Annual Report – 31st December 2017

AIREA plc

AIREA plc

Contents

Professional Advisers

Auditor
BDO LLP
Central Square,
29 Wellington Street,
Leeds,
West Yorkshire LS1 4DL

Solicitors
Squire Patton Boggs
6 Wellington Place,
Leeds,
LS1 4AP

Bankers
HSBC Bank plc
HSBC House,
1 Bond Court,
Leeds,
West Yorkshire LS1 2JZ

Registrars
Link Asset Services
Northern House,
Woodsome Park,
Huddersfield,
West Yorkshire HD8 0LA

Nominated advisers and stockbrokers
N+1 Singer
West One,
Wellington Street,
Leeds,
West Yorkshire LS1 1BA

Registered Office

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

AIREA plc

Highlights

- Commercial Floorcoverings business Operating Profit before exceptional items of £4.3m
- Export sales growth of 58% over last six months following entry into new geographical markets, strengthening of international dealer network, and successful launch of new products
- Broader product range of new products based on new technology investment in 2017 has opened up new markets and opportunities as planned
- Closure of loss-making residential carpet business (Ryalux) will be cash generative with receipts from stock realisation and sale of plant and machinery exceeding closure costs
- The Group's simplification and focus on its core Burmatex business is expected to deliver considerable and sustainable free cash generation in the mid-term, creating considerable shareholder value.
- At the AGM on 10th May 2018 the board will be seeking authority to return some value to shareholders through a buy-back of up to 6m shares (14.5% of current share capital)
- Pension deficit reduced by £4.5m to £2.2m with, statutory funding position deficit reduced to zero
- Strong cash generation and closure of Ryalux businesses supports a 5.0p special final dividend
- Total dividend payment (inclusive of the interim dividend) for the financial period of 6.75p

Strategic Report

Principal activity and strategy

The group remains focused on the manufacture, marketing and distribution of floor coverings. Our approach to strategy is uncomplicated; to develop products that sell, exploit the strength of our combined manufacturing and distribution operation, and deliver robust cash flows to support a progressive dividend policy.

Overview

As recently announced the company has entered into a formal consultation period with employees concerning the proposed closure of the residential carpets business. Operating as Ryalux Carpets Limited ("Ryalux"), the residential carpets business offers high quality standard and custom broad loom carpets available through carpet retail outlets. The company has proposed the closure of Ryalux Carpets Limited as the business has been loss making for a number of years. Airea has implemented a range of initiatives in recent years to improve the business, including new product development, rationalisation of sites and strict cost controls. Despite this, the trading environment for residential carpets has worsened and the ongoing trend to cheaper synthetic products has led to further declines in demand for high quality tufted woollen carpets. In the 18 months to 31st December 2017 Ryalux Carpets Limited generated an operating loss before exceptional items of £3.1m on revenue of £9.9m. The company has incurred exceptional costs of £1.7m, inclusive of £1.1m of asset impairment and provisions, associated largely with a reduction in working capital and impairment of assets. Overall, the closure is likely to be cash generative, with receipts from the realisation of stock and the sale of plant and machinery being greater than closure costs.

Going forward the increase in free cash generation arising from the proposed elimination of losses previously incurred by Ryalux will enable increased investment in the highly profitable commercial flooring business operated under the Burmatex brand ("Burmatex"). In the eighteen months to 31st December 2017 the commercial floorcoverings division generated an operating profit before exceptional items of £4.3m on sales of £26.9m. The investment in new technology made earlier in the period is now coming to fruition with the launch of a series of new products, which will open up new higher value markets. This adds to the successful launch of a competitively priced entry product, which has already established a significant market share in its own right as well as opening up new opportunities for the rest of the product range. Burmatex now has a range of products to profitably compete across the broad spectrum of price points. We are already seeing the benefit in sales growth both in the UK and internationally.

It is pleasing to report that the improved management of liabilities and a refocused investment strategy has seen a considerable improvement in the funding position of the legacy defined benefits pension scheme. The accounting deficit reduced by £4.5m to £2.2m.

We also saw an increase in valuation of the investment property to £3.2m from £2.7m. The gain, which is highlighted separately in the income statement, results from the increased rent potential following extensive refurbishment carried out in the period.

As previously announced, the company's accounting reference date has been changed to the 31st December, necessitating an eighteen month reporting period. The comparative figures cover a twelve month period, which means they are not directly comparable. However, moving forward the new reporting period will be more closely aligned to the company's business cycle.

Group results

Revenue for the period was £36.7m (2016: £24.6m). Operating profit before exceptional items was £1,156,000 (2016: £2,013,000). The reduction in profitability resulted from the accelerating losses in the residential carpets business. The exceptional costs of £2.2m (2016: £1.3m) relate in the main to the rationalisation of the residential carpets business and the associated impairment of assets. The exceptional income of £0.4m arises from the revaluation of the investment property. The operating loss after exceptional items was £578,000 (2016: profit £2,042,000). Other finance costs relating in the main to the defined benefit pension scheme were £932,000 (2016: £651,000). After a tax credit of £140,000 (2016: charge £114,000), the loss for the year was £1,370,000 (2016: profit £1,277,000).

Basic loss per share was 3.31p (2016: earnings 3.01p), and basic adjusted earnings per share[1] were 1.97p (2016: 2.96p).

Operating cash flows before movements in working capital and other payables were £1,007,000 (2016: £2,041,000). Working capital decreased by £2,201,000 (2016: £1,009,000) due in the main to the run down of inventories in the residential carpets business. Contributions of £600,000 (2016: £400,000) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2014 actuarial valuation. Capital expenditure gross of asset finance of £1,313,000 (2016: £704,000) and investment in intangible assets of £163,000 (2016: £nil) related in the main to the introduction of new technology.

The reduction of £4.5m in the pension deficit to £2.2m (2016: £6.7m) stemmed principally from strong investment returns on scheme assets.

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. To enable meaningful comparison, where figures cover an eighteen month period, they have been reduced to a twelve month equivalent on a simple time apportionment basis. For the eighteen months to 31st December 2018 adjusted to a twelve month equivalent, value added per employee (the ratio of sales less material costs to average employee numbers) amounted to £69,000 (2016: £70,000), operating return on sales (the ratio of operating profit before exceptional items to revenue) was 3.1% (2016: 8.2%), return on average net operating assets (the ratio of operating profit before exceptional items to average operating assets) was 4.2% (2016: 11.0%) and working capital to sales percentage was 24.8% (2016: 34.3%). The reduction in the performance indicators is as a result of the deterioration in the residential carpets business. The directors are confident that the actions taken will drive significant improvement in the future.

Principal risks and uncertainties

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

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

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

The group operates a defined benefit pension scheme. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of this scheme and the assets they hold. The amount of the deficit may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in pension scheme deficit may require the group to increase the amount of cash contributions payable to the scheme, thereby reducing cash available to meet the group's other operating, investing and financing requirements. The performance and risk management of the group's pension scheme and deficit recovery plan are regularly reviewed by both the group and the trustees of the scheme, taking actuarial and investment advice as appropriate. The results of these reviews are discussed with the board and appropriate action taken. Following the triennial funding valuation of the group's pension scheme as at 1st July 2017, a revised deficit recovery plan was agreed. Under the plan the company will continue to make annual contributions of £400,000, even though the statutory funding deficit has been eliminated. This is to allow a gradual reduction in investment risk.

Strategic Report

(continued)

Other risks

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

The global nature of the group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, the most significant being the euro. In order to protect itself against currency fluctuations the group has taken advantage of the opportunity to naturally hedge euro revenue with euro payments. This is done in combination with foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken. Other risks include the availability of necessary materials, business interruption and the duty of care to our employees, customers and the wider public. These risks are managed through the combination of quality assurance and health and safety procedures, and insurance cover.

The long-term impact of the Brexit Referendum is not yet clear in respect of the degree of its impact on future economic growth in the UK market or on any additional tariffs that may apply to UK businesses trading with the European Union. The group monitors this position and adjusts its forward plans where appropriate. It is believed that the group's strength in refurbishment markets, its position as a UK manufacturer with a strong presence in the UK market and strategies of developing new sales channels will act to mitigate the impact of adverse changes and provide opportunities for growth.

Management and personnel

We recognise the hard work and dedication our staff have applied in trying to recover the fortunes of the residential carpets business. We thank them for the dedication they have continued to show during the most challenging of times.

Current trading and future prospects

The changes we are making to the business and the increased investment in our successful commercial flooring business provides significant opportunities for profitable growth. Given our confidence in the future prospects of the business, the ongoing improvement in the performance of the commercial floorcoverings business, and the cash surplus arising from the actions taken in the residential carpets operation we will be proposing a special dividend payment. If approved, a final dividend of 5.0p per share will be paid on 23rd May 2018 to shareholders on the register at close of business on 13th April 2018, with an ex dividend date of 12th April 2018.

MARTIN TOOGOOD	NEIL RYLANCE	
Chairman	Chief Executive Officer	20th March 2018

[1] Adjusted earnings are earnings adjusted for exceptional operating costs (net of tax)

Directors' Report

The directors present their report for the eighteen month period ended 31st December 2017.

Dividends

An interim dividend of 1.75p was paid during the eighteen months (2016: nil) and the directors recommend a final dividend of 5.0p (2016: 1.5p). The final dividend amounts to £2,068,000 and, if approved, will be paid on 23rd May 2018 to those shareholders on the register at close of business on 13th April 2018.

Directors

The present directors are detailed below.

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

Martin Toogood joined the group as an independent non-executive director on 1st April 2009, and was appointed non-executive chairman on 6th November 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe including ILVA, B&Q, Carpetright and Habitat. Martin's appointment terminates at the date of the annual general meeting in accordance with his letter of appointment dated 17th March 2009, as amended by a deed of variation dated 17th November 2017. Martin retires in accordance with the recommendations of the UK Corporate Governance Code and, being eligible, offers himself for re-election.

Roger Salt was appointed company secretary on 8th June 2009, and group finance director on 21st September 2010. Roger joined the business in 2004 from Carclo plc where he held a number of senior financial positions. He is a chartered accountant and holds an MBA. Roger retires by rotation in accordance with the company's articles of association and, being eligible, offers himself for re-election.

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

Directors who held office at 31st December 2017 had the following interests in the Ordinary Shares of the Company:

	31st December 2017	30th June 2016
Neil Rylance	2,510,360	2,510,360
Martin Toogood	2,100,361	2,100,361
Roger Salt	228,738	228,738

There were no other changes in directors' interests between 1st January 2018 and 20th March 2018. 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 22 to the financial statements of the group.

Substantial shareholdings

At 31st December 2017, in addition to the interests of Neil Rylance amounting to 6.07% and Martin Toogood amounting to 5.08% noted above, the company had been notified of the following interests representing 3.00% or more of the company's ordinary share capital:

	Number held	%
Lowland Investment Trust	4,125,000	9.97
Mrs. C. J. Tobin	3,502,668	8.47
Charles Stanley & Co Limited	2,240,000	5.42
Mr. & Mrs. G. A. Upsdell	2,051,812	4.96
Mr. M. H. Yeadon	1,753,687	4.24

Directors' Report
(continued)

Corporate Governance
The directors are committed to a high standard of corporate governance commensurate with the size of the group.

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

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

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

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

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

Charitable and political contributions
Charitable donations of £1,000 were made during the eighteen months (2016: £1,000). No political contributions were made.

Going concern
As part of its ongoing responsibilities the board regularly reviews the cash flow projections of the business for the current and following financial period along with the key sensitivities and uncertainties that might affect the achievement of the projections. In summary, the group continues to be subject to the uncertainties in the current economic environment, particularly in respect of market demand, however the group's financial headroom means that it is well placed to manage its business risks successfully. The proposed closure of the loss making residential carpets business announced on the 20th March 2018 will have a positive effect on cash flow in the future. The closure is likely to be cash generative, with receipts from the realisation of stock and the sale of plant and machinery being greater than closure costs. The directors can reasonably expect that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis remains appropriate in preparing the annual report and accounts.

Payments to suppliers
It is the group's policy to agree the terms of payment with suppliers when negotiating each transaction or series of transactions and to abide by those terms. Group trade payables at 31st December 2017 represented 66 days (2016: 71 days) of trade purchases. The company does not have any trade payables.

Future developments
Details of future developments in the business are included in the strategic report.

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 the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law (Section 393, Companies Act 2006) the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on A.I.M.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditor

BDO LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

ROGER SALT
Company Secretary

Victoria Mills, The Green
Ossett, WF5 0AN
20th March 2018

Independent Auditor's Report to the members of AIREA plc

Opinion

We have audited the financial statements of AIREA plc (the 'parent company') and its subsidiaries (the 'Group') for the period ended 31st December 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company balance sheet, consolidated cash flow statement, consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2017 and of the group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the parent company and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation and provisioning	
As detailed in note 15 of the group financial statements, the group has £6.9m (2016: £9.3m) of inventories at the period end. As detailed in note 5 to the group financial statements certain items of inventory are not expected to sell at prices which cover cost. Therefore management make estimations of provisions required to write down inventory. Given the significant value of the inventories on the group balance sheet and the estimation in valuation we identified this as a key audit matter.	We challenged management on the appropriateness of the judgements made to write down inventory. This included reviewing stock lines where sales made in the period were lower than the prior year end stock holding, where stock was considerably aged and where negative margins had been made in the period or post period end. We selected a sample of stock lines and considered whether the period end stock valuation was appropriately held at the lower of cost and net realisable value by reference to selling prices around the year end date.
Cessation of trade of Ryalux Carpets	
As detailed in note 6 of the financial statements of the group, a decision was made to cease the trade of Ryalux Carpets Limited, a subsidiary of AIREA plc. This was announced to the market on 20th March 2018. The decision to close the business was made after a sustained loss-making period for the company which further deteriorated during the period to 31st December 2017. Ryalux Carpets Limited is no longer a going concern. This has led to an adjusting post balance sheet event and management have written down the value of assets as a result. Impairment charges have been included within exceptional items in the consolidated income statement along with other costs associated with the business. A list of exceptional costs of £2.2m are set out in note 3 to the financial statements. Given the material nature of this event, the judgements involved in impairment and the value of the exceptional costs in the income statement we identify this as a key audit mater.	We confirmed the accounting treatment adopted by management in respect to this post balance sheet event. We agreed the existence of costs that have been included within exceptional items to supporting documentation. Furthermore we assessed whether it was appropriate to include items relating to Ryalux Carpets Limited as exceptional by considering whether they were one-off in nature and of a material value. We assessed the judgements made by management in relation to the provision for sites costs by reference to evidence from previous site closures within the Ryalux business. We reviewed and challenged the judgements made in respect of impairment. For inventories we considered the value of stock sold both before and after the period end. For plant and equipment we considered its recoverable amount by reference to the amount of assets that are expected to retained by the group for use by Burmatex Limited. We have reviewed the disclosures made in the financial statements, within the strategic report and the notes to the financial statements and considered their completeness and accuracy in the context of the announcement made by management.

Independent Auditor's Report to the members of AIREA plc
(continued)

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the group financial statements as a whole was set at £121,000 (2016: £307,000). This was determined with reference to a benchmark of annualised revenue, of which this represents 0.5% (2016: 1.25% of revenue), which we consider to be one of the principal considerations in assessing the financial performance of the business.

The materiality for the parent company financial statements was set at £25,000 (2016: £300,000). This was determined with reference to a benchmark of 2% of net assets limited to the component materiality set for the audit of the group.

Whilst materiality for the financial statements as a whole was £121,000 (2016: £307,000), each component of the group was audited to a lower level of materiality. Component materiality ranged from £10,000 to £85,000 (2016: £25,000 to £300,000).

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 60% (2016: 60%) of the above materiality. This has been assessed on criteria such as historic adjustment levels, complexity and controls of the group.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £3,000 (2016: £6,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements at the group level.

There are six components within the group, including the Parent Company. Financial information relating to five components, including the Parent Company was subject to full scope audit by the group audit team. For the remaining non-significant component we performed analytical review procedures.

Other information
The directors are responsible for the other information. The other information comprises the information included in the strategic and directors' report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Paul Davies (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Central Square,
29 Wellington Street,
Leeds,
West Yorkshire LS1 4DL

20th March 2018

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

Consolidated Income Statement

18 month period ended 31st December 2017

	Note	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Revenue	1	36,749	24,577
Operating costs	2	(37,327)	(22,535)
Operating profit before exceptional items		1,156	2,013
Exceptional costs	3	(2,183)	(1,271)
Pension credit	3	–	1,300
Unrealised valuation gain	4	449	–
Operating (loss)/profit		(578)	2,042
Finance costs	7	(932)	(651)
(Loss)/profit before taxation		(1,510)	1,391
Taxation	8	140	(114)
(Loss)/profit attributable to shareholders of the group		(1,370)	1,277
(Loss)/earnings per share (basic and diluted)	9	(3.31)p	3.01p

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

18 month period ended 31st December 2017

	Note	18 months ended 31st December 2017 £000	£000	12 months ended 30th June 2016 £000	£000
(Loss)/profit attributable to shareholders of the group			(1,370)		1,277
Actuarial gain/(loss) recognised in the pension scheme	20	4,827		(291)	
Related deferred taxation	14a	(862)		(83)	
			3,965		(374)
Unrealised valuation gain	4	117		3,009	
Related deferred taxation	14b	–		(240)	
			117		2,769
Total other comprehensive income			4,082		2,395
Total comprehensive income attributable to shareholders of the group			2,712		3,672

Consolidated Balance Sheet

as at 31st December 2017

		31st December 2017		30th June 2016	
	Note	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	11		5,294		5,489
Intangible assets	12		124		–
Investment property	13		3,150		2,701
Deferred tax asset	14a		389		1,264
			8,957		9,454
Current assets					
Inventories	15	6,937		9,338	
Trade and other receivables	16	2,893		4,601	
Cash and cash equivalents	17	3,702		3,114	
			13,532		17,053
Total assets			22,489		26,507
Current liabilities					
Trade and other payables	18	(3,745)		(5,505)	
Provisions	19	(300)		(125)	
Obligations under finance leases	21	(183)		–	
			(4,228)		(5,630)
Non-current liabilities					
Pension deficit	20	(2,164)		(6,685)	
Deferred tax	14b	(268)		(241)	
Obligations under finance leases	21	(510)		–	
			(2,942)		(6,926)
Total liabilities			(7,170)		(12,556)
			15,319		13,951
Equity					
Called up share capital	22		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Revaluation reserve			3,126		3,009
Retained earnings			(2,267)		(3,518)
			15,319		13,951

The financial statements on pages 12 to 43 were approved by the board of directors on 20th March 2018 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Consolidated Cash Flow Statement

18 month period ended 31st December 2017

	Note	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Cash flows from operating activities			
(Loss)/profit for the period/year		(1,370)	1,277
Depreciation	11	927	837
Amortisation	12	39	–
Finance costs	7	932	651
Profit on disposal of property, plant and equipment		–	(6)
Tax (credit)/expense	8	(140)	114
Pension credit		–	(1,300)
Tangible fixed assets impairment	3	708	–
Inventory impairment	3	289	468
Trade receivables impairment	3	71	–
Unrealised valuation gain		(449)	–
Operating cash flows before movements in working capital		1,007	2,041
Decrease in inventories		2,112	841
Decrease/(increase) in trade and other receivables		1,674	(189)
(Decrease)/increase in trade and other payables		(1,760)	232
Increase in provisions for liabilities and charges		175	125
Cash generated from operations		3,208	3,050
Income tax received		143	61
Contributions to defined benefit pension scheme		(600)	(400)
Net cash generated from operating activities		2,751	2,711
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(392)	(704)
Payments to acquire intangible fixed assets		(163)	–
Receipts from sales of tangible fixed assets		–	25
Net cash used in investing activities		(555)	(679)
Cash flows from financing activities			
Interest paid		(26)	–
Finance lease repayments	21	(238)	–
Share repurchase		–	(410)
Equity dividends paid		(1,344)	(391)
Net cash used in financing activities		(1,608)	(801)
Net increase in cash and cash equivalents		588	1,231
Cash and cash equivalents at start of the period		3,114	1,883
Cash and cash equivalents at end of the period		3,702	3,114

Consolidated Statement of Changes in Equity

18 month period ended 31st December 2017

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1st July 2015	10,851	504	3,105	–	(3,380)	11,080
Comprehensive income for the year						
Profit for the year	–	–	–	–	1,277	1,277
Other comprehensive income for the year	–	–	–	3,009	(614)	2,395
Total comprehensive income for the year	–	–	–	3,009	663	3,672
Contributions by and distributions to owners						
Share repurchase	(512)	–	512	–	–	–
Consideration paid on share purchase	–	–	–	–	(410)	(410)
Dividend paid	–	–	–	–	(391)	(391)
Total contributions by and distributions to owners	(512)	–	512	–	(801)	(801)
At 30th June and 1st July 2016	10,339	504	3,617	3,009	(3,518)	13,951
Comprehensive income for the period						
Loss for the period	–	–	–	–	(1,370)	(1,370)
Other comprehensive income for the period	–	–	–	117	3,965	4,082
Total comprehensive income for the period	–	–	–	117	2,595	2,712
Contributions by and distributions to owners						
Dividend paid	–	–	–	–	(1,344)	(1,344)
Total contributions by and distributions to owners	–	–	–	–	(1,344)	(1,344)
At 31st December 2017	10,339	504	3,617	3,126	(2,267)	15,319

Accounting Policies of the Group

The principal Accounting Policies adopted in the preparation of the Group's IFRS Financial Statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. The company is a specialist flooring company and a public limited company, listed on the AIM section of London Stock Exchange, incorporated and domiciled in the United Kingdom. The address of its registered office is Victoria Mills, The Green, Ossett, West Yorkshire WF5 0AN.

Basis of preparation

The board announced on 16th December 2016 a change in the group's accounting reference date to the 31st December from the 30th June. The board believes that a 31st December accounting year end fits better with the company's trading cycles. As a consequence of the transition to the new accounting reference date the financial statements have been prepared for a period of eighteen months ended 31st December 2017. The comparative figures cover a period of a different length, being for the twelve months ended 30th June. Therefore the periods are not directly comparable.

The consolidated financial statements have been prepared using International Financial Reporting Standards and interpretations adopted for use by the European Union (IFRS). The basis of preparation and accounting policies used in preparing the financial statements for the eighteen months ended 31st December 2017 remain unchanged from the previous year, except as noted on page 21, and are set out below. The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Significant accounting judgements and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is contained in the accounting policies and note 5 to the financial statements.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of AIREA plc and its subsidiaries. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of an investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date at which control is obtained. They are deconsolidated from the date at which control ceases.

Revenue recognition

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

Exceptional items

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

Interest payable and receivable

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

Dividends payable

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

Property

Freehold land and buildings are carried at fair value, based on periodic valuations by a professionally qualified valuer. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

At the date of revaluation, the accumulated depreciation on the revalued freehold property is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. The excess depreciation on the revalued freehold building, over the amount that would have been charged on the historical cost basis (which will continue to be expensed to the statement of comprehensive income) is transferred from the revaluation reserve to retained earnings in line with the historical cost depreciation.

Freehold land is not depreciated. Depreciation is provided on all other items of property so as to write off their carrying value over their useful economic lives. It is provided at the following rate:

Buildings	2%

Plant and equipment

Plant and equipment are held at cost less accumulated depreciation and impairment charges. Depreciation on assets under the course of construction does not commence until they are completely available for use. Depreciation is provided on all other items of plant and equipment to write off the cost less the estimated residual value, which is reviewed annually, by equal instalments over their estimated useful economic lives as follows:

Plant and equipment	10% – 33%

Accounting Policies of the Group
(continued)

Investment property
The company applies the fair value accounting model to investment property. Investment property comprises property held by the company for the purpose of earning rental income and/or capital appreciation. Investment property is stated at fair value at the reporting date with changes in fair value being recognised in the consolidated income statement.

Gains arising on the transfer of owner occupied property to investment properties are recognised in the consolidated statement of comprehensive income to the extent that they do not reverse previous impairment losses.

The fair value of investment property reflects among other things the rental income from the operating lease, expected yield rates and assumptions about rental income from current market conditions.

Fair value
Fair value estimation under IFRS 13 requires the group to classify for disclosure purposes fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements on its financial assets. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (prices) or indirectly (derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data. Their fair value of assets and investment property are determined using valuation techniques (notes 11 and 13).

Impairment testing of 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. 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 loss is charged pro-rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Intangible assets
Expenditure on development activities is capitalised if the product or process meets the recognition criteria for development expenditure as set out in IAS 38 'Intangible Assets'. The expenditure capitalised includes all directly attributable costs, from the date that the intangible asset meets the recognition criteria, necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Development expenditure is identified as being capital in nature if the costs can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the group intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditure not meeting these criteria is recognised in profit or loss as incurred. Once the asset is ready for use, the capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses. Intangible assets not yet ready for use are tested for impairment annually. Amortisation is provided on to write off the cost by equal instalments over their estimated useful economic lives as follows:

Intangible assets	33%

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

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

Financial instruments – derivatives
The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Derivative instruments utilised are forward currency contracts. The fair value of forward currency contracts is assessed at the balance sheet date and any profit or loss is recognised in the income statement. There were no derivatives outstanding at the period end (2016: none).

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 and subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Financial liabilities – items carried at amortised cost
Financial liabilities are obligations to pay cash or other financial assets and comprise trade payables, accruals and other creditors and obligations under finance leases. 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 and subsequently measured at amortised cost. Obligations under finance leases are recorded at the proceeds received net of direct issue costs. Finance charges are accounted for under the effective interest method.

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

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

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

Accounting Policies of the Group
(continued)

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

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

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

Government grants
Government grants are recognised at their fair value in the Consolidated Statement of Financial Position, within deferred income, where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. Government grants relating to revenue items are released to the Statement of Comprehensive Income and recognised within cost of sales over the period necessary to match the grant on a systematic basis to the costs that they are intended to compensate. Government grants relating to capital items are released against the carrying value of the grant supported assets when the completion conditions of those assets are met.

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

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

Operating leases
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.

Any provisions required for obligations arising under operating leases are measured at the best estimate of the expenditure required to settle the obligation at the reporting date in accordance with the accounting policy for provisions noted above.

Finance leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged to profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised.

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;

Revaluation reserve representing the above cost of assets held at fair value;

Retained earnings representing amounts retained from earnings.

New standards and amendments to standards adopted in the period

During the period, the group adopted the amendment to IAS 7 which requires changes in liabilities arising from financing activities to be disclosed (to the extent necessary) from:

(i) Changes from financing cash flows;

(ii) Changes arising from obtaining or losing control of subsidiaries or other businesses;

(iii) The effect of changes in foreign exchange rates;

(iv) Changes in fair value; and

(v) Other changes.

The additional disclosure in relation to this change has been included within note 21 to the financial statements. The only liabilities arising from financing activities are finance lease liabilities.

Standards issued but not yet effective

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective. The group has not applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1st January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. The Group will adopt IFRS 15 – Revenue from Contracts with Customers for the financial year starting 1st January 2018, applying the fully retrospective method of transition.

With the exception of the additional disclosure requirements, the new standard will not have a material impact on the Group's Financial Statements, because IFRS 15 will continue to allow the recognition of revenue at the point when control passes.

Accounting Policies of the Group

(continued)

IFRS 9 Financial Instruments

IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard is effective for accounting periods beginning on or after 1st January 2018. The standard covers three elements:

- Classification and measurement: Changes to a more principal based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
- Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
- Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The group will adopt IFRS 9 – Financial Instruments for the financial year starting 1st January 2018. The group does not hold complex financial instruments and therefore the majority of changes to the standard do not change the existing accounting for assets or liabilities held. However, the directors have considered the impact of IFRS 9 and concluded that the measurement of impairment of trade receivables will change with the use of the expected loss model assessment. The group intends to quantify the potential impact of IFRS 9, and finalise its approach to transition and use of practical expediencies where available prior to the preparation of its interim report for the period ended 30th June 2018.

A number of new standards and amendments to standards and interpretations have been issued but are not yet effective and in some cases have not yet been adopted by the EU. The directors do not expect that the adoption of these standards will have a material impact on the financial statements of the group in future periods, except that IFRS 16 will have an impact on the recognition of operating leases.

IFRS 16 – Leases

IFRS 16 – Leases will be adopted by the group for the financial year starting on 1st January 2019. The impact of the new standard will be to bring operating lease arrangements on balance sheet, with a right of use asset and corresponding financial liability recognised on transition. Within the income statement rent expense will be replaced by depreciation and interest expenses. This will result in a decrease in operating costs and an increase in finance costs.

The full impact of IFRS 16 has not yet been reviewed, and as a result it is not practical to provide a reasonable estimate of the financial effect at this stage. The group has material operating leases and therefore the adoption of the standard is expected to have a material impact on the Financial Statements of the group.

Notes to the Financial Statements of the Group

1. SEGMENTAL REPORTING

The group presents its results in accordance with internal management reporting information which means that the group is reported as two segments. The residential carpets business was separated out during the period, assets revenues and cost allocated accordingly and the segment monitored separately during the period as a result of increasing losses. The commercial floorcoverings segment focusses on the design and manufacture of floorcoverings to meet the needs of architects, specifiers and contractors for the education, leisure, commercial, healthcare and public sectors. The residential carpets segment produces standard and bespoke carpets distributed through independent carpet retail outlets. The performance of the group is monitored and measured and strategic decisions made by the Chief Operating Decision Maker, which is deemed to be the board, on the basis of the group's results. The group's results include all items presented under IFRS. This management information therefore accords with group financial information presented in the consolidated income statement and consolidated balance sheet.

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

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

18 month period ended 31st December 2017

	Commercial Floorcoverings £000	Residential Carpets £000	Total £000
Revenue	26,890	9,859	36,749
Operating costs	(22,658)	(14,669)	(37,327)
Operating profit/(loss) before exceptional items	4,255	(3,099)	1,156
Exceptional costs	(472)	(1,711)	(2,183)
Unrealised valuation gain	449	–	449
Operating profit/(loss)	4,232	(4,810)	(578)
Finance costs	(932)	–	(932)
Profit/(loss) before taxation	3,300	(4,810)	(1,510)
Taxation	186	(46)	140
	3,486	(4,856)	(1,370)
Depreciation charge	291	636	927
Amortisation charge	39	–	39
Capital expenditure	1,428	58	1,486
Segment assets	14,286	1,033	15,319

Notes to the Financial Statements of the Group
(continued)

1. SEGMENTAL REPORTING (continued)
Year ended 30th June 2016 (restated)

	Commercial Floorcoverings £000	Residential Carpets £000	Total £000
Revenue	18,066	6,511	24,577
Operating costs	(13,424)	(9,111)	(22,535)
Operating profit/(loss) before exceptional items	3,342	(1,329)	2,013
Exceptional costs	–	(1,271)	(1,271)
Pension credit	1,300	–	1,300
Operating profit/(loss)	4,642	(2,600)	2,042
Finance costs	(651)	–	(651)
Profit/(loss) before taxation	3,991	(2,600)	1,391
Taxation	(114)	–	(114)
	3,877	(2,600)	1,277
Depreciation charge	214	623	837
Capital expenditure	248	456	704
Segment assets	10,722	3,229	13,951

Analysis of revenue by destination	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
United Kingdom	28,717	20,246
Republic of Ireland	2,050	960
Rest of Europe	5,215	2,866
North America	42	91
Rest of the World	725	414
	36,749	24,577

The proposed closure of the residential floorcoverings business was announced on 20th March 2018 (note 6).

2. OPERATING COSTS

	18 months ended 31st December 2017 costs £000	12 months ended 30th June 2016 costs £000
Changes in stocks of finished goods and work in progress	1,606	1,211
Raw materials and consumables	16,189	8,962
Other external charges	9,589	6,364
Staff costs (note 23)	9,012	6,716
Depreciation	927	837
Amortisation	39	–
Impairment of plant and equipment	708	–
Foreign exchange differences	115	(164)
Other operating income	(409)	(91)
Unrealised valuation gain	(449)	–
Pension credit	–	(1,300)
	37,327	22,535

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

	2017 £000	2016 £000
Fees payable to the company's auditor for the audit of the financial statements	28	19
Audit of the financial statements of the company's subsidiaries pursuant to legislation	17	19
	45	38

3. EXCEPTIONAL OPERATING ITEMS

	18 months ended 31st December 2017		12 months ended 30th June 2016	
	£000	£000	£000	£000
Pension scheme liability management		–		1,300
Restructure of operations:				
Staff termination costs	(16)		(372)	
Site rationalisation costs (net of amounts released)	(205)		(331)	
Relocation	–		(100)	
Inventory disposal	(726)		(468)	
Bad debt	(70)		–	
Professional fees	(28)		–	
Plant and equipment impairment	(708)		–	
Inventory impairment	(289)		–	
Receivables impairment	(71)		–	
		(2,113)		(1,271)
Management consultancy		(70)		–
		(2,183)		29

The restructuring costs relate to the separation of the residential floorcovering business, the actions taken on working capital reduction and impairment of assets as a consequence of accelerating losses. The management consultancy related to a project to assess the strategic options for the future development of the business.

Notes to the Financial Statements of the Group
(continued)

4. UNREALISED VALUATION GAIN

	Operating property £000	Investment property £000	Total £000
Cost as at 1st July 2016 and 31st December 2017	4,517	1,405	5,922
Depreciation as at 1st July 2016	(2,402)	(378)	(2,780)
Depreciation for the period	(117)	–	(117)
Depreciation as at 31st December 2017	(2,519)	(378)	(2,897)
Unrealised valuation gain as at 1st July 2016	1,335	1,674	3,009
Unrealised valuation gain for the period			
– Income statement	–	449	449
– Statement of comprehensive income	117	–	117
Unrealised valuation gain as at 31st December 2017	1,452	2,123	3,575
Valuation at 30th June 2016	3,450	2,701	6,151
Valuation at 31st December 2017	3,450	3,150	6,600

Details of the revaluation of the properties are given in notes 11 and 13.

5. 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 31st December 2017. 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:

Investment Property – £3,150,000 (2016: £2,701,000)
Investment property is held at fair value.

Property Valuation – £3,425,000 (2016: £3,450,000)
Freehold land and buildings are held at fair value.

The valuation of properties were prepared in accordance with the RICS Valuation – Professional Standards, January 2014 Global and UK edition, published by the Royal Institution of Chartered Surveyors ("RICS") ("the Red Book") and the IVSC International Valuation Standards by external independent qualified valuers with recent experience valuing investment properties in the location held by the group. Further details are given in notes 11 and 13, including the sensitivity of unobservable inputs.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Plant and equipment – £1,869,000 (2016: £2,039,000)
As a result of the post balance sheet event as disclosed in note 6, certain items of plant and equipment are not expected to generate recoverable amounts which cover their cost and accumulated depreciation. The plant and equipment is carried at a value which reflects the directors' best estimate of achievable recoverable amounts, details of which are given in note 11.

Inventories – £6,937,000 (2016: £9,338,000)
Certain items of inventory are not expected to sell at prices which cover cost, either because they are remnants, come from discontinued ranges or are below the required quality standard. The inventory is carried at a value which reflects the directors' best estimates of achievable selling prices. Details of the provisions made against inventories are given in note 15.

Pension deficit – £2,164,000 (2016: £6,685,000)
The calculation of the pension deficit is subject to a number of assumptions as detailed in note 20. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The decrease of £4,521,000 in the period was due in the main to the success of the fund investment strategies, and changes in mortality tables (see note 20).

6. EVENTS AFTER THE REPORTING PERIOD

On the 20th March 2018 the Company announced the proposed closure of its residential carpets business. Operating as Ryalux Carpets Limited ("Ryalux"), the residential floorcoverings business offers high quality standard and custom broad loom carpets available through carpet retail outlets. The Company has proposed the closure of Ryalux Carpets Limited as the business has been loss making for a number of years. In recent years, Airea has implemented a range of initiatives to improve the business, including new product initiatives, rationalisation of sites and strict cost and working capital controls. Despite this, the trading environment for residential carpets has worsened and the ongoing trend to cheaper synthetic products has led to further declines in demand for high quality tufted woollen carpets.

The costs of these initiatives have been identified separately in the income statement as restructuring costs. In the current accounting period the costs incurred relating to these actions and associated impairment of assets total £2.1m (2016: £1.3m), as disclosed in note 3.

7. FINANCE COSTS

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Finance costs relating to finance lease (note 21)	26	–
Finance costs relating to the pension scheme (note 20)	906	651
	932	651

Notes to the Financial Statements of the Group
(continued)

8. TAXATION

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Based on the profit for the period at 19.50% (2016: 20.00%)		
Corporation tax		
– Current period	(47)	–
– Prior year	(149)	(96)
Total current tax	(196)	(96)
Deferred tax		
– Current period	111	210
– Prior year	–	–
– Relating to pension deficit	(55)	–
Total deferred tax (note 14)	56	210
Tax (credit)/charge on profit on ordinary activities	(140)	114

The tax charge for the period can be reconciled to the loss per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 19.50% (2016: 20.00%) as follows:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
(Loss)/profit on ordinary activities before tax	(1,510)	1,391
(Loss)/profit on ordinary activities before tax multiplied by standard rate of corporation tax of 19.50% (2016: 20.75%)	(294)	278
Effects of:		
Disallowed expenditure	219	4
Differences on capital allowances	84	(72)
Prior year adjustment	(149)	(96)
Current corporation tax charge for the period	(140)	114

9. (LOSS)/EARNINGS PER SHARE

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

Number of shares	18 months ended 31st December 2017	12 months ended 30th June 2016
Weighted average number of ordinary shares	41,354,353	42,379,353

(Loss)/earnings	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
(Loss)/earnings	(1,370)	1,277
Exceptional items (net of tax) (note 3)	2,183	(25)
Adjusted earnings	813	1,252

Group (loss)/earnings per share	18 months ended 31st December 2017 pence	12 months ended 30th June 2016 pence
Basic adjusted	1.97	2.96
Basic	(3.31)	3.01

There is no dilution of (loss)/earnings per share.

10. DIVIDENDS

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Paid during the year:		
Final dividend for the prior year of 1.50p per share (2016: 0.90p per share)	620	391
Interim dividend paid during the year of 1.75p per share (2016: nil per share)	724	–
	1,344	391
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of 5.0p per share (2016: 1.50p per share)	2,068	620

If approved, this dividend will be paid on 23rd May 2018 to shareholders on the register at close of business on 13th April 2018.

Notes to the Financial Statements of the Group
(continued)

11. PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1st July 2015	5,922	19,847	25,769
Additions	–	704	704
Disposals	–	(83)	(83)
Unrealised valuation adjustment	229	–	229
Reclassified to Investment Property	(2,701)	–	(2,701)
At 30th June and 1st July 2016	3,450	20,468	23,918
Additions	–	1,323	1,323
Disposals	–	(12)	(12)
At 31st December 2017	3,450	21,779	25,229
Depreciation			
At 1st July 2015	2,645	17,791	20,436
Charge for the year	135	702	837
Disposals	–	(64)	(64)
Unrealised valuation adjustment	(2,780)	–	(2,780)
At 30th June and 1st July 2016	–	18,429	18,429
Charge for the year	142	785	927
Impairment	–	708	708
Disposals	–	(12)	(12)
Unrealised valuation gain	(117)	–	(117)
At 31st December 2017	25	19,910	19,935
Net book amounts			
At 1st July 2016	3,450	2,039	5,489
At 31st December 2017	3,425	1,869	5,294

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.

The group has assets under construction of £150,000 (2016: £333,000), categorised as plant and equipment.

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Net book value of asset held under a finance lease	1,186	–
Depreciation on asset held under a finance lease	40	–

11. PROPERTY, PLANT AND EQUIPMENT (continued)

Capital commitments

	31st December 2017 £000	30th June 2016 £000
Group	–	1,019

The operating property was valued at 31st December 2017. The valuation was prepared in accordance with the RICS Valuation – Professional Standards, January 2014 Global and UK edition, published by the Royal Institution of Chartered Surveyors ("RICS") ("the Red Book") and the IVSC International Valuation Standards by external independent qualified valuers with recent experience valuing operating properties in the location held by the group.

The property measured at fair value is categorised as level 3 in the fair value hierachy as defined by IFRS 13 as one or more of the inputs to the valuation are partly based on unobservable market data. In arriving at their valuation, the independent valuers have formed an opinion as to the unobservable input being the rent per square foot which a potential purchaser would apply in arriving at the market value. This input is arrived at using market comparables for the type, location and condition of the property. The capital rate used for valuation is £17.50 per sq ft. The effect of a £5 change in the capital rate per square foot would be a £985,000 movement in the valuation.

Fair value measurement is based on the above items highest and best use which does not differ from their actual use.

In view of the accelerating losses within the residential carpets segment an impairment review has been carried out based on the directors' assessment of recoverable amounts (being the fair value of assets less costs of disposal) using past experience taking into account current market conditions. This has resulted in an impairment provision of £708,000 against plant and equipment. The plant and equipment measured at fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13, as the inputs to the valuation are based on unobservable market data.

12. INTANGIBLE ASSETS

	£000
Additions	163
Amortisation	(39)
Net book value	124

The expenditure relates to the cost of materials and external services incurred in the introduction of new technology and related products.

Notes to the Financial Statements of the Group
(continued)

13. INVESTMENT PROPERTY

	£'000
Valuation at 30th June 2016	2,701
Unrealised valuation gain	449
Valuation at 31st December 2017	3,150

The investment property was valued at 31st December 2017. The valuation was prepared in accordance with the RICS Valuation – Professional Standards, January 2014 Global and UK edition, published by the Royal Institution of Chartered Surveyors ("RICS") ("the Red Book") and the IVSC International Valuation Standards by external independent qualified valuers with recent experience valuing investment properties in the location held by the group.

The property measured at fair value is categorised as level 3 in the fair value hierachy as defined by IFRS 13 as one or more of the inputs to the valuation are partly based on unobservable market data. In arriving at their valuation, the independent valuers have formed an opinion as to the unobservable input being the rent per square foot which a potential purchaser would apply in arriving at the market value. This input is arrived at using market comparables for the type, location and condition of the property. The yield used for valuation is 8.57%. The effect of a 1% increase or decrease in the yield would be a £329,000 movement in the valuation.

Fair value measurement is based on the above items highest and best use which does not differ from their actual use.

14. DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non–current asset			
Balance as at 1st July 2015	1,489	68	1,557
Movement during the year:			
Income statement	(210)	–	(210)
Consolidated statement of comprehensive income	(83)	–	(83)
Balance at 30th June and 1st July 2016	1,196	68	1,264
Movement during the year:			
Income statement	55	(68)	(13)
Consolidated statement of comprehensive income	(862)	–	(862)
Balance at 31st December 2017	389	–	389

In addition to the recognised asset the group has an unrecognised deferred tax asset of approximately £1,032,000 (2016: £867,000) comprising of brought forward tax losses.

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
(b) Deferred tax liability		
Balance brought forward	241	1
Movement during the year:		
Income statement	27	–
Consolidated statement of comprehensive income	–	240
Deferred tax asset carried forward	268	241

An analysis of the deferred tax liability is as follows:

Property, plant and equipment	268	241

15. INVENTORIES

	31st December 2017 £000	30th June 2016 £000
Raw materials and consumables	1,044	1,839
Work in progress	80	305
Finished goods	5,813	7,194
	6,937	9,338

The consolidated income statement includes £16,780,000 (2016: £9,705,000) as an expense for inventories. There was an impairment of £289,000 (2016: £468,000) in the period. The provision inclusive of impairment at 31st December 2017 was £612,000 (30th June 2016: £440,000). As a consequence of the decision to close the residential carpet segment, as set out in note 6, additional provisions of £289,000 (2016: £468,000) have been made.

16. TRADE AND OTHER RECEIVABLES

	31st December 2017 £000	30th June 2016 £000
Trade receivables	2,414	4,116
Corporation tax	47	–
Prepayments and accrued income	432	485
	2,893	4,601

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

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

	31st December 2017 £000	30th June 2016 £000
Brought forward provisions	262	383
Bad and doubtful debts charged in the year	236	72
Amount utilised	(53)	(193)
	445	262

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:

	31st December 2017 £000	30th June 2016 £000
More than three months but not more than six months	–	9
More than six months	–	43
	–	52

Notes to the Financial Statements of the Group
(continued)

17. CASH AND CASH EQUIVALENTS

	31st December 2017 £000	30th June 2016 £000
Cash at bank and in hand	3,702	3,114

18. TRADE AND OTHER PAYABLES

	31st December 2017 £000	30th June 2016 £000
Trade payables	2,430	3,459
Social security and other taxes	610	705
Accruals and other creditors	533	1,226
Deferred income	172	115
	3,745	5,505

19. PROVISIONS

	£000
At 1st July 2015	–
Provisions charged in the year	125
At 30th June and 1st July 2016	125
Amount released	(125)
Provisions charged in the period	300
At 31st December 2017	300

The provision relates to the site rationalisation programme. Amounts released and charged are disclosed within site rationalisation costs in exceptional costs (note 3).

20. PENSION COMMITMENTS

Airea PLC and Burmatex Ltd sponsor the Sirdar PLC Retirement Benefits Plan, a funded defined benefit pension scheme in the UK. The Plan is administered within a trust which is legally separate from the Companies. Trustees are appointed by both Companies and the Plan's membership and act in the interest of the Plan and all relevant stakeholders, including the members and the Companies. The Trustees are also responsible for the investment of the Plan's assets.

The Plan provides pensions and lump sums to members on retirement and to their dependants on death. Members who leave service before retirement are entitled to a deferred pension. The scheme closed to accrual of benefits on 28th February 2005.

Responsibility for making good any deficit within the scheme lies with the Companies and this introduces a number of risks. The major risks are: interest rate risk; inflation risk; investment risk; longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

The Plan is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is due to be carried out with an effective date of 1st July 2020. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using assumptions set in line with accounting standards.

A formal actuarial valuation was carried out as at 1st July 2017. The results of that valuation have been projected to 31st December 2017 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

The amounts recognised in the statement of financial position are as follows:

	31st December 2017 £000	30th June 2016 £000	30th June 2015 £000
Present value of scheme liabilities	(53,998)	(53,856)	(51,911)
Fair value of scheme assets	51,834	47,171	44,468
Funded status	(2,164)	(6,685)	(7,443)
Reduction on asset recognition	–	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(2,164)	(6,685)	(7,443)

The net reduction of £4.5m in the Plan's liabilities arises from strong investment returns and the update of mortality assumptions.

Notes to the Financial Statements of the Group

(continued)

20. PENSION COMMITMENTS (continued)

The amounts recognised in comprehensive income are:

The current and past service costs, settlements and curtailments, together with the net interest expense for the year are included in the employee benefits expense in the statement of comprehensive income. Remeasurements of the net defined benefit liability are included in other comprehensive income.

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Service cost:		
Administration expenses	615	393
Past service gain on settlements and curtailments	–	(1,300)
Net interest expense	291	258
(Credit)/charge recognised in P&L	906	(649)
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	(7,696)	(4,703)
Loss arising from changes in financial assumptions	4,453	5,333
Gain arising from changes in demographic assumptions	(1,148)	(339)
Experience gain	(436)	–
(Credit)/charge recorded in other comprehensive income	(4,827)	291
Total defined benefit (credit)/cost	(3,921)	(358)

The principal actuarial assumptions used were:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Liabilities discount rate	2.40%	2.90%
Inflation assumption – RPI	3.10%	2.65%
Inflation assumption – CPI	2.00%	1.55%
Revaluation of deferred pensions		
benefits accrued prior to 06/04/1997	2.00%	1.55%
benefits accrued after 06/04/1997	2.00%	1.55%
Rate of increase to pensions in payment		
benefits accrued prior to 06/04/1997	5.00%	5.00%
benefits accrued after 06/04/1997	2.05%	1.65%
Proportion of employees opting for early retirement	nil	nil
Proportion of employees commuting pension for cash	100%	100%
Proportion of non-pensioners taking Pension Increase Exchange (PIE) at retirement	35%	35%

20. PENSION COMMITMENTS (continued)

Mortality assumption – pre retirement	As post–retirement	As post–retirement
Mortality assumption – male post retirement	110% SAPS S2PMA	110% SAPS S2PMA
	CMI 2016 M 1.0%	CMI 2013 F 1.0%
Mortality assumption – female post retirement	110% SAPS S2PMA	110% SAPS S2PMA
	CMI 2016 M 1.0%	CMI 2013 F 1.0%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	86.2	86.4
Female pensioner at age 65	88.1	88.4
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.3	87.7
Female aged 45 at year end:	89.3	89.9

Changes in the present value of assets over the period:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Fair value of assets at start of period	47,171	44,468
Interest income	1,944	1,621
Return on assets (excluding amount included in net interest expense)	7,696	4,703
Contributions from the employer	600	400
Benefits paid	(4,962)	(3,628)
Administration expenses	(615)	(393)
Fair value of assets at end of period	51,834	47,171
Actual return on assets over the period	9,640	6,324

Changes in the present value of liabilities over the period:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Liabilities at start of period	53,856	51,911
Interest cost	2,235	1,879
Remeasurement losses		
Actuarial losses arising from changes in financial assumptions	4,453	5,333
Actuarial gains arising from changes in demographic assumptions	(1,148)	(339)
Other experience items	(436)	–
Past service cost	–	(1,300)
Benefits paid	(4,962)	(3,628)
At end of period	53,998	53,856

Notes to the Financial Statements of the Group
(continued)

20. PENSION COMMITMENTS (continued)

The split of the scheme's liabilities by category of membership is as follows:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Active members	–	–
Deferred pensioners	14,539	16,025
Pensions in payment	39,459	37,831
	53,998	53,856
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:		
Active members	–	–
Deferred pensioners	20	20
Pensions in payment	11	11

The major categories of scheme assets are as follows:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Return seeking		
UK Equities	–	8,354
Overseas Equities	–	10,377
Synthetic Equity	23,125	–
Partners Fund	5,496	–
Absolute Return Fund	17,698	12,931
Diversified Growth Fund	8,351	3,065
Return seeking subtotal	54,670	34,727
Debt instruments		
LDI funds	6,164	8,533
Other		
Property	3,074	2,937
Cash	10,564	974
Synthetic Equities Cash Offset	(22,638)	–
Total market value of assets	51,834	47,171

The equity and debt instruments all have quoted prices in active markets. Derivatives can be classified as level 2 instruments and property as level 3 based on the definition in IFRS 13 fair value measurement.

The plan holds an additional asset in respect of annuities purchased in the Trustee's name to meet benefits due to a small proportion of pensioners. The value of the assets in respect of these policies is equal to the value of the liability they cover. This value has been excluded from both the value of the assets and the value of the liabilities.

The Scheme has no investments in the Companies or in property occupied by the Companies.

The Companies expect to contribute £400,000 to the Scheme during year ending 31st December 2018.

20. PENSION COMMITMENTS (continued)

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate was 0.1 percent higher (lower), the scheme liabilities would decrease by £698,000 (increase by £731,000) if all the other assumptions remained unchanged.

If the RPI inflation assumption was 0.1 percent higher (lower), the scheme liabilities would increase by £267,000 (decrease by £336,000). In this calculation all assumptions related to the RPI inflation assumption have been appropriately adjusted, that is the deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the scheme liabilities would increase by £2,948,000 if all the other assumptions remained unchanged.

21. FINANCE LEASE

The cash flows relating to finance leases are as follows:

	£000
As at 1st July 2016	–
New finance lease	931
Payments	(264)
Interest charge	26
	693

There were no other cash flows during the period in respect of financial liabilities arising from financing activities.

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

	31st December 2017 £000	30th June 2016 £000
Within one year	198	–
In the second to fifth years inclusive	527	–
After five years	–	–
	725	–

Within the above outstanding commitments £32,000 relates to interest that will be payable under the agreement. At the balance sheet date the group recognise the following liabilities.

	31st December 2017 £000	30th June 2016 £000
Current liabilities – due within one year	183	–
Non-current liabilities – not due within one year	510	–
	693	–

22. CALLED UP SHARE CAPITAL

	31st December 2017		30th June 2016	
	Number	£000	Number	£000
Ordinary shares of 25p each				
Allotted, called up and fully paid	41,354,353	10,339	41,354,353	10,339

The company holds no ordinary shares in Treasury.

Notes to the Financial Statements of the Group
(continued)

23. EMPLOYEES

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Staff costs		
Wages and salaries	8,105	5,720
Social security costs	663	472
Other pension costs	228	152
Termination costs	16	–
	9,012	6,344

	Number	Number
The average monthly number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	43	42
Administration	13	20
Manufacturing and operations	136	151
	192	213

Directors' remuneration

	Salary and fees £000	Bonus £000	Taxable benefits £000	18 months ended 31st December 2017 (excluding pensions) £000	12 months ended 30th June 2016 (excluding pensions) £000	18 months ended 31st December 2017 Pension £000	12 months ended 30th June 2016 Pension £000
Executive							
Neil Rylance	334	99	22	455	274	33	22
Roger Salt	116	50	8	174	111	60	40
Non–Executive							
Martin Toogood	76	–	–	76	48	–	–
	526	149	30	705	433	93	62

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Wages and salaries (including bonus)	675	408
Social security costs	75	48
Taxable benefits	30	25
Pension costs	93	62
	873	543

The key management personnel are the directors.

There are no other benefits accruing to the directors other than those stated above.

24. OPERATING LEASES

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

Payments

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Lease payments under operating leases charged to operating costs in the year	969	691

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:

	31st December 2017 £000	30th June 2016 £000
Within one year	352	519
In the second to fifth years inclusive	227	144
After five years	–	–
	579	663

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.

Receipts

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Lease receipts under operating leases credited to operating costs in the year	409	91

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

	31st December 2017 £000	30th June 2016 £000
Within one year	275	270
In the second to fifth years inclusive	866	1,080
After five years	–	191
	1,141	1,541

Operating lease receipts represent rentals receivable by the group from lease of properties.

Notes to the Financial Statements of the Group
(continued)

25. FINANCIAL INSTRUMENTS

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

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

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

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

Credit risk – the group seeks to limit credit risk through the use of credit insurance and procedures to constantly review customer accounts. The amount that best represents the group's maximum exposure to credit risk is detailed in note 16.

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

	31st December 2017 £000	30th June 2016 £000
Current assets		
Trade and other receivables	2,414	4,116
Cash and cash equivalents	3,702	3,114
	6,116	7,230

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:

	31st December 2017 £000	30th June 2016 £000
Current liabilities		
Trade and other payables	3,745	5,505

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

25. FINANCIAL INSTRUMENTS (continued)

Financial assets

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

Financial liabilities

There is a finance lease of £693,000 (2016: nil).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 31st December 2017 or 30th June 2016. The group has a £0.5 million overdraft facility available.

Foreign currency

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

Net foreign currency monetary assets/liabilities

	31st December 2017 £000	30th June 2016 £000
US dollars	13	996
Euro	(74)	(466)
	(61)	530

Sensitivity analysis

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

A 10% movement in exchange rates would result in a charge or credit to profit of £6,000 (2016: £53,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2016: £nil).

Company Balance Sheet

as at 31st December 2017

	Note	31st December 2017 £000	31st December 2017 £000	30th June 2016 £000	30th June 2016 £000
Non–current assets					
Investments	2		31,800		31,800
Deferred tax	3		292		1,003
			32,092		32,803
Current assets					
Trade and other receivables	4	4,760		2,169	
Cash and cash equivalents	5	154		–	
			4,914		2,169
Total assets			37,006		34,972
Current liabilities					
Trade and other payables	6	(4,459)		(1,207)	
Provisions	7	(300)		–	
			(4,759)		(1,207)
Non-current liabilities					
Pension deficit	8		(1,623)		(5,014)
Total liabilities			(6,382)		(6,221)
			30,624		28,751
Equity					
Called up share capital	9		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Merger reserve			6,902		6,902
Retained earnings			9,262		7,389
			30,624		28,751

The total comprehensive income for the period was £2,979,000 (2016: £913,000).

The financial statements on pages 44 to 54 were approved by the board of directors on 20th March 2018 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Company Statement of Changes in Equity

18 month period ended 31st December 2017

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2015	10,851	504	3,105	6,902	7,280	28,642
Comprehensive income for the year						
Profit for the year					1,245	1,245
Other comprehensive income for the year	–	–	–	–	(332)	(332)
Total comprehensive income for the year	–	–	–	–	913	913
Contributions by and distributions to owners						
Share purchase	(512)		512			–
Consideration paid on share purchase					(413)	(413)
Dividend paid	–	–	–	–	(391)	(391)
Total contributions by and distributions to owners	(512)	–	512	–	(804)	(804)
At 30th June and 1st July 2016	10,339	504	3,617	6,902	7,389	28,751
Comprehensive income for the period						
Profit for the period	–	–	–	–	430	430
Other comprehensive income for the period	–	–	–	–	2,787	2,787
Total comprehensive income for the period	–	–	–	–	3,217	3,217
Contributions by and distributions to owners						
Dividend paid	–	–	–	–	(1,344)	(1,344)
Total contributions by and distributions to owners	–	–	–	–	(1,344)	(1,344)
At 31st December 2017	10,339	504	3,617	6,902	9,262	30,624

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.

Accounting Policies of the Company

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (“FRS 100”) and Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

Disclosure exemptions adopted
In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:

- Certain comparative information as otherwise required by EU endorsed IFRS;
- Certain disclosures regarding the company’s capital;
- A statement of cashflows;
- The effect of future accounting standards not yet adopted;
- The disclosure of the remuneration of key management personnel;
- The disclosure of related party transactions with other wholly owned members of Airea plc group of companies; and.
- Disclosure in respect of financial instruments.

Principal accounting policies
The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of accounting
The financial statements have been prepared under the historical cost convention. The presentation currency used is sterling and amounts have been presented in round thousands (“£000s”).

Investments in subsidiary undertakings
Investments in subsidiaries are stated at cost less provision for impairment.

Interest received
Interest received is recognised in the period in which it arises.

Revenue
Dividends receivable from subsidiary undertakings are recognised in profit or loss when the right to the dividend income has been established. Interim dividends are recognised when paid and any final dividends receivable are recognised when declared at a general meeting.

Current taxation
Current taxation represents corporation tax payable on the taxable profits for the year or prior periods and is calculated using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Share capital

The group's ordinary shares are classified as equity instruments.

Dividends

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the AGM.

Dividends on shares classified as equity are accounted for as a deduction from equity. Dividends on shares classified as a financial liability are reflected in profit or loss.

Key areas of estimation

Pension scheme – The calculation of the pension deficit is subject to a number of assumptions as detailed in note 8. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit.

Impairment of investments – The impairment of investments is assessed annually. The assessment has been carried out on the basis of a pre-interest discount rate of 12.2% and a terminal growth rate of 2%.

Notes to the Financial Statements of the Company

1. TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

AIREA plc has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The amount dealt with in the financial statements of the company is a comprehensive income of £2,979,000 (2016: £913,000).

2. INVESTMENTS

	31st December 2017 £000	30th June 2016 £000
Shares in group companies	31,800	31,800

Investments in group undertakings are stated at cost less amounts written off. The write down of investments has been based on their value in use, with cash flows discounted at 10%. Details of the company's subsidiaries at 31st December 2017, 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 at Victoria Mills, The Green, Ossett, WF5 0AN, unless otherwise stated, are set out below:

Burmatex Limited	Manufacturing and distribution of fibre bonded sheet carpet and carpet tiles
Ryalux Carpets Limited	Manufacturing and distribution of carpet
Fope Limited*	Property holding company
Other subsidiary undertakings:	
AIREA Floor Coverings Limited*	Intermediate holding company
Burmatex SP ZOO*	Polish sales office, registered in Poland
William Lomas Carpets Limited	Non-trading
William Pownall and Sons Limited	Non-trading
Pennine Yarn Dyeing Limited	Non-trading
Airea Newco Limted	Dormant
Carpet Tile Company Limited	Dormant
Bespoke Carpets Limited	Dormant
Carpets of Britain Limited	Dormant
Ryalux Services Limited	Dormant

*Held directly

3. DEFERRED TAX

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Balance brought forward	1,003	1,116
Charge/credit to profit	(711)	(113)
	292	1,003

4. TRADE AND OTHER RECEIVABLES

	31st December 2017 £000	30th June 2016 £000
Amounts owed by group companies	4,603	2,086
Prepayments and accrued income	157	83
	4,760	2,169

Amounts owed by group undertakings are included under current assets as there are no specific terms as to their repayment. The amount owed by group companies was reviewed in the year for impairment and it was agreed that no further impairment was required (2016: nil).

5. CASH AND CASH EQUIVALENTS

	31st December 2017 £000	30th June 2016 £000
Cash at bank and in hand	154	–

6. TRADE AND OTHER PAYABLES

	31st December 2017 £000	30th June 2016 £000
Overdraft	–	1,029
Accruals and other creditors	32	50
Intercompany Payable	4,427	128
	4,459	1,207

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

Notes to the Financial Statements of the Company
(continued)

7. PROVISIONS

	£000
Provision charged in the year	300
	300

The provision relates to the site rationalisation programme.

8. PENSION COMMITMENTS

Airea PLC and Burmatex Ltd sponsor the Sirdar PLC Retirement Benefits Plan, a funded defined benefit pension plan in the UK. The Plan is administered within a trust which is legally separate from the Companies. Trustees are appointed by both Companies and the Plan's membership and act in the interest of the Plan and all relevant stakeholders, including the members and the Companies. The Trustees are also responsible for the investment of the Plan's assets.

The Plan provides pensions and lump sums to members on retirement and to their dependants on death. Members who leave service before retirement are entitled to a deferred pension. The Plan closed to accrual of benefits on 28th February 2005.

Responsibility for making good any deficit within the Plan lies with the Companies and this introduces a number of risks. The major risks are: interest rate risk; inflation risk; investment risk; longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

The Plan is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is due to be carried out with an effective date of 1st July 2020. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using assumptions set in line with accounting standards.

A formal actuarial valuation was carried out as at 1st July 2017. The results of that valuation have been projected to 31st December 2017 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

The amounts recognised in the statement of financial position are as follows:

	31st December 2017 £000	30th June 2016 £000
Present value of Plan liabilities	(40,499)	(40,392)
Fair value of Plan assets	38,876	35,378
Funded status	(1,623)	(5,014)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(1,623)	(5,014)

8. PENSION COMMITMENTS (continued)

The amounts recognised in comprehensive income are:

The current and past service costs, settlements and curtailments, together with the net interest expense for the year are included in the employee benefits expense in the statement of comprehensive income. Remeasurements of the net defined benefit liability are included in other comprehensive income.

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Service cost:		
Past service gain on settlements and curtailments	–	(975)
Administration expenses	461	295
Net interest expense	218	193
(Credit)/charge recognised in P&L	679	(487)
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in interest expense)	(5,772)	(3,527)
Loss arising from changes in financial assumptions	3,340	4,000
Gain arising from changes in demographic assumptions	(861)	(254)
Experience loss	(327)	–
(Credit)/charge recorded in other comprehensive income	(3,620)	219
Total defined benefit (credit)/cost	(2,941)	(268)

The principal actuarial assumptions used were:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Liabilities discount rate	2.40%	2.90%
Inflation assumption – RPI	3.10%	2.65%
Inflation assumption – CPI	2.00%	1.55%
Revaluation of deferred pensions		
benefits accrued prior to 06/04/1997	2.00%	1.55%
benefits accrued after 06/04/1997	2.00%	1.55%
Rate of increase to pensions in payment		
benefits accrued prior to 06/04/1997	5.00%	5.00%
benefits accrued after 06/04/1997	2.05%	1.65%
Proportion of employees opting for early retirement	nil	nil
Proportion of employees commuting pension for cash	100%	100%
Proportion of non pensioners taking PIE at retirement	35%	35%

Notes to the Financial Statements of the Company
(continued)

8. PENSION COMMITMENTS (continued)

Mortality assumption – pre retirement	As post-retirement	As post-retirement
Mortality assumption – male post retirement	110% SAPS S2PMA CMI 2013 1.0%	110% SAPS S2PMA CMI 2013 1.0%
Mortality assumption – female post retirement	110% SAPS S2PMA CMI 2013 1.0%	110% SAPS S2PMA CMI 2013 1.0%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	86.2	86.4
Female pensioner at age 65	88.1	88.4
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.3	87.7
Female aged 45 at year end:	89.3	89.9

Changes in the present value of assets over the period:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Fair value of assets at start of period	35,378	33,351
Interest income	1,459	1,216
Return on assets (excluding amount included in net interest expense)	5,772	3,527
Contributions from the employer	450	300
Benefits paid	(3,722)	(2,721)
Administration expenses	(461)	(295)
Fair value of assets at end of period	38,876	35,378
Actual return on assets over the period	7,231	4,743

Changes in the present value of liabilities over the period:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Liabilities at start of period	40,392	38,933
Interest cost	1,677	1,409
Remeasurement (gain)/losses		
Actuarial losses arising from changes in financial assumptions	3,340	4,000
Actuarial gains and losses arising from changes in demographic assumptions	(861)	(254)
Other experience items	(327)	–
Past service cost	–	(975)
Benefits paid	(3,722)	(2,721)
At end of period	40,499	40,392

8. PENSION COMMITMENTS (continued)

The split of the Plan's liabilities by category of membership is as follows:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Active members	–	–
Deferred pensioners	10,904	12,019
Pensions in payment	29,595	28,373
	40,499	40,392
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:	–	–
Active members	–	–
Deferred pensioners	20	20
Pensions in payment	11	11

The major categories of Plan assets are as follows:

	18 months ended 31st December 2017 £000	12 months ended 30th June 2016 £000
Return seeking		
UK Equities	–	6,265
Overseas Equities	–	7,783
Synthetic Equities	17,345	–
Partners Fund	4,121	–
Absolute Return Fund	13,274	9,698
Diversified Growth Fund	6,263	2,299
Return seeking subtotal	41,003	26,045
Debt instruments		
LDI funds	4,623	6,399
Other		
Property	2,306	2,203
Cash	7,923	731
Synthetic Equities Cash Offset	(16,979)	–
Total market value of assets	38,876	35,378

The equity and debt instruments all have quoted prices in active markets. Derivatives can be classified as level 2 instruments and property as level 3 based on the definition in IFRS 13 fair value measurement.

The plan holds an additional asset in respect of annuities purchased in the Trustee's name to meet benefits due to a small proportion of pensioners. The value of the assets in respect of these policies is equal to the value of the liability they cover. This value has been excluded from both the value of the assets and the value of the liabilities.

The Plan has no investments in the Companies or in property occupied by the Companies.

The Companies expect to contribute £400,000 to the Plan during year ending 31st December 2018.

Notes to the Financial Statements of the Company
(continued)

8. PENSION COMMITMENTS (continued)

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate was 0.1 percent higher (lower), the Plan liabilities would decrease by £524,000 (increase by £524,000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £200,000 (decrease by £252,000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the Plan liabilities would increase by £2,211,000 if all the other assumptions remained unchanged.

9. CALLED UP SHARE CAPITAL

	18 months ended 31st December 2017		12 months ended 30th June 2016	
	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	41,354,353	10,339	41,354,353	10,339

10. EVENTS AFTER THE REPORTING DATE

On the 20th March 2018 the company announced the proposed closure of its residential carpets business. Details are given in note 6 of the group accounts.

Notice of Annual General Meeting

Notice is hereby given that the sixty fourth annual general meeting (**"Annual General Meeting"**) of Airea plc (the "Company") will be held at the Cedar Court Hotel, Wakefield, on 10th May 2018, at 2.00 p.m. to consider and vote on the resolutions below. Resolutions 1 to 5 will be proposed as ordinary resolutions and resolution 6 will be proposed as a special resolution.

Ordinary Resolutions

1. To receive the company's financial statements for the eighteen months ended 31st December 2017 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the eighteen months ended 31st December 2017, of an amount of 5.0p per ordinary share, to be paid on 23rd May 2018 to members whose names appear on the register of members at close of business on 13th April 2018.
3. To re-elect Mr R. Salt who retires by rotation as a director of the company in accordance with article 113 of the company's articles of association.
4. To re-elect Mr M. Toogood, whose appointment terminates on today's date in accordance with his letter of appointment dated 17th March 2009, as amended by a deed of variation dated 3rd November 2017.
5. To re-appoint BDO LLP as auditor of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix the auditor's remuneration.

Special Resolution

6. To authorise the company generally and unconditionally, pursuant to section 701 of the Companies Act 2006 (the **"Act"**), to make one or more market purchases (within the meaning of 693(4) of the Act) 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:

   (i) the maximum aggregate number of ordinary shares authorised to be purchased is 6,000,000 (representing approximately 14.5% of the company's issued share capital);

   (ii) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 25p per share;

   (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than the higher of: (i) 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and (ii) the price stipulated by Article 3(2) of Delegated Regulation (EU) 2016/1052 of 8th March 2016 relating to the conditions applicable to buy-back programmes and stabilisation measures;

   (iv) 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

   (v) 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

ROGER SALT
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
20th March 2018

Explanatory Notes to the Notice of Annual General Meeting

Resolution 6 General authority for the company to purchase its own ordinary shares

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

Your board has no immediate plans for the company to make purchases of its 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 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 6 in the Notice of Annual General Meeting.

The proposed new general authority will be limited, by the terms of resolution 6 in the Notice of Annual General Meeting, to purchases of up to 6,000,000 ordinary shares, representing approximately 14.5% of the current issued share capital of the company. The minimum price per ordinary share payable by the company (exclusive of expenses) will be 25p. The maximum to be paid on the exercise of such new general authority (exclusive of expenses) will be an amount not exceeding the higher of (i) 5% above the average of the middle-market quotation for ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of each purchase, and (ii) the price stipulated by Article 3(2) of the Commission Delegated Regulation (EU) 2016/1052 of 8th March 2016 relating to the conditions applicable to buy-back programmes and stabilisation measures (being the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out).

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 ordinary 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 ordinary 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 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 6 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.

Recommendation

Your directors consider that the resolutions to be proposed at the annual general meeting are in the best interests of the company and its shareholders as a whole. Accordingly, the directors unanimously recommend shareholders vote in favour of the resolutions set out in the Notice of Annual General Meeting, as the directors propose to do so in respect of their own shareholdings.

Directions to the annual general meeting

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

Administrative Notes to the Notice of Annual General 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 8th May 2018 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 8th May 2018 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.

A member of the company entitled to attend and vote at the annual general meeting is entitled (unless they have pursuant to article 96 of the company's articles of association, nominated someone else to enjoy such a right, in which case only the person so nominated may exercise the right) to appoint one or more proxies to exercise all or any of the rights to attend and speak and, to vote on their behalf at the annual general 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 accompanies this document and should be completed and lodged with the Company's Registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or returned using the pre-paid address on the reverse of the proxy card.

To be valid the card must arrive no later than 2.00 p.m. on 8th May 2018. Alternatively, you may record your vote by using the CREST electronic appointment service (see the CREST proxy vote notes below). 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. If a shareholder has appointed a proxy and attends the annual general meeting in person, his/her proxy appointment will be automatically terminated.

You will need to state clearly on each proxy card the number of shares in relation to which the proxy is appointed. A failure to specify the number of shares each proxy appointment relates to, or specifying a number of shares in excess of those held by the member, will result in the proxy appointment being invalid.

To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy card and would like to change the instructions using another hard-copy proxy card, please contact Link Asset Services on 0871 664 0300 (calls cost 12p per minute plus network extras; lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday, excluding UK public holidays).

In order to revoke a proxy instruction, you will need to inform the company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's Registrars, Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

The revocation notice must be received by Link Asset Services no later than 2.00 p.m. on 8th May 2018. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

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

Biographical details of each director who is being proposed for re-appointment or re-election by shareholders, including their membership of board committees, are set out in the Directors' Report on page 5.

Members who have general queries about the annual general meeting should telephone the Company's Registrars, Link Asset Services on 0871 664 0300 (calls cost 12p per minute plus network extras; lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday, excluding UK public holidays).

Any member attending the meeting has the right to ask questions. The company must answer any questions you ask relating to the business being dealt with at the meeting unless:

- Answering the question would interfere unduly with the preparation of the meeting or involve the disclosure of confidential information;
- The answer has already been given on a website in the form of an answer to a question; or
- It is undesirable in the interests of the company or the good order of the meeting that the question be answered.

CREST proxy voting

CREST users should note that they can lodge their proxy votes for the annual general 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 Link Asset Services is RA10.

> AIREA plc VICTORIA MILLS THE GREEN OSSETT
WEST YORKSHIRE WF5 0AN ENGLAND
T 01924 262525 F 01924 280033 W aireaplc.co.uk