Annual Report – 31st December 2020

AIREA plc

AIREA plc

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Professional Advisers

Auditor
BDO LLP
3 Hardman Street,
Spinningfields,
Manchester,
M3 3AT

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

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

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

Nominated advisers and stockbrokers
N+1 Singer
1 Bartholomew Lane,
London,
EC2N 2AX

Registered Office

Victoria Mills,
The Green,
Ossett,
West Yorkshire,
WF5 0AN
Registered in England no. 00526657
www.aireaplc.co.uk

Strategic Report

Airea plc is pleased that the group has been able to remain open for business throughout the year navigating its way through the most unpredictable and volatile of years driven by the COVID-19 pandemic and Brexit transition phase. This has caused unprecedented market conditions that have been ever changing. During this turbulent political and economic year the group benefitted from the improved operational and supply chain processes implemented during the previous 12 months enabling the group to navigate and mitigate these challenges and continue to prepare the group for growth opportunities when they arise.

Highlights for the year

- Increased year end cash balance from £3.0m to £6.6m (£3.9m excluding cash from CBILS loan of £2.75m);
- Profitable during the COVID-19 pandemic;
- Underlying gross profit margins (revenue less cost of sales) increased year on year;
- Three new product launches during the year.

Principal activity and strategy

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

Overview

After a strong start in the first quarter the effects of the COVID-19 pandemic and various national and regional lockdowns had a significant impact on the group's ability to trade. Whilst the group remained open for business throughout the year management had to reassess its strategic priorities and made the decision to prioritise cash and working capital to provide the best defence against the uncertainty. This did not stop the group looking to the future and continuing to develop new products to provide opportunities for growth.

The group was able to take advantage of the COVID-19 support provided by the UK government and the group's banking partner to help during the period including:

- A six year CBILS loan of £2.75m with no fees, interest or repayments for the initial 12 month period;
- Capital repayment holiday for six months on existing long-term loan;
- Extended overdraft from £0.5m to £1.0m;
- Q1 2020 VAT payment deferred until 2021;
- Furloughed employees throughout the year.

All of these initiatives have helped to bolster the financial performance of the group; however, due to the market conditions revenues were below prior year particularly with regards to export sales. This generated a significantly lower operating profit although we are pleased that underlying gross profit margins actually increased year on year.

The group continued to develop new products, although product launches were pushed back to the fourth quarter and early 2021. It is too early to see any benefits of the new product launches on the performance of the group; however, the feedback from customers has been extremely positive and bodes well for their success in 2021 and beyond. There was a small increase in inventory at the year-end due to the manufacture of new product launch stock.

Despite the pension scheme deficit increasing slightly to £1.8m from £1.5m the group considered its investment strategy a success in limiting the impact the COVID-19 pandemic could have had on the deficit. There continues to be volatility in global equity markets with the scheme's investment strategy constantly under review to mitigate the scheme's long-term risk profile as much as possible.

The value of our investment property increased from £3.6m to £3.7m. The gain is highlighted separately in the income statement.

Strategic Report
(continued)

Group results
Revenue for the year was significantly below prior year at £14.6m (2019: £19.2m) as the COVID-19 pandemic had a significant impact on market demand. As a result operating profit before valuation gain decreased to £0.7m (2019: £2.2m). Underlying gross profit margins increased year on year and the group benefitted from furlough savings (£0.5m) which helped to reduce overheads compared to the prior year even after the additional COVID-19 related costs of £0.1m incurred safeguarding the site.

There was an unrealised valuation gain on the investment property of £0.1m (2019: £0.2m) giving an operating profit after valuation gains of £0.9m (2019: £2.4m).

Other finance costs relating in the main to the defined benefit pension scheme were £0.4m (2019: £0.4m).

After a tax charge of £0.1m primarily due to deferred tax on the pension scheme, partial unwinding of the deferred tax asset as brought forward losses are utilised and unrealised valuation gain on the investment property (2019: £0.4m) profit attributable to shareholders of the group for the year was £0.4m (2019: £1.6m). Earnings per share were 1.00p (2019: 3.97p).

Operating cash flows before movements in working capital and other payables were £1.5m (2019: £2.7m). Working capital decreased by £0.8m (2019: £0.4m) following a reduction in trade receivables and increase in trade and other payables. Contributions of £0.4m (2019: £0.4m) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2017 actuarial valuation. Capital expenditure of £0.2m (2019: £0.4m) related to investment in the Ossett site improving warehouse capacity and machine efficiency.

The group borrowed £2.75m under the government Coronavirus Business Interruption Loan Scheme. This is a six year term loan with no fees, interest or repayment due for the initial 12 months. The group took a six month capital repayment holiday on the existing long-term loan taken out to acquire shares for the Employee Benefit Trust. £0.4m of the loan was repaid during the year. This loan is unsecured and repayable over three years in equal quarterly instalments with five instalments remaining.

No dividend payments were made during the year due to the COVID-19 pandemic (2019: £1.1m) and the board has decided not to declare a final dividend for 2020.

Key performance indicators
As part of its internal financial control procedures the board monitors the key financial metrics of revenue, operating profit, gross margin, working capital (debtor and creditor days), inventory turns and cash. These KPI's are reviewed in comparison to previous year and the budget and analysis undertaken to establish trends and variances. For the year ended 31st December 2020, operating return on sales was 5.1% (2019: 11.3%), return on net operating assets was 4.0% (2019: 13.5%) and working capital to sales percentage was 63.4% (2019: 36.0%).

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

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

The COVID-19 pandemic presents significant uncertainty for the upcoming financial year with an unknown impact of the virus on the group's performance. However, the group is well placed to mitigate this continued risk by drawing on the experience gained navigating the issues during this year when the group was able to remain open for business and continuing to take advantage of available government support. The group can also point towards its strong balance sheet and cash reserves. Further details are provided in the Directors report and note 1.

The post Brexit transition export trading conditions present a short-term risk to the group whilst the most optimal and efficient supply route is established to the group's many customers in the European Union. Whilst the export of goods is initially zero rated for UK VAT purposes the differing treatment our customers face in individual countries has made it more difficult for the customer to import goods. We continue to work with our customers to find the best solution to the logistical challenges to ensure continued and smooth trading conditions.

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

The group operates a defined benefit pension scheme. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of this scheme and the assets they hold. The amount of the deficit may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations and anticipated members' longevity. Further increases in the pension scheme deficit may require the group to increase the amount of cash contributions payable to the scheme, thereby reducing cash available to meet the group's other operating, investing and financing requirements. The performance and risk management of the group's pension scheme and deficit recovery plan are regularly reviewed by both the group and the trustees of the scheme, taking actuarial and investment advice as appropriate. The results of these reviews are discussed with the board and appropriate action taken. Following the triennial funding valuation of the group's pension scheme as at 1st July 2017, a revised deficit recovery plan was agreed. Under the plan the company will continue to make annual contributions of £0.4m to allow a gradual reduction in investment risk. The next triennial funding valuation will be drawn up to 1st July 2020 and completed within the permitted 15 month time period.

Section 172

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

Stakeholder engagement

Investors

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

Investor engagement includes the AGM, one on one investor meetings with the board of directors, on site group investor meetings and also discussions with investors when questions are asked. Other than our routine engagement with investors on topics of strategy, governance and performance, specific matters that were engaged during the year included the impact of Brexit and the impact of the COVID-19 pandemic.

Strategic Report
(continued)

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

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

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

Principal decision 1
Prioritise cash and working capital during COVID-19 pandemic
The board recognised the need to maximise cash and manage working capital during the year due to the levels of uncertainty brought about by the COVID-19 pandemic. The board viewed this as the most sensible course of action to ensure the long-term stability of the group and to position it to take advantage of growth opportunities as and when market conditions improved.

The board decided to take advantage of the available UK government backed support and support from its banking partner in the form of an overdraft extension, a six month capital repayment holiday and £2.75m CBILS loan. The Q1 2020 VAT payment was deferred and a number of employees were furloughed at different times during the year to build up cash reserves and manage cash flow. The board also made the difficult decision to cancel the declared final dividend for 2019 and will not be proposing any final dividend in relation to 2020.

In addition the group planned its manufacturing operations around the expected orders and existing inventory to ensure that cash was not tied up in working capital. The board points to the year end cash balance which highlights the success of these initiatives and is pleased with the flexibility and cash reserves available whilst the pandemic is ongoing.

Principal decision 2
Safeguarding the employees and remaining open for business during the COVID-19 pandemic
The COVID-19 pandemic presented the group with the challenge of how to remain open whilst safeguarding the health and safety of all employees particularly during a national lockdown for employees who were unable to work from home. The group planned to remain open at all times to enable it to continue to provide excellent service to its customers but was mindful that this could only be done if the working environment was safe to do so.

The board agreed that making the Ossett site a COVID-19 secure environment was vital and agreed to spend what was necessary to ensure that the employees who were asked to remain on site were safe and felt safe. £0.1m has been spent during the year on PPE equipment, sanitiser stations and facilitating social distancing policies and procedures such as one way systems, zoning and segregation. As such the group has remained open throughout the year which has contributed to the operating profit achieved during this difficult period.

The Streamlined Energy & Carbon Reporting (SECR) requirements came into effect for large companies and groups from 1st April 2019. The group does not have any large companies that meet the required thresholds and as such no further disclosure is required in line with the SECR requirements.

Other risks

Raw material costs are a significant constituent of overall product cost and are impacted by global commodity markets. Significant fluctuations in raw material costs can have a material impact on profitability. The group continuously seeks out opportunities to develop a robust and competitive supply base, substitute new materials, agree fixed pricing where possible, source material with improved and shortened lead times and closely monitors selling prices and margins making adjustments when necessary.

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

Management and personnel

We continue to recognise the hard work and dedication our staff have applied during this most challenging of years working through the COVID-19 pandemic and uncertainty it has brought to them and their families. We look forward to the contribution they can make going forward in the future of the company.

Current trading and future prospects

The continued investment in our successful commercial flooring business provides significant opportunities for profitable growth; however, the COVID-19 pandemic and nationwide lockdowns continue to suppress market activity on a global basis. We expect this to impact demand for the foreseeable future. The group has flexibility and can adapt to these unprecedented times and will continue to invest in new products throughout 2021 based upon our confidence in the future prospects of the business during and particularly post the COVID-19 pandemic.

The strategic report has been approved by the board of directors and signed on behalf of them by:

MARTIN TOOGOOD
Chairman

NEIL RYLANCE
Chief Executive Officer

3rd March 2021

Directors' Report

The directors present their report for the year ended 31st December 2020.

Dividends

Given the financial performance of the group due to the impacts of the COVID-19 pandemic and the ongoing uncertainty in the market and the economy, the group will continue to prioritise cash to ensure medium to long-term stability and therefore have made the difficult decision to pay no dividend this year (2019: interim 0.8p, final: nil). The directors strongly believe that having benefitted from nearly £0.5m of furlough grants from the UK government to retain employees it would be better served to retain this cash to provide for further long-term stability.

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. Neil is employed full time by the group.

Martin Toogood joined the group as an independent non-executive director on 1st April 2009, and was appointed non-executive chairman on 6th November 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe including ILVA, B&Q, Carpetright and Habitat. Martin is currently Executive Chairman of Great British Botanical Limited the holding company for Hartley Botanic Limited. Martin's appointment terminates at the date of the annual general meeting in accordance with his letter of appointment dated 17th March 2009, as amended by a deed of variation dated 13th November 2020. Martin is contracted for 15 days per annum and is available for additional time should the circumstances arise. Martin retires in accordance with the amended deed of variation and the QCA Corporate Governance code and, being eligible, offers himself for re-election.

Paul Stevenson joined the group as group finance director and company secretary on 2nd July 2018 and was appointed a director of the group on 24th July 2018 having joined from Caldero, a Pay TV technology provider where he held the position of CFO. Previous to that he held a number of senior finance positions at Arris Group, Pace plc and Heywood Williams. Paul qualified as a chartered accountant whilst at KPMG. Paul is employed full time by the group.

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

Directors who held office at 31st December 2020 had the following interests in the Ordinary Shares of the company:

	2020	2019
Martin Toogood	2,100,361	2,100,361

There were no other changes in directors' interests between 1st January 2021 and 4th March 2021. None of the directors have an interest in the share capital of subsidiary companies other than as a nominee of the company.

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

Risks considered by directors are discussed and disclosed within the strategic report on pages 2 and 3.

Share capital

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

Substantial shareholdings

At 31st December 2020, in addition to the interests of Martin Toogood amounting to 5.08% noted above, the company had been notified of the following interests representing 3.00% or more of the company's Ordinary Share capital:

	Number held	%
Lowland Investment Trust	4,125,000	9.97
Mrs. C. J. Tobin	4,066,952	9.83
Airea Employee Benefit Trust	2,777,600	6.72
Mr. & Mrs. D. Newlands	2,422,500	5.86
Mr. & Mrs. G. A. Upsdell	1,968,513	4.76
Mr. M. H. Yeadon	1,812,540	4.38

Corporate Governance Chairman's Statement

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

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

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

Values and Behaviours

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

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

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

Directors' Report
(continued)

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

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

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

Audit committee
The audit committee is chaired by Martin Toogood and there are no other members. This committee met twice during the financial year and was attended by all the directors of the company at the invitation of the chairman. It provides a forum through which external auditors report to the board, and assists the board in ensuring that appropriate policies, internal controls and compliance procedures are in place. There is no report available to be shared in these accounts.

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

Internal control

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

Employees in the United Kingdom

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

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

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

Investor relations

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

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

Charitable and political contributions

There were no charitable donations made during the year (2019: £1,000). There were no political contributions made during the year (2019: £nil).

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. Details of the effect COVID-19 has on the group's going concern position are given in note 1 "Going Concern". In summary, the group continues to be subject to the uncertainties the pandemic has on the current economic environment and subsequent market demand, however, the group's financial headroom (reviewed whilst stress testing the forecasts for worst case scenarios and the impact this would have on the group's ability to operate) means that it is well placed to manage the pandemic and its business risks successfully. The directors can reasonably expect that the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis remains appropriate in preparing the annual report and accounts.

Future developments

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

Directors' Report
(continued)

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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
3rd March 2021

Independent Auditor's Report to the members of AIREA plc

Opinion on the financial statements

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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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.

We have audited the financial statements of Airea Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31st December 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheet, the consolidated statement of cash flows and the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. 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).

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our procedures in respect of the evaluation of the directors' assessment of the group and the parent company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the internal forecasting process to confirm the projections are prepared by appropriate personnel who are aware of the detailed figures in the forecast but also have a high level understanding of the entity's market, strategy and profile in the customer base, and the potential impact that COVID-19 might have on these projections;
- reviewing and challenging the going concern paper prepared by management by verifying the numerical inputs, accuracy of calculations and obtaining evidence to support management's estimates;
- a comparison of the best estimate forecasts prepared by management to the actual results in the financial period being audited along with an assessment of the key assumptions used to substantiate the potential impact of COVID-19 through the use of sensitivity analysis on these assumptions and an overall comparison to actual post year end results. In doing this, we challenged management's assessment of reasonably possible scenarios on the impact of trading against actual trading results subsequent to the Government's lockdown instruction;
- challenged management on the assumptions within the stress test scenarios to understand the headroom impact of reductions in revenue, EBITDA and profit, and any delays in receipts of cash from customers on the banking covenants.

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	100% (2019: 100%) of group profit before tax 100% (2019: 100%) of group revenue 100% (2019: 100%) of group total assets		
Key audit matters		2020	2019
	Valuation of the pension scheme liability	Yes	Yes
	Fair value of the share options and the treatment of the Employee Benefit Trust (EBT)	No	Yes
	The fair value of the share options and the treatment of the EBT is no longer considered to be a key audit matter as the complexity of the matter was isolated to the prior year and is no longer considered a risk for the audit team.		
Materiality	Group financial statements as a whole £85,000 (2019: £95,000) based on 5% (2019: 5%) of profit before tax. For the current year, we have used an average of the last three years.		

An overview of the scope of our audit
Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The group operates solely in the United Kingdom through a number of legal entities, which form reporting components. Significant components were defined as those reporting components contributing more than 15% towards group profit before tax, or if judgementally considered to be significant by nature. The financial information relating to the parent company and all other significant components of the group were subject to full scope audits by the group audit team. The group audit team also performed full scope statutory audits on the trading non-significant components.

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) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
Valuation of the pension scheme liability	
As described in notes 4 and 20 the group has a defined benefit pension plan. The plan is closed to new entrants and benefits no longer accrue to members. This is an area involving significant judgement and estimation, requiring management, after taking advice from their actuarial advisers, to make a number of assumptions concerning the discount rate, inflation and mortality estimates. Our key audit matter is in relation to the valuation of the pension scheme liabilities. The assumptions used within the calculation are complex and changes to the assumptions could lead to material movements in the liability. The group's retirement benefit obligation at 31st December 2020 is £54,996,000 (2019: £53,386,000) as per note 20.	We obtained the actuarial valuation reports directly from the actuaries for the scheme and with the help of external pension scheme experts we; – Evaluated the appropriateness of the assumptions applied in the valuation of the scheme liabilities, utilising our internal experts to challenge managements actuaries on the assumptions used; – Assessed whether there had been any changes in the methodology to determine the assumptions since the prior year; – Assessed the completeness and accuracy of disclosures within the financial statements in accordance with accounting standards. Key observations: Based on the evidence obtained, we did not identify any indications that the fair value of the pension scheme liabilities was inappropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020 £	2019 £	2020 £	2019 £
Materiality	85,000	95,000	45,000	55,000
Basis for determining materiality	3 year average basis utilising 5% of profit before tax	5% of profit before tax	55% of group materiality	55% of group materiality
Rationale for the benchmark applied	We consider profit before tax to be one of the principal considerations for users of the financial statements in assessing the financial performance of the business.	We consider profit before tax to be one of the principal considerations for users of the financial statements in assessing the financial performance of the business.	Limited to component materiality for group purposes.	Limited to component materiality for group purposes.
Performance materiality	55,250	57,000	29,250	33,000
Basis for determining performance materiality	65% (2019: 60%) selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.		65% (2019: 60%) Amount selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.	

Component materiality
We set materiality for each component of the group based on a percentage of between 53% and 80% of group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £45,000 to £68,000. In the audit of each component, we further applied performance materiality levels of 65% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold
We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £2,550 (2019: £2,850). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	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. In the light of the knowledge and understanding of the group and 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.
Matters on which we are required to report by exception	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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or – the parent company financial statements and the part of the directors' remuneration report to be audited 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.

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

Responsibilities of directors
As explained more fully in the statement of directors' responsibilities, 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.

Extent to which the audit was capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS and the Companies Act 2006) and the relevant tax compliance regulations.
- In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations relating to environmental, occupational health and safety and data protection.
- We understood how the group is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and challenging the assumptions made by management in their significant accounting estimates in particular in relation to estimation of the pension scheme liabilities, stock valuation and the recognition and measurement of litigation liabilities. Our audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; review of legal and professional expenditure and supporting invoices; enquiries of those responsible for legal and compliance procedures, group management, and divisional management; and focused testing on laws and regulations that could give rise to a material misstatement in the group financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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
Manchester, UK

3rd March 2021

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 2020

	Note	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Continuing Operations			
Revenue	2	14,554	19,183
Operating costs	3	(14,090)	(17,297)
Other operating income		280	280
Operating profit before valuation gain		744	2,166
Unrealised valuation gain	11	125	200
Operating profit		869	2,366
Finance income	5a	7	6
Finance costs	5b	(376)	(411)
Profit before taxation		500	1,961
Taxation	6	(109)	(403)
Profit attributable to shareholders of the group		391	1,558
Basic and diluted earnings per share for the group	7	1.00p	3.97p

The notes on pages 23 to 49 form part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31st December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Profit attributable to shareholders of the group			391		1,558
Items that will not be classified to profit or loss					
Actuarial (loss)/gain recognised in the pension scheme	20	(389)		2,172	
Related deferred taxation	12a	74		(369)	
			(315)		1,803
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Revaluation/(impairment) of property	9	37		(17)	
Related deferred taxation	12b	(4)		3	
			33		(14)
Total other comprehensive (loss)/income			(282)		1,789
Total comprehensive income attributable to shareholders of the group			109		3,347

The notes on pages 23 to 49 form part of these financial statements.

Consolidated Balance Sheet
as at 31st December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Non-current assets					
Property, plant and equipment	9		4,271		4,229
Intangible assets	10		54		39
Investment property	11		3,725		3,600
Deferred tax asset	12a		920		847
Right-of-use-asset	13		1,086		1,233
			10,056		9,948
Current assets					
Inventories	14	5,622		5,461	
Trade and other receivables	15	1,712		2,112	
Cash and cash equivalents	16	6,555		2,957	
			13,889		10,530
Total assets			23,945		20,478
Current liabilities					
Trade and other payables	17	(2,895)		(2,412)	
Provisions	18	(465)		(320)	
Lease liabilities	13	(243)		(329)	
Loans and borrowings	19	(1,071)		(562)	
			(4,674)		(3,623)
Non-current liabilities					
Deferred tax	12b	(609)		(457)	
Pension deficit	20	(1,789)		(1,472)	
Lease liabilities	13	(188)		(323)	
Loans and borrowings	19	(2,641)		(724)	
			(5,227)		(2,976)
Total liabilities			(9,901)		(6,599)
Net assets			14,044		13,879
Equity					
Called up share capital	21		10,339		10,339
Share premium account			504		504
Own Shares			(1,197)		(1,839)
Share-based payment reserve			141		85
Capital redemption reserve			3,617		3,617
Revaluation reserve			3,014		3,048
Retained earnings			(2,374)		(1,875)
Total equity			14,044		13,879

The financial statements on pages 18 to 49 were approved by the board of directors on 3rd March 2021 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 00526657

The notes on pages 23 to 49 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31st December 2020

	Note	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Cash flows from operating activities			
Profit for the year		391	1,558
Depreciation	9	228	206
Depreciation of right-of-use assets	13	270	274
Amortisation	10	38	65
Movement in provisions		145	–
Share-based payment expense		56	–
Net Finance costs	5	369	405
Profit on disposal of property, plant and equipment		–	(12)
Tax charge	6	109	403
Unrealised valuation gain	11	(125)	(200)
Operating cash flows before movements in working capital		1,481	2,699
(Increase)/decrease in inventories		(161)	1,336
Decrease in trade and other receivables		456	221
Increase/(decrease) in trade and other payables		467	(1,159)
Cash generated from operations		2,243	3,097
Contributions to defined benefit pension scheme		(400)	(400)
Net cash generated from operating activities		1,843	2,697
Cash flows from investing activities			
Payments to acquire intangible fixed assets		(53)	(9)
Payments to acquire tangible fixed assets		(233)	(378)
Receipts from sales of tangible fixed assets		–	136
Net cash used in investing activities		(286)	(251)
Cash flows from financing activities			
Interest paid on lease liabilities		(15)	(21)
Interest paid on borrowings		(33)	(34)
Interest received		7	6
Proceeds from loan		2,750	1,700
Purchase of own shares by the EBT		–	(2,000)
Principal paid on lease liabilities	13	(344)	(343)
Repayment of loan		(324)	(448)
Equity dividends paid		–	(1,081)
Net cash received/(used) in financing activities		2,041	(2,221)
Net increase in cash and cash equivalents		3,598	225
Cash and cash equivalents at start of the year		2,957	2,732
Cash and cash equivalents at end of the year		6,555	2,957

The notes on pages 23 to 49 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31st December 2020

	Share capital £000	Share premium account £000	Own Shares £000	Share based payment reserve £000	Capital redemption reserve £000	Revaluation reserve £000	Retained earnings £000	Total equity £000
At 1st January 2019	10,339	504	–	–	3,617	3,096	(4,028)	13,528
Comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	1,558	1,558
Actuarial gain recognised on the pension scheme	–	–	–	–	–	–	1,803	1,803
Impairment of property	–	–	–	–	–	(14)	–	(14)
Total comprehensive income for the year	–	–	–	–	–	(14)	3,361	3,347
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	(1,081)	(1,081)
Purchase of own shares by EBT	–	–	(2,000)	–	–	–	–	(2,000)
Share based payment	–	–	–	85	–	–	–	85
Own shares transfer	–	–	161	–	–	–	(161)	–
Revaluation Reverse Transfer	–	–	–	–	–	(34)	34	–
Total contributions by and distributions to owners	–	–	(1,839)	85	–	(34)	(1,208)	(2,996)
At 31st December 2019 And 1st January 2020	10,339	504	(1,839)	85	3,617	3,048	(1,875)	13,879
Comprehensive income for the year								
Profit for the year	–	–	–	–	–	–	391	391
Actuarial loss recognised on the pension scheme	–	–	–	–	–	–	(315)	(315)
Impairment of property	–	–	–	–	–	–	33	33
Total comprehensive income for the year	–	–	–	–	–	–	109	109
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	–	–
Share based payment	–	–	–	56	–	–	–	56
Own Shares Transfer	–	–	642	–	–	–	(642)	–
Revaluation Reserve Transfer	–	–	–	–	–	(34)	34	–
Total contributions by and distributions to owners	–	–	642	56	–	(34)	(608)	56
At 31st December 2020	10,339	504	(1,197)	141	3,617	3,014	(2,374)	14,044

The shortfall in the balance between the exercise price of the share options granted and the outstanding loan to the EBT is transferred from own shares to retained earnings over the vesting period note 25.

The notes on pages 23 to 49 form part of these financial statements.

Notes to the Financial Statements of the Group

1. ACCOUNTING POLICIES OF THE GROUP

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

Basis of preparation

The consolidated financial statements have been prepared on a going concern basis in accordance with applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The basis of preparation and accounting policies used in preparing the financial statements for the year ended 31st December 2020 remain unchanged from the previous year and are set out below. The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

Significant accounting judgements and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. Information about such judgements and estimates is contained in the accounting policies and note 4 to the financial statements.

Basis of consolidation

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

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

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

Notes to the Financial Statements of the Group

(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Going Concern

In preparing these financial statements, the directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to assume that the group will continue in business. In satisfaction of this responsibility the directors have considered the group's ability to meet its liabilities as they fall due for a period of at least twelve months from the signing date of the financial statements.

Due to the current environment arising from the global pandemic, management have assessed the likely impact of COVID-19 on the group on latest available information and government guidance. The assessment has looked at the likely duration of the crisis as well as the sales that could be expected to be generated during an extended lockdown period and subsequent periods of market uncertainty.

The group continues to manufacture at its production facility and will remain open for business throughout the lockdown periods. The company has not experienced any significant disruption from employee absence, supply chain or distribution networks and none is anticipated in the foreseeable future.

During this period of uncertainty, the directors have taken steps to mitigate the effects of COVID-19 by prioritising cash, working capital and managing its supply chain efficiently. The Government has made it clear that they will do whatever it takes to support the economy and the group is well placed to take advantage of the Government support available. The group furloughed employees during the financial year and in June 2020 the group obtained a Coronavirus Business Interruption Loan for £2.75m with no interest, fees or repayments due within the first twelve months. The group has also increased the overdraft facility to £1.0m.

At the current time, the group is trading well against forecasts prepared but the directors acknowledge that there may be a reduction in revenue over the coming months due to the prevailing economic conditions. Stress testing has been conducted and considered, taking into account the potential disruptions and reductions in revenue over the coming months. This involved reducing revenues by up to 50% to mirror the impact seen during the first lockdown in April and May 2020. At this level the company would still have sufficient cash reserves to continue to operate for the next 12 months. Performance has continued significantly above these levels in the subsequent lockdowns.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future and will not breach the covenants on the existing borrowings. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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.

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.

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Other operating income

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

Government grants

Government grants are set against the relevant cost. In the current year the group made use of the job retention scheme.

Interest payable and receivable

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

Dividends payable

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

Property

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

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

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

Buildings	2% – 10%

Plant and equipment

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

Plant and equipment	10% – 33%

Investment property

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

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

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

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Fair value

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (prices) or indirectly (derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data. Their fair value of assets and investment property are determined using valuation techniques (notes 9 and 11).

Impairment testing of property, plant and equipment

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

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

Intangible assets

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

Intangible assets	33%

Inventories

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

Foreign currency

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

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Financial assets

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

Financial assets comprise trade receivables and cash and cash equivalents. Financial assets are recognised in the group's Consolidated Balance Sheet when the group becomes a party to the contractual provisions of the instrument. Trade receivables are measured at initial recognition at fair value and subsequently measured at amortised cost. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement using the expected credit loss model.

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

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.

Leases

Where a contract meets IFRS 16's definition of a lease, lease agreements give rise to the recognition of a non-current asset representing the right to use the leased item, and a loan obligation for future lease payables. Lease costs are recognised in the form of depreciation of the right to use asset and interest on the lease liability.

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

Taxation

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

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

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

Notes to the Financial Statements of the Group
(continued)

1. ACCOUNTING POLICIES OF THE GROUP (continued)

Cash and cash equivalents

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

Pensions

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

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

Provisions

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

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

Employee Benefits Trust (EBT)

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

Equity

Equity is broken down into the elements listed below:

- **Share capital** representing the nominal value of equity shares;
- **Share premium** representing the excess over nominal value of the fair value of consideration received for equity shares;
- **Own Shares** representing the weighted average cost of own shares held by the employee benefit trust;
- **Share based payment reserve** represents the movement in cost of equity settled transactions in relation to long-term incentive plan;
- **Capital redemption reserve** representing the nominal value of the company's own shares purchased by the company and cancelled;
- **Revaluation reserve** representing the above cost of assets held at fair value; and
- **Retained earnings** representing amounts retained from earnings.

1. ACCOUNTING POLICIES OF THE GROUP (continued)

New standards and amendments to standards adopted in the period

New standards that have been adopted in the annual financial statements for the year ended 31st December 2020, but have not had a significant effect on the group are:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative – Definition of Material);
- Definition of a Business (Amendments to IFRS 3);
- Interest Rate Benchmark Reform – IBOR 'phase 2' (Amendments to IFRS 9, IAS 39 and IFRS 7);
- COVID-19-Related Rent Concessions (Amendments to IFRS 16); and
- Revisions to the Conceptual Framework for Financial Reporting;

Standards issued but not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early.

The following amendments are effective for the period beginning 1st January 2022:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37);
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16);
- Annual Improvements to IFRS Standards 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41); and
- References to Conceptual Framework (Amendments to IFRS 3).

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

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

Notes to the Financial Statements of the Group
(continued)

2. SEGMENTAL

The group presents its results in accordance with internal management reporting information which means that the group is reported as only one segment. The performance of the group is monitored and measured and strategic decisions made by the Chief Operating Decision Maker, which is deemed to be the board, on the basis of the group's results. The group's results include all items presented under IFRS. This management information therefore accords with group financial information presented in the consolidated income statement and consolidated balance sheet.

Revenue is reported by geographical location of customers.

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

Analysis of revenue by destination	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
United Kingdom	11,520	14,279
Republic of Ireland	10	31
Rest of Europe	2,554	4,446
North America	14	28
Rest of the World	456	399
	14,554	19,183

3. OPERATING COSTS

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Changes in stocks of finished goods and work in progress	(69)	721
Raw materials and consumables	6,006	7,344
Other external charges	3,393	3,640
Staff costs (note 22)	4,738	4,881
Government grant	(470)	–
Depreciation	228	206
Depreciation of right-of-use asset	270	274
Amortisation	38	66
Foreign exchange differences	(44)	165
	14,090	17,297

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Fees payable to the company's auditor for the audit of the financial statements	33	28
Audit of the financial statements of the company's subsidiaries		
Pursuant to legislation	17	17
	50	45

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the group's accounting policies, appropriate key judgements and estimates have been made in a number of areas and the actual outcome may vary from the position described in the consolidated balance sheet at 31st December 2020.

Key Judgements

Deferred tax assets – £920,000 (2019: £847,000)

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

Accounting estimates

The key sources of estimation uncertainty that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows:

Inventories – £5,622,000 (2019: £5,461,000)

Certain items of inventory are not expected to sell at prices which cover cost, either because they are remnants, come from discontinued ranges or are below the required quality standard. The inventory is carried at the lower of cost and net realisable value.

Credit loss provision – £116,000 (2019: £61,000)

Certain debts carry the potential to become uncollectable and the group calculates a provision for credit losses using a model of expected loss rates detailed in note 15. Due to the COVID-19 pandemic there is increased uncertainty over the collectability of trade receivables and therefore the provision has increased year on year to reflect this.

Provisions – £465,000 (2019: £320,000)

The group carries certain provisions related to ongoing legal matters relating to the discontinued operations and other potential employee costs were the outcome of the proceedings are uncertain. Management uses its judgement to make a best estimate of potential costs and provide for the cost of such matters. These provision are detailed in note 18.

Pension deficit – £1,789,000 (2019: £1,472,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 20. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit.

Share-based payment reserve – £141,000 (2019: £85,000)

The group created an Employee Benefits Trust to award share options to certain members of staff. The fair value of the share options has been calculated and valued using the Black-Scholes methodology and is subject to a number of assumptions as detailed in note 23. Management believe that the performance conditions attached to the options for vesting are still achievable and are regularly reviewed to support the costs accrued within the financial statements.

5. FINANCE INCOME AND COSTS

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
(a) Finance income		
Other Interest	7	6

Notes to the Financial Statements of the Group
(continued)

5. FINANCE INCOME AND COSTS (continued)

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
(b) Finance costs		
Finance costs relating to lease (note 13)	15	21
Finance costs relating to borrowings (note 19)	33	34
Finance costs relating to the pension scheme (note 20)	328	356
	376	411

6. TAXATION

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Based on the profit for the year at 19.00% (2019: 19.00%)		
Corporation tax		
– Current year	(39)	1
– Prior year	(1)	(3)
Total current tax	(40)	(2)
Deferred tax		
– Current year	165	398
– Prior year	–	–
– Relating to pension deficit	(16)	7
Total deferred tax (note 12)	149	405
Total tax charge for the year	109	403

The tax charge for the year can be reconciled to the profit per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%) as follows:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Profit for the year	391	1,558
Tax credit	109	403
Profit on ordinary activities before tax	500	1,961
Profit on ordinary activities before tax multiplied by standard rate of corporation tax of 19.00% (2019: 19.00%)	95	373
Effects of:		
Disallowed expenditure	13	44
Capital allowance	–	–
R&D claim	–	(111)
Recognition of deferred tax asset (note 12)	–	94
Prior year adjustment	1	3
Brought forward losses utilised	–	–
Total tax charge for the year	109	403

7. EARNINGS PER SHARE

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

Number of shares	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Weighted average number of Ordinary Shares used in basic and diluted EPS	39,271,153	39,271,153

Earnings	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Earnings used in basic and diluted EPS	391	1,558

Group profit per share	12 months ended 31st December 2020 pence	12 months ended 31st December 2019 pence
Basic and diluted earnings per share for the group	1.00	3.97

8. DIVIDENDS

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Paid during the year:		
Final dividend for the prior year of nil p per share (2019: 2.0p per share)	–	772
Interim dividend paid during the year of nil p per share (2019: 0.80p per share)	–	309
	–	1,081
Proposed after the year end (not recognised as a liability):		
Final dividend for the year of nil p per share (2019: nil p per share)	–	–

Notes to the Financial Statements of the Group

(continued)

9. PROPERTY, PLANT AND EQUIPMENT

	Property £000	Plant and equipment £000	Total £000
Cost or valuation			
At 1st January 2019	3,425	10,157	13,582
Reclassification due to adoption of IFRS 16 (note 13)	–	(1,186)	(1,186)
Reclassification to property	48	(48)	–
Additions	59	319	378
Disposals	–	(136)	(136)
At 31st December 2019	3,532	9,106	12,638
Additions	55	178	233
Disposals	–	–	–
At 31st December 2020	3,587	9,284	12,871
Depreciation			
At 1st January 2019	–	8,474	8,474
Reclassification due to adoption of IFRS 16 (note 13)	–	(158)	(158)
Reclassification to property	5	(5)	–
Charge for year	85	121	206
Disposals	–	(130)	(130)
Revaluation	17	–	17
At 31st December 2019	107	8,302	8,409
Charge for year	92	136	228
Disposals	–	–	–
Impairment	(37)	–	(37)
At 31st December 2020	162	8,438	8,600
Net book value			
At 31st December 2019	3,425	804	4,229
At 31st December 2020	3,425	846	4,271

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

The group has assets under construction of £120,000 (2019: £118,000) included within plant and equipment.

The group has contracts placed for future capital expenditure of £0.9m (2019: £nil) related to property, plant and equipment.

The operating property was valued at 31st December 2020. The valuation was prepared in accordance with the RICS Valuation – Professional Standards, January 2014 Global and UK edition, published by the Royal Institution of Chartered Surveyors ("RICS") ("the Red Book") and the IVSC International Valuation Standards by external independent qualified valuers with recent experience valuing operating properties in the location held by the group.

The property measured at fair value is categorised as level 3 in the fair value hierarchy as defined by IFRS 13 as one or more of the inputs to the valuation are partly based on unobservable market data. In arriving at their valuation, the independent valuers have formed an opinion as to the unobservable input being the rent per square foot which a potential purchaser would apply in arriving at the market value. This input is arrived at using market comparables for the type, location and condition of the property. The capital rate used for valuation is £17.50 per sq ft. The effect of a £5 change in the capital rate per square foot would be a £979,000 movement in the valuation.

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

10. INTANGIBLE ASSETS

	£000
Cost	
At 1st January 2019	206
Additions	9
At 31st December 2019	215
Additions	53
At 31st December 2020	268
Amortisation	
At 1st January 2019	111
Charge for the year	65
At 31st December 2019	176
Charge for the year	38
At 31st December 2020	214
Net book value	
At 31st December 2019	39
At 31st December 2020	54

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

11. INVESTMENT PROPERTY

	£000
Valuation at 31st December 2019	3,600
Unrealised valuation gain	125
Valuation at 31st December 2020	3,725

The investment property was valued at 31st December 2020. 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 7.25%. The effect of a 1% increase in the yield would be a £451,000 movement in the valuation and a 1% decrease in yield would be a £596,000 movement in valuation.

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

Notes to the Financial Statements of the Group
(continued)

12. DEFERRED TAXATION

	Pension deficit £000	Tax losses £000	Total £000
(a) Deferred tax non-current asset			
Balance at 1st January 2019	626	840	1,466
Movement during the year:			
Profit or loss	(7)	(243)	(250)
Other comprehensive income	(369)	–	(369)
Balance at 31st December 2019	250	597	847
Movement during the year:			
Profit or loss	16	(17)	(1)
Other comprehensive income	74	–	74
Balance at 31st December 2020	340	580	920

	2020 £000	2019 £000
(b) Deferred tax liability		
Balance brought forward	457	305
Movement during the year:		
Income statement	148	155
Consolidated statement of comprehensive income	4	(3)
Balance at 31st December	609	457
An analysis of the deferred tax liability is as follows:		
Property, plant and equipment	495	401
Share scheme	27	–
Investment property	87	56
	609	457

13. LEASES

The group principally has two types of lease, vehicle leases and the lease of plant and machinery. As at 31st December 2020 the group held 26 vehicle leases and 1 plant and machinery lease. All leases are of a fixed nature in relation to the payments made and any future outflows, therefore there is no impact in relation to any percentage movement in interest rate or asset value.

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

Right of Use Assets	Vehicles £000	PPE £000	Total £000
At 1st January 2020	324	909	1,233
Additions	123	–	123
Depreciation	(151)	(119)	(270)
At 31st December 2020	296	790	1,086

13. LEASES (continued)

Lease Liabilities

	Vehicles £000	PPE £000	Total £000
At 1st January 2019	354	510	864
Additions	131	–	131
Payment	(166)	(198)	(364)
Interest Expense	11	10	21
At 1st January 2020	330	322	652
Additions	123	–	123
Payments	(161)	(198)	(359)
Interest Expense	9	6	15
At 31st December 2020	301	130	431

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Current liabilities	243	329
Long-term liabilities	188	323
	431	652

Below are the future economic outflows related to company leases

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Within one year	253	353
In the second to fifth years inclusive	195	323
After five years	–	–
	448	676

Receipts

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Lease receipts under operating leases credited to other operating income	280	280

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Within one year	280	280
In the second to fifth years inclusive	58	338
	338	618

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

Notes to the Financial Statements of the Group
(continued)

14. INVENTORIES

	2020 £000	2019 £000
Raw materials and consumables	714	637
Work in progress	203	137
Finished goods	4,705	4,687
	5,622	5,461

The consolidated income statement includes £5,937,000 (2019: £8,065,000) as an expense for inventories. The provision at 31st December 2020 was £144,000 (2019: £142,000).

15. TRADE AND OTHER RECEIVABLES

	2020 £000	2019 £000
Trade receivables	1,218	1,709
Prepayments and accrued income	494	403
	1,712	2,112

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

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

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

	2020 £000	2019 £000
Provision for bad and doubtful debts as at 1st January	61	85
Amount Charges	96	60
Amount Released	(41)	(84)
Expected credit loss provision as at 31st December	116	61

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

£'000	Current	More than 30 days	More than 60 days	More than 90 days	More than 120 days	More than 150 days	Total
Expected credit loss rate	6.05%	6.94%	18.15%	79.13%	428.88%	100%	
Total gross carrying amount	858	367	95	9	3	2	1,334
Lifetime expected credit losses	(52)	(25)	(17)	(7)	(13)	(2)	(116)
Net carrying amount							1,218

16. CASH AND CASH EQUIVALENTS

	2020 £000	2019 £000
Cash at bank and in hand	6,555	2,957

17. TRADE AND OTHER PAYABLES

	2020 £000	2019 £000
Trade payables	1,808	1,532
Social security and other taxes	744	433
Accruals and other creditors	343	446
Corporation Tax	–	1
	2,895	2,412

18. PROVISIONS

	£000
At 1st January 2019	320
Amount utilised	–
Provisions charged in the period	–
At 31st December 2019	320
Amount utilised	–
Provisions charged in the year	145
At 31st December 2020	465

The provision relates to ongoing legal costs relating to discontinued operations, property costs and other potential employee costs. At this stage it is unknown to management as to the expected timing of outflows of economic benefits.

Notes to the Financial Statements of the Group
(continued)

19. BORROWING

The cash flows relating to borrowing are as follows:

	£000
As at 31st December 2019	1,286
Additions	2,750
Payments	(357)
Interest charge	33
As at 31st December 2020	3,712

Below are the future economic outflows related to company borrowing.

	2020 £000	2019 £000
Within one year	1,156	597
In the second to fifth years inclusive	2,614	746
After five years	231	–
Net cash	4,002	1,343

During the year a Coronavirus Business Interruption Loan ("CBILS") of £2.75m was secured with no fees or interest payable for the initial 12 month period. After the initial 12 month period the loan is repayable in 60 equal instalments over 5 years with an interest rate of 3.99% above the Bank of England Base rate. Within the above outstanding commitments £562,000 relates to interest that will be payable under the agreement.

The unsecured loan of £1.7m taken during the prior year is repayable in equal quarterly instalments over 3 years with an interest rate of 2.5% above the Bank of England base rate. Within the above outstanding commitments £304,000 relates to interest that will be payable under the agreement.

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

	2020 £000	2019 £000
Current liabilities – due within one year	1,071	562
Non-current liabilities – not due within one year	2,641	724
	3,712	1,286

20. PENSION COMMITMENTS

Airea PLC and Burmatex Ltd sponsor the Sirdar PLC Benefits Retirement Benefits Plan (1974), a funded defined benefit pension scheme in the UK. The Plan is administered within a trust which is legally separate from the Companies. Trustees are appointed by both the Companies and the Plan's membership and act in the interest of the Plan and all relevant stakeholders, including the members and the Companies. The Trustees are also responsible for the investment of the Plan's assets.

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.

20. PENSION COMMITMENTS (continued)

The Plan is subject to regular actuarial valuations, which are usually carried out every three years. The next actuarial valuation is due to be carried out with an effective date of 1st July 2023. 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 is being carried out as at 1st July 2020. The initial results of that valuation have been projected to 31st December 2020 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

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

	31st December 2020 £000	31st December 2019 £000
Present value of scheme liabilities	(54,996)	(53,386)
Fair value of scheme assets	53,207	51,914
Funded status	(1,789)	(1,472)
Restriction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(1,789)	(1,472)

The amounts recognised in comprehensive income are:

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Service cost:		
Administration expenses	301	256
Past service loss arising on GMP equalisation	–	–
Net interest expense	27	100
Charge recognised in profit or loss within finance costs	328	356
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	(3,350)	(6,939)
Loss arising from changes in financial assumptions	4,616	4,767
Gain arising from changes in demographic assumptions	(1,286)	–
Loss arising from GMP Equalisation on past transfers	47	–
Experience loss	362	–
Charge/(credit) recorded in other comprehensive income	389	(2,172)
Total defined benefit cost/(credit)	717	(1,816)

Notes to the Financial Statements of the Group

(continued)

20. PENSION COMMITMENTS (continued)

The principal actuarial assumptions used were:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Liabilities discount rate	1.30%	1.95%
Inflation assumption – RPI	2.90%	2.95%
Inflation assumption – CPI	2.10%	1.95%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	2.10%	1.95%
– benefits accrued after 06/04/1997	2.10%	1.95%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.15%	2.00%
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	50%	35%
Mortality assumption – pre retirement	As post-retirement	As post–retirement
Mortality assumption – male post retirement	109% SAPS S3PMA	110% SAPS S2PMA
	CMI 2019 M 0.70% IA – 1.10%	CMI 2017 M 1.0%
Mortality assumption – female post retirement	109% SAPS S3PFA	110% SAPS S2PMA
	CMI 2019 F 0.70% IA – 0.10%	CMI 2017 M 1.0%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	85.9	86.1
Female pensioner at age 65	88.2	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	86.5	87.1
Female aged 45 at year end:	89.0	89.2

20. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Fair value of assets at start of period	51,914	46,460
Interest income	983	1,240
Return on assets (excluding amount included in net interest expense)	3,350	6,939
Contributions from the employer	400	400
Benefits paid	(3,139)	(2,869)
Administration expenses	(301)	(256)
Fair value of assets at end of period	53,207	51,914
Actual return on assets over the period	4,333	8,179

Changes in the present value of liabilities over the period:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Liabilities at start of period	53,386	50,148
Interest cost	1,010	1,340
Remeasurement (gains)/losses		
– Actuarial gains and losses arising from changes in financial assumptions	4,616	4,767
– Actuarial gains and losses arising from changes in demographic assumptions	(1,286)	–
– Actuarial gains and losses arising from GMP Equalisation on past transfers	47	–
– Other experience items	362	–
Past service cost	–	–
Benefits paid	(3,139)	(2,869)
At end of period	54,996	53,386

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Active members	–	–
Deferred pensioners	14,921	15,788
Pensions in payment	40,075	37,598
	54,996	53,386
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:		
Active members	–	–
Deferred pensioners	19	19
Pensions in payment	11	11

Notes to the Financial Statements of the Group
(continued)

20. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	6,582	7,450
Partners Fund	7,002	6,472
Absolute Return Fund	–	–
Multi Sector Credit	18,622	18,080
Diversified Growth Fund	11,060	9,962
Return seeking subtotal	43,266	41,964
Debt instruments		
LDI funds	6,195	6,312
Other		
Property	2,987	3,111
Cash	759	527
Synthetic Equities Cash Offset	–	–
Total market value of assets	53,207	51,914

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

The Companies expect to contribute £400,000 to the Scheme during year ending 31st December 2021.

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 £666,000 (increase by £677,000) if all the other assumptions remained unchanged the other assumptions remained unchanged.

If the inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £297,000 (decrease by £297,000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is deferred pension and pension in payment increases. The other assumptions remain unchanged.

For this year-end we have reduced life expectancies to take account of the expected impact of the COVID-19 pandemic on the pension scheme, both in the short-term and the longer-term. In isolation, this has reduced liabilities by approximately 3.4%. This is approximately split as 1.6% due to the immediate impact of the pandemic, and 1.8% for the expected reduction in the rate of future improvements in life expectancies.

If life expectancies were to increase by 1 year, the Plan liabilities would increase by £3,510,000 if all the other assumptions remained unchanged.

21. CALLED UP SHARE CAPITAL

	2020 Number	2020 £000	2019 Number	2019 £000
Ordinary shares of 25p each				
Allotted, called up and fully paid	41,354,353	10,339	41,354,353	10,339

The company holds its own shares under the Airea Employee Benefits Trust as per note 25.

22. EMPLOYEES

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Staff costs		
Wages and salaries	4,187	4,302
Social security costs	419	450
Other pension costs	132	129
	4,738	4,881

	Number	Number
The average monthly number of employees, including directors, principally in the United Kingdom were:		
Sales and marketing	33	33
Administration	10	10
Manufacturing and operations	79	84
	122	127

Directors' remuneration and key management personnel

	Salary and fees £000	Bonus £000	Taxable benefits £000	Year ended 31st December 2020 (excluding pensions) £000	12 months ended 31st December 2019 (excluding pensions) £000	Year ended 31st December 2020 Pension £000	12 months ended 31st December 2019 Pension £000
Executive							
Neil Rylance	258	–	19	277	276	–	–
Paul Stevenson	107	–	7	114	119	8	8
Non-Executive							
Martin Toogood	52	–	–	52	52	–	–
	417	–	26	443	447	8	8

In addition to the above breakdown social security costs amounted to £52,000 (2019: £61,000) in relation to the directors.

Notes to the Financial Statements of the Group
(continued)

23. SHARE AWARDS

The group launched a performance-based Long-Term Incentive Plan (LTIP) for all eligible employees in 2019. Awards made under the LTIP vest provided the participant remains in the group's employment during the three-year vesting period and the group achieves certain performance based targets for operating profit.

Movements in LTIP awards outstanding were as follows:

	12 months ended 31st December 2020	12 months ended 31st December 2019
Outstanding at 1st January	2,675,000	–
Granted	–	2,675,000
Vested	–	–
Forfeited	(82,500)	–
Lapsed	–	–
Outstanding at 31st December	2,592,500	2,675,000
Unvested at 31st December	2,592,500	2,675,000

Awards made under the LTIP have a £nil exercise price with the shares being held by the Airea Employee Benefit Trust until vesting. The term of equity-settled awards is three years unless the performance period is extended as a one-off by the board of directors for a further 12 months making the maximum term 4 years. The weighted average remaining life of equity-settled awards at 31st December 2020 is 1.75 years.

At 31st December 2020, the cost recognised in relation to equity settled awards was £0.1m (2019: £0.1m). At the grant date, the weighted average fair value of the LTIP awards granted during the year was 38.0p (2019: 38.0p). Fair value was measured using the Black-Scholes model discounted for average dividend yield based on the following assumptions:

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

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

The shares held under option do not have the right to any dividend payments until they have vested. Compensation expense recognised in the profit or loss in relation to employee share schemes was as follows:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
LTIP		
Equity settled awards	56	85
Total expense	56	85

24. FINANCIAL INSTRUMENTS

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

Interest risk – the group finances its daily operations from retained profits. The group also holds cash and short-term deposits. The cash and short-term deposits attract floating rates of interest based on United Kingdom bank base rates. During the year the group took an unsecured loan repayable over 3 years to finance the creation of an EBT and purchase of shares for an LTIP. The loan has covenants that are tested bi-annually and reviewed during the plc board meetings.

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

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

Credit risk – the group seeks to limit credit risk through the use of credit insurance and procedures to constantly review customer accounts. The amount that best represents the group's maximum exposure to credit risk is detailed in note 15.

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

	2020 £000	2019 £000
Current assets		
Trade receivables	1,218	1,709
Cash and cash equivalents	6,555	2,957
	7,773	4,666

Financial liabilities included in the consolidated balance sheet are all financial liabilities measured at amortised costs in the terms of IFRS9 and are included in the consolidated balance sheet within the following headings:

	2020 £000	2019 £000
Current liabilities		
Loans and borrowings	1,071	562
Lease liabilities	243	329
Trade and other payables	1,805	1,532
	3,119	2,423

Notes to the Financial Statements of the Group
(continued)

24. FINANCIAL INSTRUMENTS (continued)

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

	2020 £000	2019 £000
Long-term liabilities		
Loans and borrowings (note 19)	2,641	724
Lease liabilities (note 13)	188	323

Financial assets

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

Financial liabilities

There is a finance lease of £132,000 (2019: £322,000).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 31st December 2020 or 31st December 2019. The group has a £1.0m 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

	2020 £000	2019 £000
Euro	(362)	540
US Dollar	1,017	17
Polish Zlotys	23	–
	678	557

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 £110,000 (2019: £62,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2019: £nil).

25. INVESTMENT IN OWN SHARES

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

	At 31st December 2020	At 31st December 2019
Number of shares in the company owned by the EBT	2,777,600	2,777,600
Nominal value of shares held	£694,400	£694,400
Cost price of shares held	£1,999,878	£1,999,878
Prevailing valuation of the shares (pence)	45.00	45.00
Total market value of shares	£1,249,920	£1,249,920
Maximum number of shares in the company owned by the EBT during the year	2,777,600	2,777,600
Minimum number of shares in the company owned by the EBT during the year	–	–

Dividends payable on these shares are waived.

In addition to the above investments, the company has loaned funds of £2,000,000 and made contributions to the Airea Employee Benefits Trust, which in turn has purchased shares in the company. At 31st December 2020 the assets of the Trust comprised 2,777,600 of the company's own shares with a nominal value of £694,400 and a market value of £1,249,920, which were acquired at a cost of £1,999,878. The cost of shares has been deducted from equity. The net assets of the Trust are available for the benefit of Airea plc and Burmatex Limited employees. Neither the loan from the company nor the equivalent liability of the Trust is included in debtors or creditors. As a consequence of the exercise price of the share options (note 23) a realised loss will arise on the exercise of the options. This loss is recognised over the vesting period as a transfer to retained earnings.

26. RELATED PARTY TRANSACTIONS

There were no related party transactions during the year.

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

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

Below includes the dividends paid to directors during the prior year.

Name	Position	Transaction	Quantity	2020 Value	2019 Value
Martin Toogood	Director	Dividend	2,100,361	£nil	£58,810

27. POST BALANCE SHEET EVENTS

Post year-end the COVID-19 pandemic has continued to have an impact on the group in terms of reduced market demand. The directors have reviewed the assets and liabilities as at the balance sheet date and post balance sheet date and concluded no material impact on them because of the pandemic.

Company Balance Sheet

as at 31st December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Non-current assets					
Investments	3		31,800		31,800
Deferred tax	4		555		187
			32,355		31,987
Current assets					
Trade and other receivables	5	97		121	
Cash and cash equivalents	6	4,009		10	
			4,106		131
Total assets			36,461		32,118
Current liabilities					
Trade and other payables	7	(11,219)		(9,028)	
Loans and borrowings	13	(1,071)		(562)	
Provisions	8	(465)		(320)	
			(12,755)		(9,910)
Non-current liabilities					
Loans and borrowings	13		(2,641)		(724)
Pension deficit	9		(1,342)		(1,104)
Total liabilities			(16,738)		(11,738)
Net assets			19,723		20,380
Equity					
Called up share capital	10		10,339		10,339
Share premium account			504		504
Capital redemption reserve			3,617		3,617
Own Shares			(1,197)		(1,839)
Share-based Payment Reserve			141		85
Merger reserve			6,902		6,902
Retained earnings			(583)		772
			19,723		20,380

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The comprehensive loss of the company for the year was £713,000 (2019: Profit £803,000).

The financial statements on pages 50 to 51 were approved by the board of directors on 3rd March 2021 and signed on its behalf by:

PAUL STEVENSON
Group Finance Director

Company number 00526657

The notes on pages 52 to 62 form part of these financial statements.

Company Statement of Changes in Equity

for the year ended 31st December 2020

	Share capital £000	Share premium account £000	Own Shares £000	Share based payment reserve £000	Capital redemption reserve £000	Merger reserve £000	Profit and loss account £000	Total equity £000
At 1st January 2019	10,339	504	–	–	3,617	6,902	1,210	22,572
Comprehensive income for the period								
Loss for the year	–	–	–	–	–	–	(542)	(542)
Other comprehensive income for the period	–	–	–	–	–	–	1,345	1,345
Total comprehensive income for the period	–	–	–	–	–	–	803	803
Contributions by and distributions to owners								
Dividend paid	–	–	–	–	–	–	(1,080)	(1,080)
Purchase of own Shares by the EBT	–	–	(2,000)	–	–	–	–	(2,000)
Share-based payment	–	–	–	85	–	–	–	85
Own Share Transfer	–	–	161	–	–	–	(161)	–
Total contributions by and distributions to owners	–	–	(1,839)	85	–	–	(1,241)	(2,995)
At 31st December 2019 and 1st January 2020	10,339	504	(1,839)	85	3,617	6,902	772	20,380
Comprehensive income for the year								
Loss for the year	–	–	–	–	–	–	(243)	(243)
Other comprehensive income for the year	–	–	–	–	–	–	(470)	(470)
Total comprehensive income for the year	–	–	–	–	–	–	(713)	(713)
Contributions by and distributions to owners	–	–	–	–	–	–	–	–
Dividend paid	–	–	–	–	–	–	–	–
Purchase of own Shares by the EBT	–	–	–	–	–	–	–	–
Share-based payment	–	–	–	56	–	–	–	56
Own Share Transfer	–	–	642	–	–	–	(642)	–
Total contributions by and distributions to owners	–	–	642	56	–	–	(642)	56
At 31st December 2020	10,339	504	(1,197)	141	3,617	6,902	(583)	19,723

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 52 to 62 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;
- 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

Provisions – £465,000 (2019: £320,000)

The group carries certain provisions related to ongoing legal matters relating to the discontinued operations and other potential employee costs where the outcome of the proceedings are uncertain. Management uses its judgement to make a best estimate of potential costs and provide for the cost of such matters. These provisions are detailed in note 8.

Pension deficit – £1,342,000 (2019: £1,104,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 9. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit.

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 12.0% and a terminal growth rate of 2%. Sensitivity analysis has been carried out on the assessment showing that the pre-tax interest rate could increase to 14% before triggering a potential impairment.

3. INVESTMENTS

	2020 £000	2019 £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 12%. Details of the company's subsidiaries at 31st December 2020, all of which were wholly owned by the company or its subsidiary undertakings and all of which operate and are registered in England and Wales at Victoria Mills, The Green, Ossett, WF5 0AN, unless otherwise stated, are set out below:

Burmatex Limited	Manufacturing and distribution of fibre bonded sheet carpet and carpet tiles
Fope Limited*	Property holding company
Ryalux Carpets Limited	Dissolved 2nd September 2020

Other subsidiary undertakings:

AIREA Floor Coverings Limited*	Intermediate holding company
The Carpet Tile Company Limited	Dormant

* Held directly

Notes to the Financial Statements of the Company
(continued)

4. DEFERRED TAXATION

	Tax Losses £000	Pension deficit £000	Total £000
Balance at 1st January 2019	–	470	470
Movement during the period	–	(283)	(283)
Balance at 31st December 2019	–	187	187
Movement during the year	300	68	368
Balance at 31st December 2020	300	255	555

5. TRADE AND OTHER RECEIVABLES

	2020 £000	2019 £000
Prepayments and accrued income	97	121
	97	121

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 (2019: £Nil).

6. CASH AND CASH EQUIVALENTS

	2020 £000	2019 £000
Cash at bank and in hand	4,009	10

7. TRADE AND OTHER PAYABLES

	2020 £000	2019 £000
Accruals and other creditors	45	71
Intercompany Payable	11,174	8,957
	11,219	9,028

8. PROVISIONS

	£000
At 1st January 2019	320
Amount released	–
Provisions charged in the period	–
At 31st December 2019	320
Amount released	–
Provisions charged in the year	145
At 31st December 2020	465

The provision relates to ongoing legal costs relating to discontinued operations, property costs and other potential employee costs. 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 control 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 2023. 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 is being carried out as at 1st July 2020. The initial results of that valuation have been projected to 31st December 2020 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

Notes to the Financial Statements of the Company

(continued)

9. PENSION COMMITMENTS (continued)

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

	2020 £000	2019 £000
Present value of Plan liabilities	(41,247)	(40,040)
Fair value of Plan assets	39,905	38,936
Funded status	(1,342)	(1,104)
Reduction on asset recognition	–	–
Net amount recognised at year end (before any adjustment for deferred tax)	(1,342)	(1,104)

The amounts recognised in comprehensive income are:

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Service cost:		
Past service loss arising on GMP equalisation	–	–
Administration expenses	226	192
Net interest expense	20	75
Charge recognised in profit or loss within finance costs	246	267
Remeasurements of the net liability:		
Return on Plan assets (excluding amount included in interest expense)	(2,513)	(5,204)
Loss arising from changes in financial assumptions	3,462	3,576
(Gain) arising from changes in financial assumptions	(965)	–
Loss arising from GMP Equalisation on past transfers	35	–
Experience loss	272	–
Charge/(credit) recorded in other comprehensive income	291	(1,628)
Total defined benefit cost/(credit)	537	(1,361)

9. PENSION COMMITMENTS (continued)

The principal actuarial assumptions used were:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Liabilities discount rate	1.30%	1.95%
Inflation assumption – RPI	2.90%	2.95%
Inflation assumption – CPI	2.10%	1.95%
Revaluation of deferred pensions		
– benefits accrued prior to 06/04/1997	2.10%	1.95%
– benefits accrued after 06/04/1997	2.10%	1.95%
Rate of increase to pensions in payment		
– benefits accrued prior to 06/04/1997	5.00%	5.00%
– benefits accrued after 06/04/1997	2.15%	2.00%
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	50%	35%
Mortality assumption – pre retirement	As post-retirement	As post-retirement
Mortality assumption – male post retirement	109% SAPS S3PMA	110% SAPS S2PMA
	CMI 2019 M 0.70%	CMI 2017 M 1.00%
	IA – 0.10%	
Mortality assumption – female post retirement	109% SAPS S3PFA	110% SAPS S2PMA
	CMI 2019 F 0.70%	CMI 2017 F 1.00%
	IA – 0.10%	
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end:	85.9	86.1
Female pensioner at age 65	88.2	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end:	86.5	87.1
Female aged 45 at year end:	89.0	89.2

Notes to the Financial Statements of the Company
(continued)

9. PENSION COMMITMENTS (continued)

Changes in the present value of assets over the year:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Fair value of assets at start of period	38,936	34,845
Interest income	736	930
Return on assets (excluding amount included in net interest expense)	2,513	5,205
Contributions from the employer	300	300
Benefits paid	(2,354)	(2,152)
Administration expenses	(226)	(192)
Fair value of assets at end of period	39,905	38,936
Actual return on assets over the period	3,249	6,134

Changes in the present value of liabilities over the period:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Liabilities at start of period	40,040	37,611
Interest cost	757	1,005
Remeasurement (gain)/losses:		
– Actuarial gains and losses arising from changes in financial assumptions	3,462	3,576
– Actuarial gains and losses arising from changes in demographic assumptions	(965)	–
– Actuarial gains and losses arising from GMP Equalisation on past transfers	35	–
– Other experience items	272	–
Past service cost	–	
Benefits paid	(2,354)	(2,152)
Liabilities at end of period	41,247	40,040

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Active members	–	–
Deferred pensioners	11,191	11,841
Pensions in payment	30,056	28,199
	41,247	40,040
Average duration of the Plan's liabilities at the end of the period (years)	13	13
This can be subdivided as follows:		
Active members	–	–
Deferred pensioners	19	19
Pensions in payment	11	11

9. PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
Return seeking		
UK Equities	–	–
Overseas Equities	–	–
Synthetic Equity	4,936	5,588
Partners Fund	5,251	4,854
Absolute Return Fund	–	–
Multi Sector Credit	13,967	13,560
Diversified Growth Fund	8,295	7,472
Return seeking subtotal	32,449	31,474
Debt instruments		
LDI funds	4,646	4,734
Other		
Property	2,240	2,333
Cash	570	395
Synthetic Equities Cash Offset	–	–
Total market value of assets	39,905	38,936

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

The scheme 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 2021.

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 £499,500 (increase by £507,750) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 percent higher (lower), the Plan liabilities would increase by £222,750 (decrease by £222,750). 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.

For this year-end we have reduced life expectancies to take account of the expected impact of the COVID-19 pandemic on the pension scheme, both in the short-term and the longer-term. In isolation, this has reduced liabilities by approximately 3.4%. This is approximately split as 1.6% due to the immediate impact of the pandemic, and 1.8% for the expected reduction in the rate of future improvements in life expectancies.

If life expectancies were to increase by 1 year, the Plan liabilities would increase by £2,632,500 if all the other assumptions remained unchanged.

Notes to the Financial Statements of the Company
(continued)

10. CALLED UP SHARE CAPITAL

	2020 Number	2020 £000	2019 Number	2019 £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

11. SHARE AWARDS

The group launched a performance-based Long-Term Incentive Plan (LTIP) for all eligible employees in 2019. Awards made under the LTIP vest provided the participant remains in the group's employment during the three-year vesting period and the group achieves certain performance-based targets for Operating profit

Movements in LTIP awards outstanding were as follows:

	12 months ended 31st December 2020	12 months ended 31st December 2019
Outstanding at 1st January	2,675,000	–
Granted	–	2,675,000
Vested	–	–
Forfeited	(82,500)	–
Lapsed	–	–
Outstanding at 31st December	2,592,500	2,675,000
Unvested at 31st December	2,592,500	2,675,000

Awards made under the LTIP have a £nil exercise price with the shares being held by the Airea Employee Benefit Trust until vesting. The term of equity settled awards granted is three years unless the performance period is extended as a one-off by the board of directors for a further 12 months making the maximum term 4 years. The weighted average remaining life of equity settled awards at 31st December 2020 is 1.75 years.

At 31st December 2020, the cost recognised in relation to equity settled awards was £0.1m (2019: £0.1m). At the grant date, the weighted average fair value of the LTIP awards granted during the year was 38.0p (2019: 38.0p). Fair value was measured using the Black-Scholes model discounted for average dividend yield based on the following assumptions:

	2020 issue
Share price on grant date	44.0p
Risk free interest rate	1%
Volatility in company shares	50.8%
Expected life of LTIP awards	3 years

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

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

11. SHARE AWARDS (continued)

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

	12 months ended 31st December 2020 £000	12 months ended 31st December 2019 £000
LTIP		
Equity settled awards	56	85
Total expense	56	85

12. INVESTMENT IN OWN SHARES

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

	12 months ended 31st December 2020	12 months ended 31st December 2019
Number of shares in the company owned by the EBT	2,777,600	2,777,600
Nominal value of shares held	£694,400	£694,400
Cost price of shares held	£1,999,878	£1,999,878
Prevailing valuation of the shares (pence)	45.00	45.00
Total market value of shares	£1,249,920	£1,249,920
Maximum number of shares in the company owned by the EBT during the year	2,777,600	2,777,600
Minimum number of shares in the company owned by the EBT during the year	–	–

Dividends payable on these shares are waived.

In addition to the above investments, the company has loaned funds of £2,000,000 and made contributions to the Airea Employee Benefits Trust, which in turn has purchased shares in the company. At 31st December 2020 the assets of the Trust comprised 2,777,600 of the company's own shares with a nominal value of £694,400 and a market value of £1,249,920, which were acquired at a cost of £1,999,878. The cost of shares has been deducted from equity. The net assets of the Trust are available for the benefit of Airea plc and Burmatex Limited employees. Neither the loan from the company nor the equivalent liability of the Trust is included in debtors or creditors. As a consequence of the exercise price of the share options (note 11) a realised loss will arise on the exercise of the options. This loss is recognised over the vesting period as a transfer to retained earnings.

Notes to the Financial Statements of the Company
(continued)

13. BORROWING

The cash flows relating to borrowing are as follows:

	£000
As at 31st December 2019	1,286
Additions	2,750
Payments	(357)
Interest charge	33
As at 31st December 2020	3,712

Below are the future economic outflows related to company borrowing:

	2020 £000	2019 £000
Within one year	1,156	597
In the second to fifth years inclusive	2,614	746
After five years	231	–
Net cash	4,002	1,343

Within the above outstanding commitments £562,000 relates to interest that will be payable under the agreement at the balance sheet date the group recognise the following liabilities.

	2020 £000	2019 £000
Current liabilities – due within one year	1,071	562
Non-current liabilities – not due within one year	2,641	724
	3,712	1,286

Notice of Annual General Meeting

Notice is hereby given that the sixty sixth annual general meeting ("Annual General Meeting") of Airea plc (the "Company") will be held on 12th May 2021, at 2.00 p.m. at the company's registered office at Victoria Mills, The Green, Ossett, West Yorkshire, WF5 0AN to consider and vote on the resolutions below.

In light of the ongoing COVID-19 pandemic and the current "stay at home" measures that the UK Government has put in place, and being mindful of the health and safety of our shareholders, employees and stakeholders, the annual general meeting will be held as a 'closed' meeting and shareholders will not be able to attend in person. Shareholders will have the opportunity to listen in to the annual general meeting and will only be able to vote in advance, using the online voting system or by proxy. Given the above, shareholders are encouraged to appoint the chair of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting. Details on how to submit your proxy vote by post, online or through CREST are set out on pages 66 and 67 of this notice.

In reaching this decision, the company has taken into account the UK Government's 'COVID-19 Response – Spring 2021' roadmap (published on 22nd February 2021).

Given the constantly evolving nature of the situation and if it subsequently becomes possible to welcome a number of shareholders to the venue, attendance in this way is likely to be restricted in terms of numbers and we would therefore still encourage shareholders not to attend the venue in person and instead participate in the meeting electronically.

The company acknowledges that, as a result of COVID-19, the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the annual general meeting (including where and how the annual general meeting is conducted) will be communicated to shareholders before the meeting through our website at www.aireaplc.com/investors and, where appropriate, published via regulatory news service.

We have decided to limit the attendance of the board to one director and the company's secretary. No other directors will be present in person. The annual general meeting will be held for the sole purpose of approving the formal business as set out in the resolutions below. We intend to answer any questions raised in advance of the meeting but there will be no update on trading or other management statements and no opportunity for networking.

Details of how to register and dial in to the annual general meeting can be found on our website at www.aireaplc.com/investors/notifications/2021. The electronic facility will allow you to hear the directors present at the meeting and give you the opportunity to ask questions through a text based platform at the meeting. We will publish these questions and answers on our website after the meeting.

Shareholders may submit questions to the board ahead of the meeting by e-mail to shareholders@aireaplc.co.uk. We will publish these questions and answers on our website after the meeting.

The results of the annual general meeting will be published via regulatory news service as soon as possible after the meeting and published on our website, www.aireaplc.com/investors/notifications/2021.

Resolutions 1 to 5 will be proposed as ordinary resolutions and resolution 6 will be proposed as a special resolution.

Ordinary Resolutions

1. To receive the company's financial statements for the year ended 31st December 2020 together with the reports of the directors and auditors thereon.
2. 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.
3. To re-elect Mr. M. Toogood, whose appointment terminates on today's date in accordance with his letter of appointment dated 17th March 2009, as amended by a deed of variation dated 13th November 2020.
4. To authorise the group to amend its articles of association to permit and organise virtual annual general meetings.
5. To re-appoint BDO LLP as auditor of the company to hold office until the conclusion of the next annual general meeting at which accounts are laid before the company and to authorise the directors to fix the auditor's remuneration.

Notice of Annual General Meeting
(continued)

Special Resolution

6. To authorise the company generally and unconditionally, pursuant to section 701 of the Companies Act 2006 (the **"Act"**), to make one or more market purchases (within the meaning of 693(4) of the Act) on the London Stock Exchange plc (the **"London Stock Exchange"**) of Ordinary Shares of 25p each in the capital of the company (**"Ordinary Shares"**) provided that:

   (i) the maximum aggregate number of Ordinary Shares authorised to be purchased is 4,100,000 (representing approximately 10.0% of the company's issued share capital);

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

   (iii) the maximum price (exclusive of expenses) which may be paid for an Ordinary Share is not more than the higher of: (i) 5% above the average of the middle market quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased; and (ii) the price stipulated by Article 3(2) of Delegated Regulation (EU) 2017/1052 of 8th March 2016 relating to the conditions applicable to buy-back programmes and stabilisation measures;

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

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

By order of the board

PAUL STEVENSON
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
3rd March 2021

Explanatory Notes to the Notice of Annual General Meeting

Resolution 6 General authority for the company to purchase its own Ordinary Shares

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

Your board has no immediate plans for the company to make purchases of its Ordinary Shares if the proposed new general authority becomes effective but would like to be able to act quickly if circumstances arise in which they consider such purchases by the company of its Ordinary Shares to be desirable. Accordingly, it is proposed that the board be given a new general authority to purchase the company's Ordinary Shares on the terms contained in resolution 6 in the Notice of Annual General Meeting.

The proposed new general authority will be limited, by the terms of resolution 6 in the Notice of Annual General Meeting, to purchases of up to 4,100,000 Ordinary Shares, representing approximately 10.0% of the current issued share capital of the company. The minimum price per Ordinary Share payable by the company (exclusive of expenses) will be 25p. The maximum to be paid on the exercise of such new general authority (exclusive of expenses) will be an amount not exceeding the higher of (i) 5% above the average of the middle-market quotation for Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the date of each purchase, and (ii) the price stipulated by Article 3(2) of the Commission Delegated Regulation (EU) 2017/1052 of 8th March 2017 relating to the conditions applicable to buy-back programmes and stabilisation measures (being the higher of the price of the last independent trade and the highest current independent purchase bid on the trading venue where the purchase is carried out).

The board will only exercise the new general authority to purchase Ordinary Shares if it considers that such purchases of Ordinary Shares can be expected to result in an increase in earnings per share after such purchases and are in the best interests of shareholders generally. Your directors would also consider carefully the extent of the company's borrowings and its general financial position. Any such purchase of Ordinary Shares will be financed out of profits available for distribution. The actual cash required to fund any buy-backs of Ordinary Shares pursuant to the new general authority will be met from existing cash resources and/or borrowing facilities. Shareholders should note that any shares purchased by the company will be cancelled and not made available for reissue. The number of Ordinary Shares in issue will accordingly be reduced.

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

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

The general authority set out in resolution 6 in the Notice of Annual General Meeting will expire fifteen months' after the resolution is passed or, if earlier, on the date of the next annual general meeting of the company. However, in order to maintain your board's flexibility of action, it is envisaged that this general authority may be renewed annually at annual general meetings of the company.

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

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.

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 10th May 2021 or, in the event that the annual general meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote in respect of the number of Ordinary Shares registered in their name at the relevant time. Changes to entries in the register of members after close of business on 10th May 2021 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. Shareholders are encouraged to appoint the chair as their proxy rather than a named person who, for reasons described in the beginning of this notice, will not be permitted to attend the meeting.

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

- Register your vote on line through our registrar's portal – www.signalshares.com. You will need your investor code which is printed on your share certificate or may be obtained by calling the company's registrar, Link, on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 – 17.30, Monday to Friday excluding public holidays in England and Wales.
- CREST members may use the CREST electronic proxy appointment service as detailed below.

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

All proxy appointments, whether electronic or hard copy, must be received by the company's registrar no later than 2.00 p.m. on 10th May 2021 (or, in the event that the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

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

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

Where you have appointed a proxy using the hard-copy proxy card and would like to change the instructions using another hard-copy proxy card, please contact Link Asset Services on 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 – 17.30, Monday to Friday excluding public holidays in England and Wales.

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

The revocation notice must be received by Link Asset Services no later than 2.00 p.m. on 10th May 2021. 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.

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.

Biographical details of each director who is being proposed for re-appointment or re-election by shareholders, including their membership of board committees, are set out in the directors' report on page 6.

In normal circumstances copies of the service contracts of the executive directors of the company and copies of the letters of appointment of the non-executive directors of the company would be available for inspection at the registered office of the company during usual business hours on any weekday (except weekends and public holidays) until the date of the Annual General Meeting and at the place of the Annual General Meeting for a period of at least 15 minutes prior to and during the Annual General Meeting. However, in light of the ongoing pandemic and the arrangements for this year's Annual General Meeting, please contact the company secretary at shareholders@aireaplc.co.uk in order that alternative arrangements can be made.

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).

Details of how to register and dial in to the Annual General Meeting can be found on our website at www.aireaplc.com/investors/notifications/2021. The electronic facility will allow you to hear the directors present at the meeting and give you the opportunity to listen to the answers to questions submitted by shareholders in advance of the meeting (see below). We will publish these questions and answers on our website after the meeting.

Members are invited to submit questions on any business to be dealt with at the Annual General Meeting in advance of the meeting via email at shareholders@aireaplc.co.uk by no later than 2.00 p.m. on 10th May 2021. When submitting questions by email, please include your investor code, which can be found on your share certificate or may be obtained by calling the company's registrar, Link, on 0371 664 0300. The board will endeavour to answer any questions so submitted at the Annual General Meeting.

A member attending the Annual General Meeting has the right to ask questions in relation to the business of the meeting. The company must answer any such questions 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.

Notes

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