Annual Report – 31st December 2019

AIREA plc

AIREA plc

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Strategic Report

Airea plc is pleased with the progress the group has made whilst navigating an unpredictable and volatile market environment. During a turbulent political and economic year the group implemented significant operational and supply chain improvements specifically designed to mitigate the impact of any further uncertainty caused by Brexit trade negotiations and better prepare the group for growth opportunities.

Highlights for the year

- Increased year end cash balance to £3.0m
- Reduction in inventory of £1.3m to £5.5m
- Eradication of costly third party warehousing
- Revenues broadly flat; however, the board believes performance ahead of the market
- Underlying profit margins increased year on year
- Pension deficit reduction of £2.2m to £1.5m

Principal activity and strategy

The group remains focused on the design, 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 the ongoing investment in the business and a progressive dividend policy.

Overview

The group has made good operational and strategic progress during the 12 months ended 31st December 2019 whilst faced with tough market conditions in light of the uncertainty stemming from Brexit and the political landscape. This led the group to prioritise cash and strong working capital management to provide the best defence against the uncertainty faced whilst continuing to develop opportunities for growth.

The board and management estimate that the UK market for carpet tiles declined by circa 10% largely due to the economic and political uncertainty referred to above. As a result revenues were broadly flat year on year (International revenue matching the prior year record performance) whilst operating profit was lower as a consequence of inventory reduction, adverse currency movement and investment in sales and design headcount. The expansion of warehousing facilities on the Ossett site during the second half of the year, following the closure of Ryalux operations and the space created through the inventory reduction programme, eliminated the requirement for third party offsite storage which was a significant cost to the group.

The group continued with the planned product line revamp during H1 2019 with the attendant temporary increase in stock this entails and had to invest in further inventory (commenced Q4 2018) as protection against any supply chain disruption caused by Brexit. The success of the product revamp and internal supply chain improvements provided the group with the necessary confidence to significantly reduce inventory in the second half of the year generating significant cash flow benefits.

The group continues to develop new product lines and is optimistic for the impact these will have in the future which, when launched and coupled with our operational improvements, will widen our portfolio and provide opportunities for sales growth in both UK and International markets.

The group's successful investment strategy and management of liabilities in the pension scheme saw the deficit significantly improve from £3.7m to £1.5m. There continues to be volatility in global equity markets with the scheme's investment strategy constantly under review to mitigate the long term risk as much as possible.

The value of the investment property increased from £3.4m to £3.6m. The gain is highlighted separately in the income statement.

Strategic Report
(continued)

Group results
Revenue for the year was broadly in line with prior year at £19.2m (2018: £19.3m). Operating profit before valuation gain decreased to £2.2m (2018: £3.0m). However, the underlying profit excluding one off costs incurred during the Brexit preparation stock build and subsequent inventory reduction programme (£0.4m) was £2.6m. The group is more comfortable with the levels of inventory held at the year end and the current expectation is the inventory reduction programme has been completed and such operating profit impact should not arise in the foreseeable future. The remaining decrease was driven by the foreign exchange impact of stronger Sterling against the Euro (£0.2m) on the balance sheet at the end of the year and the investment in design and sales head count (£0.1m). The prior year continuing operations benefitted from management recharges to discontinued operations which now are absorbed by the continuing operations (£0.2m) which would give an underlying operating profit comparative for 2018 of £2.8m.

There was an unrealised valuation gain on the investment property of £0.2m (2018: £0.3m) giving an operating profit after valuation gains of £2.4m (2018: £3.3m).

Other finance costs relating in the main to the defined benefit pension scheme were £0.4m (2018: £0.4m). There were no further finance costs relating to GMP equalisation in the defined benefit scheme (2018: £0.3m).

There were no additional losses incurred from discontinued operations (2018: £1.4m).

After a tax charge of £0.4m primarily due to deferred tax on the pension scheme, partial unwinding of the deferred tax asset as brought forward losses are utilised against profits and unrealised valuation gain on the investment property (2018: £0.8m credit due to recognition of a deferred tax asset on group losses) profit attributable to shareholders of the group for the year was £1.6m (2018: £2.0m).

Basic and adjusted earnings per share were 3.97p (2018: 8.21p). Group basic earnings per share were 3.97p (2018: 4.86p).

Operating cash flows before movements in working capital and other payables were £2.7m (2018: £1.8m). Working capital decreased by £0.4m (2018: £0.6m) following the inventory reduction programme partially offset by the subsequent impact on trade payables. Contributions of £0.4m (2018: £0.4m) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2017 actuarial valuation. Capital expenditure of £0.4m (2018: £0.4m) related to investment in the Ossett site improving warehouse capacity and machine efficiency.

The group borrowed £1.7m during the year and utilised additional cash of £0.3m to acquire shares for the EBT for subsequent use as part of the employee long-term incentive plan. £0.4m of the loan was repaid during the year. The loan is unsecured and repayable over three years in equal quarterly instalments.

Dividend payments totalled £1.1m with the prior year dividend payment including a special dividend (2018: £2.8m total dividend paid of which £1.4m related to a special dividend) following the announced closure of the residential carpets business.

Key performance indicators
As part of its internal financial control procedures the board monitors the key financial metrics of revenue, operating profit, gross margin, working capital (debtor and creditor days), inventory turns and cash. These KPI's are reviewed in comparison to previous year and the budget and analysis undertaken to establish trends and variances. For the year ended 31st December 2019, value added per employee amounted to £0.1m (2018: £0.1m), operating return on sales was 11.3% (2018: 15.7%), return on net operating assets was 13.5% (2018: 18.5%) and working capital to sales percentage was 63.5% (2018: 60.4%).

Principal risks and uncertainties

The board has responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives and ensuring that risks are managed effectively across the group. The board and the management team meet regularly to discuss the business and the risks that it faces. 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 to attempt to differentiate from the competition.

The majority of the group's revenue arises from trade with flooring contractors and fit out companies. The activity levels within this customer base are determined by consumer demand which is created through a wide range of commercial refurbishment and new build projects. The general level of activity in these underlying markets has the potential to affect the demand for products supplied by the group and is subject to seasonal variations. 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 and negate the impact of seasonality.

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 the 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 £0.4m to allow a gradual reduction in investment risk. The next triennial funding valuation will be 1st July 2020.

Section 172

The following disclosure describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) and forms the directors' statement required under section 414CZA of The Companies Act 2006.

Stakeholder engagement

Investors

The major interests in our shares are set out in page 7 of our directors' report. Key metrics for our shareholders are the share price, earnings per share and the total dividends paid. Through the publication of our half year and full year financial reports and engagement with shareholders we look to provide insight were possible into the group strategy and how we look to create value for our shareholders by generating strong and sustainable results that translate into dividends. We seek to promote an investor base that is interested in a long term holding in the company.

Investor engagement includes the AGM, one on one investor meetings with the board of directors, on site group investor meetings and also discussions with investors when questions are asked. Other than our routine engagement with investors on topics of strategy, governance and performance, specific matters that were engaged during the year included the creation of the EBT, the subsequent purchase by the EBT of the chief executives shares and the creation of the long term incentive plan for employees to reward exceptional performance.

Strategic Report
(continued)

Suppliers
We have a select group of international suppliers and at a local level partner with a number of smaller business that are fundamental to the quality of our products, the availability of our products and to ensure that as a business we meet the high standards we expect of ourselves. We regularly engage with our suppliers and invite them to our facilities to discuss performance, price and how we can continue to improve our supply chain. Key topics of engagement for the year were price and supply with the potential disruption that Brexit may cause and plans were agreed to help minimise any disruption to the supply chain.

Employees
Employees are those individuals who are contracted to work for the company both full and part time. The group's success is reliant on the commitment of our employees to our strategy and to maintain and deliver the high standards that the group sets for itself. We pride ourselves on a friendly and safe working environment. Given the nature of our manufacturing business we take health and safety extremely seriously. We have policies and procedures in place to look after the welfare of our employees. We offer training where it is considered beneficial to the employee and the company. The group also introduced the LTIP as a means of incentivising employees to help the group achieve its long term goals and objectives.

Principal decisions
We define principal decisions as both those that are material to the group, but also those that are significant to any of our key stakeholder groups. For detail as to how we established and defined our key stakeholder groups see page 3. In making the following principal decisions the board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company.

Principal decision 1
Creation of EBT and LTIP
The board recognised the need to retain and reward members of staff for long term outperformance, and decided to put in place an EBT to ensure that we have the means to encourage employees to share in the potential growth and success of the group in the long term. In creating the EBT and the LTIP the board considered that previous LTIP schemes would have diluted the existing shareholders stake in the company and sought to purchase shares on the open market.

Given the lack of liquidity in the shares the board took the necessary advice to facilitate the purchase of the chief executives shares which was concluded on 5th April 2019. Initially the Trust bought 2.8m shares, and any awards will vest with beneficiaries over a three to four year period and after the achievement of the group and individual KPI's. To date 2.6m share options have been granted to selected employees. Details of the LTIP share option awards can be seen in note 23.

Principal decision 2
Reduction in inventory
The group's inventory had increased for several years following the launch of new ranges. In addition the added complexities of Brexit became prominent and the decision was made to increase inventory to ensure minimal disruption to the supply chain. Following the numerous delays to Brexit and the impact the increased inventory was forecasted to have on the group's cash flow the decision was made to reduce inventory to increase cash flow, remove the requirement for costly offsite third-part storage and to create space to improve operational efficiencies in the factory.

These plans were discussed in the plc board meetings and it was agreed that this strategy was worth the short term one off profit impact for the long term benefit of the group. The inventory has been reduced by £1.3m to £5.5m and the cash benefit has been realised. Going forward the group is operating to new inventory targets which will be reviewed regularly depending on the group's needs; however, at this stage we are comfortable with the group's inventory and do not expect such profit impact again in the foreseeable future.

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, agree fixed pricing where possible, source material with improved and shortened lead times and closely monitors selling prices and margins making adjustments when necessary.

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 utilising with foreign currency bank accounts. 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 short and long-term impact of Brexit continues to be unclear 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 if the trade negotiations during the transition period do not result in an agreed way forward. The group monitors this position and adjusts its forward plans where appropriate particularly in relation to its supply chain and working capital requirements particularly in light of the groups experience when planning for Brexit during 2019. The directors believe 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 continue to provide opportunities for growth.

Management and personnel

We continue to recognise the hard work and dedication our staff have applied during the year and look forward to the contribution they can make going forward in the future of the company.

As part of its ongoing review of our staff incentivisation policy the board recognised the need to retain and reward members of staff for long-term outperformance and has established an employee share scheme. The purpose of the scheme is to incentivise employees through nil cost share awards.

The board created an employee benefit trust ("EBT") managed by independent trustees to operate the scheme and during the year purchased 2.8m shares to be held by the EBT to satisfy any awards under the scheme, thereby ensuring existing shareholders will not be diluted upon exercise. Awards will vest with beneficiaries over a three year period (which can be extended to a fourth year at the directors' discretion) after the achievement of group and individual performance conditions.

Current trading and future prospects

The continued investment in our successful commercial flooring business provides significant opportunities for profitable growth. The group has more flexibility in its ability to operate and continued investment in new products will continue throughout 2020 maintaining our confidence in the future prospects of the business. If approved, a final dividend of 1.3p per share will be paid on 20th May 2020 to shareholders on the register at close of business on 14th April 2020, with an ex-dividend date of 9th April 2020.

MARTIN TOOGOOD	NEIL RYLANCE	
Chairman	Chief Executive Officer	4th March 2020

Directors' Report

The directors present their report for the year ended 31st December 2019.

Dividends

An interim dividend of 0.8p was paid during the year (2018: 1.75p) and the directors recommend a final dividend of 1.3p (2018: 2.0p). The final dividend amounts to £501,000 and, if approved, will be paid on 20th May 2020 to those shareholders on the register at close of business on 14th April 2020. This will continue the group's stance of having a progressive dividend policy aligned to the financial profitability of the company and sharing the success of the business with the shareholders whilst prioritising cash to deal with future uncertainties the business may face.

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. Neil is employed full time by the 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 is currently Executive Chairman of Great British Botanical Limited the holding company for Hartley Botanic Limited. 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 13th November 2019. Martin is contracted for 15 days per annum and is available for additional time should the circumstances arise. Martin retires in accordance with the amended deed of variation and the QCA Corporate Governance code and, being eligible, offers himself for re-election.

Paul Stevenson joined the group as group finance director and company secretary on 2nd July 2018 and was appointed a director of the group on 24th July 2018 having joined from Caldero, a Pay TV technology provider where he held the position of CFO. Previous to that he held a number of senior finance positions at, Arris Group, Pace plc and Heywood Williams. Paul qualified as a chartered accountant whilst at KPMG. Paul retires by rotation in accordance with the company's articles of association and, being eligible, offers himself for re-election. Paul is employed full time by the group.

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

Directors who held office at 31st December 2019 had the following interests in the Ordinary Shares of the company:

	2019	2018
Martin Toogood	2,100,361	2,100,361

Neil Rylance sold 2,510,360 shares on 5th April 2019 to the Airea Employee Benefit Trust and no longer has a shareholding in the group. Further details of the transaction are disclosed in note 28.

Paul Stevenson was awarded 412,500 nil cost share options on 13th November 2019 as part of the group's long-term incentive plan. Further details are disclosed in note 22 and note 23.

There were no other changes in directors' interests between 1st January 2020 and 4th March 2020. None of the directors have an interest in the share capital of subsidiary companies other than as a nominee of the company.

Details of director's share dealings including options granted are set out in note 22, 23 and 28.

Risks considered by directors are discussed and disclosed within the strategic report on pages 3 and 4.

Share capital
Details of the share capital of the company are set out in note 21 to the financial statements of the group.

Substantial shareholdings
At 31st December 2019, in addition to the interests of 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	4,066,952	9.83
Airea Employee Benefit Trust	2,777,600	6.72
Mr & Mrs D. Newlands	2,422,500	5.86
Mr. & Mrs. G. A. Upsdell	1,968,513	4.76
Mr. M. H. Yeadon	1,812,540	4.38

Corporate Governance Chairman's Statement
I am pleased to introduce the corporate governance section of our report. As chairman it is my responsibility to lead the board and committee meetings that occur throughout the year during which we review our strategy, performance, responsibilities and corporate governance.

The directors of Airea plc are committed to developing and applying high standards of corporate governance appropriate to the company's size and stage of development and therefore have elected to adopt the QCA Corporate Governance Code which was published on 25th April 2018 a full version of which is available at the QCA website www.theqca.com.

The QCA Code is constructed around ten broad principles which focus on the pursuit of medium to long-term value for shareholders without stifling the entrepreneurial spirit in which the company was created. Full details of the ten principles and the company's application of the principles including areas where the company differ from the expectations of the code can be viewed on the Airea plc website www.aireaplc.com.

Values and Behaviours
The board recognises the value of the Code and good governance and as far as is practicable and appropriate for a public company of the size and nature of Airea plc, adheres to it. In this regard the board remains focused on the need for a system of corporate governance which delivers compliance with regulation whilst enhancing the performance of the group. This includes recognising the need to manage and mitigate the risks faced by the business across all of its activities as noted in the strategic report.

The board demonstrates and promotes the vision and values of the company being honesty, innovation and simplicity. The group operates on the premise that we have a simple philosophy: to be black and white in everything we do. This runs throughout our business, and we like to think it makes us straightforward and easy to work with. These values are shared with the employees and communicated informally due to the regular contact between the directors, management and employees on a day to day basis. Informal team meetings take place within departments to discuss performance and progress against the values and objectives.

The company sets clear policy and objectives on its expectations on wider stakeholder and social responsibilities from the board, to the top of the management team and throughout the organisation. We are proud of our culture, where all staff feel responsible for making a difference in delivering high standards within the organisation and to our customers, stakeholders and local communities. We recognise the need for continual development and improvement in all our standards and measure performance year-on-year.

Directors' Report
(continued)

The board and its committees
The group is led by a board comprising of a non-executive, being the chairman and two executive directors. Amongst other things it is the chairman's responsibility to deliver the group's corporate governance model and to display a clear vision on strategy and values. The time commitment from the chairman and executive directors is noted in the Directors report.

The appointed company secretary is one of the executive directors who possesses the relevant skills and experience to perform the function whilst providing the lead in both legal and regulatory compliance and ensuring strong corporate governance.

The board is considered to be an appropriate size for the group and is satisfied it has an effective and appropriate balance of skills and experience and has been assembled to ensure the business operates efficiently and is able to react quickly to any issues that may arise.

Each board member keeps their skills up-to-date through a combination of courses, continuing professional development through professional bodies, reading and on the job experience.

Group board meetings
The PLC board is chaired by Martin Toogood with Neil Rylance (CEO) and Paul Stevenson (Group Finance Director) as the other members. The board does not have a schedule of matters specifically reserved to it for decision making but its responsibilities include matters such as:

- Strategy
- Financial issues and trading
- Risk identification and assessment
- Corporate Governance
- Approving statutory accounts and announcements

The board met six times during the year with full attendance by all the members. The board's performance is assessed in terms of the group's objectives which are to develop products that sell and exploit the strength in our operating model to deliver robust cashflows and shareholder returns. No formal assessment of the board's performance was undertaken during the year but the performance is discussed informally in terms of the group's performance.

Audit committee
The audit committee is chaired by Martin Toogood and there are no other members. This committee met twice during the financial year and was attended by all the directors of the company at the invitation of the chairman. 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. There is no report available to be shared in these accounts.

Remuneration committee
The remuneration committee is chaired by Martin Toogood and there are no other members. This committee met once during the financial year and was attended by all the directors of the company at the invitation of the chairman. It provides a forum through which directors' remuneration and employee incentives can be formally reviewed and approved as appropriate. There is no report available to be shared in these accounts.

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.

Investor relations

The group holds an AGM to which all members are invited. The AGM is the main forum for dialogue between the shareholders and the board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The chairman of the board and the other directors attend the AGM.

The board is always welcoming to investors and shareholders and believes in maintaining good communication with all stakeholders including institutional and private shareholders. This includes making the executive directors available to meet with institutional shareholders and analysts following the announcement of interim and final results. The board receives feedback from these meetings and uses this to refine its approach to investor relations.

Charitable and political contributions

Charitable donations of £1,000 were made during the year (2018: £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 year along with the key sensitivities and uncertainties that might affect the achievement of the projections. In summary, the group continues to be subject to the uncertainties in the current economic environment, particularly in respect of market demand, however the group's financial headroom means that it is well placed to manage its business risks successfully. The directors can reasonably expect that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis remains appropriate in preparing the annual report and accounts.

Future developments

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

Directors' Report
(continued)

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 year. 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.

PAUL STEVENSON
Company Secretary

Victoria Mills, The Green
Ossett, WF5 0AN
4th March 2020

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 year ended 31st December 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheet, the consolidated statement of cash flows and the 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 2019 and of the group’s profit for the year 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 group and the parent company 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.

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.

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

Key audit matter	How we addressed the key audit matter in the audit
Fair value of share options and the treatment of the Employee Benefit Trust (EBT)	
During the year the group set up an EBT. Its purpose being to hold shares in the parent entity which would be issued under a performance-based long-term incentive plan for all eligible employees. The shares were purchased by the trust following a loan from the parent entity. The vesting conditions require both individuals and the group to meet future performance targets which requires management judgement in ascertaining the likelihood of these targets being met. The accounting of the EBT and shares held by the group is complex. In addition, there are complex and judgemental estimates used in determining the valuation of the share option and vesting expense. We have therefore concluded that we consider the treatment of the EBT and the group's calculation of the share based payment expense to be a key audit matter. Refer to note 23 to the annual report for the share based payment expense recognised for the period ended 31st December 2019 and related disclosure.	Our audit procedures in relation to this key audit matter included: – Assessing whether the parent entity is deemed to have control over the trust and whether the treatment of the EBT as a branch of the parent entity is appropriate; – Agreeing the shares purchased by the EBT to purchase documentation and agreeing payments made to bank statements; – Reviewing the impact on the company's distributable reserves. In doing so we agreed, through recalculation, the transfer between reserves required due to the difference between the cost of the shares to the EBT and the exercise price of the share options; – Assessing the reasonableness of the assumptions used in the group's calculation of the fair value of the share options being; the share price of the underlying equity, volatility, dividend yield, time to maturity (expected life) and grant date. We involved our internal valuation experts in assessing these assumptions; and – Obtaining a sample of signed share option agreements to verify the details included within the calculation of the share based payment transactions; – Assessing the accounting treatment for the new share options granted in the year, ensuring they are consistent with the relevant accounting standards; and – Re-calculation of the share based payments expense; and – Considered the adequacy of the disclosures in note 23 of the annual report against the requirements of the accounting standards. **Key observations:** Based on the procedures we performed the key assumptions used in the valuation of the share based payment charge recognised and disclosures made within the annual report are appropriate.

Key audit matter	How we addressed the key audit matter in the audit
Valuation of the pension scheme liability	
As described in notes 5 and 20 the group has a defined benefit pension plan. The plan is closed to new entrants and benefits no longer accrue to members. This is an area involving significant judgement and estimation, requiring management, after taking advice from their actuarial advisers, to make a number of assumptions concerning the discount rate, inflation and mortality estimates. Our key audit matter is in relation to the valuation of the pension scheme liabilities. The assumptions used within the calculation are complex and changes to the assumptions could lead to material movements in the liability. The groups's retirement benefit obligation at 31st December 2019 is £53,386,000 (2018: £50,148,000) as per note 20.	We obtained the actuarial valuation reports directly from the actuaries for the scheme and with the help of external pension scheme experts we: Evaluated the appropriateness of the assumptions applied in the valuation of the scheme liabilities, challenging experts on the assumptions used; Assessed whether there had been any changes in the methodology to determine the assumptions since the prior year; Assessed the completeness and accuracy of disclosures within the financial statements in accordance with accounting standards. **Key observations:** Based on the evidence obtained, we did not identify any indications that the fair value of the pension scheme liabilities were inappropriate.

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, individually or in aggregate and including omissions, could reasonably be expected to influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

The materiality for the group financial statements as a whole was set at £95,000. This was determined with reference to a benchmark of profit before tax, of which this represents 5%, which we consider to be one of the principal considerations for members of the group in assessing the financial performance of the business.

Materiality levels have historically been based on revenue due to unstable profit margins not allowing a profit based measure. In 2018, materiality was determined with reference to a benchmark of continuing revenue, of which the materiality of £100,000 represented 0.5%. However, following the discontinued operation of the Ryalux business in the prior year the group are now seeing stable profit margins which allows us to use a profit based measure as a basis for our materiality in the current year which is considered to be a more appropriate basis for a listed company aiming to deliver greater returns for its shareholders.

The materiality for the parent company financial statements was set at £55,000 (2018: £95,000). This was limited to the component materiality set for the audit of the group.

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

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. 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. Performance materiality for the group financial statements was set at £57,000 (2018: £60,000) and for the parent company £33,000 (2018: £57,000), representing 60% of materiality.

Component materiality on those significant components was set at levels between £50,000 and £85,000 (2018: £10,000 and £95,000).

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 £2,850 (2018: £3,000). We also agreed to report differences below this threshold 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.

We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement due to fraud.

The group operates through four legal entities, which form reporting components. Significant components were defined as those reporting components contributing more than 15% towards group assets, turnover, and profits or based on risk.

The group manages its operations from one principal location in the UK and the financial information relating to the parent company and all other components of the group were subject to full scope audit by the group audit team.

As a consequence of the audit scope determined, we achieved coverage of 100% (2018: 100%) of revenue, 100% (2018: 100%) of profit before tax and 100% (2018: 100%) of net assets.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual 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 year 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 Statement of Directors' responsibilities set out on page 10, 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stuart Wood (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK 4th March 2020

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

Consolidated Income Statement

for the year ended 31st December 2019

	Note	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Continuing Operations			
Revenue	2	19,183	19,260
Operating costs	3	(17,297)	(16,536)
Other operating income		280	291
Operating profit before valuation gain		2,166	3,015
Unrealised valuation gain	11	200	250
Operating profit		2,366	3,265
Finance income	5a	6	1
Finance costs	5b	(411)	(355)
Finance costs relating to GMP Equalisation	5b	–	(299)
Profit before taxation		1,961	2,612
Taxation	6	(403)	785
Profit attributable to shareholders of the group from continuing operations		1,558	3,397
Discontinued Operations			
Loss attributable to shareholders of the group from discontinued operations	25	–	(1,389)
Profit attributable to shareholders of the group		1,558	2,008
Basic and diluted earnings per share for continuing operations	7	3.97p	8.21p
Basic and diluted earnings per share for the group	7	3.97p	4.86p

The notes on pages 21 to 50 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Profit attributable to shareholders of the group			1,558		2,008
Items that will not be classified to profit or loss					
Actuarial gain/(loss) recognised in the pension scheme	20	2,172		(1,284)	
Related deferred taxation	12a	(369)		218	
			1,803		(1,066)
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
(Impairment)/Revaluation of property	9	(17)		78	
Related deferred taxation	12b	3		(13)	
			(14)		65
Total other comprehensive income/(loss)			1,789		(1,001)
Total comprehensive income attributable to shareholders of the group			3,347		1,007

The notes on pages 21 to 50 form part of these financial statements.

Consolidated Balance Sheet
as at 31st December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Non-current assets					
Property, plant and equipment	9		4,229		5,108
Intangible assets	10		39		95
Investment property	11		3,600		3,400
Deferred tax asset	12a		847		1,466
Right-of-use-asset	13		1,233		–
			9,948		10,069
Current assets					
Inventories	14	5,461		6,797	
Trade and other receivables	15	2,112		2,330	
Cash and cash equivalents	16	2,957		2,732	
			10,530		11,859
Total assets			20,478		21,928
Current liabilities					
Trade and other payables	17	(2,412)		(3,571)	
Provisions	18	(320)		(320)	
Lease liabilities	13	(329)		(187)	
Loans and borrowings	19	(562)		–	
			(3,623)		(4,078)
Non-current liabilities					
Deferred tax	12b	(457)		(305)	
Pension deficit	20	(1,472)		(3,688)	
Lease liabilities	13	(323)		(323)	
Loans and borrowings	19	(724)		–	
			(2,976)		(4,316)
Total liabilities			(6,599)		(8,394)
Net assets			13,879		13,534
Equity					
Called up share capital	21		10,339		10,339
Share premium account			504		504
Own Shares			(1,839)		–
Share based payment reserve			85		–
Capital redemption reserve			3,617		3,617
Revaluation reserve			3,048		3,096
Retained earnings			(1,875)		(4,022)
Total equity			13,879		13,534

The financial statements on pages 16 to 50 were approved by the board of directors on 4th March 2020 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 00526657

The notes on pages 21 to 50 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2019

	Note	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Cash flows from operating activities			
Profit for the year		1,558	2,008
Depreciation	9	206	372
Depreciation of right-of-use assets	13	274	–
Amortisation	10	65	58
Net Finance costs	5	405	654
Profit on disposal of property, plant and equipment		(12)	(291)
Tax charge/(credit)	6	403	(785)
Unrealised valuation gain	11	(200)	(250)
Operating cash flows before movements in working capital		2,699	1,766
Decrease in inventories		1,336	140
Decrease in trade and other receivables		221	581
(Decrease) in trade and other payables		(1,159)	(174)
Increase in provisions for liabilities and charges		–	20
Cash generated from operations		3,097	2,333
Contributions to defined benefit pension scheme		(400)	(400)
Net cash generated from operating activities		2,697	1,933
Cash flows from investing activities			
Payments to acquire intangible fixed assets		(9)	(29)
Payments to acquire tangible fixed assets		(378)	(399)
Receipts from sales of tangible fixed assets		136	513
Net cash (used in)/generated from investing activities		(251)	85
Cash flows from financing activities			
Interest paid on lease liabilities		(21)	(14)
Interest paid on borrowings		(34)	–
Interest received		6	1
Proceeds from loan		1,700	–
Purchase of own shares by the EBT		(2,000)	–
Principal paid on lease liabilities	13	(343)	(183)
Repayment of loan		(448)	–
Equity dividends paid		(1,081)	(2,792)
Net cash used in financing activities		(2,221)	(2,988)
Net increase/(decrease) in cash and cash equivalents		225	(970)
Cash and cash equivalents at start of the year		2,732	3,702
Cash and cash equivalents at end of the year		2,957	2,732

The notes on pages 21 to 50 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2019

	Share capital £000	Share premium account £000	Own Shares £000	Share based payment reserve £000	Capital redemption reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1st January 2018	10,339	504	–	–	3,617	3,126	(2,267)	15,319
Comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	2,008	2,008
Actuarial loss recognised on the pension scheme	–	–	–	–	–	–	(1,066)	(1,066)
Revaluation of property	–	–	–	–	–	65	–	65
Total comprehensive income for the year	–	–	–	–	–	65	942	1,007
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	(2,792)	(2,792)
Revaluation Reverse Transfer	–	–	–	–	–	(95)	95	–
Total contributions by and distributions to owners	–	–	–	–	–	(95)	(2,697)	(2,792)
At 31st December 2018	10,339	504	–	–	3,617	3,096	(4,022)	13,534
Effect of adoption of IFRS 16 (note 28)	–	–	–	–	–	–	(6)	(6)
At 1st January 2019 as restated	10,339	504	–	–	3,617	3,096	(4,028)	13,528
Profit for the year	–	–	–	–	–	–	1,558	1,558
Actuarial gain recognised on the pension scheme	–	–	–	–	–	–	1,803	1,803
Impairment of property	–	–	–	–	–	(14)	–	(14)
Total comprehensive income for the year	–	–	–	–	–	(14)	3,361	3,347
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	(1,081)	(1,081)
Purchase of own Shares by the EBT	–	–	(2,000)	–	–	–	–	(2,000)
Share based payment	–	–	–	85	–	–	–	85
Own Shares Transfer	–	–	161	–	–	–	(161)	–
Revaluation Reserve Transfer	–	–	–	–	–	(34)	34	–
Total contributions by and distributions to owners	–	–	(1,839)	85	–	(34)	(1,208)	(2,996)
At 31st December 2019	10,339	504	(1,839)	85	3,617	3,048	(1,875)	13,879

The shortfall in the balance between the exercise price of the share options granted and the outstanding loan to the EBT is transferred from own shares to retained earnings over the vesting period note 26.

The notes on pages 21 to 50 form part of these financial statements.

Notes to the Financial Statements of the Group

1. 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 consolidated financial statements have been prepared on a going concern basis 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 year ended 31st December 2019 remain unchanged from the previous year, except as noted in note 27, 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 4 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 for the provision of goods in accordance with the group's primary revenue stream as set out below. Revenue is shown net of Value Added Tax.

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Sales of floor coverings

Goods are recognised at the point of acceptance by the customer reflecting fulfilment of the sole performance obligation to the customer.

Contracts with customers are typically fixed price based on agreed amounts and invoiced upon despatch of the goods in line with the standard term and conditions of the group. The group's standard payment terms are 20th of the month following the date of the invoice. There are no long-term contract or financing arrangements in place across the group.

The group offers an early settlement discount to its customers. In determining the transaction price the group makes an estimate of the expected settlement discount based on past performance.

The group is assessed operationally and financially under one revenue stream. The directors do not therefore consider there to be a lower relevant level of revenue disaggregation than that disclosed in note 2, Operating Segments. There are no material concentrations of revenue by customers.

Other operating income

Other operating income comprises of rent receivable on investment properties that are let outside of the group. Income on such rent is recognised evenly throughout the year for the period in which is relates.

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 a 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 income statement) 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% – 10%

1. ACCOUNTING POLICIES OF THE GROUP (continued)

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%

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 other 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 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 9 and 11).

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 assets 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.

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

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 to write off the cost by equal instalments though operating costs in the income statement 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 assets

Financial assets that are held to collect are categorised as amortised cost under IFRS 9. This includes the group's trade receivables, and cash and cash equivalents. Financial assets are assigned to this category on initial recognition, depending on the characteristics of the instrument and the corresponding business model (Generate cash via sale of manufactured flooring). A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or other comprehensive income.

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 using the expected credit loss model

The group recognises all financial assets when the group becomes party to the contractual provisions of the instrument. Financial assets are recognised initially at fair value plus transaction costs, and subsequently at amortised cost using the effective interest method, less any allowance for impairment. Financial assets are reviewed for impairment under the simplified approach to the expected credit loss model under IFRS 9. This is calculated through the use of a provision matrix by considering default rates by receivable age. A historic 2 year actual impairment loss on receivables, adjusted for management's expectation of future market conditions is utilised within this matrix. The movement in allowances for receivables is charged or credited through the income statement. Discounting of long-term receivables is omitted where the effect is immaterial.

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Financial liabilities

The group's financial liabilities include trade payables, finance lease liabilities, accruals and other creditors and are all categorised under amortised cost in accordance with IFRS 9. Trade payables are not interest bearing and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included in the statement of comprehensive income under 'finance charges'.

Taxation

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

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

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

Cash and cash equivalents

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

Pensions

The current service cost of providing retirement pensions and related benefits under the group defined benefit scheme 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.

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

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.

Employee Benefits Trust (EBT)
As the company is deemed to have control of its EBT trust, it is treated as a subsidiary and consolidated for the purpose of the consolidated financial statements. The EBT's assets (other than investments in the company's shares), liabilities, income and expenses are included on a line-by-line basis in the consolidated financial statements. The EBT's investment in company's shares is deducted from equity in the consolidated statement of financial position referred to as 'Own Shares'.

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;

Own Shares representing the weighted average cost of own shares held by the employee benefit trust;

Share based payment reserve represents the movement in cost of equity settled transactions in relation to long term incentive plan;

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; and

Retained earnings representing amounts retained from earnings.

New standards and amendments to standards adopted in the period
During the year, the group adopted IFRS16, 'Leases'.

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

The change has had an impact on the Balance sheet with new assets and liabilities both being recognised, more information surrounding this can be seen in note 13.

Under IFRS 16 any operating leases that the company has, that are over 12 month in duration or are not classed as low in value are moved onto the balance sheet with a Right-of-use Asset with a corresponding Lease Liability.

1. ACCOUNTING POLICIES OF THE GROUP (continued)

IFRS 16 – Leases (continued)

The lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at the constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

All leases under the company are of a fixed duration of 3 to 5 Years with a fixed cost for the entire term. These leases relate to company vehicles including vehicles of a manufacturing nature.

Other new amended standards and interpretations issued by the IASB that apply to the financial statements do not impact the group as they are either not relevant to the group's activities or require accounting which is consistent with the group's current accounting policies.

Standards issued but not yet effective

As of the date of authorisation of these financial statements there are several standards that were in issue but not yet effective. The group has not applied these standards in the preparation of the financial statements, has not adopted any new or amended standards early and does not expect these standards to have any impact on the group.

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.

2. SEGMENTAL

The group presents its results in accordance with internal management reporting information which means that the group is reported as only one segment. 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.

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

Analysis of revenue by destination	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
United Kingdom	14,279	14,182
Republic of Ireland	31	21
Rest of Europe	4,446	4,386
North America	28	56
Rest of the World	399	615
	19,183	19,260

Notes to the Financial Statements of the Group
(continued)

3. OPERATING COSTS

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Changes in stocks of finished goods and work in progress	721	(332)
Raw materials and consumables	7,344	8,148
Other external charges	3,640	3,738
Staff costs (note 22)	4,881	4,589
Depreciation	206	305
Depreciation of right-of-use asset	274	–
Amortisation	66	58
Foreign exchange differences	165	30
	17,297	16,536

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

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Fees payable to the company's auditor for the audit of the financial statements	28	21
Audit of the financial statements of the company's subsidiaries		
Pursuant to legislation	17	17
	45	38

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the group's accounting policies, appropriate key judgements and 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 2019.

Key Judgements

Deferred tax assets – £847,000 (2018: £1,466,000)

Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the assets will be realised in due course. This assumption is dependent upon the group having losses that are available for offset and the ability to generate sufficient future taxable profits. Details of the deferred tax asset are given in note 12.

Accounting estimates

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:

Inventories – £5,461,000 (2018: £6,797,000)

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 the lower of cost and net realisable value.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Pension deficit – £1,472,000 (2018: £3,688,000)

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 reduced deficit in the period was due to an improvement in the value of the schemes assets, primarily driven by improved performance in equities.

Share-based payment reserve – £85,000 (2018: £Nil)

During the year the group created an Employee Benefits Trust to award share options to certain members of staff. The fair value of the share options has been calculated and valued using the Black-Scholes methodology and is subject to a number of assumptions as detailed in note 23.

5. FINANCE INCOME AND COSTS

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
(a) Finance income		
Other Interest	6	1
(b) Finance costs		
Finance costs relating to lease (note 13)	21	14
Finance costs relating to borrowings (note 19)	34	–
Finance costs relating to the GMP Equalisation (note 20)	–	299
Finance costs relating to the pension scheme (note 20)	356	341
	411	654

On 26th October 2018, the High Court reached a judgement in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that schemes should equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The impact of this judgement on the Plan was estimated at 31st December 2018 and the amount charged to the profit and loss account in the prior period.

6. TAXATION

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Based on the profit for the year at 19.00% (2018: 19.00%)		
Corporation tax		
– Current year	1	3
– Prior year	(3)	47
Total current tax	(2)	50
Deferred tax		
– Current year	398	(816)
– Prior year	–	–
– Relating to pension deficit	7	(19)
Total deferred tax (note 12)	405	(835)
Total tax credit for the year	403	(785)

Notes to the Financial Statements of the Group
(continued)

6. TAXATION (continued)

The tax charge for the year can be reconciled to the profit per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 19% (2018: 19%) as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Profit for the year	1,558	2,008
Tax credit	403	(785)
Profit on ordinary activities before tax	1,961	1,223
Profit on ordinary activities before tax multiplied by standard rate of corporation tax of 19.00% (2018: 19.00%)	373	232
Effects of:		
Disallowed expenditure	44	22
Capital allowance	–	–
R&D claim	(111)	–
Recognition of deferred tax asset (note 12)	94	(840)
Prior year adjustment	3	47
Brought forward losses utilised	–	(246)
Total tax charge/(credit) for the year	403	(785)

7. EARNINGS PER SHARE

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

Number of shares	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Weighted average number of ordinary shares used in basic and diluted EPS	39,271,153	41,354,353

Earnings	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Earnings used in basic and diluted EPS (Continuing operations)	1,558	3,397
Earnings used in basic and diluted EPS (Group)	1,558	2,008

Group profit per share	12 months ended 31st December 2019 pence	12 months ended 31st December 2018 pence
Basic and diluted earnings per share for continuing operations	3.97	8.21
Basic and diluted earnings per share for the group	3.97	4.86

8. DIVIDENDS

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Paid during the year:		
Final dividend for the prior year of 2.0p per share (2018: 5.0p per share)	772	2,068
Interim dividend paid during the year of 0.80p per share (2018: 1.75p per share)	309	724
	1,081	2,792
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of 1.3p per share (2018: 2.0p per share)	501	827

If approved, this dividend will be paid on 20th May 2020 to shareholders on the register at close of business on 14th April 2020.

9. PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1st January 2018	3,824	21,764	25,588
Additions	–	330	330
Disposals	(399)	(11,937)	(12,336)
At 31st December 2018 and 1st January 2019	3,425	10,157	13,582
Reclassification due to adoption of IFRS 16 (note 13)	–	(1,186)	(1,186)
Reclassification to property	48	(48)	–
Additions	59	319	378
Disposals	–	(136)	(136)
At 31st December 2019	3,532	9,106	12,638
Depreciation			
At 1st January 2018	399	19,895	20,294
Charge for the year	78	294	372
Disposals	(399)	(11,715)	(12,114)
Unrealised valuation adjustment	(78)	–	(78)
At 31st December 2018 and 1st January 2019	–	8,474	8,474
Reclassification due to adoption of IFRS 16 (note 13)	–	(158)	(158)
Reclassification to property	5	(5)	–
Charge for year	85	121	206
Disposals	–	(130)	(130)
Impairment	17	–	17
At 31st December 2019	107	8,302	8,409
Net book value			
At 31st December 2018	3,425	1,683	5,108
At 31st December 2019	3,425	804	4,229

Notes to the Financial Statements of the Group
(continued)

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The property, plant and equipment have been pledged as security for the group's bank facilities by way of a fixed charge over property and a fixed and floating charge over the rest of the assets.

The group has assets under construction of £118,000 (2018: £113,000) included within plant and equipment.

The operating property was valued at 31st December 2019. 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 hierarchy 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 £979,000 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.

10. INTANGIBLE ASSETS

	£000
Cost	
At 1st January 2018	177
Additions	29
At 31st December 2018 and 1st January 2019	206
Additions	9
At 31st December 2019	215
Amortisation	
At 1st January 2018	53
Charge for the year	58
At 31st December 2018 and 1st January 2019	111
Charge for the year	65
At 31st December 2019	176
Net book value	
At 31st December 2018	95
At 31st December 2019	39

The expenditure relates to the introduction of new technology and related products.

11. INVESTMENT PROPERTY

	£000
Valuation at 31st December 2018	3,400
Unrealised valuation gain	200
Valuation at 31st December 2019	3,600

The investment property was valued at 31st December 2019. 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 hierarchy 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 yield 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 7.5%. The effect of a 1% increase in the yield would be a £424,000 movement in the valuation and a 1% decrease in yield would be a £554,000 movement in valuation.

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

12. DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non–current asset			
Balance at 1st January 2018	389	–	389
Movement during the year:			
Profit or loss	19	840	859
Other comprehensive income	218	–	218
Balance at 31st December 2018 and 1st January 2019	626	840	1,466
Movement during the year:			
Profit or loss	(7)	(243)	(250)
Other comprehensive income	(369)	–	(369)
Balance at 31st December 2019	250	597	847

	2019 £000	2018 £000
(b) Deferred tax liability		
Balance brought forward	305	268
Movement during the year:		
Income statement	155	24
Consolidated statement of comprehensive income	(3)	13
Balance at 31st December	457	305
An analysis of the deferred tax liability is as follows:		
Property, plant and equipment	401	283
Investment property	56	22
	457	305

Notes to the Financial Statements of the Group
(continued)

13. LEASES

The group principally has two types of lease, vehicle leases and the lease of plant and machinery. As at 31st December 2019 the group held 30 vehicle leases and 1 plant and machinery lease, All leases are of a fixed nature in relation to the payments made and any future outflows, therefore there is no impact in relation to any percentage movement in interest rate or asset value.

The below includes the balance and also any movement through the year.

Right of Use Assets	Vehicles £000	PPE £000	Total £000
At 1 January 2019	348	–	348
Reclassification from PPE	–	1,028	1,028
Additions	131	–	131
Depreciation	(155)	(119)	(274)
At 31 December 2019	324	909	1,233

Lease Liabilities	Vehicles £000	PPE £000	Total £000
At 1 January 2018	–	693	693
Payment	–	(197)	(197)
Interest Expense	–	14	14
At 1 January 2019	354	510	864
Additions	131	–	131
Payments	(166)	(198)	(364)
Interest Expense	11	10	21
At 31 December 2019	330	322	652

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Current liabilities	329	187
Long-term liabilities	323	323
	652	510

Below are the future economic outflows related to company leases

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Within one year	353	198
In the second to fifth years inclusive	323	329
After five years	–	–
	676	527

13. LEASES (continued)

Receipts

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Lease receipts under operating leases credited to other operating income	280	291

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:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Within one year	280	280
In the second to fifth years inclusive	338	618
	618	898

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

14. INVENTORIES

	2019 £000	2018 £000
Raw materials and consumables	637	1,124
Work in progress	137	103
Finished goods	4,687	5,570
	5,461	6,797

The consolidated income statement includes £8,065,000 (2018: £7,816,000) as an expense for inventories. The provision at 31st December 2019 was £142,000 (2018: £194,000).

Notes to the Financial Statements of the Group
(continued)

15. TRADE AND OTHER RECEIVABLES

	2019 £000	2018 £000
Trade receivables	1,709	1,981
Prepayments and accrued income	403	349
	2,112	2,330

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

The group applies the IFRS 9 simplified approach to measuring expected credit losses using expected loss rates. The expected loss rates are based on the group's historical credit losses experienced over the two year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the group's customers such as GDP or unemployment rates. There is no set time as to when a debt would be written off. Management would make the decision on a debt by debt basis and write it off against the credit loss provision when it is no longer deemed as collectable.

A reconciliation of the movement in the impairment allowance for receivables under the expected credit loss model is shown below.

	2019 £000	2018 £000
Provision for bad and doubtful debts as at 31st December	85	445
Amount Charges	60	48
Amount Released	(84)	(408)
Expected credit loss provision as at 31st December	61	85

During the prior year the group moved to an expected credit loss model under IFRS 9, upon this there has been no impact and the provision calculated under the expected loss model is not significantly different.

£'000	Current	More than 30 days	More than 60 days	More than 90 days	More than 120 days	Total
Expected credit loss rate	1.78%	2.01%	4.77%	20.19%	100%	
Total gross carrying amount	928	661	147	13	21	1,770
Lifetime expected credit losses	(17)	(13)	(7)	(3)	(21)	(61)
Net carrying amount						1,709

16. CASH AND CASH EQUIVALENTS

	2019 £000	2018 £000
Cash at bank and in hand	2,957	2,732

17. TRADE AND OTHER PAYABLES

	2019 £000	2018 £000
Trade payables	1,532	2,246
Social security and other taxes	433	483
Accruals and other creditors	446	753
Corporation Tax	1	3
Deferred government grant	–	86
	2,412	3,571

18. PROVISIONS

	£000
At 1st January 2018	300
Amount utilised	–
Provisions charged in the period	20
At 31st December 2018 and 1st January 2019	320
Amount utilised	–
Provisions charged in the year	–
At 31st December 2019	320

The provision relates to the site rationalisation programme relating to discontinued operations covering costs for asset and inventory write downs and closure and liquidation costs. At this stage it is unknown to management as to the expected timing of outflows of economic benefits.

Notes to the Financial Statements of the Group
(continued)

19. BORROWING

The cash flows relating to borrowing are as follows:

	£000
As at 31 December 2018 and 1 January 2019	–
Additions	1,700
Payments	(448)
Interest charge	34
As at 31 December 2019	1,286

Below are the future economic outflows related to company borrowing

	2019 £000	2018 £000
Within one year	597	–
In the second to fifth years inclusive	746	–
After five years	–	–
Net cash	1,343	–

The unsecured loan of £1.7m taken during the year is repayable in equal quarterly instalments over 3 years with an interest rate of 2.5% above the Bank of England base rate. Within the above outstanding commitments £57,000 relates to interest that will be payable under the agreement.

At the balance sheet date the group recognise the following liabilities.

	2019 £000	2018 £000
Current liabilities – due within one year	562	–
Non-current liabilities – not due within one year	724	–
	1,286	–

20. PENSION COMMITMENTS

Airea PLC and Burmatex Ltd sponsor the Sirdar PLC Benefits Retirement Benefits Plan (1974), 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 the 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 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.

20. PENSION COMMITMENTS (continued)

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 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

On 26th October 2018, the High Court reached a judgement in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that schemes should equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The impact of this judgement on the Plan was estimated at 31st December 2018 and the amount charged to the profit and loss account in the prior period.

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

	31st December 2019 £000	31st December 2018 £000
Present value of scheme liabilities	(53,386)	(50,148)
Fair value of scheme assets	51,914	46,460
Funded status	(1,472)	(3,688)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(1,472)	(3,688)

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 within finance costs in the statement of comprehensive income. Remeasurements of the net defined benefit liability are included in other comprehensive income.

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Service cost:		
Administration expenses	256	287
Past service loss arising on GMP equalisation	–	299
Net interest expense	100	54
Charge recognised in profit or loss within finance costs	356	640
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	(6,939)	3,673
Loss/(Gain) arising from changes in financial assumptions	4,767	(2,138)
Gain arising from changes in demographic assumptions	–	(349)
Experience loss	–	98
(Credit)/Charge recorded in other comprehensive income	(2,172)	1,284
Total defined benefit (credit)/charge	(1,816)	1,924

Notes to the Financial Statements of the Group
(continued)

20. PENSION COMMITMENTS (continued)

The principal actuarial assumptions used were:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Liabilities discount rate	1.95%	2.75%
Inflation assumption – RPI	2.95%	3.15%
Inflation assumption – CPI	1.95%	2.05%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	1.95%	2.05%
– benefits accrued after 06/04/1997	1.95%	2.05%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.00%	2.10%
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%
Mortality assumption – pre retirement		As post–retirement
Mortality assumption – male post retirement		110% SAPS S2PMA CMI 2016 M 1.0%
Mortality assumption – female post retirement		110% SAPS S2PMA CMI 2016 M 1.0%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	86.1	86.1
Female pensioner at age 65	88.0	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.1	87.1
Female aged 45 at year end:	89.2	89.2

20. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Fair value of assets at start of period	46,460	51,834
Interest income	1,240	1,209
Return on assets (excluding amount included in net interest expense)	6,939	(3,673)
Contributions from the employer	400	400
Benefits paid	(2,869)	(3,023)
Administration expenses	(256)	(287)
Fair value of assets at end of period	51,914	46,460
Actual return on assets over the period	8,179	(2,464)

Changes in the present value of liabilities over the period:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Liabilities at start of period	50,148	53,998
Interest cost	1,340	1,263
Remeasurement losses		
– Actuarial losses/(gains) arising from changes in financial assumptions	4,767	(2,138)
– Actuarial gains arising from changes in demographic assumptions	–	(349)
– Other experience items	–	98
Past service cost	–	299
Benefits paid	(2,869)	(3,023)
At end of period	53,386	50,148

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

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Active members	–	–
Deferred pensioners	15,788	13,626
Pensions in payment	37,598	36,522
	53,386	50,148
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	19	20
Pensions in payment	11	11

Notes to the Financial Statements of the Group
(continued)

20. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	7,450	4,414
Partners Fund	6,472	5,808
Absolute Return Fund	–	–
Multi Sector Credit	18,080	15,301
Diversified Growth Fund	9,962	8,130
Return seeking subtotal	41,964	33,653
Debt instruments		
LDI funds	6,312	7,801
Other		
Property	3,111	3,173
Cash	527	1,833
Synthetic Equities Cash Offset	–	–
Total market value of assets	51,914	46,460

The equity all have quoted prices in active markets. Derivatives and debt instruments are classified as level 2 and property as level 3 in the IFRS 13 fair value hierarchy.

The Plan 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 2020. 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 £662,000 (increase by £673,000) if all the other assumptions remained unchanged the other assumptions remained unchanged.

If the RPI inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £294,000 (decrease by £289,000). In this calculation all assumptions related to the RPI inflation assumption have been appropriately adjusted, that is 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 £3,177,000 if all the other assumptions remained unchanged.

21. CALLED UP SHARE CAPITAL

	2019 Number	2019 £000	2018 Number	2018 £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 its own shares under the Airea Employee Benefits Trust as per note 26.

22. EMPLOYEES

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Staff costs		
Wages and salaries	4,302	4,572
Social security costs	450	458
Other pension costs	129	143
	4,881	5,173

	Number	Number
The average monthly number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	33	34
Administration	10	12
Manufacturing and operations	84	96
	127	142

The above staff costs includes £511,000 which relate to discontinued operations in the prior year.

Directors' remuneration and key management personnel

	Salary and fees £000	Bonus £000	Taxable benefits £000	Year ended 31st December 2019 (excluding pensions) £000	12 months ended 31st December 2018 (excluding pensions) £000	Year ended 31st December 2019 Pension £000	18 months ended 31st December 2018 Pension £000
Executive							
Neil Rylance	258	–	18	276	339	–	–
Roger Salt	–	–	–	–	78	–	23
Paul Stevenson	112	–	7	119	76	8	1
Non-Executive							
Martin Toogood	52	–	–	52	52	–	–
	422	–	25	447	545	8	24

In addition to the above breakdown social security costs amounted to £61,000 (2018: £49,000) in relation to the directors.

Within the year Paul Stevenson was awarded 412,500 nil cost share options, no other director received such remunerations within the year.

* Roger Salt resigned 24th July 2018 and Paul Stevenson was appointed.

Notes to the Financial Statements of the Group
(continued)

23. SHARE AWARDS

During the year the group launched a performance-based Long-Term Incentive Plan (LTIP) for all eligible employees. Awards made under the LTIP vest provided the participant remains in the group's employment during the three-year vesting period and the group achieves certain performance based targets for Operating profit.

Movements in LTIP awards outstanding were as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Outstanding at 1st January	–	–
Granted	2,675,000	–
Vested	–	–
Forfeited	–	–
Lapsed	–	–
Outstanding at 31st December	2,675,000	–
Unvested at 31st December	2,675,000	–

Awards made under the LTIP have a £nil exercise price with the shares being held by the Airea Employee Benefit Trust until vesting. The term of equity settled awards granted in the year is three years unless the performance period is extended as a one-off by the board of directors for a further 12 months making the maximum term 4 years. The weighted average remaining life of equity settled awards at 31 December 2019 is 2.75 years.

At 31st December 2019, the cost recognised in relation to equity settled awards was £0.1m (2018: £nil). At the grant date, the weighted average fair value of the LTIP awards granted during the year was 38.0p (2018: N/A). Fair value was measured using the Black-Scholes model discounted for average dividend yield based on the following assumptions:

	2019 issue
Share price on grant date	44.0p
Risk free interest rate	1%
Volatility in company shares	50.8%
Expected life of LTIP awards	3 Years

Expected volatility was determined based on the daily share price movement of the company's share price during the previous 12 month period preceding the grant date.

The shares held under option do not have the right any dividend payments until they have vested.

Compensation expense recognised in the profit or loss in relation to employee share schemes was as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
LTIP		
Equity settled awards	85	–
Total expense	85	–

24. 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, liquidity risk and credit risk. The board's policies for managing these risks are summarised as follows:

Interest risk – the group finances its daily 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. During the year the group took an unsecured loan repayable over 3 years to finance the creation of an EBT and purchase of shares for an LTIP. The loan has covenants that are tested bi-annually and reviewed during the plc board meetings.

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. 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 15.

Financial assets, the carrying values of which are a reasonable approximation to their fair value, are all categorised as amortised cost under IFRS9: Financial Instruments and are included in the consolidated balance sheet within the following headings:

	2019 £000	2018 £000
Current assets		
Trade receivables	1,709	1,981
Cash and cash equivalents	2,957	2,732
	4,666	4,713

Financial liabilities included in the consolidated balance sheet are all financial liabilities measured at amortised costs in the terms of IFRS 9 and are included in the consolidated balance sheet within the following headings:

	2019 £000	2018 £000
Current liabilities		
Loans and borrowings	562	–
Lease Liabilities	329	187
Trade and other payables	1,532	3,571
	2,423	3,758

Notes to the Financial Statements of the Group
(continued)

24. FINANCIAL INSTRUMENTS (continued)

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

	2019 £000	2018 £000
Long-term liabilities		
Loans and borrowings (note 19)	724	–
Lease liabilities (note 13)	323	323

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 £322,000 (2018: £510,000).

Borrowing facilities
The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 31st December 2019 or 31st December 2018. 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

	2019 £000	2018 £000
US dollars	17	38
Euro	540	(359)
	557	(321)

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 £62,000 (2018: £36,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2018: £nil).

25. DISCONTINUED OPERATIONS

It was announced in the 2017 annual report that the company had entered into a process concerning the closure of the residential carpets business. This process has now been completed. The analysis of the result of the discontinued business that has been included in the consolidated income statement following the closure can be seen below.

Statement of Comprehensive income

The consolidated income statement includes the following amounts relating to discontinued operations.

	2019 £000	2018 £000
Revenue	–	935
Operating costs	–	(2,324)
Loss before taxation	–	(1,389)
Taxation	–	–
Loss attributable to shareholders of the group from discontinued operations	–	(1,389)
Earnings per share (basic and diluted) for discontinued operations	–	(3.36)p

Statement of Cash Flows

The consolidated cash flow statement includes the following amounts relating to discontinued operations.

	2019 £000	2018 £000
Operating activities	–	(688)
Investing activities	–	582
Financing activities	–	–
Net cash from discontinued operations	–	(106)

Notes to the Financial Statements of the Group
(continued)

26. INVESTMENT IN OWN SHARES

The group accounts for its own shares held by the trustees of the Employee Benefit Trust (EBT) as a deduction from shareholders' funds. The costs of running the EBT are charged to the company's profit and loss account as they occur and are financed by the company.

	At 31st December 2019	At 31st December 2018
Number of shares in the company owned by the EBT	2,777,600	–
Nominal value of shares held	£694,400	–
Cost price of shares held	£1,999,878	–
Prevailing valuation of the shares (pence)	45.00	–
Total market value of shares	£1,249,920	–
Maximum number of shares in the company owned by the EBT during the year	2,777,600	–
Minimum number of shares in the company owned by the EBT during the year	–	–

Dividends payable on these shares are waived.

In addition to the above investments, the company has loaned funds of £2,000,000 and made contributions to the Airea Employee Benefits Trust, which in turn has purchased shares in the company. At 31st December 2019 the assets of the Trust comprised 2,777,600 of the company's own shares with a nominal value of £694,400 and a market value of £1,249,920, which were acquired at a cost of £1,999,878. The cost of shares has been deducted from equity. The net assets of the Trust are available for the benefit of Airea plc and Burmatex Limited employees. Neither the loan from the company nor the equivalent liability of the Trust is included in debtors or creditors. As a consequence of the exercise price of the share options (note 23) a realised loss will arise on the exercise of the options. This loss is recognised over the vesting period as a transfer to retained earnings.

27. EFFECT OF CHANGES IN ACCOUNTING POLICIES

The group adopted IFRS 16 with a transition date of 1st January 2019. The group has chosen not to restate comparatives on adoption of the standards instead choosing to use the modified retrospective approach, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1st January 2019) and recognised in the opening equity balances. Details of the impact this standard has had are given below.

IFRS 16 Leases

Effective 1st January 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an Arrangement Contains a Lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The group does not have significant leasing activates acting as a lessor.

27. EFFECT OF CHANGES IN ACCOUNTING POLICIES (continued)

Transition Method and Practical Expedients Utilised

The group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (1st January 2019), without restatement of comparative figures. The group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1st January 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;

(b) Exclude initial direct costs from the measurement of right-to-use assets at the date of initial application for leases where the right-of-use asset was determined as if IFRS 16 has been applied since the commencement date;

(c) Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under IAS 36 as at the date of initial application; and

(d) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the group recognises right-of-use assets and lease liabilities for most leases. However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption for IFRS 16, the group recognised right-of-use assets and lease liabilities as follows:

<table>
<tr><th>Classification under IAS 17</th><th>Right-of-use assets</th><th>Lease liabilities</th></tr>
<tr><td>Operating leases that meet the definition of investment property in IAS 40</td><td>Fair value as at 1st January 2019</td><td rowspan="2">Measured at the present value of the remaining lease payments, discounted using the group’s incremental borrowing rate as at 1st January 2019. The group’s incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 3.0%</td></tr>
<tr><td>All other operating leases</td><td>The carrying value that would have resulted from IFRS 16 being applied from the commencement date of the leases, subject to the practical expedients noted above</td></tr>
<tr><td>Finance leases</td><td colspan="2">Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted)</td></tr>
</table>

Notes to the Financial Statements of the Group
(continued)

27. EFFECT OF CHANGES IN ACCOUNTING POLICIES (continued)

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1st January 2019:

	At 31st December 2018 As originally presented £000	IFRS 16 £000	1st January 2019 £000
Assets			
Right-of-use assets	–	348	348
Liabilities			
Items held under finance lease	(510)	510	–
Obligations under IFRS 16	–	(864)	(864)
Equity			
Retained earnings	(4,022)	(6)	(4,028)

(a) Right-of-use assets were adjusted by recognising the asset at transition date

(b) The following table reconciles the minimum lease commitments disclosed in the group's 31st December 2018 annual financial statements to the amount of lease liabilities recognised on 1st January 2019.

	1st January 2019 £000
Minimum operating lease commitment	354
Plus: Leases previously not classified under IAS 17	11
Plus: Leases previously classified as finance leases	510
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(11)
Lease liability as at 1st January 2019	864

(c) Retained earnings were adjusted to show the net effect of the additions to the balance sheet, this is just to the modified approach being taken.

28. RELATED PARTY TRANSACTIONS

During the year the group on behalf of the Airea Employee Benefit Trust entered into a transaction with Neil Rylance (Chief Executive Officer) to purchase the entire of his Shareholding.

Date	Name	Position	Transaction	Quantity	Nominal Value	Value
5/4/2019	Neil Rylance	Director	Share Purchase	2,510,630	£627,657	£1,807,653

There was nothing outstanding for the above transaction at the year end.

Below includes the dividends paid to directors during the year.

Name	Position	Transaction	Quantity	2019 Value	2018 Value
Neil Rylance	Director	Dividend	2,510,630	£nil	£169,467
Martin Toogood	Director	Dividend	2,100,361	£58,810	£141,774

Company Balance Sheet
as at 31st December 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Non-current assets					
Investments	3		31,800		31,800
Deferred tax	4		187		470
			31,987		32,270
Current assets					
Trade and other receivables	5	121		102	
Cash and cash equivalents	6	10		217	
			131		319
Total assets			32,118		32,589
Current liabilities					
Trade and other payables	7	(9,028)		(6,931)	
Loans and borrowings	13	(562)		–	
Provisions	8	(320)		(320)	
			(9,910)		(7,251)
Non-current liabilities					
Loans and borrowings	13		(724)		–
Pension deficit	9		(1,104)		(2,766)
Total liabilities			(11,738)		(10,017)
			20,380		22,572
Equity					
Called up share capital	10		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Own Shares			(1,839)		–
Share based Payment Reserve			85		–
Merger reserve			6,902		6,902
Retained earnings			772		1,210
			20,380		22,572

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The profit of the company for the year was £803,000 (2018: £1,408,000).

The financial statements on pages 51 to 61 were approved by the board of directors on 4th March 2020 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 526657

The notes on pages 53 to 61 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31st December 2019

	Share capital £000	Share premium account £000	Own Shares £000	Share based payment reserve £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1st January 2018	10,339	504	–	–	3,617	6,902	9,262	30,624
Comprehensive income for the period								
Loss for the year	–	–	–	–	–	–	(609)	(609)
Other comprehensive income for the period	–	–	–	–	–	–	(799)	(799)
Total comprehensive income for the period	–	–	–	–	–	–	(1,408)	(1,408)
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	(2,791)	(2,791)
Distribution to subsidiary	–	–	–	–	–	–	(3,853)	(3,853)
Total contributions by and distributions to owners	–	–	–	–	–	–	(6,644)	(6,644)
At 31st December 2018 and 1st January 2019	10,339	504	–	–	3,617	6,902	1,210	22,572
Comprehensive income for the year								
Loss for the year	–	–	–	–	–	–	(542)	(542)
Other comprehensive income for the year	–	–	–	–	–	–	1,345	1,345
Total comprehensive income for the year							803	803
Contributions by and distributions to owners	–	–	–	–	–	–	–	–
Dividend paid	–	–	–	–	–	–	(1,080)	(1,080)
Purchase of own Shares by the EBT	–	–	(2,000)	–	–	–	–	(2,000)
Share based payment	–	–	–	85	–	–	–	85
Own Share Transfer	–	–	161	–	–	–	(161)	–
Total contributions by and distributions to owners	–	–	(1,839)	85	–	–	(1,241)	(2995)
At 31st December 2019	10,339	504	(1,839)	85	3,617	6,902	772	20,380

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.

The notes on pages 53 to 61 form part of these financial statements.

Notes to the Financial Statements of the Company

1. 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 year 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).

Notes to the Financial Statements of the Company
(continued)

1. ACCOUNTING POLICIES OF THE COMPANY (continued)

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.

2. KEY AREAS OF ESTIMATION

Pension deficit – £1,104,000 (2018: £2,766,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 9. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The reduced deficit in the period was due to an improvement in the value of the schemes assets, primarily driven by improved performance in equities.

Impairment of investments – The impairment of investments is assessed annually. The assessment has been carried out on the basis of a pre-tax interest discount rate of 10.0% and a terminal growth rate of 2%.

3. INVESTMENTS

	2019 £000	2018 £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 2019, 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
Fope Limited*	Property holding company
Ryalux Carpets Limited	Liquidation
Other subsidiary undertakings:	
AIREA Floor Coverings Limited*	Intermediate holding company
The Carpet Tile Company Limited	Dormant
William Lomas Carpets Limited	Dissolved 19th February 2019
William Pownall and Sons Limited	Dissolved 19th February 2019
Pennine Yarn Dyeing Limited	Dissolved 19th February 2019
Airea Newco Limited	Dissolved 19th February 2019
Bespoke Carpets Limited	Dissolved 19th February 2019
Carpets of Britain Limited	Dissolved 19th February 2019
Ryalux Services Limited	Dissolved 19th February 2019

* Held directly

4. DEFERRED TAXATION

	Pension deficit £000
Balance at 1st January 2018	292
Movement during the period	178
Balance at 31st December 2018 and 1st January 2019	470
Movement during the year	(283)
Balance at 31st December 2019	187

5. TRADE AND OTHER RECEIVABLES

	2019 £000	2018 £000
Prepayments and accrued income	121	102
	121	102

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 (2018: £Nil).

6. CASH AND CASH EQUIVALENTS

	2019 £000	2018 £000
Cash at bank and in hand	10	217

7. TRADE AND OTHER PAYABLES

	2019 £000	2018 £000
Accruals and other creditors	71	102
Intercompany Payable	8,957	6,829
	9,028	6,931

8. PROVISIONS

	£000
At 1st January 2018	300
Amount released	–
Provisions charged in the period	20
At 31st December 2018 and 1st January 2019	320
Amount released	–
Provisions charged in the year	–
At 31st December 2019	320

The provision relates to the site rationalisation programme relating to discontinued operations covering costs for asset and inventory write downs and closure and liquidation costs. At this stage it is unknown to management as to the expected timing of outflows of economic benefits

Notes to the Financial Statements of the Company
(continued)

9. PENSION COMMITMENTS

Airea PLC and Burmatex Ltd sponsor the Sirdar PLC Benefits Retirement Benefits Plan (1974), 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 the 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 and longevity risk. The Companies 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 has been carried out as at 1st July 2017. The results of that valuation have been projected to 31st December 2019 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

On 26th October 2018, the High Court reached a judgement in relation to Lloyds Banking Group's defined benefit pension schemes which concluded that schemes should equalise pension benefits for men and women as regards guaranteed minimum pension benefits. The impact of this judgement on the Plan has been estimated at 31st December 2018 and the amount charged to the profit and loss account in the current period.

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

	2019 £000	2018 £000
Present value of Plan liabilities	(40,040)	(37,611)
Fair value of Plan assets	38,936	34,845
Funded status	(1,104)	(2,766)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(1,104)	(2,766)

9. 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 period are included within finance costs in the statement of comprehensive income. Remeasurements of the net defined benefit liability are included in other comprehensive income.

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Service cost:		
Past service loss arising on GMP equalisation	–	224
Administration expenses	192	215
Net interest expense	75	41
Charge recognised in profit or loss within finance costs	267	480
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in interest expense)	(5,204)	2,755
(Gain)/Loss arising from changes in financial assumptions	3,576	(1,604)
(Gain) arising from changes in demographic assumptions	–	(262)
Experience loss	–	74
(Credit)/Charge recorded in other comprehensive income	(1,628)	963
Total defined benefit (credit)/cost	(1,361)	1,443

The principal actuarial assumptions used were:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Liabilities discount rate	1.95%	2.75%
Inflation assumption – RPI	2.95%	3.15%
Inflation assumption – CPI	1.95%	2.05%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	1.95%	2.05%
– benefits accrued after 06/04/1997	1.95%	2.05%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.00%	2.10%
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%
Mortality assumption – pre retirement	As post-retirement	As post-retirement
Mortality assumption – male post retirement	110% SAPS S2PMA CMI 2017 M 1.00%	110% SAPS S2PMA CMI 2016 M 1.00%
Mortality assumption – female post retirement	110% SAPS S2PFA CMI 2017 F 1.00%	110% SAPS S2PMA CMI 2016 F 1.00%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	86.1	86.1
Female pensioner at age 65	88.0	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.1	87.1
Female aged 45 at year end:	89.2	89.2

Notes to the Financial Statements of the Company
(continued)

9. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Fair value of assets at start of period	34,845	38,876
Interest income	930	907
Return on assets (excluding amount included in net interest expense)	5,205	(2,755)
Contributions from the employer	300	300
Benefits paid	(2,152)	(2,268)
Administration expenses	(192)	(215)
Fair value of assets at end of period	38,936	34,845
Actual return on assets over the period	6,134	(1,848)

Changes in the present value of liabilities over the period:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Liabilities at start of period	37,611	40,499
Interest cost	1,005	947
Remeasurement (gain)/losses:		
– Actuarial gains and losses arising from changes in financial assumptions	3,576	(1,603)
– Actuarial gains and losses arising from changes in demographic assumptions	–	(262)
– Other experience items	–	74
Past service cost	–	224
Benefits paid	(2,152)	(2,268)
Liabilities at end of period	40,040	37,611

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

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Active members	–	–
Deferred pensioners	11,841	10,220
Pensions in payment	28,199	27,391
	40,040	37,611
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	19	20
Pensions in payment	11	11

9. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	5,588	3,310
Partners Fund	4,854	4,355
Absolute Return Fund	–	–
Multi Sector Credit	13,560	11,476
Diversified Growth Fund	7,472	6,098
Return seeking subtotal	31,474	25,239
Debt instruments		
LDI funds	4,734	5,851
Other		
Property	2,333	2,380
Cash	395	1,375
Synthetic Equities Cash Offset	–	–
Total market value of assets	38,936	34,845

The equity all have quoted prices in active markets. Derivatives and debt instruments are classified as level 2 and property as level 3 in the IFRS 13 fair value hierarchy.

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 2020.

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 £496,000 (increase by £505,000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £221,000 (decrease by £217,000). 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 £2,383,000 if all the other assumptions remained unchanged.

10. CALLED UP SHARE CAPITAL

	2019 Number	2019 £000	2018 Number	2018 £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

Notes to the Financial Statements of the Group
(continued)

11. SHARE AWARDS

During the year the group launched a performance-based Long-Term Incentive Plan (LTIP) for all eligible employees. Awards made under the LTIP vest provided the participant remains in the group's employment during the three-year vesting period and the group achieves certain performance based targets for Operating profit

Movements in LTIP awards outstanding were as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
Outstanding at 1st January	–	–
Granted	2,675,000	–
Vested	–	–
Forfeited	–	–
Lapsed	–	–
Outstanding at 31st December	2,675,000	–
Unvested at 31st December	2,675,000	–

Awards made under the LTIP have a £nil exercise price with the shares being held by the Airea Employee Benefit Trust until vesting. The term of equity settled awards granted in the year is three years unless the performance period is extended as a one-off by the board of directors for a further 12 months making the maximum term 4 years. The weighted average remaining life of equity settled awards at 31st December 2019 is 2.75 years.

At 31st December 2019, the cost recognised in relation to equity settled awards was £0.1m (2018: £nil). At the grant date, the weighted average fair value of the LTIP awards granted during the year was 38.0p (2018: N/A). Fair value was measured using the Black-Scholes model discounted for average dividend yield based on the following assumptions:

	2019 issue
Share price on grant date	44.0p
Risk free interest rate	1%
Volatility in company shares	50.8%
Expected life of LTIP awards	3 Years

Expected volatility was determined based on the daily share price movement of the company's share price during the previous 12 month period preceding the grant date.

The shares held under option do not have the right any dividend payments until they have vested.

Compensation expense recognised in the profit or loss in relation to employee share schemes was as follows:

	12 months ended 31st December 2019 £000	12 months ended 31st December 2018 £000
LTIP		
Equity settled awards	85	–
Total expense	85	–

12. INVESTMENT IN OWN SHARES

The group accounts for its own shares held by the trustees of the Employee Benefit Trust (EBT) as a deduction from shareholders' funds. The costs of running the EBT are charged to the company's profit and loss account as they occur and are financed by the company.

	12 months ended 31st December 2019	12 months ended 31st December 2018
Number of shares in the company owned by the EBT	2,777,600	–
Nominal value of shares held	£694,400	–
Cost price of shares held	£1,999,878	–
Prevailing valuation of the shares (pence)	45.00	–
Total market value of shares	£1,249,920	–
Maximum number of shares in the company owned by the EBT during the year	2,777,600	–
Minimum number of shares in the company owned by the EBT during the year	–	–

Dividends payable on these shares are waived.

In addition to the above investments, the company has loaned funds of £2,000,000 and made contributions to the Airea Employee Benefits Trust, which in turn has purchases shares in the company. At 31st December 2019 the assets of the Trust comprised 2,777,600 of the company's own shares with a nominal value of £694,400 and a market value of £1,249,920, which were acquired at a cost of £1,999,878. The cost of shares has been deducted from equity. The net assets of the Trust are available for the benefit of Airea plc and Burmatex Limited employees. Neither the loan from the company nor the equivalent liability of the Trust is included in debtors or creditors. As a consequence of the exercise price of the share options (note 11) a realised loss will arise on the exercise of the options. This loss is recognised over the vesting period as a transfer to retained earnings.

13. BORROWING

The cash flows relating to borrowing are as follows:

	£000
As at 31st December 2018 and 1st January 2019	–
Additions	1,700
Payments	(448)
Interest charge	34
As at 31st December 2019	1,286

Below are the future economic outflows related to company borrowing:

	2019 £000	2018 £000
Within one year	597	–
In the second to fifth years inclusive	746	–
After five years	–	–
Net cash from discontinued operations	1,343	–

Within the above outstanding commitments £57,000 relates to interest that will be payable under the agreement At the balance sheet date the group recognise the following liabilities.

	2019 £000	2018 £000
Current liabilities – due within one year	562	–
Non-current liabilities – not due within one year	724	–
	1,286	–

Notice of Annual General Meeting

Notice is hereby given that the sixty sixth annual general meeting ("Annual General Meeting") of Airea plc (the "Company") will be held at the Waterton Park Hotel, Walton Hall, Walton, Wakefield on 14th May 2020, 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 year ended 31st December 2019 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the year ended 31st December 2019, of an amount of 1.3p per ordinary share, to be paid on 20th May 2020 to members whose names appear on the register of members at close of business on 14th April 2020.
3. To re-elect Mr P. Stevenson 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 13th November 2019.
5. To re-appoint BDO LLP as auditor of the company to hold office until the conclusion of the next annual 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 4,100,000 (representing approximately 10.0% 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) 2017/1052 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

PAUL STEVENSON
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
4th March 2020

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 4,100,000 ordinary shares, representing approximately 10.0% 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) 2017/1052 of 8th March 2017 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 ordinary 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 ordinary 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.

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

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 the change of venue from previous years with the annual general meeting now held at the Waterton Park Hotel, Walton Hall, Walton, Wakefield, WF2 6PW. The telephone number of the hotel is 01924 257911.

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 close of business on 12th May 2020 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 ordinary shares registered in their name at the relevant time. Changes to entries in the register of members after close of business on 12th May 2020 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.

In order to reduce the company's environmental impact, our intention is to remove paper from the voting process as far as possible. You are therefore asked to vote and submit your proxy in one of the following ways:

- Register your vote on line through our registrar's portal – www.signalshares.com. You will need your investor code which is printed on your share certificate or may be obtained by calling the company's registrar, Link, on 0371 664 0300 Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 a.m. to 17:30 p.m. Monday to Friday excluding public holidays in England and Wales
- CREST members may use the CREST electronic proxy appointment service as detailed below.

You may request a hard copy form from Link using the numbers shown above and return it to Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

All proxy appointments, whether electronic or hard copy, must be received by the company's registrar no later than 2.00pm on 12th May 2020 (or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he or she so wishes. 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 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 0371 664 0300 Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 a.m. to 17:30 p.m., Monday to Friday excluding public holidays in England and Wales.

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.

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

The revocation notice must be received by Link Asset Services no later than 2.00 p.m. on 12th May 2020. 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 6.

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.

Notes

Notes

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