Annual Report & Financial Statements – 30th June 2008

# AIREA plc

AIREA plc

# Contents



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# Review of Operations

## Introduction

Over the last twelve months we have completed a number of previously advised projects. These include the sale of the specialist yarns division, the disposal of certain freehold properties, re-engineering the residential carpets business and streamlining the management team.

## Financial statements

The consolidated financial statements are presented under International Financial Reporting Standards for the first time. There are a number of presentational changes, the most significant of which is the analysis of the results between continuing operations and discontinued operations on the face of the consolidated income statement. Further details of this and the other presentational changes are set out in the notes to the accompanying financial statements. The financial statements of the company continue to be prepared under United Kingdom Generally Accepted Accounting Practice.

The only significant changes to the consolidated results reported previously are changes to the deferred tax position at 30th June 2007 and the fact that goodwill is no longer amortised, with amounts previously amortised since 1st July 2006 being reinstated in the consolidated balance sheet. Provisions for impairment of the goodwill associated with the residential floor coverings business and the subsidiary yarn dyeing business have then been included in the income statement for the current period.

## Continuing operations

Continuing operations consist of the Burmatex commercial floor coverings business and the Ryalux residential floor coverings business. Sales reduced by 1% to £48.7m (2007: £49.3m) with growth in commercial products being offset by a decline in residential products. Burmatex has continued to benefit from the changes to the product range and the greater focus on marketing activities implemented in recent years. The decline in sales of residential products was partly due to range rationalisation and partly due to the difficult market conditions. Whilst the board remains fully committed to the residential floor coverings business, in the light of the results from the business and the challenging market conditions, it has made a significant provision for the goodwill associated with this business.

The operating profit was £1.9m (2007: £0.8m) but the year to 30th June 2008 includes an exceptional profit on sale of property of £9.9m (2007: £nil) and a provision for impairment of goodwill of £8.0m (2007: £nil). After excluding this exceptional profit, the provision for impairment of goodwill and other exceptional costs of £0.4m (2007: £0.7m), operating profit before exceptional items was £0.5m (2007: £1.5m).

Earnings per share from continuing operations were 0.94p (2007: 5.65p) and adjusted earnings per share, excluding the effect of the exceptional profit on sale of property, the related deferred tax movements, the provision for impairment of goodwill and the other exceptional costs, was 1.94p (2007: 1.03p).

## Discontinued operations

Discontinued operations consist of the specialist yarns business, which was sold on 2nd November 2007, and the yarn dyeing business which was closed in May 2008. Sales to the date of disposal or closure were £6.3m (2007: £16.1m). The operating loss was £3.8m (2007: profit £0.8m) but this includes a loss on disposal of £2.7m (2007: £nil), a provision for impairment of goodwill, consequent upon the closure of the yarn dyeing business, of £0.8m (2007: £nil) and other exceptional costs of £0.5m (2007: £45,000). After excluding these items, operating profit was £0.2m (2007: £0.9m).

Discontinued operations generated a loss per share of 8.75p (2007: earnings per share 1.05p). Adjusted loss per share, excluding the effect of the loss on disposal, the provision for impairment of goodwill and the other exceptional costs, was 0.42p (2007: adjusted earnings per share 1.12p).

## Group results

Total turnover for the year was £55.0m (2007: £65.3m). This represents a reduction of 16% due to the disposal of the specialist yarns business part way through the year combined with a decline in the sales of residential carpets. The result for the year, after accounting for the operating results described above, finance income totalling £0.6m (2007: £nil), finance costs of £0.2m (2007: £0.8m) and a tax charge of £2.1m (2007: tax credit £2.3m), was a loss of £3.6m (2007: profit of £3.1m).

There was a net cash outflow from operating activities of £4.1m (2007: inflow of £4.5m). The main reasons for the change from last year were an increase in working capital, compared to a reduction the previous year, and increased contributions to the defined benefit pension scheme. After accounting for the sale of properties and the specialist yarns business there was a net increase in cash and cash equivalents of £7.5m from £1.5m negative to £6.1m positive and an elimination of £3.7m of debt. A further substantial reduction in the pension deficit was achieved in the year and this now stands at a gross figure of £5.5m (2007: £8.4m).

The loss per share was 7.81p (2007: earnings per share 6.70p) and adjusted earnings per share, excluding the effect of the exceptional profit on sale of property, the related deferred tax movements, the provisions for impairment of goodwill, the loss on sale of the specialist yarns business and other exceptional costs were 1.52p (2007: 2.15p).

An interim dividend of 0.80p per share was paid in May 2008. In view of the results for the year, the board have given careful consideration to the level of final dividend but having taken into account the cash generated from disposals during the year, the board consider it appropriate to propose a maintained final dividend of 1.60p per share. This gives an unchanged total dividend of 2.40p per share for the year. If approved, this dividend will be paid on 25th November 2008 to shareholders on the register at the close of business on 24th October 2008. The board will keep the dividend policy under review and future dividends will be based upon future levels of profitability and cash flow.

## Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2008 sales per employee amounted to £122,000 (2007: £107,000), operating return on sales was 1.3% (2007: 3.6%), return on average net operating assets was 2.2% (2007: 5.7%) and working capital to sales percentage was 16.1% (2007: 18.2%). Sales per employee improved due to the rationalisation of staffing within the residential floor coverings business. The operating return on sales and the return on average net operating assets reduced as a consequence of the challenging market conditions. The working capital ratio improved following the disposal of the specialist yarns business.

## Management and personnel

Steve Harrison, the former chief operating officer, left the group on 29th February 2008. Neil Rylance joined the group as managing director of the floor coverings business on 2nd June 2008 and was appointed chief executive officer on 13th June 2008. We would like to thank all our team members throughout the group for their ongoing commitment and support during a challenging period.

## Current trading and future prospects

We continue to operate in highly competitive market conditions. In view of this, and the economic downturn in the UK, the start to the new financial year has been mixed with sales ahead of last year at Burmatex but down on last year at Ryalux. Overall sales in continuing activities are currently running approximately 5% below last year and margins remain under pressure.

Despite these challenges, we continue to focus on streamlining the business, not only to reduce cost but also to increase effectiveness, flexibility and speed of response with a view to improving profitability and securing the future of the group.

Work on the residential business is a major priority and the current year will see further rationalisation of the product range, further streamlining of the manufacturing operations and a renewed focus on new product development. As we move forwards, we expect the Burmatex operation to continue to improve and the Ryalux business to start to move back into an acceptable trading position.

| | | |
|---|---|---|
| TIM VERNON | NEIL RYLANCE | |
| Chairman | Chief executive officer | 29th September 2008 |

# Directors' Report

The directors present their report for the year ended 30th June 2008.

## Principal activity

The principal activity of the group is the manufacturing, marketing and distribution of floor coverings. The specialist yarns business was sold on 2nd November 2007. Details of the activities of subsidiary companies are set out on page 47.

## 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.

The key operational risk facing the business relates to 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.

## Dividends

An interim dividend of 0.80p per share was paid in May 2008 and the directors recommend a final dividend of 1.60p per share making a total for the year of 2.40p per share (2007: 2.40p per share). The final dividend amounts to £740,000 and, if approved, will be paid on 25th November 2008 to those shareholders on the register of members at the close of business on 24th October 2008.

## 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 in May 2004. He has extensive experience in sales, marketing, procurement and operations gained with the Reckitt & Colman group of companies, where he held various positions including the head of global transformation. Tim retires by rotation in accordance with the company's Articles of Association and, being eligible, offers himself for re-election.

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 in accordance with the company's Articles of Association and, being eligible, offers himself for election.

Kevin Henry joined the group in 1984. He is a chartered accountant and previously worked in the accountancy profession. He is group finance director and company secretary.

Carolyn Tobin joined the group in 1998 as a non-executive director. She has worked as an investment banker in the USA and currently works as a management consultant in London. She is a chartered accountant and holds an MBA.

Steve Harrison resigned from his position as chief operating officer on 29th February 2008.

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 2008 (or date of resignation) | 1st July 2007 (or date of appointment) |
|---|---|---|
| Tim Vernon | – | – |
| Steve Harrison (resigned 29th February 2008) | – | – |
| Neil Rylance (appointed 13th June 2008) | – | – |
| Kevin Henry | 82,775 | 82,775 |
| Carolyn Tobin | 3,502,668 | 3,802,668 |

There were no changes in directors' interests between 1st July 2008 and 29th September 2008. 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 18 to the financial statements.

The Notice of Annual General Meeting on pages 48 and 49 includes two resolutions, numbered 6 and 7, relating to the company's share capital and one resolution, numbered 8, 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 50 and 51.

## Substantial shareholdings

At 29th September 2008, in addition to the interest of Carolyn Tobin noted above which amounts to 7.57%, the company had been notified of the following interests representing 3% or more of the company's ordinary share capital:

| | Number held | % |
|---|---|---|
| Lowland Investment Trust | 4,125,000 | 8.92 |
| 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 | 1,650,000 | 3.57 |
| 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, Carolyn Tobin. Meetings are also attended, by invitation, by the executive directors. 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 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.

### Financial 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, liquidity risk and credit 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, if appropriate, forward exchange contracts. No transactions of a speculative nature are undertaken.

Interest risk – the group currently finances its operations from retained profits. The group also holds cash and 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%. If appropriate, the group utilises interest rate cap arrangements to protect the cost of borrowing. There were no such arrangements in place during the year to 30th June 2008.

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.

Credit risk – the group seeks to control the risks arising from debts due from customers and other similar third parties by careful review of potential customers and by monitoring and controlling credit limits.

Further details of the group's financial instruments are detailed in note 23.

### Going concern
After reviewing profit and cash flow forecasts for the year ending 30th June 2009 the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### 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 2008 represented 56 days (2007: 79 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 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and 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.

KEVIN HENRY
Group Finance Director
and Company Secretary

Victoria Mills, The Green
Ossett, WF5 0AN
29th September 2008

# Report of the Independent Auditor on the Financial Statements of the Group

To the members of AIREA plc

We have audited the group financial statements of AIREA plc for the year ended 30th June 2008 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 notes 1 to 25. These consolidated financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of AIREA plc for the year ended 30th June 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the consolidated financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view and whether the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Review of Operations that is cross referred from the Results and review of business section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited consolidated financial statements. The other information comprises only the Directors' Report and Review of Operations. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the consolidated financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

## Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 30th June 2008 and of its loss for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

## Separate opinion in relation to IFRS

As explained in the accounting policies of the group, the group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the consolidated financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs as at 30th June 2008 and of its loss for the year then ended.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants

No 1 Whitehall Riverside,
Leeds, LS1 4BN
29th September 2008

# Consolidated Income Statement

year ended 30th June 2008

| | Note | 2008 £000 | 2007 £000 |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| **Revenue** | 1 | 48,713 | 49,270 |
| Operating costs | 2 | (48,648) | (48,461) |
| Impairment of goodwill | | (8,012) | – |
| Exceptional profit on sale of property | | 9,858 | – |
| **Operating profit after exceptional items** | | 1,911 | 809 |
| Analysed between: | | | |
| Operating profit before exceptional items | | 484 | 1,511 |
| Exceptional operating costs | 3a | (419) | (702) |
| Impairment of goodwill | 3b | (8,012) | – |
| Exceptional profit on sale of property | 3c | 9,858 | – |
| Finance income | 4a | 383 | – |
| Finance costs | 4b | (237) | (671) |
| **Profit before taxation** | | 2,057 | 138 |
| Taxation | 5 | (1,623) | 2,475 |
| **Profit from continuing operations** | | 434 | 2,613 |
| DISCONTINUED OPERATIONS | | | |
| **Revenue** | | 6,329 | 16,060 |
| Operating costs | 2 | (6,570) | (15,243) |
| Impairment of goodwill | | (845) | – |
| Loss on disposal of discontinued operations | | (2,668) | – |
| **Operating (loss)/profit after exceptional items** | | (3,754) | 817 |
| Analysed between: | | | |
| Operating profit before exceptional items | | 245 | 862 |
| Exceptional operating costs | 3a | (486) | (45) |
| Impairment of goodwill | 3b | (845) | – |
| Loss on disposal of discontinued operations | 3d | (2,668) | – |
| Finance income | 4a | 188 | – |
| Finance costs | 4b | – | (166) |
| **(Loss)/profit before taxation** | | (3,566) | 651 |
| Taxation | 5 | (481) | (168) |
| **(Loss)/profit from discontinued operations** | | (4,047) | 483 |
| **(Loss)/profit for the year** | 19 | (3,613) | 3,096 |
| **(Loss)/earnings per share** (basic and diluted) | 6a | (7.81)p | 6.70p |
| **Earnings per share from continuing operations** (basic and diluted) | 6b | 0.94p | 5.65p |
| **(Loss)/earnings per share from discontinued operations** (basic and diluted) | 6c | (8.75)p | 1.05p |

# Consolidated Balance Sheet
as at 30th June 2008

| | Note | 2008 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 8 | | 8,865 | | 10,086 |
| Goodwill | 9 | | 4,000 | | 12,857 |
| Deferred tax asset | 10a | | 1,540 | | 2,520 |
| Loan notes | 11 | | 300 | | – |
| | | | 14,705 | | 25,463 |
| **Current assets** | | | | | |
| Inventories | 12 | 10,970 | | 13,312 | |
| Trade and other receivables | 13 | 8,793 | | 10,442 | |
| Income tax receivable | | 448 | | 240 | |
| Deferred tax assets | 10b | – | | 1,260 | |
| Cash and cash equivalents | 14 | 6,063 | | 176 | |
| | | | 26,274 | | 25,430 |
| **Non-current assets held for sale** | 15 | | 452 | | 5,643 |
| **Total assets** | | | 41,431 | | 56,536 |
| **Current liabilities** | | | | | |
| Trade and other payables | 16 | (10,891) | | (11,849) | |
| Borrowings | | – | | (5,394) | |
| | | | (10,891) | | (17,243) |
| **Non-current liabilities** | | | | | |
| Pension deficit | 17 | (5,500) | | (8,400) | |
| Deferred tax | 10c | (252) | | (738) | |
| | | | (5,752) | | (9,138) |
| **Total liabilities** | | | (16,643) | | (26,381) |
| | | | 24,788 | | 30,155 |
| **Equity** | | | | | |
| Called up share capital | 18 | | 11,561 | | 11,561 |
| Share premium account | 19 | | 504 | | 504 |
| Capital redemption reserve | 19 | | 2,395 | | 2,395 |
| Retained earnings | 19 | | 10,328 | | 15,695 |
| | | | 24,788 | | 30,155 |

The financial statements on pages 9 to 41 were approved by the board of directors on 29th September 2008 and signed on its behalf by:

KEVIN HENRY
Group Finance Director
and Company Secretary

# Consolidated Cash Flow Statement

year ended 30th June 2008

| | Note | 2008 £000 | 2007 £000 |
|---|---|---|---|
| **Operating activities** | | | |
| Cash (used in)/from operations | 22 | (4,148) | 4,482 |
| Interest received/(paid) | | 187 | (602) |
| Income tax received/(paid) | | 5 | (635) |
| | | (3,956) | 3,245 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (2,323) | (2,574) |
| Proceeds on disposal of property, plant and equipment | | 16,261 | 658 |
| Disposal of subsidiary undertaking | | 2,409 | – |
| | | 16,347 | (1,916) |
| **Financing activities** | | | |
| Equity dividends paid | | (1,110) | (1,110) |
| Redemption of loan notes | | (88) | (80) |
| New bank loans received | | – | 3,000 |
| Repayment of bank loans | | (3,652) | (2,914) |
| | | (4,850) | (1,104) |
| **Net increase in cash and cash equivalents** | | 7,541 | 225 |
| **Cash and cash equivalents at start of the year** | | (1,478) | (1,703) |
| **Cash and cash equivalents at end of the year** | | 6,063 | (1,478) |

# Statement of Recognised Income and Expense

year ended 30th June 2008

| | Note | 2008 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
|---|---|---|---|---|---|
| **(Loss)/profit attributable to shareholders of the group** | | | (3,613) | | 3,096 |
| Actuarial (losses)/gains recognised in the pension scheme | 17 | (920) | | 3,620 | |
| Related deferred taxation | | 276 | | (1,086) | |
| | 19 | | (644) | | 2,534 |
| **Total recognised income and expense relating to the year** | | | (4,257) | | 5,630 |

# Accounting Policies of the Group

## Basis of preparation

The consolidated financial statements have been prepared under the historical cost basis of accounting and, for the first time, using International Financial Reporting Standards as adopted by the European Union (IFRS). The disclosures required by IFRS 1 concerning the transition from United Kingdom Generally Accepted Accounting Practice (UK GAAP) at 1st July 2006 are included in note 25. The basis of preparation and accounting policies used in preparing the financial statements for the year ended 30th June 2008 are set out below.

In preparing the group's financial statements for the year ended 30th June 2008 management has amended certain accounting, valuation and consolidation methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of the year ended 30th June 2007 were restated to reflect these adjustments except as described in the accounting policies. 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.

## Revenue recognition

Revenue, for all classes of business, comprises the invoice value, after discounts and customer credits and excluding value added tax, of goods supplied to customers and is recognised when the risks and rewards of ownership pass to the customer upon delivery. Transactions between members of the group are excluded.

## Interest payable and receivable

Interest payable and receivable is accounted for on an 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.

## 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.

### 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 of the subsidiary 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.

### 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.

### 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:

| | |
|---|---|
| Freehold buildings | 2% |
| Plant and equipment | 10% |
| Computer equipment | 20% |
| Motor vehicles | 25% |

# Accounting Policies of the Group
(continued)

### 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. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate ruling at the date the fair value was established.

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. Exchange differences on non-monetary items are recognised in the statement of recognised income and expense to the extent that they relate to a gain or loss on that non-monetary item taken to the statement of recognised income and expense, otherwise such gains or losses are recognised in the income statement.

### 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 on an accrual basis in the income statement.

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

Deferred income tax is calculated using the liability method on temporary differences arising between the carrying value of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or other assets and liabilities in a transaction (which is not a business combination) that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are provided in full with no discounting.

A deferred income tax asset is recognised only to the extent that it is probable that there will be future taxable profits on which this asset can be charged. Deferred income tax assets are reduced to the extent that it is no longer likely that a sufficient taxable benefit will arise.

Deferred taxation is shown on the balance sheet separately from current tax assets and liabilities and is categorised among current or non-current items as appropriate. Changes in deferred tax balances are recognised as a component of the tax expense in the income statement except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 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.

### 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.

### 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.

### Non-current assets classified as 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.

### 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**.

# Accounting Policies of the Group

(continued)

### 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 of 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. These are as follows:

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

IAS 23 Borrowing Costs (revised 2007) (effective 1st January 2009)

Amendment to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective 1st January 2009)

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

Amendment to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (effective 1st January 2009)

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements – Costs of Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1st January 2009)

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

IFRS 3 Business Combinations (Revised 2008) (effective 1st July 2009)

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective 1st March 2007)

IFRIC 12 Service Concession Arrangements (effective 1st January 2008)

IFRIC 13 Customer Loyalty Programmes (effective 1st July 2008)

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective 1st January 2008)

IFRIC 15 Agreements for the Construction of Real Estate (effective 1st January 2009)

IFRIC 16 Hedges of a Net Investment in a Foreign Operation (effective 1st October 2008)

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

# Notes to the Financial Statements of the Group

## 1 SEGMENTAL INFORMATION

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

| | Commercial carpets £000 | Residential carpets £000 | Group cost centre £000 | Total £000 |
|---|---|---|---|---|
| **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 sale 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 sale 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 charge | 434 | 657 | – | 1,091 |
| Capital expenditure | 308 | 1,603 | – | 1,911 |
| Segment assets/(liabilities) | 8,814 | 14,391 | (1,155) | 22,050 |
| **Year ended 30th June 2007** | | | | |
| Revenue | 19,600 | 29,670 | – | 49,270 |
| Operating costs | (17,308) | (30,754) | (399) | (48,461) |
| Operating profit/(loss) | 2,292 | (1,084) | (399) | 809 |
| Analysed between | | | | |
| Operating profit/(loss) before exceptional items | 2,292 | (382) | (399) | 1,511 |
| Exceptional operating costs | – | (702) | – | (702) |
| Finance income | – | – | – | – |
| Finance costs | (171) | – | (500) | (671) |
| Profit/(loss) before taxation | 2,121 | (1,084) | (899) | 138 |
| Depreciation charge | 575 | 827 | – | 1,402 |
| Capital expenditure | 248 | 1,933 | – | 2,181 |
| Segment assets/(liabilities) | 8,088 | 24,455 | (650) | 31,893 |

| Analysis of turnover by destination | 2008 £000 | 2007 £000 |
|---|---|---|
| United Kingdom | 46,789 | 53,222 |
| Eire | 2,321 | 3,071 |
| Rest of Europe | 3,329 | 3,377 |
| North America | 2,045 | 4,659 |
| Rest of the World | 558 | 1,001 |
| | 55,042 | 65,330 |

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

# Notes to the Financial Statements of the Group
(continued)

## 2 OPERATING COSTS

| | Excluding exceptional costs 2008 £000 | Exceptional costs 2008 £000 | Including exceptional costs 2008 £000 | Excluding exceptional costs 2007 £000 | Exceptional costs 2007 £000 | Including exceptional costs 2007 £000 |
|---|---|---|---|---|---|---|
| CONTINUING OPERATIONS | | | | | | |
| Changes in inventories of finished goods and work in progress | (1,062) | – | (1,062) | 1,799 | – | 1,799 |
| Raw materials and consumables | 25,970 | – | 25,970 | 23,260 | – | 23,260 |
| Other external charges | 12,114 | 80 | 12,194 | 10,665 | 1 | 10,666 |
| Staff costs (note 20) | 9,987 | 339 | 10,326 | 10,245 | 701 | 10,946 |
| Depreciation | 1,062 | – | 1,062 | 1,261 | – | 1,261 |
| Foreign exchange differences | (561) | – | (561) | (267) | – | (267) |
| Other operating charges | 719 | – | 719 | 796 | – | 796 |
| | 48,229 | 419 | 48,648 | 47,759 | 702 | 48,461 |
| DISCONTINUED OPERATIONS | | | | | | |
| Changes in inventories of finished goods and work in progress | 309 | – | 309 | 155 | – | 155 |
| Raw materials and consumables | 2,218 | 10 | 2,228 | 7,283 | – | 7,283 |
| Other external charges | 1,697 | 81 | 1,778 | 3,108 | – | 3,108 |
| Staff costs (note 20) | 1,601 | 120 | 1,721 | 3,954 | 45 | 3,999 |
| Depreciation | 183 | – | 183 | 459 | – | 459 |
| Impairment of property, plant and equipment | – | 275 | 275 | – | – | – |
| Foreign exchange differences | 25 | – | 25 | 52 | – | 52 |
| Other operating charges | 51 | – | 51 | 187 | – | 187 |
| | 6,084 | 486 | 6,570 | 15,198 | 45 | 15,243 |

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Auditing the accounts of the company | 28 | – | 28 | 15 | – | 15 |
| Auditing the accounts of subsidiaries | 34 | – | 34 | 45 | – | 45 |
| Taxation services | 25 | – | 25 | 23 | – | 23 |
| Other services | 17 | – | 17 | 16 | – | 16 |
| | 104 | – | 104 | 99 | – | 99 |

## 3 EXCEPTIONAL ITEMS

### (a) Exceptional operating costs

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Severance payments and incentives | 459 | 746 |
| Relocation costs | 101 | 191 |
| Impairment of property, plant and equipment | 276 | – |
| Legal and professional expenses | 35 | – |
| Raw materials written off | 10 | – |
| Provision for bad debts | 24 | – |
| Profit on sale of plant and equipment | – | (190) |
| | 905 | 747 |

The severance payments and incentives relate to the reorganisation of the residential floor coverings operation and the streamlining of the management team. Part of the relocation costs and the profit on sale of plant and equipment relate to the reorganisation of the residential floor coverings operation. The impairment of property, plant and equipment, part of the relocation costs, the write off of raw materials and the provision for bad debts relate to the discontinuation of the yarn dyeing operation. The legal and professional expenses relate to the change of name of the company.

£419,000 (2007: £702,000) of the exceptional operating costs related to continuing operations and £486,000 (2007: £45,000) related to discontinued operations.

### (b) Impairment of goodwill

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Impairment of goodwill relating to the residential carpets business | 8,012 | – |
| Impairment of goodwill relating to the yarn dyeing business | 845 | – |
| | 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 arises from the sale of Bective Mills, Wakefield; Ensor Mill, Rochdale and retail premises in Doncaster and is included in the results of continuing operations.

# Notes to the Financial Statements of the Group
(continued)

## 3 EXCEPTIONAL ITEMS (continued)

### (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 comprised:

| | £000 |
|---|---|
| Plant and equipment | 721 |
| Inventories | 3,075 |
| Receivables | 3,871 |
| Cash and cash equivalents | 150 |
| Payables | (2,152) |
| Corporation tax | (188) |
| Deferred tax | (100) |
| | 5,377 |
| Loss on disposal | (2,668) |
| Proceeds of disposal (net of expenses of £91,000) | 2,709 |

The disposal proceeds consisted of £2,500,000 paid in cash at completion plus £300,000 of loan notes.

The results of the subsidiary disposed of are included in discontinued operations in the income statement.

Operations of discontinued operations used cash of £3,345,000 in the period (2007: generated £1,167,000) and investing activities of discontinued operations used cash of £14,000 in the period (2007: £669,000).

## 4 FINANCE INCOME & FINANCE COSTS

### (a) Finance income

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Bank interest receivable | 411 | – |
| Finance income relating to pension scheme | 160 | – |
| | 571 | – |

£383,000 (2007: nil) of the finance income is included in the results of continuing operations and £188,000 (2007: nil) is included in the results of discontinued operations.

### (b) Finance costs

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Bank loans | 22 | 168 |
| Bank overdrafts | 196 | 349 |
| Other interest | 19 | 10 |
| Finance costs relating to pension scheme | – | 310 |
| | 237 | 837 |

£237,000 (2007: £671,000) of the finance costs is included in the results of continuing operations and nil (2007: £166,000) is included in the results of discontinued operations.

## 5 TAXATION

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Based on the profit for the year at 29.5% (2007: 30.0%) | | |
| Corporation tax | | |
| – Current year | 4 | (214) |
| – Prior year | – | (4) |
| Total current tax | 4 | (218) |
| Deferred tax | | |
| – Current year | 13 | 33 |
| – Prior year | (424) | – |
| – Relating to assets held for sale | 1,316 | (2,626) |
| – Relating to pension deficit | 1,195 | 504 |
| Total deferred tax | 2,100 | (2,089) |
| Tax charge/(credit) on profit on ordinary activities | 2,104 | (2,307) |

The tax charge for the year can be reconciled to the (loss)/profit per the income statement at the standard rate of corporation tax in the United Kingdom of 29.5% (2007: 30.0%) as follows.

| | 2008 £000 | 2007 £000 |
|---|---|---|
| (Loss)/profit on ordinary activities before tax | (1,509) | 789 |
| (Loss)/profit on ordinary activities before tax multiplied by standard rate of corporation tax of 29.5% (2007: 30.0%) | (445) | 237 |
| 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 | 2,613 | – |
| Change of rate on deferred tax balance | 110 | – |
| Difference between depreciation for the year and capital allowances | (77) | 10 |
| Other disallowed expenditure | 690 | 76 |
| Adjustments to tax charge in respect of prior years | (424) | (4) |
| Deferred tax on assets held for sale | 1,316 | (2,626) |
| Corporation tax charge/(credit) for the year | 2,104 | (2,307) |

A tax charge of £1,623,000 (2007: credit £2,475,000) has been included in the results of continuing operations and a tax charge of £481,000 (2007: £168,000) has been included in the results of discontinued operations.

# Notes to the Financial Statements of the Group
(continued)

## 6 EARNINGS PER SHARE

### (a) Group results
The calculation of basic earnings per share is based on a loss of £3,613,000 (2007: earnings £3,096,000) and on 46,242,455 (2007: 46,242,455) ordinary shares, being the number in issue during the year.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Earnings £000 | Earnings per share pence | Earnings £000 | Earnings per share pence |
| (Loss)/earnings and basic (loss)/earnings per share | (3,613) | (7.81) | 3,096 | 6.70 |
| Exceptional profit on sale of property (net of tax) | (9,158) | (19.81) | – | – |
| Deferred tax movements on sale of property | 1,316 | 2.85 | (2,626) | (5.68) |
| Exceptional operating costs (net of tax) | 634 | 1.37 | 523 | 1.13 |
| Impairment of goodwill | 8,857 | 19.15 | – | – |
| Loss on disposal of discontinued operations | 2,668 | 5.77 | – | – |
| Adjusted earnings and adjusted earnings per share | 704 | 1.52 | 993 | 2.15 |

### (b) Continuing operations
The calculation of basic earnings per share from continuing operations is based on earnings of £434,000 (2007: £2,613,000) and on 46,242,455 (2007: 46,242,455) ordinary shares.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Earnings £000 | Earnings per share pence | Earnings £000 | Earnings per share pence |
| Earnings and basic earnings per share | 434 | 0.94 | 2,613 | 5.65 |
| Exceptional profit on sale of property (net of tax) | (9,158) | (19.81) | – | – |
| Deferred tax movements on sale of property | 1,316 | 2.85 | (2,626) | (5.68) |
| Exceptional operating costs (net of tax) | 293 | 0.63 | 491 | 1.06 |
| Impairment of goodwill | 8,012 | 17.33 | – | – |
| Adjusted earnings and adjusted earnings per share | 897 | 1.94 | 478 | 1.03 |

## 6 EARNINGS PER SHARE (continued)

### (c) Discontinued operations

The calculation of basic earnings per share from discontinued operations is based on a loss of £4,047,000 (2007: earnings £483,000) and on 46,242,455 (2007: 46,242,455) ordinary shares.

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

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Earnings £000 | Earnings per share pence | Earnings £000 | Earnings per share pence |
| (Loss)/earnings and basic (loss)/earnings per share | (4,047) | (8.75) | 483 | 1.05 |
| Exceptional operating costs (net of tax) | 341 | 0.74 | 32 | 0.07 |
| Impairment of goodwill | 845 | 1.82 | – | – |
| Loss on disposal of discontinued operations | 2,668 | 5.77 | – | – |
| Adjusted (loss)/earnings and adjusted (loss)/earnings per share | (193) | (0.42) | 515 | 1.12 |

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

## 7 DIVIDENDS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Paid during the year: | | |
| Final dividend for the prior year of 1.60p per share (2007: 1.60p per share) | 740 | 740 |
| Interim dividend for year of 0.80p per share (2007: 0.80p per share) | 370 | 370 |
| | 1,110 | 1,110 |
| Proposed after the year end (not recognised as a liability): | | |
| Final dividend for year of 1.60p per share (2007: 1.60p per share) | 740 | 740 |

If approved, the final dividend will be paid on 25th November 2008 to members registered at the close of business on 24th October 2008.

# Notes to the Financial Statements of the Group
(continued)

## 8 PROPERTY, PLANT AND EQUIPMENT

| | Property £000 | Plant and equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st July 2006 | 15,651 | 27,407 | 43,058 |
| Additions | 434 | 2,383 | 2,817 |
| Disposals | – | (4,451) | (4,451) |
| Transferred to non-current assets held for sale | (9,634) | (873) | (10,507) |
| At 30th June and 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 2008 | 5,873 | 19,965 | 25,838 |
| **Depreciation** | | | |
| At 1st July 2006 | 5,505 | 22,446 | 27,951 |
| Charge for the year | 315 | 1,405 | 1,720 |
| Disposals | – | (3,976) | (3,976) |
| Transferred to non-current assets held for sale | (4,243) | (621) | (4,864) |
| At 30th June and 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 2008 | 1,588 | 15,385 | 16,973 |
| **Net book amounts** | | | |
| At 1st July 2006 | 10,146 | 4,961 | 15,107 |
| At 30th June and 1st July 2007 | 4,874 | 5,212 | 10,086 |
| At 30th June 2008 | 4,285 | 4,580 | 8,865 |

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**

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Group | – | 825 |

## 9 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:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Gross carrying amount** | | |
| At the beginning and end of the year | 17,609 | 17,609 |
| **Accumulated impairment** | | |
| Amortisation previously charged under UK GAAP | 4,752 | 4,752 |
| Impairment during the year | 8,857 | – |
| At the end of the year | 13,609 | 4,752 |
| **Net carrying amount** | | |
| At the end of the year | 4,000 | 12,857 |
| The net carrying amount above is allocated as follows | | |
| Residential carpets | 4,000 | 12,012 |
| Yarn dyeing | – | 845 |
| | 4,000 | 12,857 |

The residential carpet business suffered a decline in sales during the year to 30th June 2008 and reported a increased operating loss before exceptional costs. The board have therefore adjusted their future projections for this business. For the purposes of the impairment review, the recoverable amount and any resulting impairment of the business were determined based on value in use calculations. The value in use is the present value of the cash flows expected to be derived from the business in the future. The review resulted in a charge of £8,012,000 (2007: nil) being included in the results of continuing operations.

Key assumptions used in the calculations are as follows:

1 Sales will decline in the year to 30th June 2009 but this trend will then reverse with average growth rates over the subsequent four years of 6% per annum.
2 Margins will benefit from actions taken and further plans to be implemented to reduce the cost base.
3 The pre-tax discount rate is 12%, representing a notional weighted average cost of capital.

The yarn dyeing business was discontinued during the year and the operating assets of this business were written down to net realisable value. For the purposes of the impairment review, the value of the business was based on net realisable value of the operating assets and the goodwill was fully impaired. This has resulted in a charge of £845,000 (2007: nil) being included in the results of discontinued operations.

# Notes to the Financial Statements of the Group

(continued)

## 10 DEFERRED TAXATION

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **(a) Deferred tax non-current asset** | | |
| Balance brought forward | 2,520 | 4,110 |
| Movement during the year | (980) | (1,590) |
| Amount carried forward | 1,540 | 2,520 |

The above amounts are in respect of the deferred tax asset relating to the gross pension deficit

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **(b) Deferred tax current asset** | | |
| Balance brought forward | 1,260 | – |
| Movement during the year | (1,260) | 1,260 |
| Amount carried forward | – | 1,260 |

The above amounts are in respect of the deferred tax asset relating to the assets held for sale

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **(c) Deferred tax liability** | | |
| Balance brought forward | 738 | 2,071 |
| Movement during the year | (386) | (1,333) |
| Disposal of subsidiary undertaking | (100) | – |
| Deferred tax asset carried forward | 252 | 738 |

An analysis of the deferred tax liability is as follows:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Accelerated capital allowances | 312 | 798 |
| Other timing differences | (60) | (60) |
| | 252 | 738 |

## 11 LOAN NOTES

The loan notes formed part of the consideration for the disposal of Sirdar Spinning Limited. The loan notes bear interest at 6.00% per annum and are redeemable as to £150,000 on 2nd November 2009 and £150,000 on 2nd May 2010.

## 12 INVENTORIES

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Raw materials and consumables | 2,609 | 2,859 |
| Work in progress | 288 | 936 |
| Finished goods | 8,073 | 9,517 |
| | 10,970 | 13,312 |

The analysis above is net of £869,000 (2007: £1,124,000) for provisions against inventories.

The consolidated income statement includes £27,445,000 (2007: £32,497,000) as an expense for inventories. This includes £407,000 (2007: £544,000) resulting from the write down of inventories.

## 13 TRADE AND OTHER RECEIVABLES

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Trade receivables | 7,121 | 9,357 |
| Prepayments and accrued income | 1,672 | 1,085 |
| | 8,793 | 10,442 |

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. Certain trade receivables were found to be impaired and a provision of £527,000 (2007: £944,000) has therefore been recorded. The amount charged against income in respect of bad and doubtful debts was £35,000 (2007: £159,000).

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:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Not more than three months | 6,721 | 9,119 |
| More than three months but not more than six months | 176 | 103 |
| More than six months | 224 | 135 |
| | 7,121 | 9,357 |

## 14 CASH AND CASH EQUIVALENTS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Cash at bank and in hand | 6,063 | 176 |
| | 6,063 | 176 |

# Notes to the Financial Statements of the Group

(continued)

## 15 NON-CURRENT ASSETS HELD FOR SALE

| | Property £000 | Plant and equipment £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 1st July 2006 | – | – | – |
| Transferred from property, plant and equipment | 9,634 | 873 | 10,507 |
| At 30th June and 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 2008 | 577 | 1,170 | 1,747 |
| **Depreciation** | | | |
| At 1st July 2006 | – | – | – |
| Transferred from property, plant and equipment | 4,243 | 621 | 4,864 |
| At 30th June and 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 2008 | 262 | 1,033 | 1,295 |

| | Property £000 | Plant and equipment £000 | Total £000 |
|---|---|---|---|
| **Net book amounts** | | | |
| At 1st July 2006 | – | – | – |
| At 30th June and 1st July 2007 | 5,391 | 252 | 5,643 |
| At 30th June 2008 | 315 | 137 | 452 |

The non-current assets held for sale at the year end were property, plant and equipment previously used in the group's yarn dyeing business. The group is currently negotiating the sale of these assets and the carrying value represents the estimated sales value less costs of sale.

The non-current assets held for sale at the previous year end were the group's properties at Bective Mills, Wakefield and Ensor Mill, Rochdale. The carrying value equated to the net book value at the time. These properties were sold on 31st July 2007.

## 16 TRADE AND OTHER PAYABLES

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Trade payables | 8,680 | 8,788 |
| Social security and other taxes | 835 | 911 |
| Accruals and other creditors | 1,376 | 2,150 |
| | 10,891 | 11,849 |

## 17 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.

The latest actuarial valuation of the scheme, which was undertaken as at 1st July 2005, adopted the projected unit method. The long term assumptions were that the annual rate of return on investments would be 6.00%, that annual increases in earnings would be 3.70% and that annual increases in pensions would be 2.70% for service after 5th April 1997. The actuarial value of the assets in the scheme represented 64% overall of the benefits due to members calculated on the basis of pensionable earnings and service as at the date of the valuation on an ongoing basis. A valuation at 1st July 2008 is being prepared.

Following the valuation undertaken at 1st July 2005, and with the agreement of the scheme's trustees, the level of the employer's contributions was set at £1.8m for the year ended 30th June 2006, £2.1m for the year ended 30th June 2007, £2.2m for the year ended 30th June 2008 and £2.3m for the year ending 30th June 2009. It was agreed that subsequent levels of contributions will increase by £0.1m per annum. The actuary has advised that this level of contributions will allow the deficit to be eliminated by 2014.

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 £243,000 (2007: £272,000).

# Notes to the Financial Statements of the Group
(continued)

## 17 PENSION COMMITMENTS (continued)

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

| | 2008 % | 2007 % |
|---|---|---|
| Inflation assumption | 4.00 | 3.00 |
| Rate of increase in salaries | 4.75 | 4.45 |
| Rate of increase to pensions in payment | 3.75 | 2.80 |
| Revaluation of deferred pensions | 4.00 | 3.00 |
| Liabilities discount rate | 6.50 | 5.20 |
| Expected rate of return on scheme assets | 6.95 | 6.96 |
| Life expectancy | Years | Years |
| Current male pensioner at age 65 | 19.0 | 19.0 |
| Current female pensioner at age 65 | 21.9 | 21.9 |
| Future male pensioner at age 65 | 20.5 | 20.5 |
| Future female pensioner at age 65 | 23.4 | 23.4 |

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

| | Expected rate of return | | Market value | |
|---|---|---|---|---|
| | 2008 % | 2007 % | 2008 £000 | 2007 £000 |
| Equities | 7.70 | 7.80 | 17,440 | 18,700 |
| Bonds | 5.90 | 5.50 | 14,090 | 12,900 |
| Property | 7.70 | 7.90 | 2,940 | 3,600 |
| Other | 5.00 | 5.50 | 180 | 300 |
| | | | 34,650 | 35,500 |

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

### (d) Amounts included in financial statements
The amounts recognised in the consolidated balance sheet in respect of the company's defined benefit scheme are as follows:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Fair value of scheme assets | 34,650 | 35,500 |
| Present value of obligations | (40,150) | (43,900) |
| Deficit in the scheme | (5,500) | (8,400) |

17 PENSION COMMITMENTS (continued)

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

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Interest on obligation | 2,460 | 2,390 |
| Expected return on scheme assets | (2,270) | (1,800) |
| Curtailment gain | (350) | – |
| Pension (income)/expense | (160) | 590 |

Movements in the present value of obligations are as follows:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| At start of period | 43,900 | 46,200 |
| Interest on obligation | 2,460 | 2,390 |
| Curtailment gain | (350) | – |
| Actuarial (gain)/loss | (3,040) | (2,500) |
| Benefits paid | (2,820) | (2,190) |
| At end of period | 40,150 | 43,900 |

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

| | 2008 £000 | 2007 £000 |
|---|---|---|
| At start of period | 35,500 | 32,500 |
| Expected return on scheme assets | 2,270 | 1,800 |
| Actuarial (loss)/gain | (3,960) | 1,220 |
| Contributions from employers | 3,660 | 2,170 |
| Benefits paid | (2,820) | (2,190) |
| At end of period | 34,650 | 35,500 |

The history of experience adjustments is as follows:

| | 2008 | 2007 |
|---|---|---|
| | £000 | £000 |
| Experience adjustment on scheme liabilities | – | – |
| | % | % |
| Percentage of scheme liabilities | 0.00% | 0.00% |
| | £000 | £000 |
| Experience adjustment on scheme assets | (3,960) | 1,220 |
| | % | % |
| Percentage of scheme assets | (11.43%) | 3.44% |

# Notes to the Financial Statements of the Group
(continued)

## 18 CALLED UP SHARE CAPITAL

| | 2008 Number | 2008 £000 | 2007 Number | 2007 £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 |

## 19 STATEMENT OF CHANGES IN EQUITY
Reconciliation of movement in capital and reserves

| | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| At 1st July 2006 | 11,561 | 504 | 2,395 | 11,175 | 25,635 |
| Profit for the year | – | – | – | 3,096 | 3,096 |
| Other recognised gains | – | – | – | 2,534 | 2,534 |
| Equity dividends paid | – | – | – | (1,110) | (1,110) |
| At 30th June and 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 2008 | 11,561 | 504 | 2,395 | 10,328 | 24,788 |

Cumulative goodwill amounting to £13,944,000 (2007: £13,944,000) has been previously written off to group reserves and has not been recycled as the IFRS 1 exemption has been taken.

## 20 EMPLOYEES

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **Staff costs** | | |
| Wages and salaries | 10,852 | 13,299 |
| Social security costs | 952 | 1,194 |
| Other pension costs | 243 | 452 |
| | 12,047 | 14,945 |

| | 2008 Number | 2007 Number |
|---|---|---|
| The average number of employees, including directors, principally in the United Kingdom were: | | |
| Sales and marketing | 87 | 120 |
| Administration | 55 | 86 |
| Manufacturing and operations | 311 | 405 |
| | 453 | 611 |

### Directors' emoluments

Directors' emoluments amounted to £531,000 (2007: £302,000) and the emoluments of the highest paid director amounted to £253,000 (2007: £156,000).

### Director's pension entitlement

The highest paid director is a member of the group's defined benefit pension scheme. The total accrued pension at 30th June 2008 was £56,000 per annum and the gross increase in the accrued pension in the year was £2,000.

The transfer value of the accrued pension at the year end was £933,000 (2007: £730,000). The transfer values have been calculated on the basis of actuarial advice. The highest paid director made no contributions in the year and, therefore, the total change in the transfer value during the year was £203,000.

The highest paid director is now a member of the group's defined contribution scheme and the company's contributions in the year, in respect of this scheme, were £8,000 (2007: £8,000).

# Notes to the Financial Statements of the Group

(continued)

## 21 OPERATING LEASES

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

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Lease payments under operating leases recognised in income in the year | 1,188 | 480 |

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:

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Within one year | 1,182 | 900 |
| In the second to fifth years inclusive | 2,766 | 2,734 |
| After five years | 2,176 | 2,766 |
| | 6,124 | 6,400 |

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.

## 22 RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FROM OPERATIONS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| (Loss)/profit for the year | (3,613) | 3,096 |
| Tax charged/(credited) | 2,104 | (2,307) |
| Finance (income)/costs | (334) | 837 |
| Impairment of property, plant and equipment | 275 | – |
| Exceptional profit on sale of property | (9,858) | – |
| Impairment of goodwill | 8,857 | – |
| Loss on disposal of discontinued operations | 2,668 | – |
| Depreciation | 1,245 | 1,720 |
| Loss/(profit) on disposal of property, plant and equipment | 38 | (245) |
| Current service pension cost | – | 180 |
| (Increase)/decrease in inventories | (733) | 3,205 |
| (Increase)/decrease in receivables | (2,747) | 26 |
| Increase in payables | 1,610 | 140 |
| Contributions to defined benefit pension scheme | (3,660) | (2,170) |
| Net cash (used in)/from operations | (4,148) | 4,482 |

## 23 FINANCIAL ASSETS AND LIABILITIES

Financial assets included in the consolidated balance sheet 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:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Non-current assets** | | |
| Loan notes | 300 | – |
| **Current assets** | | |
| Trade and other receivables | 8,793 | 10,442 |
| Cash and cash equivalents | 6,063 | 176 |
| | 15,156 | 10,618 |

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:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| **Current liabilities** | | |
| Borrowings | – | 5,394 |
| Trade and other payables | 10,891 | 11,849 |
| | 10,891 | 17,243 |

### 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

The interest rate profile of the group's financial liabilities was as follows:

| | 2008<br>£000 | 2007<br>£000 |
|---|---|---|
| Trade and other payables | 10,891 | 11,849 |
| Bank loans (at floating rates of interest) | – | 3,652 |
| Loan notes (at fixed rate of interest) | – | 88 |
| Bank overdraft (at floating rates of interest) | – | 1,654 |
| | 10,891 | 17,243 |

All of the group's financial liabilities were repayable within one year or less or on demand.

# Notes to the Financial Statements of the Group
(continued)

## 23 FINANCIAL ASSETS AND LIABILITIES (continued)

### Borrowing facilities
The group had no undrawn uncommitted borrowing facilities available at 30th June 2008 (2007: £1,846,000).

The group had no undrawn committed borrowing facilities available at 30th June 2008 (2007: £80,000).

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

### Net foreign currency monetary assets

| | 2008 £000 | 2007 £000 |
|---|---|---|
| US dollars | 70 | 1,054 |
| Euro | 1,264 | 945 |
| | 1,334 | 1,999 |

### Sensitivity analysis
Financial assets and liabilities are sensitive to movements in interest rates and/or foreign exchange rates.

A 10% movement in exchange rates would result in a charge or credit to profit of £133,000 (2007: £200,000).

A 1% movement in interest rates would result in a charge or credit to profit of £60,000 (2007: £52,000).

### 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 is 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.

## 24 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 2008. 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 – £4,000,000 (2007: £12,857,000)

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 margins and the appropriate pre-tax discount rate. The test resulted in an impairment charge of £8,857,000 (2007: nil) in the current year.

£8,012,000 (2007: nil) of the impairment charge 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 margins 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 | (Increase)/decrease in impairment charge £000 |
|---|---|
| Sales growth is 1% per annum lower than assumed (with a consequent reduction in margin) | (4,000) |
| Sales growth is 1% per annum higher than assumed (with a consequent increase in margin) | 4,800 |
| Pre tax discount rate is 2% lower than assumed | 6,200 |
| Pre tax discount rate is 2% higher than assumed | (4,000) |

£845,000 (2007: nil) of the impairment charge relates to the impairment of the goodwill associated with the group's former yarn dyeing business. As this business was closed in May 2008 and the assets are to be disposed of, there is a high degree of certainty that the goodwill associated with this business is fully impaired.

Deferred tax assets – £1,540,000 (2007: £3,780,000)

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 – £5,500,000 (2007: £8,400,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 17. 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 £2,900,000 in the year was due to the payments of £3,660,000 made during the year net of other actuarial gains and losses.

# Notes to the Financial Statements of the Group
(continued)

## 25 TRANSITION TO IFRS

### (a) Introduction
The transition from UK GAAP to IFRS has been made in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards. In doing so the group has opted to take advantage of the optional exemption under IFRS 3 Business Combination to not make full retrospective application of this standard to acquisitions made before 1st July 2006. The group's financial statements for the year ended 30th June 2008 and the comparatives presented for the year ended 30th June 2007 comply with all presentation, recognition and measurement requirements of IFRS applicable for accounting periods ended on 30th June 2008.

The following reconciliations and explanatory notes thereto describe the effects of the transition for the year ended 30th June 2007. All explanations should be read in conjunction with the IFRS accounting policies of AIREA plc.

### (b) Restatement of Income Statement for the year ended 30th June 2007

| | UK GAAP | Reversal of goodwill amortisation | Reclassification of profit on sale of property | Adjustments to deferred tax | IFRS |
|---|---|---|---|---|---|
| | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 |
| **Revenue** | 65,330 | – | – | – | 65,330 |
| Operating costs | (63,838) | 881 | – | – | (62,957) |
| Exceptional costs | (937) | – | 190 | – | (747) |
| Total operating costs | (64,775) | 881 | 190 | – | (63,704) |
| **Operating profit** | 555 | 881 | 190 | – | 1,626 |
| Exceptional profit on sale of property | 190 | – | (190) | – | – |
| Finance costs | (837) | – | – | – | (837) |
| **(Loss)/profit before taxation** | (92) | 881 | – | – | 789 |
| Taxation | (319) | – | – | 2,626 | 2,307 |
| **(Loss)/profit for the period** | (411) | 881 | – | 2,626 | 3,096 |
| **(Loss)/earnings per share** | | | | | |
| (basic and diluted) | (0.89)p | 1.91p | 0.00p | 5.68p | 6.70p |

In addition to the above adjustments, the results have been analysed between continuing operations and discontinued operations on the face of the consolidated income statement.

25 TRANSITION TO IFRS (continued)

(c) Restatement of Statement of Recognised Income and Expense for the year ended 30th June 2007

| | UK GAAP | Reversal of goodwill amortisation | Reclassification of profit on sale of property | Adjustments to deferred tax | IFRS |
|---|---|---|---|---|---|
| | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 | Year ended 30th June 2007 £000 |
| (Loss)/profit attributable to shareholders of the group | (411) | 881 | – | 2,626 | 3,096 |
| Actuarial gains recognised in the pension scheme | 2,534 | – | – | – | 2,534 |
| Total recognised gains relating to the period | 2,123 | 881 | – | 2,626 | 5,630 |

(d) Restatement of Balance Sheet as at 30th June 2007

| | UK GAAP | Reversal of goodwill amortisation | Reclassification of deferred tax | Reclassification of assets held for sale | IFRS |
|---|---|---|---|---|---|
| | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15,729 | – | – | (5,643) | 10,086 |
| Goodwill | 11,976 | 881 | – | – | 12,857 |
| Deferred tax asset | – | – | 2,520 | – | 2,520 |
| | 27,705 | 881 | 2,520 | (5,643) | 25,463 |
| **Current assets** | | | | | |
| Inventories | 13,312 | – | – | – | 13,312 |
| Trade and other receivables | 10,442 | – | – | – | 10,442 |
| Income tax receivable | 240 | – | – | – | 240 |
| Deferred tax asset | – | – | – | 1,260 | 1,260 |
| Cash and cash equivalents | 176 | – | – | – | 176 |
| | 24,170 | – | – | 1,260 | 25,430 |
| **Non-current assets held for sale** | – | – | – | 5,643 | 5,643 |
| **Total assets** | 51,875 | 881 | 2,520 | 1,260 | 56,536 |

# Notes to the Financial Statements of the Group
(continued)

## 25 TRANSITION TO IFRS (continued)

### (d) Restatement of Balance Sheet as at 30th June 2007 (continued)

| | UK GAAP | Reversal of goodwill amortisation | Reclassification of deferred tax | Reclassification of assets held for sale | IFRS |
|---|---|---|---|---|---|
| | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 | 30th June 2007 £000 |
| **Current liabilities** | | | | | |
| Trade and other payables | (11,849) | – | – | – | (11,849) |
| Borrowings | (5,394) | – | – | – | (5,394) |
| | (17,243) | – | – | – | (17,243) |
| **Non-current liabilities** | | | | | |
| Pension deficit | (5,880) | – | (2,520) | – | (8,400) |
| Deferred tax | (2,104) | – | – | 1,366 | (738) |
| | (7,984) | – | (2,520) | 1,366 | (9,138) |
| **Total liabilities** | (25,227) | – | (2,520) | 1,366 | (26,381) |
| | 26,648 | 881 | – | 2,626 | 30,155 |
| **Equity** | | | | | |
| Called up share capital | 11,561 | – | – | – | 11,561 |
| Share premium account | 504 | – | – | – | 504 |
| Capital redemption reserve | 2,395 | – | – | – | 2,395 |
| Retained earnings | 12,188 | 881 | – | 2,626 | 15,695 |
| | 26,648 | 881 | – | 2,626 | 30,155 |

## 25 TRANSITION TO IFRS (continued)

### (e) Restatement of Balance Sheet as at 1st July 2006

| | UK GAAP<br>1st July 2006<br>£000 | Reclassification of deferred tax<br>1st July 2006<br>£000 | IFRS<br>1st July 2006<br>£000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15,107 | – | 15,107 |
| Goodwill | 12,857 | – | 12,857 |
| Deferred tax asset | – | 4,110 | 4,110 |
| | 27,964 | 4,110 | 32,074 |
| **Current assets** | | | |
| Inventories | 16,517 | – | 16,517 |
| Trade and other receivables | 10,416 | – | 10,416 |
| Cash and cash equivalents | 537 | – | 537 |
| | 27,470 | – | 27,470 |
| **Total assets** | 55,434 | 4,110 | 59,544 |
| **Current liabilities** | | | |
| Trade and other payables | (11,594) | – | (11,594) |
| Tax liabilities | (570) | – | (570) |
| Borrowings | (5,235) | – | (5,235) |
| | (17,399) | – | (17,399) |
| **Non-current liabilities** | | | |
| Borrowings | (739) | – | (739) |
| Pension deficit | (9,590) | (4,110) | (13,700) |
| Deferred tax | (2,071) | – | (2,071) |
| | (12,400) | (4,110) | (16,510) |
| **Total liabilities** | (29,799) | (4,110) | (33,909) |
| | 25,635 | – | 25,635 |
| **Equity** | | | |
| Called up share capital | 11,561 | – | 11,561 |
| Share premium account | 504 | – | 504 |
| Capital redemption reserve | 2,395 | – | 2,395 |
| Retained earnings | 11,175 | – | 11,175 |
| | 25,635 | – | 25,635 |

# Report of the Independent Auditor on the Financial Statements of the Company

To the members of AIREA plc

We have audited the parent company financial statements of AIREA plc for the year ended 30th June 2008 which comprise the accounting policies, the balance sheet and notes 26 to 32. These parent company financial statements have been prepared under the accounting policies set out therein. We have reported separately on the consolidated financial statements of AIREA plc for the year ended 30th June 2008.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in Review of Operations that is cross referred from the Results and review of business section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. This other information comprises only the Directors' Report and the Review of Operations. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

## Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30th June 2008;
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP
Registered Auditor
Chartered Accountants

No 1 Whitehall Riverside,
Leeds, LS1 4BN
29th September 2008

# Company Balance Sheet

as at 30th June 2008

| | Note | 2008 £000 | 2008 £000 | 2007 £000 | 2007 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | 27 | | 41,000 | | 58,000 |
| Loan notes | 28 | | 300 | | – |
| **Current assets** | | | | | |
| Debtors | 29 | 10,262 | | 6,960 | |
| Creditors (amounts falling due within one year) | 30 | (3,369) | | (12,628) | |
| **Net current assets/(liabilities)** | | | 6,893 | | (5,668) |
| | | | 48,193 | | 52,332 |
| **Shareholders' funds** | | | | | |
| Called up share capital | 31 | | 11,561 | | 11,561 |
| Share premium account | 32 | | 504 | | 504 |
| Capital redemption reserve | 32 | | 2,395 | | 2,395 |
| Merger reserve | 32 | | 6,902 | | 6,902 |
| Profit and loss account | 32 | | 26,831 | | 30,970 |
| | | | 48,193 | | 52,332 |

The financial statements on pages 43 to 46 were approved by the board of directors on 29th September 2008 and signed on its behalf by:

KEVIN HENRY
Group Finance Director
and Company Secretary

# Accounting Policies of the Company

## Statement of accounting policies

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

## Basis of preparation

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.

Deferred income tax is calculated using the liability method on temporary differences arising between the carrying value of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or other assets and liabilities in a transaction (which is not a business combination) that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are provided in full with no discounting.

A deferred income tax asset is recognised only to the extent that it is probable that there will be future taxable profits on which this asset can be charged. Deferred income tax assets are reduced to the extent that it is no longer likely that a sufficient taxable benefit will arise.

Deferred taxation is shown on the balance sheet separately from current tax assets and liabilities and is categorised among non-current items. Changes in deferred tax balances are recognised as a component of the tax expense in the income statement except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

## 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

## 26 PROFIT FOR THE YEAR

AIREA plc has not presented its own profit and loss account as permitted by section 230(1) to (4) of the Companies Act 1985. The amount dealt with in the financial statements of the holding company is a loss of £3,029,000 (2007: profit £646,000).

## 27 INVESTMENTS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| **Shares in group companies** | | |
| Brought forward | 58,000 | 58,000 |
| Disposal | (8,000) | – |
| Amount written off during the year | (9,000) | – |
| Carried forward | 41,000 | 58,000 |

Investments in group undertakings are stated at cost less amounts written off. Details of the company's principal subsidiaries are set out on page 47.

## 28 LOAN NOTES

The loan notes formed part of the consideration for the disposal of Sirdar Spinning Limited. The loan notes bear interest at 6.00% per annum and are redeemable as to £150,000 on 2nd November 2009 and £150,000 on 2nd May 2010.

## 29 DEBTORS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Amounts owed by group companies | 9,653 | 6,949 |
| Prepayments and accrued income | 609 | 11 |
| | 10,262 | 6,960 |

## 30 CREDITORS

| | 2008 £000 | 2007 £000 |
|---|---|---|
| Bank overdraft | 1,305 | 8,071 |
| Bank loans | – | 3,652 |
| Loan notes | – | 88 |
| Amounts owed to group companies | 335 | 156 |
| Corporation tax | 1,525 | 534 |
| Accruals and other creditors | 204 | 127 |
| | 3,369 | 12,628 |

The bank facilities are part of a group arrangement. They are secured by a fixed charge over land and buildings and a fixed and floating charge over undertaking and assets and are also guaranteed by other members of the group. The bank loans were repaid on 31st July 2007 following completion of the property transactions described in the Review of Operations on pages 2 and 3.

# Notes to the Financial Statements of the Company
(continued)

## 31 CALLED UP SHARE CAPITAL

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | 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 |

## 32 RESERVES

| | Share premium account £000 | Capital redemption reserve £000 | Merger reserve £000 | Profit and loss account £000 |
|---|---|---|---|---|
| At 1st July 2006 | 504 | 2,395 | 6,902 | 31,434 |
| Profit for the year | – | – | – | 646 |
| Equity dividends paid | – | – | – | (1,110) |
| At 30th June and 1st July 2007 | 504 | 2,395 | 6,902 | 30,970 |
| Loss for the year | – | – | – | (3,029) |
| Equity dividends paid | – | – | – | (1,110) |
| At 30th June 2008 | 504 | 2,395 | 6,902 | 26,831 |

Profit and loss account reserves carried forward for the company include an amount of £nil (2007: £4,714,000) in respect of profit arising consequent on a group reorganisation in the year ended 30th June 2001. This amount is non distributable.

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.

# Principal Subsidiaries

The group's principal subsidiary undertakings at 30th June 2008, 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, were:

| | |
|---|---|
| Burmatex Limited | Manufacturing and distribution of fibre bonded sheet carpet and carpet tiles |
| Ryalux Carpets Limited | Manufacturing and distribution of carpets |

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 |
| Oxford Spinning Limited | Non trading |

*Held directly

# Notice of Annual General Meeting

Notice is hereby given that the fifty-fifth annual general meeting of the company will be held at the Cedar Court Hotel, Wakefield, on Thursday 6th November 2008, at 2.00 p.m. for the following purposes:

## Ordinary Business

1. To receive the financial statements for the year ended 30th June 2008 together with the reports of the directors and auditors thereon.

2. To declare a final dividend.

3. To elect Mr. N. Rylance as a director of the company.

4. To re-elect Mr. R. B. Vernon as a director of the company.

5. 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

6. That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount equal to the lesser of the unissued authorised ordinary share capital and £3,853,538 provided that this authority 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 relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

## Special Resolutions

7. 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 95 of the Companies Act 1985, to allot equity securities (within the meaning of Section 94 of that Act) pursuant to the authority conferred by that ordinary resolution as if subsection (1) of Section 89 of that Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities 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 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.

8. That the company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) on The London Stock Exchange plc (the London Stock Exchange) of ordinary shares of 25p 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 25p 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.

By order of the board

KEVIN HENRY
Group Finance Director
and Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
9th October 2008

# 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 a proxy to exercise all or any of the rights to attend and speak and 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, 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 2008. 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.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting instructions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure.

The register of directors' share interests and copies of directors' service contracts 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.

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 2008 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 2008 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.

Warrants for the ordinary dividend, if approved, will be posted on 24th November 2008.

### 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, and one resolution relating to the purchase by the company of its own shares which is resolution 8.

### Resolution 6 Share capital – Authority to allot shares

Under Section 80 of the Companies Act 1985 the directors are not allowed to allot shares unless they are authorised to do so by the company's shareholders. Resolution 6 gives 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, to allot shares under Section 80 of the Companies Act 1985. If resolution 6 is passed the amount of authorised ordinary share capital available for issue by the directors generally would be £3,853,538, representing approximately 33% of the present issued and allotted ordinary share capital of the company. The directors consider that this level of authority to allot shares, which is similar to that granted at the company's last annual general meeting on 6th November 2007, should be maintained in order to preserve maximum flexibility for the future. The directors have no present intention of issuing further shares.

### Resolution 7 Share capital – Dis-application of pre-emption rights

Section 89 of the Companies Act 1985 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 excluded. 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 Sections 89 and 90 of the Companies Act 1985 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 a possession of unpublished price sensitive information in relation to the company's shares.

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.

### 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.

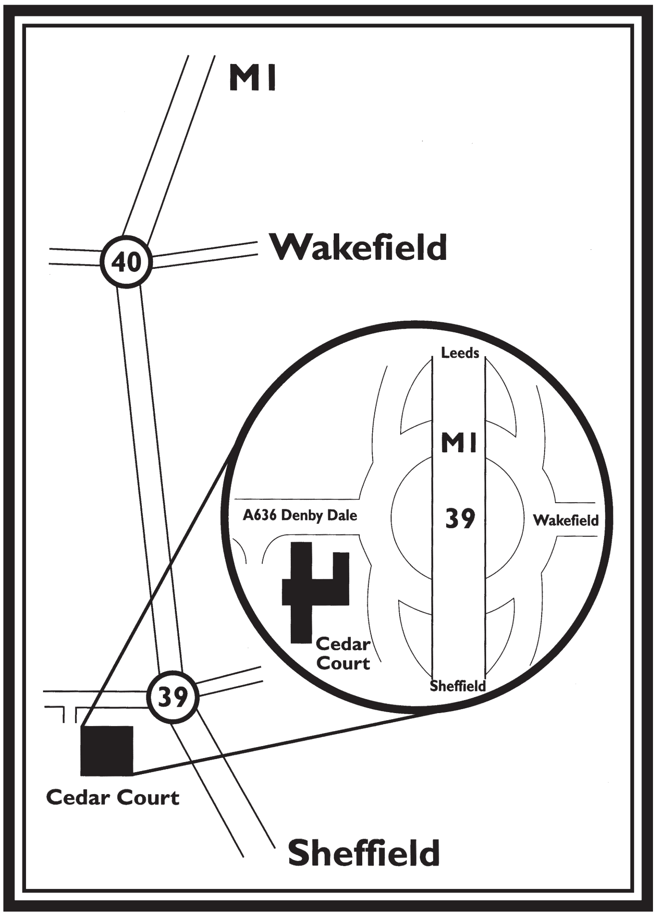
### Crest proxy voting

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, Wakefield. The hotel is situated on the A636 towards Denby Dale just off junction 39 of the M1 motorway.

Directions to the hotel are set out below. Should you need to telephone for assistance the telephone number of the hotel is 01924 276310.



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