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Strategic Review

Airea plc is pleased to be able to report that the business has made substantial progress in the year, delivering an 11% increase in revenue and a significant improvement in profitability.

Principal activity and strategy

The group remains focused on the manufacture, marketing and distribution of floor coverings. Our approach to strategy is uncomplicated; a robust new product development process that enhances the appeal of our product range to customers whilst exploiting our manufacturing capability, the strengthening of routes to market, a continuous improvement of customer service through the ongoing improvement of our operational capability, a relentless search for efficiency improvements and the maintenance of strong financial control.

Overview

Airea plc is pleased to be able to report that the business has made substantial progress in the year, delivering an 11.3% increase in revenue and a significant improvement in profitability. Sales in the UK grew by 12.3% and in international markets by 7.5%. This was largely as a result of the ongoing success of the contract flooring sector sales, which grew by 15.3%, and continued to benefit from new product launches and the restructuring of the sales force. Sales in the domestic market sector also grew, albeit at a more modest rate.

As in previous years the cost base remains under constant review and operating margin increased in the year.

A repurchase of shares was completed in the period, funded from cash flow generated in the year, and contributed to the improvement in earnings per share. Cash generation increased and the group continues to operate debt free.

Group results

Revenue for the period was £25.5m (2014 restated¹: £22.9m) reflecting the ongoing strengthening of the product range and improvement in routes to market. The operating profit before exceptional items was £1,212,000 (2014: £721,000). The exceptional charge of £114,000 related to the legal and advisory costs of the share re-purchase and the final legal costs incurred in respect of the settlement of the dilapidations dispute reported in the prior period. The operating profit after exceptional items was £1,098,000 (2014: £606,000). After charging net finance costs relating in the main to the defined benefit pension scheme of £448,000 (2014: £276,000), and incorporating the appropriate tax charge, the profit for the year was £581,000 (2014: £301,000).

Basic earnings per share were 1.29p (2014: 0.65p), and basic adjusted earnings per share² were 1.50p (2014: 0.90p).

Operating cash flows before movements in working capital and other payables were £1,928,000 (2014: £1,483,000). Working capital increased by £375,000 (2014: £1,633,000) to support the increase in revenues. Contributions of £400,000 (2014: £375,000) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2011 actuarial valuation. Capital expenditure of £459,000 (2014: £153,000) was focused on supporting new product launches and the ongoing improvement in the flexibility, reliability and productivity of the manufacturing process. A repurchase of 2,838,102 ordinary shares was completed at a cost of £348,000.

The pension deficit of £5.8m as at 30th June 2014 has increased to a deficit of £7.4m as at 30th June 2015. Significant falls in corporate bond yields have been offset by falls in inflation expectations and the performance of the plan assets, which benefited from the change in investment strategy implemented at the start of the period. The reason for the worsening of the position is the experience loss resulting from the use of the 30th June 2014 actuarial valuation data as the starting point for the calculations rather than the 30th June 2011 valuation results which underlie previous figures.

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2015 value added per employee (the ratio of revenue less material costs to average employee numbers) amounted to £70,000 (2014 restated¹: £67,000), operating return on sales (the ratio of operating profit before exceptional items to revenue) was 4.7% (2014 restated¹: 3.1%), return on average net operating assets (the ratio of operating profit before exceptional items to average operating assets) was 7.1% (2014: 4.2%) and working capital to sales percentage was 38.2% (2014 restated¹: 41.0%). The improvement in the ratios demonstrate the improved productivity of staff, the control of costs relative to the increase in sales and the improvement in working capital efficiency as sales increased.

Principal risks and uncertainties

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

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

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

The group operates a defined benefit pension scheme. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of this scheme and the assets they hold. The amount of the deficit may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in 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. Following the triennial funding valuation of the group's pension scheme in 2011, a revised deficit recovery plan was agreed. The performance 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.

Other risks

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

The global nature of the group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, the most significant being the euro. In order to protect itself against currency fluctuations the group has taken advantage of the opportunity to naturally hedge euro revenue with euro payments. This is done in combination with foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken.

Other risks include the availability of necessary materials, business interruption and the duty of care to our employees, customers and the wider public. These risks are managed through the combination of quality assurance and health and safety procedures, and insurance cover.

Management and personnel

The improvement in the financial performance of the business is testament to the flexibility, hard work and commitment of our staff, we once again thank everyone in the business for their contribution.

Current trading and future prospects

Whilst competition in the European flooring market remains undiminished there are clear and growing signs of improvement in trading conditions in the UK, and despite the ongoing strength of sterling the company continues to grow sales in international markets.

Ongoing investment in new products, combined with continuous improvement in manufacturing flexibility and customer service has positioned the business well to face competitive challenges head on. It is pleasing to see that the business has started to reap the benefits of judicious investment in innovation and cost cutting initiatives with a clear pay-back, and given the debt free foundation of the business further investment to facilitate growth is planned for the coming year.

In summary the business is positioned to take advantage of further growth opportunities and whilst there remain clear causes for concern in the Eurozone, so far, the business has been able to grow sales despite currency issues and a general stagnant European market.

Given the improved performance of the business, combined with a strong balance sheet and robust cash flow, we are once again able to support a progressive dividend policy. If approved, a final dividend of 0.9p per share will be paid on 25th November 2015 to shareholders on the register at close of business on 30th October 2015 (ex dividend of 29th October 2015).

MARTIN TOOGOOD
Chairman

NEIL RYLANCE
Chief Executive Officer

22nd September 2015

¹ Restated due to reclassification of settlement discount as required by IAS 18, Revenue Recognition

² Adjusted earnings are earnings adjusted for exceptional operating costs (net of tax)

Directors' Report

The directors present their report for the year ended 30th June 2015.

Dividends

No interim dividend was paid during the year (2014: nil) and the directors recommend a final dividend of 0.9p (2014: 0.60p). The final dividend amounts to £391,000 and, if approved, will be paid on 25th November 2015 to those shareholders on the register at close of business on 30th October 2015.

Directors

The present directors are detailed below.

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

Martin Toogood joined the group as an independent non-executive director on 1st April 2009, and was appointed non-executive chairman on 6th November 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe including ILVA, B&Q, Carpetright and Habitat.

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

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

Directors who held office at 30th June 2015 had the following interests in the ordinary shares of the company:

| | 30th June 2015 | 1st July 2014 |
|----------------|----------------|---------------|
| Neil Rylance | 2,510,360 | 2,510,360 |
| Martin Toogood | 2,100,361 | 2,100,361 |
| Roger Salt | 228,738 | 170,000 |

There were no other changes in directors' interests between 1st July 2015 and 22nd September 2015. None of the directors has an interest in the share capital of subsidiary companies other than as a nominee of the company.

Share capital

Details of the share capital of the company are set out in note 17 to the financial statements of the group. Following the authority received at the general meeting held on 19th December 2014 2,838,102 ordinary shares were repurchased by tender offer, and cancelled.

Substantial shareholdings

At 22nd September 2015, in addition to the interests of Neil Rylance amounting to 5.8% and Martin Toogood amounting to 4.8% 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 | 9.5 |
| Mrs. C. J. Tobin | 3,502,668 | 8.1 |
| Charles Stanley & Co Limited | 2,240,000 | 5.2 |
| Mr. & Mrs. G. A. Upsdell | 2,106,614 | 4.9 |
| Mrs. S. G. Ainslie | 2,098,252 | 4.8 |
| Mr. M. H. Yeadon | 1,608,787 | 3.7 |

Corporate Governance

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

Audit Committee

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

Internal control

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

Employees in the United Kingdom

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

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

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

Charitable and political contributions

No charitable or political contributions were made during the year.

Going concern

As part of its ongoing responsibilities the board regularly reviews the cash flow projections of the business for the current and following financial year along with the key sensitivities and uncertainties that might affect the achievement of the projections. In summary, the group continues to be subject to the uncertainties in the current economic environment, particularly in respect of market demand, however the group's financial headroom means that it is well placed to manage its business risks successfully. The directors can reasonably expect that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the going concern basis remains appropriate in preparing the annual report and accounts.

Payments to suppliers

It is the group's policy to agree the terms of payment with suppliers when negotiating each transaction or series of transactions and to abide by those terms. Group trade payables at 30th June 2015 represented 70 days (2014: 79 days) of trade purchases. The company does not have any trade payables.

Directors' Report

(continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and have elected to prepare the parent company financial statements under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed in the consolidated financial statements, and UK accounting standards in the parent company financial statements, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping 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 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 the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor

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

ROGER SALT
Company Secretary

Victoria Mills, The Green
Ossett, WF5 0AN
22nd September 2015

Independent Auditor's Report to the members of AIREA plc

We have audited the financial statements of AIREA plc for the year ended 30th June 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position and parent company balance sheet, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30th June 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's 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.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic review and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 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.

Paul Davies (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
1 Bridgewater Place
Water Lane
Leeds
LS11 5RU

22nd September 2015

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

Consolidated Income Statement

year ended 30th June 2015

| | Note | 2015 £000 | 2014 Restated £000 |
|---|------|--------------|--------------------------|
| Revenue | 1 | 25,538 | 22,951 |
| Operating costs | 2 | (24,440) | (22,345) |
| Operating profit before exceptional items | | 1,212 | 721 |
| Exceptional items | 3 | (114) | (115) |
| Operating profit | | 1,098 | 606 |
| Finance income | 5a | 1 | 3 |
| Finance costs | 5b | (449) | (279) |
| Profit before taxation | | 650 | 330 |
| Taxation | 6 | (69) | (29) |
| Profit attributable to shareholders of the group | | 581 | 301 |
| Earnings per share (basic) | 7 | 1.29p | 0.65p |

All amounts relate to continuing operations

Consolidated Statement of Comprehensive Income

year ended 30th June 2015

| | Note | 2015 £000 | 2015 £000 | 2014 £000 | 2014 £000 |
|---|------|--------------|--------------|--------------|--------------|
| Profit attributable to shareholders of the group | | | 581 | | 301 |
| Actuarial loss recognised in the pension scheme | 16 | (1,635) | | (189) | |
| Related deferred taxation | 10a | 267 | | (73) | |
| | | | (1,368) | | (262) |
| Total comprehensive income attributable to shareholders of the group | | | (787) | | 39 |

Consolidated Balance Sheet

as at 30th June 2015

| | Note | 2015 | | 2014 | |
|--------------------------------|------|---------|-----------------|---------|-----------------|
| | | £000 | £000 | £000 | £000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 9 | | 5,333 | | 5,704 |
| Deferred tax asset | 10a | | 1,557 | | 1,323 |
| | | | <u>6,890</u> | | <u>7,027</u> |
| Current assets | | | | | |
| Inventories | 11 | 10,647 | | 10,220 | |
| Trade and other receivables | 12 | 4,412 | | 4,313 | |
| Cash and cash equivalents | 13 | 1,883 | | 1,930 | |
| | | | <u>16,942</u> | | <u>16,463</u> |
| Total assets | | | <u>23,832</u> | | <u>23,490</u> |
| Current liabilities | | | | | |
| Trade and other payables | 14 | (5,308) | | (5,121) | |
| Provisions | 15 | - | | (115) | |
| | | | <u>(5,308)</u> | | <u>(5,236)</u> |
| Non-current liabilities | | | | | |
| Pension deficit | 16 | (7,443) | | (5,761) | |
| Deferred tax | 10b | (1) | | (1) | |
| | | | <u>(7,444)</u> | | <u>(5,762)</u> |
| Total liabilities | | | <u>(12,752)</u> | | <u>(10,998)</u> |
| | | | <u>11,080</u> | | <u>12,492</u> |
| Equity | | | | | |
| Called up share capital | 17 | | 10,851 | | 11,561 |
| Share premium account | | | 504 | | 504 |
| Capital redemption reserve | | | 3,105 | | 2,395 |
| Retained earnings | | | (3,380) | | (1,968) |
| | | | <u>11,080</u> | | <u>12,492</u> |

The financial statements on pages 8 to 29 were approved by the board of directors on 22nd September 2015 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Consolidated Cash Flow Statement

year ended 30th June 2015

| | Note | 2015 £000 | 2014 £000 |
|--|------|--------------|--------------|
| Cash flow from operating activities | | | |
| Profit for the year | | 581 | 301 |
| Tax charged | | 69 | 29 |
| Finance costs | | 448 | 276 |
| Depreciation | | 830 | 877 |
| Operating cash flows before movements in working capital and other payables | | | |
| | | 1,928 | 1,483 |
| Increase in working capital | | (375) | (1,633) |
| (Decrease)/increase in provisions for liabilities and charges | | (115) | 115 |
| Cash generated from/(used in) operations | | | |
| | | 1,438 | (35) |
| Contributions to defined benefit pension scheme | | (400) | (375) |
| Net cash generated from/(used in) operations | | | |
| | | 1,038 | (410) |
| Investing activities | | | |
| Purchase of property, plant and equipment | | (459) | (153) |
| Financing activities | | | |
| Interest | | (1) | - |
| Share repurchase | 17 | (348) | - |
| Equity dividends paid | | (277) | (254) |
| | | (626) | (254) |
| Net decrease in cash and cash equivalents | | | |
| | | (47) | (817) |
| Cash and cash equivalents at start of the year | | | |
| | | 1,930 | 2,747 |
| Cash and cash equivalents at end of the year | | | |
| | | 1,883 | 1,930 |

Consolidated Statement of Changes in Equity

year ended 30th June 2015

| | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Profit and loss account £000 | Total equity £000 |
|---|-----------------------|-------------------------------|------------------------------------|---------------------------------|----------------------|
| At 1st July 2013 | 11,561 | 504 | 2,395 | (1,753) | 12,707 |
| Profit for the year | - | - | - | 301 | 301 |
| Other comprehensive income for the year | - | - | - | (262) | (262) |
| Dividend paid | - | - | - | (254) | (254) |
| At 1st July 2014 | 11,561 | 504 | 2,395 | (1,968) | 12,492 |
| Profit for the year | - | - | - | 581 | 581 |
| Other comprehensive income for the year | - | - | - | (1,368) | (1,368) |
| Share repurchase | (710) | - | 710 | - | - |
| Consideration paid on share purchase | - | - | - | (348) | (348) |
| Dividend paid | - | - | - | (277) | (277) |
| At 30th June 2015 | 10,851 | 504 | 3,105 | (3,380) | 11,080 |

Accounting Policies of the Group

Basis of preparation

These consolidated financial statements have been prepared using International Financial Reporting Standards as adopted by the European Union (IFRS). The basis of preparation and accounting policies used in preparing the financial statements for the year ended 30th June 2015 remain unchanged from the previous year, except as noted on page 14, 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 the 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 on which control is obtained. They are deconsolidated from the date on which control ceases.

Revenue recognition

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

Exceptional items

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

Interest payable and receivable

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

Accounting Policies of the Group

(continued)

Dividends payable

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

Property, plant and equipment

Property, plant and equipment are held at cost less accumulated depreciation and impairment charges. Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment, which is reviewed annually, by equal instalments over their estimated useful economic lives as follows:

| | |
|---------------------|--------|
| Property | 2% |
| Plant and equipment | 10–33% |

Goodwill and business combinations

Goodwill results from the acquisition of subsidiary undertakings and equates to the amount by which the consideration for the subsidiary undertaking differs from the fair value of net assets acquired. Goodwill has been fully impaired.

Impairment testing of goodwill and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors the related cash flows.

Goodwill is not amortised but the cash-generating units which include goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Inventories

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

Foreign currency

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

Financial instruments – derivatives

The group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange rates. Derivative instruments utilised are forward currency contracts. The fair value of forward currency contracts is assessed at the balance sheet date and any profit or loss is recognised in the income statement.

Financial assets – items carried at amortised cost

Financial assets comprise trade receivables and cash and cash equivalents. Financial assets are recognised in the group's consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument. Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

Financial liabilities – items carried at amortised cost

Financial liabilities are obligations to pay cash or other financial assets and comprise trade payables and bank borrowings. Financial liabilities are recognised in the group's consolidated balance sheet when the group becomes a party to the contractual provisions of the instrument. Trade payables are measured at initial recognition at fair value. Changes in fair value are recognised in the income statement. Bank borrowings are recorded at the proceeds received net of direct issue costs. Finance charges are accounted for under the effective interest method.

Taxation

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

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

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

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 is charged against operating profit as part of operating costs and 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.

Accounting Policies of the Group

(continued)

Provisions

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

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

Leased assets

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

Equity

Equity is broken down into the elements listed below:

Share capital representing the nominal value of equity shares;

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

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

Retained earnings representing amounts retained from earnings.

Restatement

The revenue and operating costs for the year ended 30th June 2014 have been restated due to the reclassification of settlement discount as required by IAS 18, Revenue Recognition. The financial effect is a reduction of £391,000 in revenue and operating costs. There is no impact on operating profit previously reported, nor on the statement of financial position at the beginning of the preceding financial period and therefore a third statement of financial position has not been presented.

Application of new and revised accounting standards

With effect from 1st June 2014, the group has adopted the following amendment to an existing standard and new standard:

- IFRS 10 Consolidated financial statements: IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The new standard replaces the consolidated requirements in SIC-12 Consolidated – Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements.
- Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12): The Amendments clarify the transition guidance in IFRS 10 Consolidated Financial Statements. They also provide additional transition relief in IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements; and IFRS 12 'Disclosure of Interest in Other Entities', limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before IFRS 12 is first applied.

In the current year the following new and revised Standards and Interpretations have been adopted which have not resulted in any significant impact on the results or net assets of the group:

- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Recoverable amounts disclosures for non-financial assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

The following IFRS, IAS and IFRIC interpretations, which are potentially relevant to the group, are not currently endorsed for use in the EU but are expected to be mandatory for future accounting periods:

- IFRS 14 Regulatory Deferral Accounts (effective 1st January 2016)
- Accounting for Acquisitions of Interests in Joint Operations: (Amendments to IFRS 11) (effective 1st January 2016)
- Clarification of Acceptable Methods of Depreciation and Amortisation: (Amendments to IAS 16 and IAS 38) (effective 1st January 2016)
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants (effective 1st January 2016)
- Equity Method in Separate Financial Statements: (Amendments to IAS 27) (effective 1st January 2016)
- Sale or contribution of assets between an investor and its associate or joint venture: (Amendments to IFRS 10 and IAS 28) (effective 1st January 2016)
- Annual Improvements to IFRSs (2012–2014 Cycle) (effective 1st January 2016)
- Disclosure Initiative: (Amendments to IAS 1) (effective 1st January 2016)
- Investment Entities: Applying the Consolidation Exception: (Amendments to IFRS 10, IFRS 12 and IAS 28) (effective 1st January 2016)
- IFRS 15 Revenue from Contracts with Customers (effective 1st January 2017)
- IFRS 9 Financial Instruments (effective 1st January 2018)

Where future new and amended standards have been identified as potentially relevant management are assessing their future impact.

Notes to the Financial Statements of the Group

1 SEGMENT REPORTING

The group presents its results in accordance with internal management reporting information which means that the group is reported as a single 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, and by market sector.

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

| | 2015 | 2014 Restated |
|---|---------------|------------------|
| | £000 | £000 |
| Analysis of revenue by destination | | |
| United Kingdom | 20,305 | 18,083 |
| Republic of Ireland | 923 | 834 |
| Rest of Europe | 3,807 | 3,593 |
| North America | 126 | 108 |
| Rest of the World | 377 | 333 |
| | <u>25,538</u> | <u>22,951</u> |

| | 2015 | 2014 Restated |
|---|---------------|------------------|
| | £000 | £000 |
| Analysis of revenue by market sector | | |
| Contract floor coverings | 18,533 | 16,079 |
| Domestic floor coverings | 7,005 | 6,872 |
| | <u>25,538</u> | <u>22,951</u> |

2 OPERATING COSTS

| | 2015 Excluding exceptional costs | 2014 Excluding exceptional costs |
|---|---|---|
| | £000 | Restated £000 |
| Changes in stocks of finished goods and work in progress | (444) | (1,041) |
| Raw materials and consumables | 10,888 | 9,722 |
| Other external charges | 6,579 | 6,603 |
| Staff costs (note 18) | 6,363 | 6,095 |
| Depreciation | 830 | 880 |
| Foreign exchange differences | 110 | (29) |
| | <u>24,326</u> | <u>22,230</u> |

2 OPERATING COSTS (continued)

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

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Fees payable to the company's auditor for the audit of the financial statements | 17 | 17 |
| Fees payable to the company's auditor and its associates for other services: | | |
| Audit of the financial statements of the company's subsidiaries pursuant to legislation | 18 | 18 |
| | <u>35</u> | <u>35</u> |

3 EXCEPTIONAL OPERATING COSTS

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Property dispute | 15 | 115 |
| Share repurchase legal and advisory expenses | 99 | – |
| | <u>114</u> | <u>115</u> |

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In applying the group's accounting policies, appropriate estimates have been made in a number of areas and the actual outcome may vary from the position described in the consolidated balance sheet at 30th June 2015. 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:

Deferred tax assets – £1,557,000 (2014: £1,323,000)

Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the assets will be realised in due course. This assumption is dependent upon the group's ability to generate sufficient future taxable profits. Details of the deferred tax asset are given in note 10.

Inventories – £10,647,000 (2014: £10,220,000)

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. This inventory is carried at a value which reflects the director's best estimates of achievable selling prices. The actual selling prices achieved might be higher or lower than these estimates.

Trade receivables – £3,936,000 (2014: £3,757,000)

Trade receivables have been reviewed for indicators of impairment taking into account the age of the debt, and any known disputes and credit rating information. Details of the provisions made against trade receivables are given in note 12. The actual amounts recovered in subsequent periods might be higher or lower than the estimates made.

Pension deficit – £7,443,000 (2014: £5,761,000)

The calculation of the pension deficit is subject to a number of assumptions as detailed in note 16. Any difference between actual events and those assumed at the balance sheet date could result in a change in the pension deficit. The increase of £1,682,000 in the year was due to losses in remeasurement of scheme liabilities net of the return on scheme assets.

Notes to the Financial Statements of the Group

(continued)

5 FINANCE INCOME AND FINANCE COSTS

(a) Finance income

| | 2015 £000 | 2014 £000 |
|----------------|--------------|--------------|
| Other interest | <u>1</u> | <u>3</u> |

(b) Finance costs

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Bank interest | 2 | – |
| Finance cost relating to the pension scheme (note 16) | 447 | 279 |
| | <u>449</u> | <u>279</u> |

6 TAXATION

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Based on the profit for the year at 20.75% (2014: 22.50%) | | |
| Corporation tax | | |
| – Current year | 96 | – |
| – Prior year | (60) | (11) |
| Total current tax | <u>36</u> | <u>(11)</u> |
| Deferred tax | | |
| – Current year | 43 | 60 |
| – Prior year | – | (40) |
| – Relating to pension deficit | (10) | 20 |
| Total deferred tax (note 10) | <u>33</u> | <u>40</u> |
| Tax charge on profit on ordinary activities | <u>69</u> | <u>29</u> |

The tax charge for the year can be reconciled to the loss per the consolidated income statement at the standard rate of corporation tax in the United Kingdom of 20.75% (2014: 22.50%) as follows:

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Profit on ordinary activities before tax | <u>650</u> | <u>330</u> |
| Profit on ordinary activities before tax multiplied by standard rate of corporation tax of 20.75% (2014: 22.50%) | 135 | 74 |
| Effects of: | | |
| Disallowed expenditure | (6) | 6 |
| Prior year adjustment | (60) | (51) |
| Current corporation tax charge for the year | <u>69</u> | <u>29</u> |

7 EARNINGS PER SHARE

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

Number of shares

| | 2015 | 2014 |
|--|-------------------|-------------------|
| Weighted average number of ordinary shares | <u>44,889,497</u> | <u>46,242,455</u> |

Earnings

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Earnings | <u>581</u> | <u>301</u> |
| Exceptional operating costs (net of tax) (note 3) | 91 | 115 |
| Adjusted earnings | <u>672</u> | <u>416</u> |

Group earnings per share

| | 2015 pence | 2014 pence |
|----------------|---------------|---------------|
| Basic adjusted | <u>1.50</u> | <u>0.90</u> |
| Basic | 1.29 | 0.65 |

There is no dilution of earnings per share.

8 DIVIDENDS

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| Paid during the year: | | |
| Final dividend for the prior year of 0.60p per share (2014: 0.55p per share) | <u>277</u> | <u>254</u> |
| Proposed after the year end (not recognised as a liability): | | |
| Final dividend for the year of 0.9p per share (2014: 0.60p per share) | <u>391</u> | <u>277</u> |

If approved, this dividend will be paid on 25th November 2015 to shareholders on the register at close of business on 30th October 2015.

Notes to the Financial Statements of the Group

(continued)

9 PROPERTY, PLANT AND EQUIPMENT

| | Property £000 | Plant and equipment £000 | Total £000 |
|--------------------------------|------------------|--------------------------------|---------------|
| Cost | | | |
| At 1st July 2013 | 5,922 | 19,696 | 25,618 |
| Additions | - | 157 | 157 |
| Disposals | - | (314) | (314) |
| At 30th June and 1st July 2014 | 5,922 | 19,539 | 25,461 |
| Additions | - | 459 | 459 |
| Disposals | - | (151) | (151) |
| At 30th June 2015 | <u>5,922</u> | <u>19,847</u> | <u>25,769</u> |
| Depreciation | | | |
| At 1st July 2013 | 2,342 | 16,848 | 19,190 |
| Charge for the year | 152 | 728 | 880 |
| Disposals | - | (313) | (313) |
| At 30th June and 1st July 2014 | 2,494 | 17,263 | 19,757 |
| Charge for the year | 151 | 679 | 830 |
| Disposals | - | (151) | (151) |
| At 30th June 2015 | <u>2,645</u> | <u>17,791</u> | <u>20,436</u> |
| Net book amounts | | | |
| At 1st July 2014 | <u>3,428</u> | <u>2,276</u> | <u>5,704</u> |
| At 30th June 2015 | <u>3,277</u> | <u>2,056</u> | <u>5,333</u> |

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

Capital commitments

| | 2015 £000 | 2014 £000 |
|-------|--------------|--------------|
| Group | <u>47</u> | <u>27</u> |

10 DEFERRED TAXATION

| | Pension deficit £000 | Tax losses £000 | Total £000 |
|--|-------------------------|--------------------|---------------|
| (a) Deferred tax non-current asset | | | |
| Balance as at 1st July 2013 | 1,305 | 171 | 1,476 |
| Movement during the year: | | | |
| Income statement | (20) | (60) | (80) |
| Consolidated statement of comprehensive income | (73) | - | (73) |
| Balance at 30th June and 1st July 2014 | 1,212 | 111 | 1,323 |
| Movement during the year: | | | |
| Income statement | 10 | (43) | (33) |
| Consolidated statement of comprehensive income | 267 | - | 267 |
| Balance at 30th June 2015 | <u>1,489</u> | <u>68</u> | <u>1,557</u> |

In addition to the recognised asset the group has an unrecognised deferred tax asset of approximately £867,000 (2014: £886,000) comprising of brought forward tax losses.

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| (b) Deferred tax liability | | |
| Balance brought forward | 1 | 41 |
| Movement during the year | - | (40) |
| Deferred tax asset carried forward | <u>1</u> | <u>1</u> |
| An analysis of the deferred tax liability is as follows: | | |
| Accelerated capital allowances | <u>1</u> | <u>1</u> |

11 INVENTORIES

| | 2015 £000 | 2014 £000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 1,937 | 1,954 |
| Work in progress | 166 | 216 |
| Finished goods | 8,544 | 8,050 |
| | <u>10,647</u> | <u>10,220</u> |

The consolidated income statement includes £10,444,000 (2014: £8,681,000) as an expense for inventories.

Notes to the Financial Statements of the Group

(continued)

12 TRADE AND OTHER RECEIVABLES

| | 2015 £000 | 2014 £000 |
|--------------------------------|--------------|--------------|
| Trade receivables | 3,936 | 3,757 |
| Corporation tax | - | 38 |
| Prepayments and accrued income | 476 | 518 |
| | <u>4,412</u> | <u>4,313</u> |

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

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

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Brought forward provisions | 277 | 354 |
| Bad and doubtful debts charged in the year | 151 | 20 |
| Amount utilised | (45) | (97) |
| | <u>383</u> | <u>277</u> |

In addition some of the unimpaired trade receivables are past due as at the reporting date. The age of trade receivables past due but not impaired is:

| | 2015 £000 | 2014 £000 |
|---|--------------|--------------|
| More than three months but not more than six months | 108 | 111 |
| More than six months | - | 17 |
| | <u>108</u> | <u>128</u> |

13 CASH AND CASH EQUIVALENTS

| | 2015 £000 | 2014 £000 |
|--------------------------|--------------|--------------|
| Cash at bank and in hand | <u>1,883</u> | <u>1,930</u> |

14 TRADE AND OTHER PAYABLES

| | 2015 £000 | 2014 £000 |
|---------------------------------|--------------|--------------|
| Trade payables | 3,029 | 3,649 |
| Social security and other taxes | 704 | 540 |
| Accruals and other creditors | 1,539 | 932 |
| Corporation Tax | 36 | - |
| | <u>5,308</u> | <u>5,121</u> |

Amounts included as trade and other payables are a reasonable approximation of fair value.

15 PROVISIONS

| | £000 |
|--------------------------------|-------|
| At 1st July 2013 | - |
| Provisions charged in the year | 115 |
| Amount utilised | - |
| At 30th June and 1st July 2014 | 115 |
| Amount utilised | (115) |
| At 30th June 2015 | - |

The provision related to a dilapidations dispute concerning leasehold properties exited in 2011, settled in the current period.

16 PENSION COMMITMENTS

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

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

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

The Plan is subject to regular actuarial valuations, which are usually carried out every three years. An actuarial valuation is currently being carried out with an effective date of 1st July 2014. 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 best estimate assumptions.

The initial results of the valuation as at 1st July 2014 have been projected to 30th June 2015 by a qualified independent actuary. The figures in the following disclosure were measured using Projected Unit Method.

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

| | 2015 £000 | 2014 £000 | 2013 £000 |
|---|----------------|----------------|----------------|
| Present value of scheme liabilities | (51,911) | (46,920) | (45,966) |
| Fair value of scheme assets | 44,468 | 41,159 | 40,298 |
| Funded status | (7,443) | (5,761) | (5,668) |
| Reduction on asset recognition | - | - | - |
| Net amount recognised at year end (before any adjustment for deferred tax) | <u>(7,443)</u> | <u>(5,761)</u> | <u>(5,668)</u> |

Notes to the Financial Statements of the Group

(continued)

16 PENSION COMMITMENTS (continued)

The amounts recognised in comprehensive income are:

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

| | 2015 £000 | 2014 £000 |
|---|---------------------|-------------------|
| Current service cost (net of employee contributions) | | |
| Service cost: | | |
| Administration expenses | 210 | 184 |
| Past service cost and gain on settlements and curtailments | - | (154) |
| Net interest expense | 237 | 249 |
| Charge recognised in P&L | <u>447</u> | <u>279</u> |
| Remeasurements of the net liability: | | |
| Return on scheme assets (excluding amount included in interest expense) | (3,838) | (1,549) |
| Loss arising from changes in financial assumptions | 2,261 | 1,738 |
| Gain arising from changes in demographic assumptions | (337) | - |
| Experience loss | 3,549 | - |
| Adjustment for restrictions on the asset recognised | - | - |
| Charge recorded in other comprehensive income | <u>1,635</u> | <u>189</u> |
| Total defined benefit cost | <u><u>2,082</u></u> | <u><u>468</u></u> |

The principal actuarial assumptions used were:

| | 2015 | 2014 |
|--|----------------------------------|-----------------------------------|
| Liabilities discount rate | 3.80% | 4.25% |
| Inflation assumption – RPI | 3.00% | 3.22% |
| Inflation assumption – CPI | 1.90% | 2.15% |
| Rate of increase in salaries | - | 3.75% |
| Revaluation of deferred pensions | | |
| benefits accrued prior to 06/04/1997 | 1.90% | 2.15% |
| benefits accrued after 06/04/1997 | 1.90% | 2.15% |
| Rate of increase to pensions in payment | | |
| benefits accrued prior to 06/04/1997 | 5.00% | 5.00% |
| benefits accrued after 06/04/1997 | 1.95% | 2.20% |
| Proportion of employees opting for early retirement | nil | nil |
| Proportion of employees commuting pension for cash | 100% | 100% |
| Mortality assumption – pre retirement | As post-retirement | As post-retirement |
| Mortality assumption – male post retirement | 110% SAPS S2PMA CMI 2013 1.0% | 110% SAPS S1PMA CMI 2011 0.75% |
| Mortality assumption – female post retirement | 110% SAPS S2PFA CMI 2013 1.0% | 110% SAPS S1PFA CMI 2011 0.75% |
| Future expected lifetime of current pensioner at age 65: | | |
| Male aged 65 at year end: | 21.4 | 21.3 |
| Female pensioner at age 65: | 23.3 | 23.5 |
| Future expected lifetime of future pensioner at age 65: | | |
| Male aged 45 at year end: | 22.8 | 22.5 |
| Female aged 45 at year end: | 24.8 | 24.6 |

16 PENSION COMMITMENTS (continued)

Changes in the present value of assets over the period:

| | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| At start of period | 41,159 | 40,298 |
| Interest income | 1,706 | 1,782 |
| Return on assets (excluding amount included in net interest expense) | 3,838 | 1,549 |
| Contributions from the employer | 400 | 375 |
| Benefits paid | (2,425) | (2,661) |
| Administration expenses | (210) | (184) |
| At end of period | <u>44,468</u> | <u>41,159</u> |
| Actual return on assets over the period | 5,544 | 3,331 |

Changes in the present value of liabilities over the period:

| | 2015 £000 | 2014 £000 |
|--|---------------|---------------|
| Liabilities at start of period | 46,920 | 45,966 |
| Interest cost | 1,943 | 2,031 |
| Remeasurement losses | | |
| Actuarial gains and losses arising from changes in financial assumptions | 2,261 | 1,738 |
| Actuarial gains and losses arising from changes in demographic assumptions | (337) | - |
| Other experience items | 3,549 | - |
| Gain on curtailments | - | (154) |
| Benefits paid | (2,425) | (2,661) |
| At end of period | <u>51,911</u> | <u>46,920</u> |

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

| | 2015 £000 | 2014 £000 |
|---------------------|---------------|---------------|
| Active members | - | 740 |
| Deferred pensioners | 15,171 | 15,602 |
| Pensions in payment | 36,740 | 30,578 |
| | <u>51,911</u> | <u>46,920</u> |

Average duration of the Plan's liabilities at the end of the period (years)

This can be subdivided as follows:

| | | |
|---------------------|----|----|
| Active members | - | 20 |
| Deferred pensioners | 20 | 20 |
| Pensions in payment | 11 | 11 |

Notes to the Financial Statements of the Group

(continued)

16 PENSION COMMITMENTS (continued)

The major categories of scheme assets are as follows:

| | 2015 £000 | 2014 £000 |
|------------------------------|----------------------|----------------------|
| Return seeking | | |
| UK Equities | 8,166 | 7,943 |
| Overseas Equities | 8,981 | 8,105 |
| Absolute Return Fund | 14,899 | 2,996 |
| Diversified Growth Fund | 3,139 | 3,052 |
| Return seeking subtotal | <u>35,185</u> | <u>22,096</u> |
| Debt instruments | | |
| LDI funds | 4,599 | 8,521 |
| UK bonds | – | 7,830 |
| Debt instruments subtotal | <u>4,599</u> | <u>16,351</u> |
| Other | | |
| Property | 2,809 | 2,571 |
| Cash | 1,875 | 141 |
| Total market value of assets | <u><u>44,468</u></u> | <u><u>41,159</u></u> |

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

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

The company expects to contribute £400,000 to the Scheme during year ending 30th June 2016.

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate was 0.1 per cent higher/(lower), the scheme liabilities would decrease by £676,000 (increase by £691,000) if all the other assumptions remained unchanged.

If the inflation assumption was 0.1 per cent higher/(lower), the scheme liabilities would increase by £325,000 (decrease by £252,000). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the salary, deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the scheme liabilities would increase by £2,510,000 if all the other assumptions remained unchanged.

17 CALLED UP SHARE CAPITAL

| | 2015 | | 2014 | |
|------------------------------------|------------|---------------|------------|---------------|
| | Number | £000 | Number | £000 |
| Ordinary shares of 25p each | | | | |
| Allotted, called up and fully paid | 43,404,353 | <u>10,851</u> | 46,242,455 | <u>11,561</u> |

Following the authority received at the general meeting held on 19th December 2014 2,838,102 ordinary shares were repurchased by tender offer, and cancelled. The company holds no ordinary shares in Treasury.

18 EMPLOYEES

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Staff costs | | |
| Wages and salaries | 5,780 | 5,482 |
| Social security costs | 486 | 453 |
| Other pension costs | 81 | 134 |
| Termination costs | 16 | 26 |
| | <u>6,363</u> | <u>6,095</u> |
| | Number | Number |
| The average number of employees, including directors, principally in the United Kingdom were: | | |
| Sales and marketing | 44 | 45 |
| Administration | 20 | 18 |
| Manufacturing and operations | 152 | 151 |
| | <u>216</u> | <u>214</u> |

Directors' remuneration

The key management personnel of the group are considered to be the executive directors.

| | Salary and fees £000 | Bonus £000 | Social security £000 | Taxable benefits £000 | 2015 Total (excluding pension) £000 | 2014 Total (excluding pension) £000 | 2015 Pension £000 | 2014 Pension £000 |
|----------------------|----------------------------|---------------|----------------------------|-----------------------------|---|---|-------------------------|-------------------------|
| Executive | | | | | | | | |
| Neil Rylance | 193 | 44 | 28 | 11 | 276 | 228 | 19 | 18 |
| Roger Salt | 94 | 22 | 12 | 6 | 134 | 111 | 8 | 8 |
| Non-Executive | | | | | | | | |
| Martin Toogood | 45 | - | - | - | 45 | 45 | - | - |
| | <u>332</u> | <u>66</u> | <u>40</u> | <u>17</u> | <u>455</u> | <u>384</u> | <u>27</u> | <u>26</u> |

| | 2015 £000 | 2014 £000 |
|--------------------------------------|--------------|--------------|
| Wages and salaries (including bonus) | 398 | 318 |
| Social security costs | 40 | 49 |
| Taxable benefits | 17 | 17 |
| Pension costs | 27 | 26 |
| | <u>482</u> | <u>410</u> |

Notes to the Financial Statements of the Group

(continued)

19 OPERATING LEASES

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

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Lease payments under operating leases charged to operating costs in the year | <u>787</u> | <u>819</u> |

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

| | 2015 £000 | 2014 £000 |
|--|--------------|--------------|
| Within one year | 701 | 819 |
| In the second to fifth years inclusive | 641 | 1,286 |
| After five years | - | - |
| | <u>1,342</u> | <u>2,105</u> |

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

20 FINANCIAL INSTRUMENTS

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

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

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

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

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

20 FINANCIAL INSTRUMENTS (continued)

| | 2015 £000 | 2014 £000 |
|-----------------------------|--------------|--------------|
| Current assets | | |
| Trade and other receivables | 3,936 | 3,757 |
| Cash and cash equivalents | 1,883 | 1,930 |
| | <u>5,819</u> | <u>5,687</u> |

Financial liabilities included in the consolidated balance sheet are all financial liabilities measured at amortised costs in the terms of IAS 39 and are included in the consolidated balance sheet within the following headings:

| | 2015 £000 | 2014 £000 |
|----------------------------|--------------|--------------|
| Current liabilities | | |
| Trade and other payables | <u>5,308</u> | <u>5,121</u> |

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

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 are no interest bearing liabilities (2014: nil).

Borrowing facilities

The group had no undrawn uncommitted borrowing facilities or undrawn committed borrowing facilities at either 30th June 2015 or 30th June 2014. The group has a £1 million overdraft facility available.

Foreign currency

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

Net foreign currency monetary assets/(liabilities)

| | 2015 £000 | 2014 £000 |
|------------|--------------|--------------|
| US dollars | 47 | 80 |
| Euro | 684 | 373 |
| | <u>731</u> | <u>453</u> |

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 £73,000 (2014: £45,000).

A 1% movement in interest rates would result in a charge or credit to profit of £nil (2014: £nil).

Company Balance Sheet

as at 30th June 2015

| | Note | 2015 | | 2014 | |
|---|------|---------|---------------|---------|---------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Investments | 2 | | 31,800 | | 31,800 |
| Current assets | | | | | |
| Debtors | 3 | 4,617 | | 3,221 | |
| Creditors (amounts falling due within one year) | 4 | (3,309) | | (1,779) | |
| Net current assets | | | <u>1,308</u> | | <u>1,442</u> |
| | | | <u>33,108</u> | | <u>33,242</u> |
| Shareholders' funds | | | | | |
| Called up share capital | 5 | | 10,851 | | 11,561 |
| Share premium account | 6 | | 504 | | 504 |
| Capital redemption reserve | 6 | | 3,105 | | 2,395 |
| Merger reserve | 6 | | 6,902 | | 6,902 |
| Profit and loss account | 6 | | 11,746 | | 11,880 |
| | | | <u>33,108</u> | | <u>33,242</u> |

The financial statements on pages 30 to 33 were approved by the board of directors on 22nd September 2015 and signed on its behalf by:

ROGER SALT
Group Finance Director

Company number 526657

Accounting Policies of the Company

Statement of accounting policies

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

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable financial reporting and accounting standards in the United Kingdom.

Investments

Investments are stated at cost less provision for any permanent impairment in value. The carrying value of investments is reviewed annually to determine the need for any provision for impairment.

Taxation

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

Full provision has been made for deferred taxation in respect of timing differences that have originated but not reversed at the balance sheet date as the result of an event which results in an obligation to pay more or less tax in the future, except that:

- Provision is not made for the remittance of a subsidiary's earnings that would cause tax to be payable where no commitment has been made to the remittance of the earnings;
- Deferred tax assets are recognised to the extent that it is more likely than not that there will be suitable tax profits from which future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discount basis at the tax rates expected to apply in the period in which the timing differences reverse, based on rates enacted at the balance sheet date.

Pensions

As the defined benefit scheme is a multi-employer scheme, the company is unable to identify its share of the underlying assets and liabilities and therefore accounts for the scheme as if it were a defined contribution scheme. Amounts paid to the scheme are charged against operating profit as part of operating costs as incurred.

Notes to the Financial Statements of the Company

1 PROFIT FOR THE YEAR

AIREA plc has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006. The amount dealt with in the financial statements of the company is a profit of £491,000 (2014: £108,000).

2 INVESTMENTS

Shares in group companies

| | 2015 £000 | 2014 £000 |
|------|---------------|---------------|
| Cost | <u>31,800</u> | <u>31,800</u> |

Investments in group undertakings are stated at cost less amounts written off. The write down of investments has been based on their value in use, with cash flows discounted at 10%. Details of the company's subsidiaries at 30th June 2015, 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, unless otherwise stated, are set out below:

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

*Held directly

3 DEBTORS

| | 2015 £000 | 2014 £000 |
|---------------------------------|--------------|--------------|
| Amounts owed by group companies | 4,546 | 3,164 |
| Prepayments and accrued income | 71 | 57 |
| | <u>4,617</u> | <u>3,221</u> |

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 during the year for impairment and it was assessed that no further impairment was required (2014: £nil).

4 CREDITORS

| | 2015 £000 | 2014 £000 |
|------------------------------|--------------|--------------|
| Overdraft | 1,525 | 470 |
| Accruals and other creditors | 59 | 69 |
| Intercompany Payable | 1,725 | 1,240 |
| | <u>3,309</u> | <u>1,779</u> |

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

5 CALLED UP SHARE CAPITAL

| | 2015 | | 2014 | |
|------------------------------------|------------|---------------|------------|---------------|
| | Number | £000 | Number | £000 |
| Ordinary shares of 25p each | | | | |
| Authorised | 72,000,000 | <u>18,000</u> | 72,000,000 | <u>18,000</u> |
| Allotted, called up and fully paid | 43,404,353 | <u>10,851</u> | 46,242,455 | <u>11,561</u> |

6 RESERVES

| | Share capital £000 | Share premium account £000 | Capital redemption reserve £000 | Merger reserve £000 | Profit and loss account £000 |
|--------------------------------------|--------------------------|-------------------------------------|--|---------------------------|------------------------------------|
| At 1st July 2013 | 11,561 | 504 | 2,395 | 6,902 | 12,026 |
| Profit for the year | - | - | - | - | 108 |
| Equity dividends paid | - | - | - | - | (254) |
| As at 30th June and 1st July 2014 | 11,561 | 504 | 2,395 | 6,902 | 11,880 |
| Profit for the year | - | - | - | - | 491 |
| Share repurchase | (710) | - | 710 | - | - |
| Consideration paid on share purchase | - | - | - | - | (348) |
| Equity dividends paid | - | - | - | - | (277) |
| At 30th June 2015 | <u>10,851</u> | <u>504</u> | <u>3,105</u> | <u>6,902</u> | <u>11,746</u> |

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.

Notice of Annual General Meeting

Notice is hereby given that the sixty second annual general meeting of the company will be held at the Cedar Court Hotel, Wakefield, on Thursday 5th November 2015, at 2.00 p.m. for the following purposes:

Ordinary Business

1. To receive the financial statements for the year ended 30th June 2015 together with the reports of the directors and auditors thereon.
2. To declare a final dividend for the year ended 30th June 2015, of an amount of 0.9p per share, to be paid on 25th November 2015 to members whose names appear on the register of members at close of business on 30th October 2015.
3. To re-elect Mr. R. Salt who retires by rotation as a director of the company in accordance with article 113 of the company's articles of association.
4. To re-appoint BDO LLP as auditor of the company to hold office until the conclusion of the next general meeting at which accounts are laid before the company and to authorise the directors to fix their remuneration.

Special Business

As special business to consider and, if thought fit, pass the following special resolution.

5. That the company be and is hereby generally and unconditionally authorised to make one or more market purchases (within the meaning of section 163(3) of the Companies Act 1985) on The London Stock Exchange plc ("the London Stock Exchange") of ordinary shares of 25p each in the capital of the company ("Ordinary Shares") provided that:
 - (i) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 4,340,435 (representing approximately 10% of the company's issued share capital);
 - (ii) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 12.25 pence per share;
 - (iii) the maximum price (exclusive of expenses) which may be paid for an ordinary share is not more than 5% above the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased;
 - (iv) unless previously revoked or varied, the authority hereby conferred shall expire fifteen months after the passing of this resolution or, if earlier, at the conclusion of the next annual general meeting of the company after the passing of this resolution; and
 - (v) the company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

By order of the board

ROGER SALT
Company Secretary

Registered Office:

Victoria Mills, The Green,
Ossett, WF5 0AN
22nd September 2015

Notes to the Notice of Annual General Meeting

A member of the company entitled to attend and vote at the 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 meeting. A shareholder may appoint more than one proxy in relation to the annual general meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the company. A proxy card is enclosed with this report and should be completed and lodged at Capita Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU or returned using the pre-paid address on the reverse of the proxy card. To be valid the card must arrive no later than 2.00 p.m. on 3rd November 2015. Alternatively, you may record your vote by using the CREST electronic appointment service. The return of a completed proxy card or any CREST proxy instruction will not prevent a shareholder attending the annual general meeting and voting in person if he/she wishes to do so.

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

Biographical details of each director who is being proposed for re-appointment or re-election by shareholders, including their membership of board committees, are set out in the Directors' Report on page 4.

The company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the company as at 6.00 p.m. on 3rd November 2015 or, in the event that the annual general meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote in respect of the number of shares registered in their name at the relevant time. Changes to entries in the register of members after 6.00 p.m. on 3rd November 2015 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.

Resolution 5 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 plc ("the London Stock Exchange") of its own ordinary shares, subject to certain limitations set out below.

Your board has no immediate plans for the company to make purchases of its own ordinary shares if the proposed new general authority becomes effective but would like to be able to act quickly if circumstances arise in which they consider such purchases by the company of its own ordinary shares to be desirable. Accordingly, it is proposed that the board be given a new general authority to purchase the company's ordinary shares on the terms contained in resolution 5 in the Notice of Annual General Meeting.

The proposed new general authority will be limited, by the terms of resolution 5 in the Notice of Annual General Meeting, to purchases of up to 4,340,435 ordinary shares, representing approximately 10% of the current issued share capital of the company. The minimum price per ordinary share payable by the company (exclusive of expenses) will be 12.25 pence. The maximum to be paid on the exercise of such new general authority (exclusive of expenses) will be an amount not exceeding 5% above the average of the middle-market quotation for ordinary shares as derived from the London Stock Exchange for the five business days immediately preceding the date of each purchase.

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

Notes to the Notice of Annual General Meeting

(continued)

The maximum number of shares and the permitted price range are stated for the purpose of compliance with statutory and London Stock Exchange requirements in seeking the authority. This should not be taken as any representation of the number of shares (if any) which the company might purchase nor the terms upon which the company would intend to make any such purchases nor does it imply any opinion on the part of the directors as to the market or other value of the company's shares. In seeking this 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 possession of unpublished price sensitive information in relation to the company's shares.

The general authority set out in resolution 5 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.

Resolution 5 complies with institutional investment committee guidelines.

Recommendation

Your directors consider that the resolutions being put to shareholders are in the best interests of the shareholders as a whole. Accordingly, the directors recommend shareholders to vote in favour of the resolutions set out in the Notice of Annual General Meeting.

CREST proxy voting

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

Directions to the Annual General Meeting

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