2009 £000	Exceptional costs 2009 £000	Including exceptional costs 2009 £000	Excluding exceptional costs 2008 £000	Exceptional costs 2008 £000	Including exceptional costs 2008 £000
CONTINUING OPERATIONS						
Changes in stocks of finished goods and work in progress	1,943	1,071	3,014	(1,062)	–	(1,062)
Raw materials and consumables	18,278	–	18,278	25,970	–	25,970
Other external charges	10,482	2,642	13,124	12,114	80	12,194
Staff costs (note 22)	9,217	613	9,830	9,987	339	10,326
Depreciation	1,146	–	1,146	1,062	–	1,062
Foreign exchange differences	(285)	–	(285)	(561)	–	(561)
Other operating charges	685	–	685	719	–	719
	41,466	4,326	45,792	48,229	419	48,648
DISCONTINUED OPERATIONS						
Changes in stocks of finished goods and work in progress	–	–	–	309	–	309
Raw materials and consumables	–	–	–	2,218	10	2,228
Other external charges	–	187	187	1,697	81	1,778
Staff costs (note 22)	–	–	–	1,601	120	1,721
Depreciation	–	–	–	183	–	183
Impairment of property, plant and equipment	–	–	–	–	275	275
Foreign exchange differences	–	–	–	25	–	25
Other operating charges	–	–	–	51	–	51
	–	187	187	6,084	486	6,570

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	26	–	26	28	–	28
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	34	–	34	34	–	34
Other services relating to taxation	27	–	27	25	–	25
For all other services	7	–	7	17	–	17
	94	–	94	104	–	104

Notes to the Financial Statements of the Group
(continued)

3 EXCEPTIONAL ITEMS

(a) Exceptional operating costs

	2009 £000	2008 £000
Impairment of property plant and equipment	588	276
Provision against inventories	1,071	10
Provision for onerous leases and related costs	2,037	–
Severance payments and incentives	613	459
Relocation costs	154	101
Provision for bad debts	40	24
Legal and professional expenses	10	35
	4,513	905

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 relate 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.

£4,326,000 (2008: £419,000) of the exceptional operating costs related to continuing operations and £187,000 (2008: £486,000) related to discontinued operations.

(b) Impairment of goodwill

	2009 £000	2008 £000
Impairment of goodwill relating to the residential carpets business	4,000	8,012
Impairment of goodwill relating to the yarn dyeing business	–	845
	4,000	8,857

The impairment of goodwill relating to the residential carpets business is included in the results of continuing operations and the impairment of goodwill relating to the yarn dyeing business is included in the results of discontinued operations.

(c) Exceptional profit on sale of property
The exceptional profit on sale of property in the year ended 30th June 2008 related to the sale of Bective Mills, Wakefield; Ensor Mill, Rochdale and retail premises in Doncaster.

(d) Loss on disposal of discontinued operations
On 2nd November 2007 the group disposed of its interest in the entire issued share capital of Sirdar Spinning Limited which comprised the whole of the group’s Specialist Yarns division. Net assets disposed of amounted to £5,377,000 and net proceeds were £2,709,000 resulting in a loss on disposal of £2,668,000 which was included in discontinued operations in the year ended 30th June 2008.

4 FINANCE INCOME & FINANCE COSTS

(a) Finance income

	2009 £000	2008 £000
Bank interest receivable	46	399
Loan note interest	21	12
Other interest	31	–
Finance income relating to the pension scheme	–	160
	98	571

£97,000 (2008: £383,000) of the finance income is included in the results of continuing operations and £1,000 (2008: £188,000) is included in the results of discontinued operations.

(b) Finance costs

	2009 £000	2008 £000
Bank loans	–	22
Bank overdrafts	–	196
Other interest	–	19
Finance cost relating to the pension scheme	340	–
	340	237

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

5 TAXATION

	2009 £000	2008 £000
Based on the loss for the year at 28.0% (2008: 29.5%)		
Corporation tax		
– Current year	(694)	4
– Prior year	(108)	–
Total current tax	(802)	4
Deferred tax		
– Current year	(93)	13
– Prior year	–	(424)
– Relating to assets held for sale	–	1,316
– Relating to pension deficit	616	1,195
Total deferred tax	523	2,100
Tax (credit)/charge on loss on ordinary activities	(279)	2,104

Notes to the Financial Statements of the Group
(continued)

5 TAXATION (continued)

The tax (credit)/charge for the year can be reconciled to the loss per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 28.0% (2008: 29.5%) as follows:

	2009 £000	2008 £000
Loss on ordinary activities before tax	(9,251)	(1,509)
Loss on ordinary activities before tax multiplied by standard rate of corporation tax of 28.0% (2008: 29.5%)	(2,590)	(445)
Effects of:		
Profit on sale of property covered by indexation relief	–	(2,466)
Loss on disposal of subsidiary not allowable	–	787
Impairment of goodwill not allowable	1,120	2,613
Change of rate on deferred tax balance	–	110
Other disallowed expenditure	20	690
Tax relief on losses not anticipated	1,279	–
Adjustments to tax charge in respect of prior years	(108)	(424)
Deferred tax on assets held for sale	–	1,239
Current corporation tax (credit)/charge for the year	(279)	2,104

A tax credit of £103,000 (2008: charge £1,623,000) has been included in the results of continuing operations and a tax credit of £176,000 (2008: charge £481,000) has been included in the results of discontinued operations.

6 DISCONTINUED OPERATIONS

	Note	2009 £000	2008 £000
The result from discontinued operations is made up as follows:			
Revenue		–	6,329
Operating costs before exceptional items	2	–	(6,084)
Operating profit before exceptional items		–	245
Exceptional operating costs	3a	(187)	(486)
Impairment of goodwill	3b	–	(845)
Loss on disposal of discontinued operations	3d	–	(2,668)
Operating loss after exceptional items		(187)	(3,754)
Finance income	4a	1	188
Loss before taxation		(186)	(3,566)
Taxation	5	176	(481)
Loss from discontinued operations		(10)	(4,047)

Net cash generated from discontinued operations was £420,000. In 2008 the main cash inflow was £2,409,000 being the disposal proceeds from sale of subsidiary undertaking.

7 EARNINGS PER SHARE

(a) Group results

The calculation of basic loss per share is based on a loss of £8,972,000 (2008: £3,613,000) and on 46,242,455 (2008: 46,242,455) ordinary shares, being the number in issue during the year.

Adjusted earnings per share is calculated after excluding exceptional operating costs, impairment of goodwill, the exceptional profit on sale of property, the related movements on deferred tax and the loss on disposal of discontinued operations as set out below.

	2009		2008	
	Earnings £000	Earnings per share pence	Earnings £000	Earnings per share pence
Loss and basic loss per share	(8,972)	(19.40)	(3,613)	(7.81)
Exceptional operating costs (net of tax)	3,249	7.03	634	1.37
Impairment of goodwill	4,000	8.65	8,857	19.15
Exceptional profit on sale of property (net of tax)	–	–	(9,158)	(19.81)
Deferred tax movements on sale of property	–	–	1,316	2.85
Loss on disposal of discontinued operations	–	–	2,668	5.77
Adjusted (loss)/earnings and adjusted (loss)/earnings per share	(1,723)	(3.72)	704	1.52

(b) Continuing operations

The calculation of basic earnings per share from continuing operations is based on a loss of £8,962,000 (2008: earning £434,000) and on 46,242,455 (2008: 46,242,455) ordinary shares.

Adjusted earnings per share from continuing operations is calculated after excluding exceptional operating costs and impairment of goodwill as set out below.

	2009		2008	
	Earnings £000	Earnings per share pence	Earnings £000	Earnings per share pence
(Loss)/earnings and basic loss per share	(8,962)	(19.38)	434	0.94
Exceptional operating costs (net of tax)	3,115	6.74	293	0.63
Exceptional profit on sale of property (net of tax)	–	–	(9,158)	(19.81)
Deferred tax movements on sale of property	–	–	1,316	2.85
Impairment of goodwill	4,000	8.65	8,012	17.33
Adjusted (loss)/earnings and adjusted (loss)/earnings per share	(1,847)	(3.99)	897	1.94

Notes to the Financial Statements of the Group
(continued)

7 EARNINGS PER SHARE (continued)

(c) Discontinued operations

The calculation of basic earnings per share from discontinued operations is based on a loss of £10,000 (2008: £4,047,000) and on 46,242,455 (2008: 46,242,455) ordinary shares.

Adjusted earnings per share from discontinued operations is calculated after excluding exceptional operating costs, impairment of goodwill, the exceptional profit on sale of property, the related movements on deferred tax and the loss on disposal of discontinued operations as set out below.

	2009		2008	
	Earnings £000	Earnings per share pence	Earnings £000	Earnings per share pence
Loss and basic earnings per share	(10)	(0.02)	(4,047)	(8.75)
Exceptional operating costs (net of tax)	11	0.02	341	0.74
Impairment of goodwill	–	–	845	1.82
Loss on disposal of discontinued operation	–	–	2,668	5.77
Adjusted earnings/(loss) and adjusted earnings/(loss) per share	1	0.00	(193)	(0.42)

There is no dilution to earnings per share caused by share options.

8 DIVIDENDS

	2009 £000	2008 £000
Paid during the year:		
Final dividend for the prior year of 1.60p per share (2008: 1.60p per share)	740	740
Interim dividend for year of nil p per share (2008: 0.80p per share)	–	370
	740	1,110

9 PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1st July 2007	6,451	24,466	30,917
Additions	206	1,737	1,943
Disposals	(207)	(1,922)	(2,129)
Sale of subsidiary	–	(3,146)	(3,146)
Transferred to non-current assets held for sale	(577)	(1,170)	(1,747)
At 30th June and 1st July 2008	5,873	19,965	25,838
Additions	22	871	893
Disposals	–	(394)	(394)
At 30th June 2009	5,895	20,442	26,337
Depreciation			
At 1st July 2007	1,577	19,254	20,831
Charge for the year	341	1,179	1,520
Disposals	(68)	(1,590)	(1,658)
Sale of subsidiary	–	(2,425)	(2,425)
Transferred to non-current assets held for sale	(262)	(1,033)	(1,295)
At 30th June and 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 2009	1,739	16,660	18,399
Net book amounts			
At 1st July 2007	4,874	5,212	10,086
At 30th June and 1st July 2008	4,285	4,580	8,865
At 30th June 2009	4,156	3,782	7,938

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

	2009 £000	2008 £000
Group	–	–

Notes to the Financial Statements of the Group

(continued)

10 GOODWILL

The change in the carrying amount of goodwill relates to the impairment of previously recognised goodwill. The net carrying amount of goodwill can be analysed as follows:

	2009 £000	2008 £000
Gross carrying amount		
At the beginning and end of the year	12,857	12,857
Accumulated impairment		
As at 1st July 2008	–	–
Impairment previously recognised under IFRS	8,857	–
Impairment during the year	4,000	8,857
At the end of the year	12,857	8,857
Net carrying amount		
At the end of the year	–	4,000
The net carrying amount above is allocated as follows:		
Residential carpets	–	4,000
Yarn dyeing	–	–
	–	4,000

The board has carried out an impairment review of the residential carpet business. They have reassessed the future projections of cash flow, discounted at a rate of 12% and concluded that the goodwill associated with this business is now fully impaired. This has resulted in a charge of £4,000,000 (2008: £8,012,000). In addition it was concluded that certain of the cash generating assets of the business required impairment resulting in provisions for plant and equipment of £588,000 (2008: £nil), inventories £1,071,000 (2008: £nil) and onerous property leases £2,037,000 (2008: £nil). The impairment of goodwill and cash generating assets is included in the results of continuing operations.

The yarn dyeing business was closed during the year ended 30th June 2008 and an impairment charge of £845,000 was included in the results of discontinued operations.

11 DEFERRED TAXATION

	2009 Pension deficit £000	2009 Tax losses £000	2009 Total £000	2008 Pension deficit £000
(a) Deferred tax non-current asset				
Balance brought forward	1,540	–	1,540	2,520
Movement during the year:				
Income statement	(616)	694	78	(1,256)
Statement of recognised income and expense	599	–	599	276
Amount carried forward	1,523	694	2,217	1,540

	2009 £000	2008 £000
(b) Deferred tax liability		
Balance brought forward	252	738
Movement during the year	(93)	(386)
Disposal of subsidiary undertaking	–	(100)
Deferred tax asset carried forward	159	252
An analysis of the deferred tax liability is as follows:		
Accelerated capital allowances	177	312
Other timing differences	(18)	(60)
	159	252

12 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 are redeemable on 2nd May 2010.

13 INVENTORIES

	2009 £000	2008 £000
Raw materials and consumables	1,648	2,609
Work in progress	266	288
Finished goods	5,081	8,073
	6,995	10,970

The analysis above is net of £1,506,000 (2008: £869,000) for provisions against inventories.

The consolidated income statement includes £21,292,000 (2008: £27,445,000) as an expense for inventories. This includes £1,217,000 (2008: £407,000) resulting from the write down of inventories.

Notes to the Financial Statements of the Group

(continued)

14 TRADE AND OTHER RECEIVABLES

	2009 £000	2008 £000
Trade receivables	4,732	7,121
Prepayments and accrued income	890	1,672
	5,622	8,793

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.

	2009 £000	2008 £000
Brought forward provisions	527	944
Bad and doubtful debts charged in the year	218	35
Amount utilised	(226)	(452)
	519	527

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:

	2009 £000	2008 £000
More than three months but not more than six months	118	176
More than six months	144	224
	262	400

15 CASH AND CASH EQUIVALENTS

	2009 £000	2008 £000
Cash at bank and in hand	3,242	6,063

16 NON-CURRENT ASSETS HELD FOR SALE

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1st July 2007	9,634	873	10,507
Disposals	(9,634)	(873)	(10,507)
Transferred from property, plant and equipment	577	1,170	1,747
At 30th June and 1st July 2008	577	1,170	1,747
Disposals	(577)	(1,170)	(1,747)
At 30th June 2009	–	–	–
Depreciation			
At 1st July 2007	4,243	621	4,864
Disposals	(4,243)	(621)	(4,864)
Transferred from property, plant and equipment	262	1,033	1,295
At 30th June and 1st July 2008	262	1,033	1,295
Disposals	(262)	(1,033)	(1,295)
At 30th June 2009	–	–	–
Net book amounts			
At 1st July 2007	5,391	252	5,643
At 30th June and 1st July 2008	315	137	452
At 30th June 2009	–	–	–

The non-current assets held for sale at 30th June 2008 were property, plant and equipment previously used in the group's yarn dyeing business. The plant and equipment were sold on 24th September 2008, and the property was sold on 15th October 2008.

17 TRADE AND OTHER PAYABLES

	2009 £000	2008 £000
Trade payables	3,176	8,680
Social security and other taxes	852	835
Accruals and other creditors	1,363	1,376
	5,391	10,891

18 PROVISIONS

	Onerous leases £000	Restructuring £000	Total £000
Balance brought forward	–	–	–
Provisions charged in the year	2,037	145	2,182
Amount utilised	(282)	(140)	(422)
At 30th June 2009	1,755	5	1,760
Analysed between:			
Current liabilities	717	5	722
Non-current liabilities	1,038	–	1,038

The provision for onerous leases and the restructuring provision relate to the ongoing reorganisation of the residential carpets business.

Notes to the Financial Statements of the Group

(continued)

19 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 in the year were made in accordance with the agreement based on the 1st July 2005 actuarial valuation. Following the valuation undertaken at 1st July 2008 discussions are ongoing with the scheme's trustees to agree the contribution schedule.

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 £124,000 (2008: £243,000).

(b) Major assumptions

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

	2009 %	2008 %
Inflation assumption	3.20	4.00
Rate of increase in salaries	3.70	4.75
Rate of increase to pensions in payment	3.10	3.75
Revaluation of deferred pensions	3.20	4.00
Liabilities discount rate	6.40	6.50
Expected rate of return on scheme assets	6.44	6.95
Life expectancy	Years	Years
Current male pensioner at age 65	20.1	19.0
Current female pensioner at age 65	22.3	21.9
Future male pensioner at age 65	21.2	20.5
Future female pensioner at age 65	23.2	23.4

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

	Expected rate of return		Market value	
	2009 %	2008 %	2009 £000	2008 £000
Equities	7.60	7.70	15,340	17,440
Bonds	5.20	5.90	14,070	14,090
Property	6.60	7.70	2,050	2,940
Other	0.50	5.00	100	180
			31,560	34,650

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.

19 PENSION COMMITMENTS (continued)

(d) Amounts included in financial statements

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

	2009 £000	2008 £000
Fair value of scheme assets	31,560	34,650
Present value of obligations	(37,000)	(40,150)
Deficit in the scheme	(5,440)	(5,500)

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

	2009 £000	2008 £000
Interest on obligation	2,520	2,460
Expected return on scheme assets	(2,180)	(2,270)
Curtailment gain	–	(350)
Pension expense/(income) (note 4)	340	(160)

Movements in the present value of obligations are as follows:

	2009 £000	2008 £000
At start of period	40,150	43,900
Interest on obligation	2,520	2,460
Curtailment gain	–	(350)
Actuarial gain	(2,880)	(3,040)
Benefits paid	(2,790)	(2,820)
At end of period	37,000	40,150

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

	2009 £000	2008 £000
At start of period	34,650	35,500
Expected return on scheme assets	2,180	2,270
Actuarial loss	(5,020)	(3,960)
Contributions from employers	2,540	3,660
Benefits paid	(2,790)	(2,820)
At end of period	31,560	34,650

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

	2009 £000	2008 £000
Actuarial gain in the present value of obligations	2,880	3,040
Actuarial loss in the fair value of scheme assets	(5,020)	(3,960)
Pension expense	(2,140)	(920)

The cumulative gain recognised in the statement of recognised income and expense is £560,000.

Notes to the Financial Statements of the Group
(continued)

19 PENSION COMMITMENTS (continued)

The history of experience adjustments is as follows:

	2009 £000	2008 £000	2007 £000
Experience adjustment on scheme liabilities	(90)	–	–
Percentage of scheme liabilities	0.20%	0.00%	0.00%
Experience adjustment on scheme assets	(5,020)	(3,960)	1,220
Percentage of scheme liabilities	(15.90%)	(11.43%)	3.44%

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.

20 CALLED UP SHARE CAPITAL

	2009		2008	
	Number	£000	Number	£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

21 STATEMENT OF CHANGES IN EQUITY

Reconciliation of movement in capital and reserves

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2007	11,561	504	2,395	15,695	30,155
Loss for the year	–	–	–	(3,613)	(3,613)
Other recognised losses	–	–	–	(644)	(644)
Equity dividends paid	–	–	–	(1,110)	(1,110)
At 30th June and 1st July 2008	11,561	504	2,395	10,328	24,788
Loss for the year	–	–	–	(8,972)	(8,972)
Other recognised losses	–	–	–	(1,541)	(1,541)
Equity dividends paid	–	–	–	(740)	(740)
At 30th June 2009	11,561	504	2,395	(925)	13,535

Cumulative goodwill amounting to £13,944,000 (2008: £13,944,000) has been previously written off to group reserves and has not been recycled as the IFRS 1 exemption has been taken.

22 EMPLOYEES

	2009 £000	2008 £000
Staff costs		
Wages and salaries	8,286	10,393
Social security costs	807	952
Other pension costs	124	243
Termination costs	613	459
	9,830	12,047

	2009 Number	2008 Number
The average number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	56	87
Administration	31	55
Manufacturing and operations	268	311
	355	453

Directors' remuneration

	2009 £000	2008 £000
Emoluments	384	531
Pension contributions	25	9
Compensation for loss of office	127	–
	536	540

The emoluments of the highest paid director amounted to £179,000 (2008: £253,000). Pension contributions of £17,000 (2008: £8,000) were paid to a defined contribution scheme in respect of the highest paid director.

Notes to the Financial Statements of the Group
(continued)

23 OPERATING LEASES

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

	2009 £000	2008 £000
Lease payments under operating leases recognised in income in the year	1,015	1,188

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:

	2009 £000	2008 £000
Within one year	1,019	1,182
In the second to fifth years inclusive	3,022	2,766
After five years	1,515	2,176
	5,556	6,124

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.

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

	2009 £000	2008 £000
Loss for the year	(8,972)	(3,613)
Tax (credited)/charged	(279)	2,104
Finance costs/(income)	242	(334)
Impairment of property, plant and equipment	588	275
Exceptional profit on sale of property	–	(9,858)
Impairment of goodwill	4,000	8,857
Loss on disposal of discontinued operations	–	2,668
Depreciation	1,146	1,245
(Profit)/loss on disposal of property, plant and equipment	(25)	38
Decrease/(increase) in inventory	3,975	(733)
Decrease/(increase) in receivables	3,127	(2,747)
(Decrease)/increase in payables	(5,423)	1,610
Increase in provisions	1,760	–
Contributions to defined benefit pension scheme	(2,540)	(3,660)
Net cash used in operations	(2,401)	(4,148)

25 FINANCIAL ASSETS AND LIABILITIES

Financial assets included in the consolidated balance sheet, 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:

	2009 £000	2008 £000
Non-current assets		
Loan notes	–	300
Current assets		
Loan notes	150	–
Trade and other receivables	4,732	7,121
Cash and cash equivalents	3,242	6,063
	8,124	13,484

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:

	2009 £000	2008 £000
Current liabilities		
Trade and other payables	5,391	10,891

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 (2008: nil).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 30th June 2009 or 30th June 2008.

Notes to the Financial Statements of the Group

(continued)

25 FINANCIAL ASSETS AND LIABILITIES (continued)

Foreign currency

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

Net foreign currency monetary assets/liabilities

	2009 £000	2008 £000
US dollars	(62)	70
Euro	1,112	1,264
	1,050	1,334

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 £105,000 (2008: £133,000).

A 1% movement in interest rates would result in a charge or credit to profit of £30,000 (2008: £60,000).

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.

26 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 2009. 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:

Goodwill – £nil (2008: £4,000,000)

The impairment test for goodwill is dependent upon the forecasts of future cash flows of the cash-generating units. These forecasts include assumptions about the rate of growth in sales and costs and resulted in an impairment charge of £4,000,000 (2008: £8,857,000) in the current year.

The impairment charge in the year ended 30th June 2009 relates to the group's residential floor coverings business. However, the results of the impairment test are dependent upon the accuracy of the assumptions about the future rate of growth in sales and the pre-tax discount rate used to calculate the present value of the future cash flows. The table below shows the impact of changing these key assumptions:

Change in key assumption	Decrease in impairment charge £000
Sales growth is 1% per annum higher than assumed	1,200
Pre-tax discount rate is 2% lower than assumed	2,400

The goodwill has now been fully impaired and the impact of negative changes to assumptions on sales growth and pre-tax discount rate would impact the underlying net assets of the cash generating businesses.

Deferred tax assets – £2,217,000 (2008: £1,540,000)

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.

Pension deficit – £5,440,000 (2008: £5,500,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 19. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The reduction of £60,000 in the year was due to the payments of £2,540,000 made during the year net of other experiences gains and losses.

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 2009 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 Sections 495 and 496 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 2009;
- 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 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 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.

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

No 1 Whitehall Riverside
Leeds, LS1 4BN
29th September 2009

Company Balance Sheet
as at 30th June 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Investments	2		33,000		41,000
Loan notes			–		300
Current assets					
Deferred tax	3	18		–	
Loan notes	4	150		–	
Debtors	5	11,076		10,262	
Creditors (amounts falling due within one year)	6	(2,090)		(3,369)	
Net current assets			9,154		6,893
			42,154		48,193
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		20,792		26,831
			42,154		48,193

The financial statements on pages 37 to 41 were approved by the board of directors on 29th September 2009 and signed on its behalf by:

NEIL RYLANCE
Group Chief Executive

Accounting Policies for 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 LOSS FOR THE YEAR

AIREA plc has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The amount dealt with in the financial statements of the company is a loss of £5,299,000 (2008: £3,029,000).

2 INVESTMENTS

	2009 £000	2008 £000
Shares in group companies		
Brought forward	41,000	58,000
Disposal	–	(8,000)
Amount written off during the year	(8,000)	(9,000)
Carried forward	33,000	41,000

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 2009, 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:

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
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

	2009 £000	2008 £000
Balance brought forward	–	–
Movement during the year	18	–
	18	–

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 are redeemable on 2nd May 2010.

Notes to the Financial Statements of the Company
(continued)

5 DEBTORS

	2009 £000	2008 £000
Amounts owed by group companies	10,907	9,653
Prepayments and accrued income	48	609
Corporation tax	121	–
	11,076	10,262

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

6 CREDITORS

	2009 £000	2008 £000
Bank overdraft	1,809	1,305
Amounts owed to group companies	65	335
Corporation tax	–	1,525
Accruals and other creditors	216	204
	2,090	3,369

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

	2009		2008	
	Number	£000	Number	£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

8 RESERVES

	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000
At 1st July 2007	504	2,395	6,902	30,970
Loss for the year	–	–	–	(3,029)
Equity dividends paid	–	–	–	(1,110)
At 30th June and 1st July 2008	504	2,395	6,902	26,831
Loss for the year	–	–	–	(5,299)
Equity dividends paid	–	–	–	(740)
At 30th June 2009	504	2,395	6,902	20,792

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.

9 EMPLOYEES

	2009 £000	2008 £000
Staff costs		
Wages and salaries	342	474
Social security costs	42	57
Other pension costs	25	9
Termination costs	127	–
	536	540

The average number of employees were:

	Number	Number
Administration	3	4

Details of the highest paid director are included in note 22 of the notes to the financial statements of the group on page 31.

Notice of Annual General Meeting

Notice is hereby given that the fifty-sixth annual general meeting of the company will be held at the Cedar Court Hotel, Wakefield, on Friday 6th November 2009, at 2.00 p.m. for the following purposes:

Ordinary Business

1. To receive the financial statements for the year ended 30th June 2009 together with the reports of the directors and auditors thereon.

2. To elect Mr. M. Toogood as a director of the company.

3. To re-elect Mr. N. Rylance 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.

4. To re-appoint Grant Thornton UK LLP as auditor of the company and to authorise the directors to fix their remuneration.

Special Business

As special business to consider and, if thought fit, pass the following resolutions which will be proposed as to resolution 6 as an ordinary resolution and as to resolutions 7 and 8 as special resolutions.

Ordinary Resolution

5. That subject to and in accordance with Article 17 of the company's articles of association, the directors be and they are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006:

   (a) to exercise all the powers of the company to allot shares in the company and to grant rights to subscribe for or to convert any security into shares of the company up to an aggregate nominal amount equal to the lesser of the unissued authorised ordinary share capital and £3,853,538 (representing approximately one third of the current issued share capital of the company); and

   (b) in addition to the amount referred to in (1) above, to exercise all powers of the company to allot equity securities (within the meaning of section 560 of that Act) of up to a further aggregate nominal amount of £2,585,848 (representing approximately 22% of the current issued share capital of the company) provided that such securities are offered in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them provided that such authority shall expire at the conclusion of the next annual general meeting of the company after the passing of this resolution save that the company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

Special Resolutions

6. That, subject to the passing of the ordinary resolution numbered 6 set out in the Notice of Annual General Meeting of which this resolution also forms part, the directors be and they are hereby empowered pursuant to Section 570 of the Companies Act 2006, to allot equity securities (within the meaning of Section 560 of that Act) pursuant to the authority conferred by that ordinary resolution as if Section 561 (1) of that Act did not apply to any such allotment for cash, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with an offer by way of rights, open offer or other pre-emptive offer in favour of ordinary shareholders and other persons entitled to participate therein in proportion (as nearly as may be) to the respective number of ordinary shares held by them provided that the directors may make such arrangements as they consider necessary or expedient in respect of fractional entitlements and in respect of legal or practical problems arising under the laws or securities regulations in any overseas territories; and

(b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £578,031;

and shall expire fifteen months after the passing of this resolution or, if earlier, on the date of the next annual general meeting of the company after the passing of this resolution save that the company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

7. That the company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 696 (4) of the Companies Act 2006) on The London Stock Exchange plc (the London Stock Exchange) of ordinary shares of 25 pence each in the capital of the company (Ordinary Shares) provided that:

(a) the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 4,624,246 (representing approximately 10% of the company's issued share capital);

(b) the minimum price (exclusive of expenses) which may be paid for such Ordinary Shares is 25 pence per share;

(c) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is not more than 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;

(d) unless previously revoked or varied, the authority hereby conferred shall expire fifteen months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the company after the passing of this resolution; and

(e) the company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.

8. That the articles of association set out in the document produced to the meeting and signed by the chairman of the meeting for the purposes of identification be and are hereby approved and adopted as the articles of association of the company in substitution for and to the exclusion of all existing articles of association of the company.

By order of the board

ROGER SALT
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
9th October 2009

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, 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 4th November 2009. 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 4th November 2009 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 4th November 2009 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.

Explanatory notes on special business

The Notice of Annual General Meeting includes two resolutions relating to the company's share capital, which are resolutions 6 and 7, one resolution relating to the purchase by the company of its own shares which is resolution 8, and one resolution relating to the adoption of new articles of association which is resolution 9.

Resolution 6 Share capital – Authority to allot shares

Under Section 551 of the Companies Act 2006 the directors are not allowed to allot shares unless they are authorised to do so by the company's shareholders. In December 2008, the Association of British Insurers (ABI) revised its guidelines on directors' authority to allot shares. The new guidelines state that ABI members will permit, and treat as routine, resolutions seeking authority to allot shares representing up to two thirds of the company's issued share capital. The guidelines provide that this additional authority can only be used to allot shares pursuant to a fully pre-emptive rights issue. Consequently the board considers it appropriate to seek a resolution to grant authority to the directors to allot shares in the capital of the company up to a maximum nominal amount of £6,439,386, being the current authorised but unissued share capital and representing approximately 56% of the current issued share capital of the company (excluding treasury shares) as at 1st October 2009 (the last practicable date before publication of this notice) in line with the new guidelines. Of this amount, £2,585,848, representing approximately 22% of the current issued share capital of the company (excluding treasury shares) can only be allotted pursuant to a rights issue.

Where this additional headroom is taken and where the aggregate actual usage of the authority exceeds one third of the nominal amount and also, in the case of a fully pre-emptive rights issue, monetary proceeds exceed one third of the pre-issue market capitalisation, the ABI expects that all directors wishing to remain in office will stand for re-election at the next annual general meeting following the decision to make the issue in question.

Part 1 of resolution 6 renews the directors' general authority to allot relevant securities up to an aggregate nominal amount of £3,853,538 representing approximately one third of the current issued share capital of the company (excluding treasury shares); and

Part 2 of resolution 6 extends this authority to a further aggregate nominal amount of £2,585,848 representing approximately 22% of the current issued share capital of the company (excluding treasury shares), which can only be exercised pursuant to a rights issue.

The directors have no present intention of exercising this authority.

Resolution 7 Share capital – Disapplication of pre-emption rights

The Companies Act 2006 gives all holders of equity shares the right to participate on a pro rata basis in all further issues of equity securities for cash unless they agree that this right should be disapplied under Section 570 of the Companies Act 2006. The effect of resolution 7 is to give the directors authority, until the earlier of the expiry of a period of fifteen months and the date of the next annual general meeting of the company, first, to make a rights issue without having to comply with the detailed requirements of Section 561(1) of the Companies Act 2006 and, secondly, to allot equity securities for cash otherwise than by issue pro rata to existing shareholders up to an aggregate nominal value of £578,031 representing 5% of the present issued and allotted ordinary share capital of the company.

Resolution 8 General authority for the company to purchase its own ordinary shares

Shareholders will be asked to renew the general authority for the company to make market purchases on The London Stock Exchange plc (the London Stock Exchange) of its own ordinary shares, subject to certain limitations set out below.

Your board has no immediate plans for the company to make purchases of its own ordinary shares if the proposed new general authority becomes effective but would like to be able to act quickly if circumstances arise in which they consider such purchases by the company of its own ordinary shares to be desirable. Accordingly, it is proposed that the board be given a new general authority to purchase the company's ordinary shares on the terms contained in resolution 8 in the Notice of Annual General Meeting.

The proposed new general authority will be limited, by the terms of resolution 8 in the Notice of Annual General Meeting, to purchases of up to 4,624,246 ordinary shares, representing approximately 10% of the current issued share capital of the company. The minimum price per ordinary share payable by the company (exclusive of expenses) will be 25 pence, the nominal value of each ordinary share. The maximum to be paid on the exercise of such new general authority (exclusive of expenses) will be an amount not exceeding 5% above the average of the middle-market quotation for ordinary shares as derived from the London Stock Exchange for the five business days immediately preceding the date of each purchase. The board will only exercise the new general authority to purchase ordinary shares if it considers that such purchases of ordinary shares can be expected to result in an increase in earnings per share after such purchases and are in the best interests of shareholders generally. Your directors would also consider carefully the extent of the company's borrowings and its general financial position. Any such purchase of ordinary shares will be financed out of profits available for distribution. The actual cash required to fund any buy-backs of ordinary shares pursuant to the new general authority will be met from existing cash resources and/or borrowing facilities. Shareholders should note that any shares purchased by the company will be cancelled and not made available for reissue. The number of shares in issue will accordingly be reduced.

The maximum number of shares and the permitted price range are stated for the purpose of compliance with statutory and London Stock Exchange requirements in seeking the authority. This should not be taken as any representation of the number of shares (if any) which the company might purchase nor the terms upon which the company would intend to make any such purchases nor does it imply any opinion on the part of the directors as to the market or other value of the company's shares. In seeking this renewed general authority the board is not indicating any commitment to buy back ordinary shares. Shareholders should not, therefore, assume that any purchases will take place.

In addition, the requirements of the London Stock Exchange prevent the company from purchasing its own shares during the period of two months before the announcement of its half-year or full-year results (or, if shorter, the period from the end of the company's relevant financial period up to and including the time of the relevant announcement) or at any other time when the directors are in possession of unpublished price sensitive information in relation to the company's shares.

Notes to the Notice of Annual General Meeting
(continued)

The general authority set out in resolution 8 in the Notice of Annual General Meeting will expire fifteen months' after the resolution is passed or, if earlier, on the date of the next annual general meeting of the company. However, in order to maintain your board's flexibility of action, it is envisaged that this general authority may be renewed annually at annual general meetings of the company.

Details of ordinary shares purchased pursuant to the new general authority will be notified to the London Stock Exchange by 7.30 a.m. on the business day following the date of dealing and to the registrar of companies within 28 days of the date of purchase. Details will also be included in the company's report and financial statements in respect of the financial year in which any such purchases take place.

Resolutions 6, 7, and 8 all comply with institutional investment committee guidelines.

Resolution 9 Adoption of new articles of association
Resolution 9 will be proposed as a special resolution to amend the company's articles of association.

The company's articles of association have not been reviewed since 1995 and in light of the implementation of certain provisions of the Companies Act 2006 it has been decided to review the current articles of association (Current Articles) and bring them up to date to reflect current law.

The principal changes introduced in the new articles of association proposed to be adopted (New Articles) are summarised in the Appendix. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted in the Appendix. The New Articles and a copy of the New Articles showing all the changes to the Current Articles 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.

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.

Appendix to the Notes to the Notice of Annual General Meeting

EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1) Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the Companies Act 1985 are in the main amended to bring them into line with the Companies Act 2006. Certain examples of such provisions include provisions as to the form of resolutions, the variation of class rights, the requirement to keep accounting records and provisions regarding the period of notice required to convene general meetings. The main changes made to reflect this approach are detailed below.

2) Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular an extraordinary general meeting to consider a special resolution can be convened on 14 days notice whereas previously 21 days notice was required and the chairman of a general meeting no longer has a casting vote.

3) Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that the articles of association cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed (but if they purport to exercise their rights in different ways, then the power is treated as not being exercised). The New Articles reflect these new provisions.

4) Age of directors on appointment

The Current Articles contain a provision requiring a director's age to be disclosed if he has attained the age of 70 years or more in the notice convening a meeting at which the director is proposed to be elected or re-elected. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so has been removed from the New Articles.

5) Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law, but with some changes. Under the Companies Act 2006, from 1st October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The New Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. Firstly, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

Appendix to the Notes to the Notice of Annual General Meeting
(continued)

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors. It is the Board's intention to report annually on the company's procedures for ensuring that the Board's powers to authorise conflicts are operated effectively.

6) Provision for employees on cessation of business
The Companies Act 2006 provides that the powers of the directors to make provision for a person employed or formerly employed by the company in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company, may be exercised by the directors or by the company in general meeting. However, if the power is to be exercised by the directors, the articles of association must include a provision to this effect. The New Articles provide that the directors may exercise this power.

7) Electronic and web communications
Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the company to take advantage of the new provisions relating to website communications. Before the company can communicate with a member by means of website communication, the relevant member must be asked individually by the company to agree that the company may send or supply documents or information to him by means of a website, and the company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

8) Nomination notices
The Companies Act 2006 enables members to nominate another person or persons to enjoy or exercise all/any specified rights of the member (for example, to receive notices of annual general meetings) only if provisions are included in the company's articles of association. Accordingly, relevant provisions have been added to deal with this.

9) Directors' indemnities and loans to fund expenditure
The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

10) General
Generally the opportunity has been taken to bring clearer language into the New Articles and in some areas to conform the language of the New Articles.