Annual Report – 31st December 2018

AIREA plc

AIREA plc

Contents

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Highlights

- Profit attributable to shareholders increased £3.4m to £2.0m (2017: £1.4m loss)
- Operating profit before exceptional items increased 7.1% to £3.0m over last year's corresponding 12 month period of £2.8m
- Revenue increased 8.4% to £19.3m over last year's corresponding 12 month period of £17.8m
- Export sales growth of 15.7% continued the upward trend of 2017
- A stronger and broader product range following investment in new technology continues to open up new markets and opportunities
- The closure of the Ryalux business was successfully completed during the first half of the year in line with expectations with focus now solely on the profit making Burmatex flooring business and opportunities
- There were no exceptional costs during the year
- Basic Earnings per share increased 36.6% to 8.21p over last year's corresponding 12 month period of 6.01p
- A progressive dividend policy continues with the final dividend increased 14.3% to 2.0p from the interim dividend of 1.75p

Strategic Report

Principal activity and strategy

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

Overview

Airea plc is pleased to report significant growth in revenue and operating profit before exceptional items compared to the corresponding 12 month period. The decision to close the Ryalux business has increased free cash generation within the business supporting a progressive dividend policy. The group profit attributable to shareholders increased significantly compared to the prior year as the group enjoyed the benefits of sales growth and the closure of Ryalux.

Successful launches of higher added value products and sales growth in UK and International markets has driven the improved performance in the year.

As previously announced the Ryalux closure was completed and the operating premises in Wakefield have been vacated bringing the operational footprint down to one site in Ossett. This has brought about considerable cost savings to the group highlighted in the turnaround from a loss making period in the prior period to a significant growth in profit during the year ended 31st December 2018.

Volatility in global equity markets in the second half of 2018 increased the pension deficit from £2.2m to £3.7m despite the improved management of liabilities and investment strategy.

A High Court judgement reached on 26th October 2018 in relation to Lloyds Banking Group's defined benefit pension schemes concluded that schemes should equalise pension benefits for men and women in relation to guaranteed minimum pension benefits (GMP). Following consultation and a review with both our actuarial and legal advisers, it was calculated that the judgement will crystallise additional liabilities for our pension scheme of £0.3m equivalent to 0.6% of the liabilities as at 31st December 2018. This has been charged through the finance costs within the income statement. We are pleased that these increased liabilities will have no cash impact on the group's contributions or any significant impact on the current investment strategy.

The value of the investment property increased from £3.15m to £3.4m. The gain is highlighted separately in the income statement.

We changed our accounting reference date for the prior period from 30th June to 31st December. This report therefore includes audited figures for the 18 months period to December 2017 as comparatives. However, for clarity, we are also providing unaudited financial information for the year to 31st December 2017 as part of this strategic review.

Group results

Revenue for the year increased to £19.3m (12 months 2017: £17.8m, 18 months 2017: £26.9m) following full year sales of new products and the growth in our UK and Export business. Operating profit before exceptional items increased to £3.0m (12 months 2017: £2.8m, 18 months 2017: £4.3m).

There were no exceptional costs during the year (2017: £0.2m). There was an unrealised valuation gain on the investment property of £0.3m (2017: £0.4m). Operating profit after exceptional items was £3.3m (12 months 2017: £3.1m, 18 months 2017: £4.5m).

Other finance costs relating in the main to the defined benefit pension scheme were £0.4m (12 months 2017: £0.7m, 18 months 2017: £0.9m). There were finance costs relating to GMP equalisation (as noted in the overview) in the defined benefit scheme of £0.3m (2017: £nil).

The losses incurred from discontinued operations totalled £1.4m (12 months 2017: £3.1m, 18 months 2017: £5.2m).

After a tax credit of £0.8m related to the recognition of a deferred tax asset on group losses carried forward (12 months 2017: £0.1m, 18 months 2017: £0.2m) profit attributable to shareholders of the group for the year was £2.0m (12 months 2017: £0.7m loss, 18 months 2017: £1.4m loss).

Basic earnings per share[1] were 8.21p (12 months 2017: 6.01p, 18 months 2017: 9.16p), and basic adjusted earnings per share were 8.21p (12 months 2017: 6.42p, 18 months 2017: 9.57p). Group basic earnings per share were 4.86p (12 months 2017: 1.56p loss, 18 months 2017: 3.31p loss).

Operating cash flows before movements in working capital and other payables were £1.8m (2017: £1.0m). Working capital decreased by £0.6m (2017: £2.2m) following the rundown of inventories in the residential carpets business. Contributions of £0.4m (2017: £0.6m) 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 (2017: £1.3m) and investment in intangible assets of £0.1m (2017: £0.2m) related in the main to the introduction of new technology.

The volatile performance in equity markets in the second half of the year and the increased liabilities following the adjustment for GMP equalisation increased the pension deficit £1.5m to £3.7m (2017: £2.2m).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. To enable meaningful comparison, where figures cover an eighteen month period, they have been reduced to a twelve month equivalent on a simple time apportionment basis. For the year ended 31st December 2018, value added per employee amounted to £0.1m (2017: £0.1m), operating return on sales was 15.7% (2017: 13.7%), return on net operating assets was 18.5% (2017: 13.8%) and working capital to sales percentage was 60.4% (2017: 77.7%).

Principal risks and uncertainties

The board has responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and ensuring that risks are managed effectively across the group. 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.

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 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.

Strategic Report
(continued)

Other risks
Raw material costs are a significant constituent of overall product cost, and are impacted by global commodity markets. Significant fluctuations in raw material costs can have a material impact on profitability. The group continuously seeks out opportunities to develop a robust and competitive supply base, substitute new materials, agree forward pricing where possible 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. This is done in combination with foreign currency bank accounts and forward exchange contracts when necessary. 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 the Brexit Referendum 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. The group monitors this position and adjusts its forward plans where appropriate particularly in relation to its supply chain and working capital requirements. It is believed that the group's strength in refurbishment markets, its position as a UK manufacturer with a strong presence in the UK market and strategies of developing new sales channels will act to mitigate the impact of adverse changes and continue to provide opportunities for growth.

Management and personnel
We continue to recognise the hard work and dedication our staff have applied in both trying to recover the fortunes of the residential carpets business and also the professional manner with which the closure was finalised. We thank them for the dedication they have continued to show during the most challenging of times 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 has considered various options to implement a reward structure which encourages, recognises and rewards high performance and long-term delivery.

The group recognises the need to retain and reward members of staff for long-term outperformance, and has decided to establish an employee share scheme. The purpose of the scheme is to incentivise employees through nil cost share awards.

The board is creating an employee benefit trust ("EBT") managed by independent trustees to operate the scheme. The EBT will buy existing shares to satisfy any awards under the scheme, thereby ensuring existing shareholders will not be diluted upon exercise. The company will advance a loan to the EBT which will be funded by an unsecured bank loan. Initially the EBT will be able to buy up to 3.5m shares, and any awards will vest with beneficiaries over a three to five year period and after the achievement of group and individual performance conditions.

Current trading and future prospects
The changes made to the business and the increased investment in our successful commercial flooring business provides significant opportunities for profitable growth. Further investment in new products will continue throughout 2019 maintaining our confidence in the future prospects of the business, the ongoing improvement in the performance of the commercial floorcoverings business, and the cash this business continues to generate. If approved, a final dividend of 2.0p per share will be paid on 22nd May 2019 to shareholders on the register at close of business on 12th April 2019, with an ex-dividend date of 11th April 2019.

MARTIN TOOGOOD	NEIL RYLANCE	
Chairman	Chief Executive Officer	6th March 2019

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

Directors' Report

The directors present their report for the year ended 31st December 2018.

Dividends

An interim dividend of 1.75p was paid during the year (2017: 1.75p) and the directors recommend a final dividend of 2.0p (2017: 5.0p). The prior year dividend included a special dividend to distribute the benefits following the closure of Ryalux. The final dividend amounts to £827,000 and, if approved, will be paid on 22nd May 2019 to those shareholders on the register at close of business on 12th April 2019. This will continue the group's stance of having a progressive dividend policy going forward and sharing the success of the business with the shareholders.

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

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

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.

Roger Salt stepped down from the board on 24th July 2018 following his decision to retire.

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

Directors who held office at 31st December 2018 had the following interests in the Ordinary Shares of the Company:

	2018	2017
Neil Rylance	2,510,360	2,510,360
Martin Toogood	2,100,361	2,100,361

There were no other changes in directors' interests between 1st January 2019 and 6th March 2019. None of the directors has an interest in the share capital of subsidiary companies other than as a nominee of the company.

Share capital

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

Directors' Report
(continued)

Substantial shareholdings
At 31st December 2018, in addition to the interests of Neil Rylance amounting to 6.07% and Martin Toogood amounting to 5.08% noted above, the company had been notified of the following interests representing 3.00% or more of the company's ordinary share capital:

	Number held	%
Lowland Investment Trust	4,125,000	9.97
Mrs. C. J. Tobin	3,502,668	8.47
Charles Stanley & Co Limited	2,240,000	5.42
Mr. & Mrs. G. A. Upsdell	2,051,812	4.96
Mr. M. H. Yeadon	1,810,766	4.38
Mr. & Mrs. D. Newlands	1,730,000	4.18

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 has 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.

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'd like to think it makes us straightforward and easy to work with.

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.

The board and its committees

The group is led by a board comprising of a non-executive and executive directors, one being the chairman. 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 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 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 external auditors report to the board, and assists the board in ensuring that appropriate policies, internal controls and compliance procedures are in place.

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.

Directors' Report
(continued)

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

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

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

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

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 (2017: £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.

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
6th March 2019

Independent Auditor's Report to the members of AIREA plc

We have audited the financial statements of AIREA plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31st December 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company balance sheet, consolidated cash flow and 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 2018 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.

Key audit matter in the audit of the Group	How our audit addressed the key audit matter
Presentation and disclosure of discontinued operations of Ryalux	
As detailed in note 25, of the financial statements of the group, a decision was made during the year to close Ryalux Carpets Limited, a subsidiary of the parent company, as part of a strategic restructuring exercise. The results of the group are presented separately for continuing operations and the discontinued operation for the Ryalux component both in the current and prior period. Given the amounts recorded as discontinued are material to the financial statements and the significant impact on the financial statements of its presentation and disclosure, we identified this as a key audit matter.	Ryalux has been subject to a full scope audit as it has been identified as a significant component. We performed procedures to test the completeness, existence, accuracy of amounts recorded within the losses arising from discontinued operations. We specifically focused on operating and closure costs in the current and prior period for the Ryalux component. We evaluated the completeness and accuracy of the disclosure of discontinued operations in the income statement, cash flow statement and the notes to the financial statements with respect to the relevant accounting standard, IFRS5.

Our application of materiality

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

The materiality for the group financial statements as a whole was set at £100,000 (2017: £121,000). This was determined with reference to a benchmark of continuing revenue, of which this represents 0.5% (2017: 0.5% of annualised revenue), which we consider to be one of the principal considerations for members of the company in assessing the financial performance of the business. Using a profit-based measure was not considered appropriate given the profit before tax figure's volatility because of the discontinuance of Ryalux Carpets Limited.

The materiality for the parent company was set at £20,000 (2017: £25,000). This has been limited to the component materiality set for the audit of the group.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Performance materiality has been set at 60% (2017: 60%) of the above materiality. This has been assessed on criteria such as historic adjustment levels, complexity and controls of the group.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £3,000 (2017: £3,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Audits of the components were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. Component materialities ranged from £10,000 to £95,000 (2017: £10,000 to £85,000).

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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
3 Hardman Street,
Spinningfields,
Manchester,
M3 3AT

6th March 2019

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 2018

	Note	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Continuing Operations			
Revenue	2	19,260	26,890
Operating costs	3	(16,536)	(23,043)
Other operating income		291	409
Operating profit before exceptional items		3,015	4,256
Exceptional costs	4	–	(172)
Unrealised valuation gain	12	250	449
Operating profit		3,265	4,533
Finance income	6a	1	–
Finance costs	6b	(355)	(932)
Finance costs relating to GMP Equalisation	6b	(299)	–
Profit before taxation		2,612	3,601
Taxation	7	785	185
Profit attributable to shareholders of the group from continuing operations		3,397	3,786
Discontinued Operations			
Loss attributable to shareholders of the group from discontinued operations	25	(1,389)	(5,156)
Profit/(loss) attributable to shareholders of the group		2,008	(1,370)
Earnings per share (basic and diluted) for continuing operations		8.21p	9.16p
Earnings/(loss) per share (basic and diluted) for the group		4.86p	(3.31)p

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Profit/(loss) attributable to shareholders of the group			2,008		(1,370)
Actuarial (loss)/gain recognised in the pension scheme	19	(1,284)		4,827	
Related deferred taxation	13	218		(862)	
			(1,066)		3,965
Revaluation of property	10	78		117	
Related deferred taxation	13	(13)		–	
			65		117
Total other comprehensive (loss)/income			(1,001)		4,082
Total comprehensive income attributable to shareholders of the group			1,007		2,712

The notes on pages 18 to 43 form part of these financial statements.

Consolidated Balance Sheet
as at 31st December 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Non-current assets					
Property, plant and equipment	10	5,108		5,294	
Intangible assets	11	95		124	
Investment property	12	3,400		3,150	
Deferred tax asset	13a	1,466		389	
			10,069		8,957
Current assets					
Inventories	14	6,797		6,937	
Trade and other receivables	15	2,330		2,893	
Cash and cash equivalents	16	2,732		3,702	
			11,859		13,532
Total assets			21,928		22,489
Current liabilities					
Trade and other payables	17	(3,571)		(3,745)	
Provisions	18	(320)		(300)	
Obligations under finance leases	20	(187)		(183)	
			(4,078)		(4,228)
Non-current liabilities					
Pension deficit	19	(3,688)		(2,164)	
Deferred tax	13b	(305)		(268)	
Obligations under finance leases	20	(323)		(510)	
			(4,316)		(2,942)
Total liabilities			(8,394)		(7,170)
Net assets			13,534		15,319
Equity					
Called up share capital	21		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Revaluation reserve			3,096		3,126
Retained earnings			(4,022)		(2,267)
Total equity			13,534		15,319

The financial statements on pages 14 to 43 were approved by the board of directors on 6th March 2019 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 526657

The notes on pages 18 to 43 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2018

	Note	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Cash flows from operating activities			
Profit/(loss) for the year		2,008	(1,370)
Depreciation	10	372	927
Amortisation	11	58	39
Finance costs	6	654	932
Profit on disposal of property, plant and equipment		(291)	–
Tax credit	7	(785)	(140)
Tangible fixed assets impairment	4	–	708
Inventory impairment	4	–	289
Trade receivables impairment	4	–	71
Unrealised valuation gain	12	(250)	(449)
Operating cash flows before movements in working capital		1,766	1,007
Decrease in inventories		140	2,112
Decrease in trade and other receivables		581	1,674
Decrease in trade and other payables		(174)	(1,760)
Increase in provisions for liabilities and charges		20	175
Cash generated from operations		2,333	3,208
Income tax received		–	143
Contributions to defined benefit pension scheme		(400)	(600)
Net cash generated from operating activities		1,933	2,751
Cash flows from investing activities			
Payments to acquire tangible fixed assets		(399)	(392)
Payments to acquire intangible fixed assets		(29)	(163)
Receipts from sales of tangible fixed assets		513	–
Net cash generated from/(used in) investing activities		85	(555)
Cash flows from financing activities			
Interest paid		(14)	(26)
Interest received		1	–
Finance lease repayments	20	(183)	(238)
Equity dividends paid		(2,792)	(1,344)
Net cash used in financing activities		(2,988)	(1,608)
Net (decrease)/increase in cash and cash equivalents		(970)	588
Cash and cash equivalents at start of the year		3,702	3,114
Cash and cash equivalents at end of the year		2,732	3,702

The notes on pages 18 to 43 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2018

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1st July 2016	10,339	504	3,617	3,009	(3,518)	13,951
Comprehensive income for the period						
Loss for the period	–	–	–	–	(1,370)	(1,370)
Actuarial gain recognised on the pension scheme	–	–	–	–	3,965	3,965
Revaluation of property	–	–	–	117	–	117
Total comprehensive income for the period	–	–	–	117	2,595	2,712
Contributions by and distributions to owners						
Dividend paid	–	–	–	–	(1,344)	(1,344)
Total contributions by and distributions to owners	–	–	–	–	(1,344)	(1,344)
At 31st December 2017 and 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 Reserve 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

The notes on pages 18 to 43 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 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 2018 remain unchanged from the previous year, except as noted on page 23, and are set out below. The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Significant accounting judgements and estimates

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

Basis of Consolidation

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

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

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

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable 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.

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.

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Sales of floor coverings (continued)

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.

Exceptional items

The group seeks to highlight certain items as exceptional operating income or costs. These are considered to be exceptional in size and/or nature rather than indicative of the underlying trading of the group. These may include items such as restructuring costs, material profits or losses on disposal of property, plant and equipment, impairment of assets and profits or losses on the disposal of subsidiaries. All of these items are charged before calculating operating profit or loss. Material profits or losses on disposal of property, plant and equipment, impairment of assets and profits or losses on the disposal of subsidiaries are shown as separate items in arriving at operating profit or loss whereas other exceptional items are charged or credited within operating costs and highlighted by analysis. Management apply judgement in assessing the particular items, which by virtue of their size and nature are disclosed separately in the income statement and the notes to the financial statements as exceptional items. Management believe that the separate disclosure of these items is relevant to understanding the group's financial performance. Fair value movements on investment property are not considered to be indicative of the underlying trading of the Group.

Interest payable and receivable

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

Dividends payable

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

Property

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

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

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

Buildings	2%

Plant and equipment

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

Plant and equipment	10% – 33%

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Investment property

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

Gains arising on the transfer of owner occupied property to investment properties are recognised 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 10 and 12).

Impairment testing of property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Intangible assets

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

Intangible assets	33%

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Inventories

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

Foreign currency

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

Financial instruments – derivatives

The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Derivative instruments utilised are forward currency contracts. The fair value of forward currency contracts is assessed at the balance sheet date and any profit or loss is recognised in the income statement. There were no derivatives outstanding at the year end (2017: none).

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. 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.

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 1 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.

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.

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.

The group's policy is that the only derivative instruments utilised are forward currency contracts. The fair value of forward currency contracts is assessed at the balance sheet date and any profit or loss is recognised in the income statement. There were no derivatives outstanding at the year end (2017: none).

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'.

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

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

Pensions

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

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

Government grants

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

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.

Operating leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

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

Finance leases

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

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

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

Equity

Equity is broken down into the elements listed below:

Share capital representing the nominal value of equity shares;

Share premium representing the excess over nominal value of the fair value of consideration received for equity shares;

Capital redemption reserve representing the nominal value of the company's own shares purchased by the company and cancelled;

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

Retained earnings representing amounts retained from earnings.

New standards and amendments to standards adopted in the period

During the year, the group adopted IFRS15, 'Revenue from contracts with customers' and IFRS9, 'Financial Instruments'.

IFRS 15 Revenue from contracts with customers

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

With the exception of the additional disclosure requirements, the new standard has not had a material impact on the Group's Financial Statements.

Notes to the Financial Statements of the Group

(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

IFRS 9 Financial Instruments

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

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

The group have applied IFRS 9 for the first time in the current year, in replacement of IAS 39. The group applied the simplified method of the expected credit loss model when calculating impairment losses on its financial assets measured at amortised cost, such as trade receivables. This resulted in greater judgement due to the need to factor in forward-looking information when estimating the appropriate amount of provisions.

In applying IFRS 9 the group considered the probability of a default occurring over the contractual life of its trade receivables balances on initial recognition of those assets. Under the previous incurred loss model, the historical loss rate has typically been between 1% and 2% of the gross carrying amount of receivables over the last 2 years, and at 31st December 2018 this provision amounted to £85,000.

The group has chosen not to restate comparatives on adoption of IFRS 9 as there has been no material impact and the provision calculated under the expected loss model is not significantly different. Due to this there has been no adjustment recorded in respect of the IFRS 9 transition in opening equity at 1st January 2018.

The classification of certain financial instruments were affected on initial application of IFRS 9. Financial assets previously categorised as Loans and receivables under IAS 39 are now classified as Amortised cost however the measurement remains consistent subject to the application of the expected credit loss model outlined above. Financial liabilities continue to be recognised and measured under the Amortised cost category.

Standards issued but not yet effective

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

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

IFRS 16 – Leases

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

The impact of IFRS16 has been reviewed by management to assess the effect it will have on the Financial Statements. Management believe that there will not be a material impact on profit for future years, however as part of the new standard the group will recognise both a right of use asset and lease liability on the face of the balance sheet for any operating lease it has.

The change would amount to the group having increased assets of £331,000 but also increased liabilities of the same as per note 23. This relates to leases the group hold on vehicles. This has been discounted to show the true cash flow.

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

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
United Kingdom	14,182	20,971
Republic of Ireland	21	38
Rest of Europe	4,386	5,130
North America	56	39
Rest of the World	615	712
	19,260	26,890

3. OPERATING COSTS

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Changes in stocks of finished goods and work in progress	(332)	1,606
Raw materials and consumables	8,148	9,226
Other external charges	3,738	5,235
Staff costs (note 22)	4,589	6,558
Depreciation	305	278
Amortisation	58	53
Foreign exchange differences	30	87
	16,536	23,043

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

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Fees payable to the company's auditor for the audit of the financial statements	21	28
Audit of the financial statements of the company's subsidiaries		
Pursuant to legislation	17	17
	38	45

Notes to the Financial Statements of the Group

(continued)

4. EXCEPTIONAL OPERATING ITEMS

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Restructure of operations:		
Inventory disposal	–	(74)
Professional fees	–	(28)
	–	(102)
Management consultancy	–	(70)
	–	(172)

5. 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 2018.

Key Judgements

Deferred tax assets – £1,466,000 (2017: £389,000)

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 13.

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:

Investment Property – £3,400,000 (2017: £3,150,000)

Investment property is held at fair value.

Property Valuation – £3,425,000 (2017: £3,425,000)

Freehold land and buildings are held at fair value.

The valuations were prepared in accordance with the RICS Valuation – Professional Standards, January 2014 Global and UK edition, published by the Royal Institution of Chartered Surveyors ("RICS") ("the Red Book") and the IVSC International Valuation Standards by external independent qualified valuers with recent experience valuing investment properties in the location held by the group. Further details are given in notes 10 and 12.

Inventories – £6,797,000 (2017: £6,937,000)

Certain items of inventory are not expected to sell at prices which cover cost, either because they are remnants, come from discontinued ranges or are below the required quality standard. The inventory is carried at a value which reflects the directors' best estimates of achievable selling prices.

Trade receivables – £2,330,000 (2017: £2,893,000)

Trade receivables have been reviewed for indicators of impairment taking into account the age of the debt, and any known disputes and credit rating information. Details of the provisions made against trade debtors are given in note 15

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Pension deficit – £3,688,000 (2017: £2,164,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 19. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The increase of £1,524,000 in the period was due in the main to weakened equity market in the second half of the year and the increased liabilities caused by the GMP equalisation ruling. Further details is provided are note 19.

6. FINANCE INCOME AND COSTS

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
(a) Finance income		
Other Interest	1	–
(b) Finance costs		
Finance costs relating to finance lease (note 20)	14	26
Finance costs relating to the pension scheme (note 19)	341	906
Finance costs relating to the GMP Equalisation (note 19)	299	–
	654	932

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.

7. TAXATION

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Based on the profit for the year at 19.00% (2017: 19.50%)		
Corporation tax		
– Current year	3	(47)
– Prior year	47	(149)
Total current tax	50	(196)
Deferred tax		
– Current year	(816)	111
– Prior year	–	–
– Relating to pension deficit	(19)	(55)
Total deferred tax (note 13)	(835)	56
Total tax credit for the year	(785)	(140)
Continuing operations	(785)	(185)
Discontinued operations (note 25)	–	45
	(785)	(140)

Notes to the Financial Statements of the Group

(continued)

7. TAXATION (continued)

The tax charge for the year can be reconciled to the loss per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 19.00% (2017: 19.50%) as follows:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Profit/(loss) for the year	2,008	(1,370)
Tax credit	(785)	(140)
Profit/(loss) on ordinary activities before tax	1,223	(1,510)
Profit/(loss) on ordinary activities before tax multiplied by standard rate of corporation tax of 19.00% (2017: 19.50%)	232	(294)
Effects of:		
Disallowed expenditure	22	219
Capital allowance	–	84
Recognition of deferred tax asset	(840)	–
Prior year adjustment	47	(149)
Brought forward losses utilised	(246)	–
Total tax credit for the year	(785)	(140)

8. EARNINGS PER SHARE

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

Number of shares

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Weighted average number of ordinary shares used in basic and diluted EPS	41,354,353	41,354,353

Earnings

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Earnings used in basic and diluted EPS (Continuing)	3,397	3,786
Exceptional items (note 4)	–	172
Adjusted earnings used in basic adjusted EPS	3,397	3,958
Earnings used in basic and diluted EPS (Group)	2,008	(1,370)

Group loss per share

	Year ended 31st December 2018 pence	18 months ended 31st December 2017 pence
Basic adjusted	8.21	9.57
Basic and diluted (Continuing)	8.21	9.16
Basic and diluted (Group)	4.86	(3.31)

9. DIVIDENDS

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Paid during the year:		
Final dividend for the prior year of 5.0p per share (2017: 1.50p per share)	2,068	620
Interim dividend paid during the year of 1.75p per share (2017: 1.75p per share)	724	724
	2,792	1,344
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of 2.0p per share (2017: 5.0p per share)	827	2,068

If approved, this dividend will be paid on 22nd May 2019 to shareholders on the register at close of business on 12th April 2019.

10. PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1st July 2016	3,824	20,467	24,291
Additions	–	1,309	1,309
Disposals	–	(12)	(12)
At 31st December 2017 and 1st January 2018	3,824	21,764	25,588
Additions	–	330	330
Disposals	(399)	(11,937)	(12,336)
At 31st December 2018	3,425	10,157	13,582
Depreciation			
At 1st July 2016	374	18,429	18,803
Charge for the period	142	770	912
Impairment	–	708	708
Disposals	–	(12)	(12)
Unrealised valuation adjustment	(117)	–	(117)
At 31st December 2017 and 1st January 2018	399	19,895	20,294
Charge for year	78	294	372
Impairment	–	–	–
Disposals	(399)	(11,715)	(12,114)
Unrealised valuation gain	(78)	–	(78)
At 31st December 2018	–	8,474	8,474
Net book value			
At 31st December 2018	3,425	1,683	5,108
At 31st December 2017	3,425	1,869	5,294

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

Notes to the Financial Statements of the Group
(continued)

10. PROPERTY, PLANT AND EQUIPMENT (continued)

The group has assets under construction of £113,000 (2017: £150,000) included within plant and equipment.

	2018 £000	2017 £000
Net book value of asset held under a finance lease	1,028	1,147
Depreciation on asset held under a finance lease	119	40

The operating property was valued at 31st December 2018. 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.

11. INTANGIBLE ASSETS

	£000
Cost	
At 1st July 2016	–
Additions	177
At 31st December 2017 and 1st January 2018	177
Additions	29
At 31st December 2018	206
Amortisation	
At 1st July 2016	–
Charge for the period	53
At 31st December 2017 and 1st January 2018	53
Charge for the year	58
At 31st December 2018	111
Net book value	
At 31st December 2017	124
At 31st December 2018	95

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

12. INVESTMENT PROPERTY

	£000
Valuation at 1st January 2018	3,150
Unrealised valuation gain	250
Valuation at 31st December 2018	3,400

The investment property was valued at 31st December 2018. 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 7.94%. The effect of a 1% increase or decrease in the yield would be a £380,000 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.

13. DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non–current asset			
Balance at 1st July 2016	1,196	68	1,264
Movement during the year:			
Profit or loss	55	(68)	(13)
Other comprehensive income	(862)	–	(862)
Balance at 31st December 2017 and 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	626	840	1,466

The deferred tax asset relates to brought forward tax losses recognised during the period as the group has more certainty over future profits. In the previous period this was an unrecognised deferred tax asset of approximately £923,000.

	2018 £000	2017 £000
(b) Deferred tax liability		
Balance brought forward	268	241
Movement during the year:		
Income statement	24	27
Consolidated statement of comprehensive income	13	–
Balance at 31st December	305	268
An analysis of the deferred tax liability is as follows:		
Property, plant and equipment	283	268
Investment property	22	–
	305	268

Notes to the Financial Statements of the Group
(continued)

14. INVENTORIES

	2018 £000	2017 £000
Raw materials and consumables	1,124	1,044
Work in progress	103	80
Finished goods	5,570	5,813
	6,797	6,937

The consolidated income statement includes £7,816,000 (2017: £10,835,000) as an expense for inventories. The provision at 31st December 2018 was £194,000 (2017: £224,000). During the year there was a reversal of write downs of £30,000. In the prior year there was an expense recorded of £123,000.

15. TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Trade receivables	1,981	2,414
Corporation tax	–	47
Prepayments and accrued income	349	432
	2,330	2,893

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. 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.

	2018 £000	2017 £000
Provision for bad and doubtful debts as at 31st December	445	262
Amount Charges	48	236
Amount Released	(408)	(53)
Expected credit loss provision as at 31st December	85	445

During the year the group has 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	0.23%	0.60%	2.79%	80.48%	100%	
Total gross carrying amount	1,178	632	175	40	41	2,066
Lifetime expected credit losses	(3)	(4)	(5)	(32)	(41)	(85)
Net carrying amount						1,981

16. CASH AND CASH EQUIVALENTS

	2018 £000	2017 £000
Cash at bank and in hand	2,732	3,702

17. TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Trade payables	2,246	2,430
Social security and other taxes	483	610
Accruals and other creditors	753	533
Corporation Tax	3	–
Deferred government grant	86	172
	3,571	3,745

18. PROVISIONS

	£000
At 1st July 2016	125
Amount released	(125)
Provisions charged in the period	300
At 31st December 2017 and 1st January 2018	300
Amount released	–
Provisions charged in the year	20
At 31st December 2018	320

The provision relates to the site rationalisation programme relating to discontinued operations. At this stage it is unknown to management as to the expected timing of outflows of economic benefits.

19. 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.

Notes to the Financial Statements of the Group
(continued)

19. 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 2018. The results of that valuation have been projected to 31st December 2018 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:

	31st December 2018 £000	31st December 2017 £000
Present value of scheme liabilities	(50,148)	(53,998)
Fair value of scheme assets	46,460	51,834
Funded status	(3,688)	(2,164)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(3,688)	(2,164)

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.

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Service cost:		
Administration expenses	287	615
Past service loss arising on GMP equalisation	299	–
Net interest expense	54	291
Charge recognised in profit or loss within finance costs	640	906
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	3,673	(7,696)
(Gain)/loss arising from changes in financial assumptions	(2,138)	4,453
Gain arising from changes in demographic assumptions	(349)	(1,148)
Experience loss/(gain)	98	(436)
Charge/(Credit) recorded in other comprehensive income	1,284	(4,827)
Total defined benefit charge/(credit)	1,924	(3,921)

19. PENSION COMMITMENTS (continued)

The principal actuarial assumptions used were:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Liabilities discount rate	2.75%	2.40%
Inflation assumption – RPI	3.15%	3.10%
Inflation assumption – CPI	2.05%	2.00%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	2.05%	2.00%
– benefits accrued after 06/04/1997	2.05%	2.00%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.10%	2.05%
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	86.2
Female pensioner at age 65	88.0	88.1
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.1	87.3
Female aged 45 at year end:	89.2	89.3

Notes to the Financial Statements of the Group
(continued)

19. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Fair value of assets at start of period	51,834	47,171
Interest income	1,209	1,944
Return on assets (excluding amount included in net interest expense)	(3,673)	7,696
Contributions from the employer	400	600
Benefits paid	(3,023)	(4,962)
Administration expenses	(287)	(615)
Fair value of assets at end of period	46,460	51,834
Actual return on assets over the period	(2,464)	9,640

Changes in the present value of liabilities over the period:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Liabilities at start of period	53,998	53,856
Interest cost	1,263	2,235
Remeasurement losses		
– Actuarial (gains)/losses arising from changes in financial assumptions	(2,138)	4,453
– Actuarial gains arising from changes in demographic assumptions	(349)	(1,148)
– Other experience items	98	(436)
Past service cost	299	–
Benefits paid	(3,023)	(4,962)
At end of period	50,148	53,998

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

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Active members	–	–
Deferred pensioners	13,626	14,539
Pensions in payment	36,522	39,459
	50,148	53,998
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:		
Active members	–	–
Deferred pensioners	20	20
Pensions in payment	11	11

19. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	4,414	23,125
Partners Fund	5,808	5,496
Absolute Return Fund	–	17,698
Multi Sector Credit	15,301	–
Diversified Growth Fund	8,130	8,351
Return seeking subtotal	33,653	54,670
Debt instruments		
LDI funds	7,801	6,164
Other		
Property	3,173	3,074
Cash	1,833	10,564
Synthetic Equities Cash Offset	–	(22,638)
Total market value of assets	46,460	51,834

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 2019.

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 £601,000 (increase by £614,000) 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 £272,000 (decrease by £231,000). 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 £2,724,000 if all the other assumptions remained unchanged.

Notes to the Financial Statements of the Group
(continued)

20. FINANCE LEASE
The cash flows relating to finance leases are as follows:

	£000
As at 1st July 2016	–
New finance lease	931
Payments	(264)
Interest charge	26
As at 31st December 2017	693
Payments	(197)
Interest charge	14
As at 31st December 2018	510

The only liabilities arising from financing activities are finance lease liabilities.

Total amounts payable under finance lease

	2018 £000	2017 £000
Within one year	198	198
In the second to fifth years inclusive	329	527
After five years	–	–
	527	725

Within the above outstanding commitments £17,000 (2017: £32,000) relates to interest that will be payable under the agreement.

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

	2018 £000	2017 £000
Current liabilities – due within one year	187	183
Non–current liabilities – not due within one year	323	510
	510	693

21. CALLED UP SHARE CAPITAL

	2018 Number	2018 £000	2017 Number	2017 £000
Ordinary shares of 25p each				
Allotted, called up and fully paid	41,354,353	10,339	41,354,353	10,339

The company holds no ordinary shares in Treasury.

22. EMPLOYEES

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Staff costs		
Wages and salaries	4,572	8,105
Social security costs	458	663
Other pension costs	143	228
Termination costs	–	16
	5,173	9,012

	Number	Number
The average monthly number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	34	43
Administration	12	13
Manufacturing and operations	96	136
	142	192

Directors' remuneration

	Salary and fees £000	Bonus £000	Taxable benefits £000	Year ended 31st December 2018 (excluding pensions) £000	18 months ended 31st December 2017 (excluding pensions) £000	Year ended 31st December 2018 Pension £000	18 months ended 31st December 2017 Pension £000
Executive							
Neil Rylance	251	72	16	339	455	–	33
Roger Salt	72	–	6	78	174	23	60
Paul Stevenson	55	17	4	76	–	1	–
Non-Executive							
Martin Toogood	52	–	–	52	76	–	–
	430	89	26	545	705	24	93

In addition to the above breakdown social security costs amounted to £49,000 (2017: £75,000) in relation to the directors.

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

Notes to the Financial Statements of the Group
(continued)

23. OPERATING LEASES

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

Payments

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Lease payments under operating leases charged to operating costs in the year	121	235

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

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Within one year	144	107
In the second to fifth years inclusive	210	170
After five years	–	–
	354	277

Operating lease payments represent rentals payable by the group principally for vehicles. Leases of vehicles are usually negotiated for a term of three to five years and rentals are fixed for the term of the lease.

Receipts

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Lease receipts under operating leases credited to other operating income	291	409

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:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Within one year	280	275
In the second to fifth years inclusive	618	866
	898	1,141

Operating lease receipts represent rentals receivable by the group from lease of its investment properties, in the prior year amounts were included net of operating expenses. In the current year this has been represented as other operating income.

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

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

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

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

	2018 £000	2017 £000
Current assets		
Trade receivables	1,981	2,414
Cash and cash equivalents	2,732	3,702
	4,713	6,116

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:

	2018 £000	2017 £000
Current liabilities		
Trade and other payables	3,569	3,745

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

Notes to the Financial Statements of the Group
(continued)

24. FINANCIAL INSTRUMENTS (continued)

Financial assets

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

Financial liabilities

There is a finance lease of £510,000 (2017: £693,000).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 31st December 2018 or 31st December 2017. 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

	2018 £000	2017 £000
US dollars	38	13
Euro	(359)	(74)
	(321)	(61)

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 £36,000 (2017: £6,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2017: £nil).

25. DISCONTINUED OPERATIONS

It was announced in the last 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.

	2018 £000	2017 £000
Revenue	935	9,859
Operating costs	(2,324)	(14,970)
Loss before taxation	(1,389)	(5,111)
Taxation	–	(45)
Loss attributable to shareholders of the group from discontinued operations	(1,389)	(5,156)
Earnings per share (basic and diluted) for discontinued operations	(3.36)p	(12.47)p

Statement of Cash Flows

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

	2018 £000	2017 £000
Operating activities	(688)	(900)
Investing activities	582	(58)
Financing activities	–	–
Net cash from discontinued operations	(106)	(958)

The group has made an overall loss on disposal of tangible assets in relation to discontinued operations of £126,000. This included impairment recorded in the prior year of £708,000 to write assets down to recoverable amounts net of gains on disposal of assets in the current year of £582,000.

Company Balance Sheet

as at 31st December 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Non-current assets					
Investments	3		31,800		31,800
Deferred tax	4		470		292
			32,270		32,092
Current assets					
Trade and other receivables	5	102		4,760	
Cash and cash equivalents	6	217		154	
			319		4,914
Total assets			32,589		37,006
Current liabilities					
Trade and other payables	7	(6,931)		(4,459)	
Provisions	8	(320)		(300)	
			(7,251)		(4,759)
Non-current liabilities					
Pension deficit	9		(2,766)		(1,623)
Total liabilities			(10,017)		(6,382)
			22,572		30,624
Equity					
Called up share capital	10		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Merger reserve			6,902		6,902
Retained earnings			1,210		9,262
			22,572		30,624

The total comprehensive income for the period was £1,408,000 (2017: £3,217,000).

The financial statements on pages 44 to 52 were approved by the board of directors on 6th March 2019 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 526657

The notes on pages 46 to 52 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31st December 2018

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1st July 2016	10,339	504	3,617	6,902	7,389	28,751
Comprehensive income for the period						
Profit for the period	–	–	–	–	430	430
Other comprehensive income for the period	–	–	–	–	2,787	2,787
Total comprehensive income for the period	–	–	–	–	3,217	3,217
Contributions by and distributions to owners						
Dividend paid	–	–	–	–	(1,344)	(1,344)
Total contributions by and distributions to owners	–	–	–	–	(1,344)	(1,344)
At 31st December 2017 and 1st January 2018	10,339	504	3,617	6,902	9,262	30,624
Comprehensive income for the year						
Loss for the year	–	–	–	–	(609)	(609)
Other comprehensive income for the year	–	–	–	–	(799)	(799)
Total comprehensive income for the year					(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	10,339	504	3,617	6,902	1,210	22,572

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 46 to 52 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).

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 scheme – 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.

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 12.2% and a terminal growth rate of 2%.

3. INVESTMENTS

	2018 £000	2017 £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 2018, all of which were wholly owned by the company or its subsidiary undertakings and all of which operate and are registered in England and Wales at Victoria Mills, The Green, Ossett, WF5 0AN, unless otherwise stated, are set out below:

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

*Held directly

†Subsequent to the reporting date these companies have been struck off.

Notes to the Financial Statements of the Company
(continued)

4. DEFERRED TAXATION

	Pension deficit £000
Balance at 1st July 2016	1,003
Movement during the period	(711)
Balance at 31st December 2017 and 1st January 2018	292
Movement during the year	178
Balance at 31st December 2018	470

5. TRADE AND OTHER RECEIVABLES

	2018 £000	2017 £000
Amounts owed by group companies	–	4,603
Prepayments and accrued income	102	157
	102	4,760

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 (2017: £Nil).

6. CASH AND CASH EQUIVALENTS

	2018 £000	2017 £000
Cash at bank and in hand	217	154

7. TRADE AND OTHER PAYABLES

	2018 £000	2017 £000
Accruals and other creditors	102	32
Intercompany Payable	6,829	4,427
	6,931	4,459

8. PROVISIONS

	£000
At 1st July 2016	125
Amount released	(125)
Provisions charged in the period	300
At 31st December 2017 and 1st January 2018	300
Amount released	–
Provisions charged in the year	20
At 31st December 2018	320

The provision relates to the site rationalisation programme relating to discontinued operations. At this stage it is unknown to management as to the expected timing of outflows of economic benefits.

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 2018 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:

	2018 £000	2017 £000
Present value of Plan liabilities	(37,611)	(40,499)
Fair value of Plan assets	34,845	38,876
Funded status	(2,766)	(1,623)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(2,766)	(1,623)

Notes to the Financial Statements of the Company
(continued)

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.

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Service cost:		
Past service loss arising on GMP equalisation	224	–
Administration expenses	215	461
Net interest expense	41	218
Charge recognised in profit or loss within finance costs	480	679
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in interest expense)	2,755	(5,772)
(Gain)/loss arising from changes in financial assumptions	(1,604)	3,340
(Gain) arising from changes in demographic assumptions	(262)	(861)
Experience loss/(gain)	74	(327)
Charge/(credit) recorded in other comprehensive income	963	(3,620)
Total defined benefit cost/(credit)	1,443	(2,941)

The principal actuarial assumptions used were:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Liabilities discount rate	2.75%	2.40%
Inflation assumption – RPI	3.15%	3.10%
Inflation assumption – CPI	2.05%	2.00%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	2.05%	2.00%
– benefits accrued after 06/04/1997	2.05%	2.00%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.10%	2.05%
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	86.2
Female pensioner at age 65	88.0	88.1
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	87.1	87.3
Female aged 45 at year end:	89.2	89.3

9. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Fair value of assets at start of period	38,876	35,378
Interest income	907	1,459
Return on assets (excluding amount included in net interest expense)	(2,755)	5,772
Contributions from the employer	300	450
Benefits paid	(2,268)	(3,722)
Administration expenses	(215)	(461)
Fair value of assets at end of period	34,845	38,876
Actual return on assets over the period	(1,848)	7,231

Changes in the present value of liabilities over the period:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Liabilities at start of period	40,499	40,392
Interest cost	947	1,677
Remeasurement (gain)/losses:		
– Actuarial losses arising from changes in financial assumptions	(1,603)	3,340
– Actuarial gains and losses arising from changes in demographic assumptions	(262)	(861)
– Other experience items	74	(327)
Past service cost	224	–
Benefits paid	(2,268)	(3,722)
Liabilities at end of period	37,611	40,499

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

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Active members	–	–
Deferred pensioners	10,220	10,904
Pensions in payment	27,391	29,595
	37,611	40,499
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:		
Active members	–	–
Deferred pensioners	20	20
Pensions in payment	11	11

Notes to the Financial Statements of the Company
(continued)

9. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	Year ended 31st December 2018 £000	18 months ended 31st December 2017 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	3,310	17,345
Partners Fund	4,355	4,121
Absolute Return Fund	–	13,274
Multi Sector Credit	11,476	–
Diversified Growth Fund	6,098	6,263
Return seeking subtotal	25,239	41,003
Debt instruments		
LDI funds	5,851	4,623
Other		
Property	2,380	2,306
Cash	1,375	7,923
Synthetic Equities Cash Offset	–	(16,979)
Total market value of assets	34,845	38,876

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 2018.

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 £451,000 (increase by £461,000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £204,000 (decrease by £173,000). 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 £2,043,000 if all the other assumptions remained unchanged.

10. CALLED UP SHARE CAPITAL

	2018 Number	2018 £000	2017 Number	2017 £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

Notice of Annual General Meeting

Notice is hereby given that the sixty fifth annual general meeting (**"Annual General Meeting"**) of Airea plc (the "Company") will be held at the Cedar Court Hotel, Wakefield, on 9th May 2019, at 2.00 p.m. to consider and vote on the resolutions below. Resolutions 1 to 6 will be proposed as ordinary resolutions and resolution 7 will be proposed as a special resolution.

Ordinary Resolutions

1. To receive the company's financial statements for the year ended 31st December 2018 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the year ended 31st December 2018, of an amount of 2.0p per ordinary share, to be paid on 22nd May 2019 to members whose names appear on the register of members at close of business on 12th April 2019.
3. To re-elect Mr. N. Rylance 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. P. Stevenson who retires by rotation as a director of the company in accordance with article 113 of the company's articles of association.
5. To re-elect Mr. M. Toogood, whose appointment terminates on today's date in accordance with his letter of appointment dated 17th March 2009, as amended by a deed of variation dated 3rd November 2017.
6. To re-appoint BDO LLP as auditor of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix the auditor's remuneration.

Special Resolution

7. 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
6th March 2019

Explanatory Notes to the Notice of Annual General Meeting

Resolution 7 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 7 in the Notice of Annual General Meeting.

The proposed new general authority will be limited, by the terms of resolution 7 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 shares in issue will accordingly be reduced.

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

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

The general authority set out in resolution 7 in the Notice of Annual General Meeting will expire fifteen months' after the resolution is passed or, if earlier, on the date of the next annual general meeting of the company. However, in order to maintain your board's flexibility of action, it is envisaged that this general authority may be renewed annually at annual general meetings of the company.

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

Recommendation

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

Directions to the annual general meeting

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

Administrative Notes to the Notice of Annual General Meeting

The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the company as at close of business on 7th May 2019 or, in the event that the annual general meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after close of business on 7th May 2019 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 0871 664 0300. If you are outside the United Kingdom, please call +44 (0) 371 664 0300 (Calls cost 12p per minute plus your telephone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate).
- 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 7th May 2019 (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 0871 664 0300 (calls cost 12p per minute plus network extras; lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday, excluding UK public holidays).

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

The revocation notice must be received by Link Asset Services no later than 2.00 p.m. on 7th May 2019. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

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

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

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

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

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

CREST proxy voting

CREST users should note that they can lodge their proxy votes for the annual general meeting through the CREST Proxy Voting System. For further instructions, users should refer to the CREST User Manual. Any CREST Sponsored Member should contact their CREST Sponsor. The receiving agent ID for Link Asset Services is RA10.

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