United Carpets Group plc

Annual Report

Year ended 31 March 2019

Company number: 05301665

Contents

Overview

As we have highlighted previously, our markets during 2018/19 have been very challenging due to the ongoing political and economic uncertainties which, we believe, have created a generally softer housing market and a reduction in consumer confidence. The year was further affected by an unusually hot summer and a successful run by England in the football World Cup, which together meant we had to work harder and invest more in marketing to generate every sale.

Despite this backdrop, the decrease in like for like sales was modest as we have striven to compete in a tough market, investing in our brand and franchise network. Notwithstanding increased marketing investment, corporate store profitability was adversely affected and the franchise network needed additional support, further increasing costs. We have opened a small number of new stores which are not yet mature and contributing to profit. We have also invested in a new business channel and while this has helped to increase revenue, it is not yet making a meaningful, positive contribution to Group profitability but has increased the general cost base further.

The result has, however, been to gain market share, achieve a full year result within the reduced range anticipated at our last trading update in March 2019 and also to potentially improve the future prospects of the business.

We anticipate that the market environment will continue to be challenging given the ongoing political uncertainties. However, United Carpets remains profitable, with a healthy balance sheet and a low level of borrowings. We will continue to invest prudently in new opportunities, which supports the Board's belief that United Carpets is well placed to compete and grow in the current year.

Financial review

Revenue, which includes marketing and rental costs incurred by the Group and recharged to franchisees, was £23.98m (2018: £21.72m).

Like for like sales across the whole of the network (based on stores that have traded throughout both the period under review and the corresponding period in the prior year and thus excluding stores that closed during either period) were slightly lower by 0.1%. The factors noted above made for a difficult first half, with like for like sales decreasing by 1.8%. Performance improved in the more important second half, generating reasonable like for like increases and resulting in only a small reduction in like for like sales for the year. The significant increase in total revenue during the year principally reflects an increase in the number of corporate stores during the year, which added £0.8m to revenue, and the early stage trials of an instalment payment channel which is excluded from like for like sales. The instalment payment model is a transparent offer with no hidden costs or extra charges which is appealing to some of our customers.

Gross margin in the period was 61.6% compared to 61.5% in the prior year. Warehousing gross margins improved as a result of actions taken during the year to improve overall profitability. This more than offset the "mix" impact from an increased proportion of total revenue being derived from corporate stores and new business channels with a corresponding reduction in the proportion of total revenue from franchise related income.

Distribution costs and administrative expenses, which include rent, rates and staff costs at the corporate stores, increased by £1.8m and from 54.4% of revenue to 56.8% reflecting:

- increased costs from non like for like corporate stores opened during the year and in the prior year,
- substantial operating costs associated with the new instalment payment channel,
- continued and increased investment in marketing and support for the store network to assist in competing in a very competitive environment,
- increased depreciation (non-cash charge against profit) as a result of controlled expansion and modest ongoing refurbishment of the existing store estate.

Financial review *(continued)*

The instalment payment channel suffers an inherently greater risk of default than traditional retailing and an impairment charge of £0.42m (2018: £0.03m) was made during the year against these receivables as this business channel has been developed. The level of charge incurred is in line with the expected levels of default in our original planning model. A further impairment charge of £0.16m (2018: £nil) was made during the year against receivables, reflecting the impact of the prevailing market environment on the franchise network as the Group continues to support its franchisees.

Profit before tax was £0.59m (2018: £1.52m) and earnings per share were 0.51p (2018: 1.57p).

The statement of financial position included net funds of £2.10m as at 31 March 2019 (2018: £2.64m).

Dividend

The Board is pleased to be able to recommend a maintained final dividend of 0.285p per share (2018: 0.285p per share). Subject to approval at the Annual General Meeting, this dividend will be paid on 10 October 2019 to all shareholders on the register at the close of business on 27 September 2019. The ex-dividend date will be 26 September 2019.

Combined with the interim dividend of 0.135p per share (2018: 0.135p per share), the total dividend for the year will be 0.42p per share (2018: 0.42p per share).

Operational review

At 31 March 2018, there were 58 stores of which 50 were franchised and 8 were corporate stores. During the period under review, the total number of stores increased to 59 of which 48 were franchised and 11 were corporate stores. In the course of the year, two new corporate stores were opened and one franchised store was converted to become a corporate store. In addition, a further franchise store was closed.

The Group continues to consider potential new locations and equally importantly potential new franchisees. Matching stores and managers and securing attractive lease terms make up the fundamentals of expanding the portfolio and our approach remains highly selective and focused on waiting for the right opportunities to arise. A further two corporate stores have opened since the year end bringing total store numbers to 61, of which 13 are corporate.

Franchising and Retail

This year has been tough for all retailers and we were no exception. The market was characterised by competing offers with very high levels of discounting across all our key product lines. In response we invested behind our individual stores and brand, increasing marketing budgets and competing aggressively on price as necessary. As we have historically, marketing spend was targeted towards advertising campaigns across radio, television and print media. As a result, we limited the fall in like for like sales to just 0.1% for the year.

Floor coverings are the Group's primary driver of sales (predominantly carpet, laminate and vinyl floorings) through both franchised stores and the Group's own corporate stores. Over the year, the portfolio reversed a negative 1.6% like for like sales in the first six months with an improved performance in the second half resulting in a 0.3% like for like increase for the year. This was a creditable outcome in a very tough market environment.

The sale of beds reflected the market conditions with like for like sales 4.0% lower. The Group now has over 85% of stores offering beds with the larger stores able to show broader ranges. There is no doubt the retail offer of combining flooring and beds works well but the higher transaction cost of buying a bed compared to new flooring appears to make sales more susceptible to poorer market conditions.

Warehousing

Our in-house cutting operation continues to support the whole network providing a quick, efficient cutting and delivery service enabling our franchisees to offer attractive retail price points with good margins. The Warehousing division is seen as a key element of service to the store network, and whilst it is not intended to generate a normal, commercial return, a modest ongoing profit is the aim. Actions taken in the second half of the prior year have provided a more sustainable base and successfully delivered a modest recovery in the performance of this division in the current financial year.

Property

The Property division leases properties from third parties and sublets those properties to the store network.

People

On behalf of the Board I would like to thank our franchisees, suppliers, colleagues and all persons connected to the Group for their efforts throughout the twelve months under review. We are grateful for their continued commitment and we look forward to working together to achieve a successful outcome for the current year.

Outlook

The current financial year has begun well, with like for like sales up 4.6% for the first 16 weeks albeit against relatively weak comparatives in the prior year. We have identified some areas where cost savings can be made and others where performance can be improved. While we do not expect trading conditions to improve markedly from last year, we are confident in our ability to compete effectively and profitably. Part of our confidence comes from the strength of our franchise structure with our franchisees bringing a drive and determination for their stores to succeed which is difficult to match in a wholly owned model. The initial trials with instalment payments made a small positive contribution to the year just ended and we believe that this channel should start to make a more significant contribution in the current year.

Peter Cowgill
Chairman

23 August 2019

Directors

IF Bowness, aged 62, Finance Director

Ian trained as a chartered accountant with Price Waterhouse and spent 10 years working at Sears plc, latterly as Group Financial Controller. Ian was Finance Director of DFS Furniture Company plc for 8 years before joining United Carpets Group plc.

Ian is responsible for finance and systems.

PA Cowgill, aged 66, Non-Executive Chairman

Peter is Executive Chairman of JD Sports Fashion plc and senior partner in Cowgill Holloway LLP, chartered accountants. He is Non-Executive Chairman of QUIZ plc.

PR Eyre, aged 60, Chief Executive

Paul, a founder of the business, has over 40 years' experience within the carpet sector and came into the industry through the carpet retailing interests of his family. His extensive experience covers suppliers, competitors and background knowledge on store locations throughout the U.K.

Paul is responsible for property and marketing.

D Grayson, aged 57, Commercial Director

Deborah, a founder of the business, has over 35 years' experience within the carpet sector and came into the industry through the carpet retailing interests of her family. Deborah has primary responsibility for buying, has strong links with the franchise supplier network and supports Paul Eyre in the management of the business.

Deborah is responsible for buying and the Beds division.

PD Newton, aged 51, Operations Director

Paul has worked in the flooring sector for over 30 years and has held senior executive roles in two major flooring retailers.

Paul is responsible for the retail operations of the Group's network of corporate and franchised stores.

KS Piggott, aged 70, Non-Executive Director

Ken is a former Managing Director of Boots The Chemists Ltd and is a former Executive Director of The Boots Company Plc. In a career spanning over 40 years, he has managed a number of major U.K. retail businesses including Children's World, Do-It-All and Halfords Ltd. He is Chairman of Simplyhealth Group Ltd.

Ken is Chairman of the Audit Committee and Remuneration Committee.

Secretary	IF Bowness
Registered office	Moorhead House Moorhead Way Bramley Rotherham South Yorkshire S66 1YY
Nominated adviser and broker	Cantor Fitzgerald Europe One Churchill Place Canary Wharf London E14 5RB

Audit committee	KS Piggott PA Cowgill
Remuneration committee	KS Piggott PA Cowgill
Auditor	RSM UK Audit LLP Statutory Auditor Suite A, 7th Floor City Gate East Tollhouse Hill Nottingham NG1 5FS
Solicitors	DWF LLP Bridgewater Place Water Lane Leeds LS11 5DY
	Shoosmiths LLP Waterfront House Waterfront Plaza 35 Station Street Nottingham NG2 3DQ
Bankers	Santander UK plc 1st Floor, Telegraph House High Street Sheffield S1 2AN
	National Westminster Bank Plc PO Box 4 69 Bridge Street Worksop S80 1DJ
Registrars	Neville Registrars Limited Neville House Steelpark Road Halesowen West Midlands B62 8HD
Company number	Registered number: 05301665

Introduction

The Group's principal activities are carpet and bed retailing and franchising of retail outlets.

Business review

A review of the development of the business during the period and the prospects for the Group is given in the Chairman's statement on pages 1 to 3.

The Chairman's statement contains details of likely future developments within the Group.

The results of the Group for the period are set out on page 24.

Principal risks and uncertainties

Economic factors

The economy is a major influence on consumer spending with trends in housing transactions, unemployment, consumer confidence, mortgage approvals, consumer debt levels and interest rates affecting discretionary spending on the home. Any significant contraction of the market for either flooring or beds would adversely impact the Group as it impacts on the ability of franchisees to meet their financial commitments. Prolonged uncertainty over the impact of the decision to leave the EU continues to adversely affect consumer and business confidence and this will remain a significant risk until a clear plan for the future relationship with the EU emerges. Marketing is coordinated at Group level in order to maximise brand value and maintain and improve customer awareness and drive sales during challenging times.

Online and mobile retailing continue to gain ground which may potentially impact on footfall to conventional retailers. The Group continues to explore opportunities to strengthen its online capabilities.

Property costs are a material overhead for the Group and the potential liability associated with long term lease commitments can be significant. New leases are agreed where the Group is reasonably confident that the store can be operated on a basis that will provide a viable future for the franchisee or the Group as appropriate. As part of those negotiations, the Group generally seeks to reduce the life of the lease commitment, introduce appropriate break clauses, minimise potential dilapidation liabilities as well as reduce the overall rent cost.

The Group's franchise structure should ensure that we have a team which is highly motivated to succeed and retail failures elsewhere may add to our pipeline of experienced franchisee candidates. However, a general hardening of the various banks' attitude to risk may act as a constraint on the availability of funding for potential franchisees.

Supply chain

The Group has established relationships with a number of carpet manufacturers. Carpet manufacturing is a highly competitive sector and alternative sources of supply exist in the event that one of the Group's suppliers experience difficulties. The historic location of the principal carpet manufacturers in Europe means that the Group is exposed to fluctuations in the value of the euro compared with sterling. Prices are regularly reviewed as exchange rates vary and general declines in the value of sterling following the referendum decision have had a modest impact to date on all retailers in our market. Further movements in exchange rates as Brexit plans become clearer and any additional costs of importing following Brexit may adversely affect future cost prices and make increases in retail prices unavoidable.

The nature of the franchise network means that any risk to suppliers comprises numerous, relatively small balances with individual entities and is not concentrated into any particularly large amounts. Consequently, availability of credit insurance has not been a constraint on the Group to date.

Increases in raw material prices would increase pressure on operating margins across the sector and the Group works proactively with its supplier partners to mitigate increases wherever possible and to maintain margins at very competitive retail prices.

Principal risks and uncertainties (*continued*)

Supply chain (continued)

The Group's in-house cutting operation has significantly improved efficiency and service to the store network and its continued successful operation is expected to yield further benefits in the future as utilisation and economies of scale increase. In the event of a major failure of either the systems used to support the in-house cutting operation or of the physical premises, the Group would need to revert to providing a replacement service via wholesalers which could adversely impact on margins and price competitiveness. Business interruption insurance, to mitigate any such impact, is reviewed annually and maintained at what is considered to be an appropriate level.

Competitors

The Group operates in a highly competitive, price led environment. Changes in competitor numbers and activity can adversely impact Group sales. Wherever possible the Group seeks to protect sales revenue by promoting ranges that have been specifically designed for it, resorting to lower margin branded products only where it cannot realistically offer an own brand alternative.

Personnel

The success of the Group is dependent on the continued service of its key management personnel and franchisees and on its ability to attract, motivate and retain suitably qualified individuals. The Group has competitive reward packages for all staff and significant earnings potential for successful franchisees. The Group seeks to train and develop all staff and franchisees to continually improve product knowledge and customer service.

Financial risk management objectives and policies

The Group seeks to agree arrangements with franchisees to ensure that as many as possible can anticipate a viable future at the same time as re-negotiating lease arrangements to better underpin that objective, although there can be no guarantee of success.

The Group makes little use of financial instruments other than an operational bank account and trade receivables and payables. The development of the instalment payment channel increases the Group's exposure to credit risk. Levels of default are closely monitored in comparison to expected levels in the original planning model.

Except as noted above, exposure to price risk, credit risk, liquidity risk and cash flow risk is not considered material for the assessment of the assets, liabilities, financial position and profit or loss of the Group.

Key performance indicators

	Year ended 31 March 2019	Year ended 31 March 2018
Revenue	£23.98m	£21.72m
Like for like sales (a)		
- Flooring	+0.3%	+3.2%
- Beds	(4.0%)	+3.2%
- Combined	(0.1%)	+3.2%
Store numbers (year-end)		
- Core corporate	4	3
- Other corporate	7	5
- Franchised	48	50
- Total	59	58
Gross margin (b)	61.6%	61.5%
Overheads as a proportion of sales (c)	56.8%	54.4%
Impairment of receivables	£0.58m	£0.03m
Cash generated from operations	£0.78m	£2.21m
Net funds (d)	£2.10m	£2.64m

Key performance indicators (*continued*)

(a) Like for like sales is calculated as this period's sales divided by last period's sales for all stores that traded throughout both periods.

(b) Gross margin is calculated as gross profit divided by revenue.

(c) Overheads as a proportion of sales is calculated by dividing total distribution costs and administrative expenses by revenue.

(d) Net funds comprise cash and cash equivalents less borrowings - finance leases.

This report was approved by the Board and signed on its behalf.

Peter Cowgill
Chairman

23 August 2019

The Directors present their report and the Group's audited accounts for the year ended 31 March 2019.

These results, together with the comparative results and information, have been determined and presented under IFRS as adopted by the European Union.

This report has been prepared in accordance with requirements outlined within the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Certain information that fulfils the requirements of the directors' report can be found elsewhere in this document and is referred to below.

The strategic report is set out on pages 6 to 8 and is incorporated into this directors' report by reference. The strategic report contains details of likely future developments within the Group, key performance indicators and the principal risks and uncertainties affecting the Group.

Disclosures relating to financial risk management objectives and policies are set out in note 22 to the consolidated financial statements.

Principal activities

The Group's principal activities are carpet and bed retailing and franchising of retail outlets. The Company's principal activity is as a holding company for the Group.

Dividends

During the year, a final dividend of £232,000 was paid on 11 October 2018 in respect of 2017/18 (2018: £224,000) and an interim dividend of £110,000 was paid on 18 January 2019 in respect of 2018/19 (2018: £110,000).

A final dividend of £232,000 (2018: £232,000) has been proposed but not provided in the financial statements.

Substantial shareholders

At 16 August 2019, the directors had been notified of the following interests which amounted to 3% or more of the issued share capital in the Company:

	Number of shares	**Percentage**
PR Eyre	38,482,500	47.3%
D Grayson	12,541,392	15.4%
IF Bowness	2,691,208	3.3%

Wealth Nominees Limited Des:WRAP held 3,194,809 shares, of which 2,611,208 are held on behalf of IF Bowness and family and these are included in the total holding of 2,691,208 shares noted above.

The mid-market price of ordinary shares at 31 March 2019 was 5.25p. The highest and lowest share prices during the year were 8.5p and 4.5p respectively.

Employees

The Group aims to be an equal opportunities employer with a commitment to help people develop their potential. In relation to disabled people or minority groups, the Group has a policy of giving them full and fair consideration for all vacancies for which they are suitably qualified. Employees who become disabled during employment will be retained wherever possible and retrained if necessary.

The Directors recognise that communication with its employees is essential and the Group places importance on the contributions and views of its employees.

Directors

Details of the Directors are given on page 4.

During the year, the Group had in place directors' and officers' insurance**.**

Statement of disclosure of information to auditors

The Directors of the Group have, individually, considered their responsibilities to provide information to the Group's auditor and in so far as each of them is aware, there is no relevant audit information of which the Group's auditor is unaware and each Director has taken all the steps that they ought to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

A resolution proposing to re-appoint RSM UK Audit LLP as auditor will be put to the members at the Annual General Meeting.

This report was approved by the Board and signed on its behalf.

IF Bowness
Secretary

23 August 2019

The Directors acknowledge the importance of high standards of corporate governance. The QCA Code, published by the Quoted Companies Alliance, sets out a best practice standard for small and mid-size quoted companies, particularly AIM companies. The Group currently complies with the QCA Code to the extent that the Directors consider it appropriate, and having regard to the Group's, board structure, stage of development and resources.

The QCA Code identifies ten principles to be followed in order for companies to deliver growth in long-term shareholder value, encompassing an efficient, effective and dynamic management framework accompanied by good communication to promote confidence and trust.

The sections below set out the ways in which the Group applies the ten principles of the QCA Code in support of the Group's medium to long-term aims.

1. Establish a strategy and business model which promote long-term value for shareholders

The strategy and business operations of the Group are set out in the Chairman's statement and Strategic report on pages 1 to 3 and 6 to 8.

The Group's strategy and business model and amendments thereto, are developed by the Chief Executive and his senior management team, and approved by the Board. The management team, led by the Chief Executive, is responsible for implementing the strategy and managing the business at an operational level.

The Group's overall strategic objective is to maximise value to shareholders by continuing to develop a network of primarily franchised stores, retailing Flooring and Beds within England and Wales supported by an in-house cutting and distribution operation and a growing online presence. The Group also considers and trials related activities where management believe that long-term shareholder value may be enhanced.

2. Seek to understand and meet shareholder needs and expectations

The Group seeks to maintain a regular dialogue with both existing and potential shareholders in order to communicate the Group's strategy and progress and to understand the needs and expectations of shareholders.

All available directors attend Annual General Meetings to meet and answer questions from individual shareholders. The Chief Executive, Finance Director, Commercial Director and, where appropriate, other members of the senior management team meet, as required, with investors and analysts to provide them with updates on the Group's business and to obtain feedback regarding the market's expectations of the Group.

The Group's investor relations activities encompass dialogue with both institutional and private investors. When requested the Group attends private investor events, providing an opportunity for those investors to meet with representatives from the Group in a more informal setting.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Group is aware of its corporate social responsibilities and the need to maintain effective working relationships across the range of stakeholder groups. These include the Group's employees, partners, suppliers and regulatory authorities. The Group's operations and working methodologies take account of the requirement to balance the needs of all of these stakeholder groups while maintaining focus on the Board's primary responsibility to promote the success of the Group for the benefit of its members as a whole. The Group endeavours to take account of feedback received from stakeholders, making amendments to working arrangements and operational plans where appropriate and where the amendments are consistent with the Group's longer-term strategy. Further detail regarding feedback from franchisees and employees is provided in item 8 below. The Group is committed to a culture of equal opportunities for all employees regardless of race, gender or sexual orientation.

The Group takes due account of any impact that its actives may have on the environment and seeks to minimise this impact wherever possible. Through the various procedures and systems it operates, the Group seeks to ensure full compliance with health and safety and environmental legislation relevant to its activities.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board is responsible for the systems of risk management and internal control and for reviewing their effectiveness. The internal controls are designed to manage rather than eliminate risk and provide reasonable but not absolute assurance against material misstatement or loss. Through the activities of the Audit Committee, the effectiveness of these internal controls is reviewed annually.

A summary of the principal risks and uncertainties facing the Group, as well as mitigating actions, are set out on pages 6 and 7 and in note 22.

A comprehensive budgeting process is completed each year and is reviewed and approved by the Board. Regular re-forecasts are performed throughout the year. The Group's results, compared with the budget/re-forecast are reported to the Board on a monthly basis.

The Group maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against the Group. The insured values and type of cover are comprehensively reviewed on a periodic basis.

The senior management team meets generally fortnightly to review and address trading performance and operational issues. Any new risks and opportunities presented to the Group identified by the senior management team, result in recommendations to the Board and/or Audit Committee as appropriate.

5. Maintain the Board as a well-functioning, balanced team led by the chair

Directors

The Board consists of four executive and two independent non-executive directors and meets regularly throughout the period. The Board believes that the current composition is appropriate and proportionate for the size of the business. The non-executive directors have each been in position for more than 9 years. Their exceptional pedigree with immensely successful and respected retailers makes them a significant asset for our size of business. Their individual contributions are highly valued by the executive directors and each is considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of this independent judgement.

They receive a fixed fee for their services; the non-executive directors do not have a material interest in the shares of the Company. Concerns relating to the executive management of the Company can be raised with the non-executive directors.

Details of the Board members appear on page 4.

The Board meets generally on a monthly basis and more frequently where business needs require. A formal schedule of matters reserved for the decision of the Board covers key areas of the Group's affairs. This is communicated throughout the senior management of the Group. Procedures have been established to enable directors to obtain independent professional advice, where necessary, at the Company's expense. In addition, every director has access to the Company Secretary. The Secretary is charged by the Board with ensuring that Board procedures are followed.

To enable the Board to function effectively and allow directors to discharge their responsibilities, full and timely access is given to all relevant information. In the case of Board meetings, this consists of a comprehensive set of papers, including regular operating and progress reports and discussion documents regarding specific matters.

5. Maintain the Board as a well-functioning, balanced team led by the chair *(continued).*

Appointments to the Board

Appointments to the Board of executive directors are considered by the full Board of directors who review the candidates' experience and qualifications. Appointments to the Board of non-executive directors are considered by the Company's executive directors.

Any director appointed during the period is required, under the provision of the Company's Articles of Association, to retire and seek election by the shareholders at the next Annual General Meeting. The Articles also require that up to one third of the directors retire by rotation each year and seek re-election at the Annual General Meeting. The directors required to retire are those in office longest since their previous re-election.

On appointment to the Board, there are procedures to allow for appropriate training in respect of the role and duties as a public company director.

Details of the Directors' service contracts are given in the Board's report on directors' remuneration on page 18.

Committees of the Board

The Board has two standing committees, each of which has terms of reference setting out their authority and duties, including the following:

The Audit Committee comprises KS Piggott as Chairman, and PA Cowgill. The Committee meets as required. In addition to reviewing the report and accounts and the interim statement (including the Board's statement on internal financial control in the Annual Report) prior to their submission to the Board for approval, it keeps scope, cost-effectiveness, independence and objectivity of the external audit under review; this includes monitoring the level of non-audit fees. These are disclosed in note 6 and in the opinion of the Audit Committee do not affect the auditor's independence or objectivity.

The Audit Committee can and do meet for private discussion with the external auditor, who attends its meetings, as required. The Company Secretary acts as secretary to the Committee.

The Remuneration Committee comprises KS Piggott as Chairman, and PA Cowgill. The Board's report on directors' remuneration, which includes details of the Remuneration Committee, is set out on pages 17 and 18.

6. Ensure that between them, the directors have the necessary up-to-date experience, skills and capabilities.

The Board considers that each of the non-executive directors are of sufficient competence and calibre to add strength and objectivity to its activities, and bring considerable experience in retail operations, finance and leadership.

The Directors' biographies are set out on page 4.

The Directors regularly review the composition of the Board to ensure that is has the necessary breadth and depth of skills to support the ongoing development of the Group.

The Chairman, in conjunction with the Company Secretary, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Group, its operational environment and to the Directors' responsibilities as members of the Board. During the course of the year, the Directors received updates from the Company Secretary and various external advisers on a number of corporate governance matters.

7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.

Individual areas of responsibility for each director are clearly defined and key performance indicators for each area are reviewed at each Board meeting. As a result of this close monitoring and the relatively small size of the Board, a formal evaluation process has not, historically, been considered necessary. The Board will continue to closely monitor individual, committee and collective performance and consider annually whether a more formal process may be required.

The Group does not have a director designated as a Senior Independent Director. In light of the size of the Board and the Group's stage of development, the Board does not consider it necessary to appoint a Senior Independent Director at this stage, but will keep this under review as part of the Board's evaluation of Board effectiveness.

8. Promote a corporate culture that is based on ethical values and behaviours.

The Board seeks to maintain the highest standards of integrity and probity in the conduct of the Group's operations. These values are enshrined in the written policies and working practices adopted by all employees in the Group and franchisees in the network. An open culture is encouraged within the Group, with regular communications to staff regarding progress and staff feedback regularly sought.

The Groups bi-annual conference and regular sales meetings provide an excellent forum for franchisees and staff to share experiences and provide feedback to the management team. Senior management regularly monitors the Group's cultural environment and seeks to address any concerns that may arise, escalating these to Board level as necessary.

The Group is committed to providing a safe environment for its staff and all other parties for which the Group has a legal or moral responsibility. The Group's health and safety policies and procedures are regularly monitored and reviewed by external consultants.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.

The Board has overall responsibility for promoting the success of the Group. The executive directors have day-to-day responsibility for the operational management of the Group's activities. The nonexecutive directors are responsible for bringing independent and objective judgement to Board decisions.

There is a clear separation of the roles of the Chief Executive and Non-Executive Chairman. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making and ensuring that the non-executive directors are properly briefed on matters. The Chairman has overall responsibility for corporate governance matters in the Group and the Chief Executive has the responsibility for implementing the strategy of the Board and managing the day-to-day business activities of the Group. The Company Secretary is responsible for ensuring that Board procedures are followed and applicable rules and regulations are complied with.

The Board has established an Audit Committee and Remuneration Committee with formally delegated duties and responsibilities. Mr KS Piggott chairs the Audit Committee and the Remuneration Committee.

The Audit Committee meets as required (normally twice a year) and has responsibility for, amongst other things, planning and reviewing the Annual Report and interim statements involving, where appropriate, the external auditors. The committee also approves external auditors' fees and ensures the auditors' independence as well as focusing on compliance with legal requirements and accounting standards. It is also responsible for ensuring that an effective system of internal control is maintained. The ultimate responsibility for reviewing and approving the annual financial statements and interim statements remains with the Board.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board *(continued).*

Internal financial control

The Directors acknowledge their responsibility for the Group's system of internal financial control and place considerable importance on maintaining a strong financial control environment. It should be noted that internal financial control can only provide reasonable and not absolute assurance against material errors, losses or fraud.

The system of internal financial control is structured around an assessment and prioritisation of the various risks to the business. The control environment is designed to address particularly those risks that the Board consider to be material to the business, safeguarding the assets against unauthorised use or disposition and maintaining proper accounting records which produce reliable financial information.

The Board reviews the effectiveness of the system of internal financial control for each accounting period and the period to the date of approval of the financial statements.

A summary of the key established procedures of internal financial control is as follows:

- Powers reserved to the Board are clearly specified and include the approval of strategic plans and budgets, material capital expenditure, dividend policy, communication with shareholders and Board appointments.

- A simple organisational structure exists with close involvement of the executive directors and senior management.

- The Board meets generally monthly. The senior management team meets generally fortnightly to review and address trading performance and operational issues.

- Detailed budgets covering profits, cash flows and capital expenditure are prepared and are approved by the Directors. Comprehensive monthly reports are produced of performance against forecasts which are prepared and reviewed regularly.

- Stocktakes within the Group's own stores are generally performed at six monthly intervals.

The Remuneration Committee, which meets as required, but at least once a year, has responsibility for making recommendations to the Board, on the compensation of senior executives and determining, with agreed terms of reference, specific remuneration packages for each of the executive directors. It also supervises the Company's share incentive schemes and sets performance conditions for share options granted under the schemes.

The Board's report on directors' remuneration is set out on pages 17 and 18.

The Directors believe that the above disclosures constitute sufficient disclosure to meet the QCA Code's requirement for a Remuneration Committee Report. Consequently, a separate Remuneration Committee Report is not presented.

The Group has adopted a share dealing code for the directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (including restrictions on dealings during close periods in accordance with MAR and with Rule 21 of the Aim Rules for Companies) and the Group takes all reasonable steps to ensure compliance with the share dealing code by the Directors and any relevant employees.

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Group places a great deal of importance on communication with its shareholders and the Group's website is regularly updated. The Board maintains a dialogue with individual institutional shareholders. All available directors attend the Annual General Meeting and all shareholders have the opportunity to ask questions. Resolutions are proposed on each substantially separate issue. The Group will indicate the level of proxies lodged on each resolution and the balance for and against the resolution at each Annual General Meeting. Although the Group has not historically announced the details of shareholder voting to the market, in the event of votes against a resolution being received from at least 20% of independent shareholders, any action to be taken will be updated on the Group's website.

Peter Cowgill
Chairman

23 August 2019

The Remuneration Committee ("The Committee") meets at least annually and comprises KS Piggott and PA Cowgill.

The Committee under the chairmanship of KS Piggott is responsible for the determination of the remuneration policy of the Group's executive directors and senior executives.

Full details of the elements of each director's remuneration is set out below.

Executive remuneration policy

The policy on executive directors' remuneration is to provide a competitive level of reward relevant to the Group's business and the individuals concerned. The principal factors considered in applying the policy are the nature of responsibility carried out, individual performance and relevant external comparisons.

No director participates in decisions about their own remuneration package.

The main elements of remuneration are:

- **Base salary and benefits**

  Base salaries are reviewed annually. All four executive directors who served during the year were entitled to private medical insurance, company car, permanent health insurance, life assurance cover and pension contributions of up to 15% of salary. The bonus scheme for executive directors seeks to reward Group performance in excess of the target level of profit before tax, exceptional items and bonus provisions which has been set by the Committee for the year.

  In addition, IF Bowness is entitled to participate in a bonus scheme providing for an allocation of shares in the Company, to a maximum value of £700,000 subject to the share price performance of the Company.

- **Share option scheme**

  The Company's Approved Company Share Option Scheme was approved by the Board on 10 February 2005. The Directors had been awarded the following options under this scheme at 31 March 2019:

	At 31 March 2018	Lapsed during the year	**At 31 March 2019**
IF Bowness	246,305	-	246,305

The Company's Unapproved Company Share Option Scheme was approved by the Board on 10 February 2005. The Directors had been awarded the following options under this scheme at 31 March 2019:

	At 31 March 2018	Lapsed during the year	**At 31 March 2019**
IF Bowness	1,908,866	-	1,908,866

Further details of the options are given in note 24 to the financial statements.

Directors' emoluments

The following emoluments were paid to the Directors:

	Salary £'000	Bonuses £'000	Benefits £'000	Pensions £'000	Year ended 31 March 2019 Total £'000	Year ended 31 March 2018 Total £'000
IF Bowness	175	13	38	15	241	291
PA Cowgill	47	-	-	-	47	47
PR Eyre	200	21	62	10	293	329
D Grayson	157	13	43	10	223	281
PD Newton	171	25	18	12	226	215
KS Piggott	38	-	-	-	38	38
	788	72	161	47	1,068	1,201

The emoluments of the highest paid director were £283,000 (2018: £307,000). The value of Group pension contributions to money purchase schemes for the highest paid director were £10,000 (2018: £22,000).

Four directors are accruing benefits under money purchase pension schemes (2017: four). The remuneration of each director who served during the period set out in the table above has been audited by RSM UK Audit LLP, the Group's auditor, as part of their audit of the financial statements.

Service contracts

Executive directors

IF Bowness, PR Eyre and D Grayson each have a service contract with the Company from 10 February 2005 which may be terminated upon 12 months' notice by either party.

PD Newton has a service contract with the Company from 6 June 2013 which may be terminated upon 6 months' notice by either party.

Non-executive directors

The services of the non-executive directors are provided under the terms of letters of appointment from the Company dated 11 February 2005, for an initial period of 12 months, continuing thereafter subject to termination upon at least 3 months written notice.

The Committee is directly accountable to shareholders. A representative of the Committee will be available at the Annual General Meeting to answer questions about the remuneration of the Directors.

KS Piggott
Chairman, Remuneration Committee

23 August 2019

Statement of directors' responsibilities

The Directors are responsible for preparing the strategic report, directors' report, corporate governance report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law and IFRSs adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRSs adopted by the EU; and

d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

Independent auditor's report to the members of United Carpets Group plc

Opinion

We have audited the financial statements of United Carpets Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the consolidated statement of comprehensive income, consolidated and parent company statement of financial position, consolidated and parent company statement of changes in equity, consolidated and parent company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Group key audit matters

- Inventory provisions against obsolete and slow-moving stock to write down to the net recoverable amount as per the policy on page 32 and charge as per note 17 – This is considered a key audit matter due to its judgemental nature and magnitude. Testing over the provisioning against stock was undertaken through analytical and detailed testing procedures. We reconfirmed our understanding of the basis for determining

Key audit matters *(continued)*

provisions against obsolete and slow-moving inventory items where the expected net realisable value is lower than cost. We considered the controls over this process and whether the provisioning methodology had been correctly applied. We also considered the appropriateness of the assumptions adopted including whether they were in line with historical stock losses. We found that the level of provisioning had been completed on a consistent basis which was in line with historical stock losses.

- Trade receivables provisioning as per the policy on page 31 and charge as per note 18 – This is considered a key audit matter due to its judgemental nature and magnitude. We understood management's basis for determining provisions against expected bad debts including instalment payment customers. The adequacy of the provisions was assessed by consideration and testing of the overdue debts, the historic track record of recovery and cash receipts since the year-end. We found that the provisions had been calculated on a consistent basis which was in line with expected and historic credit losses.

Parent company key audit matters

There were no key audit matters specifically related to the parent company in the 31 March 2019 financial statements.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £120,000, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £60,000, which was not significantly changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £5,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit approach focused on the company, the 3 main trading subsidiaries and the consolidation which have been subject to a full scope audit to group materiality. These audits covered 97% of group revenue, 100% of group profit before tax and 100% of group total assets.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 19, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

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

Neil Stephenson (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Suite A, 7th Floor
City Gate East
Tollhouse Hill
Nottingham
NG1 5FS

23 August 2019

Consolidated statement of comprehensive income for the year ended 31 March 2019

	Note	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Revenue	3	23,983	21,721
Cost of sales		(9,203)	(8,361)
Gross profit		14,780	13,360
Distribution costs		(453)	(404)
Administrative expenses		(13,160)	(11,416)
Impairment of receivables	18	(579)	(31)
Other operating income		-	10
Operating profit	6	588	1,519
Financial income	7	12	8
Financial expenses		(5)	(3)
Profit before tax		595	1,524
Income tax expense	8	(177)	(242)
Profit for the year and total comprehensive income*		418	1,282
Earnings per share	9		
- Basic (pence per share)		0.51p	1.57p
- Diluted (pence per share)		0.51p	1.57p

*All activities relate to continuing operations and are attributable to the owners of the parent.

There were no other recognized gains and losses for the current year other than shown above and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 28 to 58 form part of these financial statements.

Consolidated and parent company statement of financial position at 31 March 2019
Registered number: 05301665

	Note	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Non-current assets					
Intangible assets	12	109	143	-	-
Property, plant and equipment	13	2,846	2,399	133	9
Investment property	14	93	95	914	939
Investments	15	-	-	200	200
Deferred tax assets	16	53	99	33	38
		3,101	2,736	1,280	1,186
Current assets					
Inventories	17	2,146	1,890	-	-
Trade and other receivables	18	3,663	2,242	1,047	770
Current tax receivable		13	-	-	-
Cash and cash equivalents		2,259	2,640	1,394	1,953
		8,081	6,772	2,441	2,723
Total assets		11,182	9,508	3,721	3,909
Capital and reserves					
Issued capital	23	814	814	814	814
Retained earnings		4,533	4,457	2,115	1,853
Total equity attributable to owners of the parent		5,347	5,271	2,929	2,667
Non-current liabilities					
Borrowings – finance leases	19	96	-	71	-
Trade and other payables	20	584	519	-	-
		680	519	71	-
Current liabilities					
Borrowings – finance leases	19	62	3	43	-
Trade and other payables	20	4,942	3,433	636	1,118
Provisions	21	151	151	-	-
Current tax liabilities		-	131	42	124
		5,155	3,718	721	1,242
Total liabilities		5,835	4,237	792	1,242
Total equity and liabilities		11,182	9,508	3,721	3,909

As shown in note 11, the parent company made a profit after taxation of £604,000 (2018: £708,000).

The financial statements were approved by the Board and authorised for issue on 23 August 2019 and were signed on its behalf by:

PR Eyre	**D Grayson**	**IF Bowness**
Director	**Director**	**Director**

The notes on pages 28 to 58 form part of these financial statements.

Consolidated and parent company statement of changes in equity for the year ended 31 March 2019

Group

	Note	Issued capital £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
At 31 March 2017		814	4,323	5,137
Profit for the year		-	1,282	1,282
Equity dividends paid	10	-	(1,148)	(1,148)
At 31 March 2018		814	4,457	5,271
Profit for the year		-	418	418
Equity dividends paid	10	-	(342)	(342)
At 31 March 2019		814	4,533	5,347

Company

	Note	Issued capital £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
At 31 March 2017		814	2,293	3,107
Profit for the year		-	708	708
Equity dividends paid	10	-	(1,148)	(1,148)
At 31 March 2018		814	1,853	2,667
Profit for the year		-	604	604
Equity dividends paid	10	-	(342)	(342)
At 31 March 2019		814	2,115	2,929

Retained earnings represent accumulated comprehensive income for the year and prior periods less dividends paid.

The notes on pages 28 to 58 form part of these financial statements.

Consolidated and parent company statement of cash flows for the year ended 31 March 2019

	Note	Group Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	Company Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Cash flows from operating activities					
Cash generated from/(utilised by) operations	25	781	2,210	(40)	800
Interest paid		(5)	(3)	(3)	(2)
Income tax paid		(275)	(261)	(199)	(105)
Net cash flows from operating activities		501	1,946	(242)	693
Cash flows from investing activities					
Acquisition of intangible assets	12	(15)	(143)	-	-
Acquisition of property, plant and equipment		(516)	(624)	(7)	-
Proceeds from sale of property, plant and equipment		39	-	32	-
Interest received	7	12	8	33	62
Net cash flows from investing activities		(480)	(759)	58	62
Cash flows from financing activities					
Payment of finance lease liabilities		(60)	(20)	(33)	(6)
Equity dividends paid	10	(342)	(1,148)	(342)	(1,148)
Net cash flows from financing activities		(402)	(1,168)	(375)	(1,154)
(Decrease)/increase in cash and cash equivalents in the year		(381)	19	(559)	(399)
Cash and cash equivalents at the start of the year		2,640	2,621	1,953	2,352
Cash and cash equivalents at the end of the year		2,259	2,640	1,394	1,953

Analysis of movements in net cash during the year are as follows:

	At 1 April 2018 £'000	Cash flow £'000	Non-cash movement £'000	Group At 31 March 2019 £'000	At 1 April 2018 £'000	Cash flow £'000	Non-cash movement £'000	Company At 31 March 2019 £'000
Cash and cash equivalents	2,640	(381)	-	2,259	1,953	(559)	-	1,394
Finance lease borrowings	(3)	60	(215)	(158)	-	33	(147)	(114)
Net cash	2,637	(321)	(215)	2,101	1,953	(526)	(147)	1,280

The notes on pages 28 to 58 form part of these financial statements.

1. Significant accounting policies

United Carpets Group plc (the "Company") is a public limited company incorporated in England and Wales. The address of its registered office is disclosed on page 4. The consolidated financial statements of the Company for the year ended 31 March 2019 comprise the Company and its subsidiary undertakings (together referred to as the "Group"). The Group's principal activities are carpet and bed retailing and franchising of retail outlets. The Company's principal activity is as a holding company for the Group.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The accounting policies are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 March 2018 with the exception of the changes in respect of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', both of which were adopted on 1 April 2018. The effect of initially applying these standards is noted below.

IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The standard applies a forward-looking impairment model that replaces the current applicable incurred loss model. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

The adoption of IFRS 9 did not have an impact on the reported results of previous years.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces IAS 18 'Revenue', IAS 11 'Construction Contracts' and related interpretations. It describes the principles an entity must follow to measure and recognise revenue using a five-step approach. The standard requires revenue to be recognised when goods or services are transferred to customers and the entity has satisfied its performance obligations under the contract, and at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services.

The Group has applied IFRS 15 using the full retrospective method (adopting all practical expedients) with no impact on the reported results in the current or previous years.

1. Significant accounting policies *(continued)*

(a) Statement of compliance

The Group's consolidated financial statements and the Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRS.

The financial information has been prepared under the historical cost convention, except for the cost of share options granted under the terms of employee share schemes which, in accordance with IFRS 2, are accounted for at fair value.

The preparation of the financial information requires management to make judgements and estimates in the selection and application of accounting policies. These judgements and estimates are based on management's best knowledge of the amount, event or actions although actual results may ultimately differ from these. In the preparation of this financial information, estimates and assumptions have been made by management; further details in respect of these are included in note 2.

(b) Basis of preparation

The Group consolidated financial statements and the Company's financial statements have been prepared on the basis of IFRSs in issue that are effective at the Group's reporting date. The accounting policies have been applied consistently throughout the Group for the purposes of these consolidated financial statements.

The consolidated financial statements are presented in pounds sterling, which is the Group's functional and presentational currency, rounded to the nearest thousand.

(c) Going concern

The directors have assessed the financial position of the Group. In assessing the going concern of the business they have considered the projected future trading and cash flows of the business. Using the evidence available to them they have concluded that it is appropriate to present the financial statements on a going concern basis, as they consider that the Group will continue as a going concern for a period of at least 12 months from the date of approval of these financial statements.

(d) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to the accounting reference date each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to benefit from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The Board has concluded that the operations of the franchisees are not required to be consolidated as control of the relevant activities rests with franchisees.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests.

1. Significant accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

(ii) Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing these consolidated financial statements.

(e) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to pounds sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(f) Intangible assets

Intangible assets with finite useful lives that are acquired separately from a business combination are initially measured at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The estimated useful life and amortisation method are reviewed annually with the effect of any changes being reflected on a prospective basis. The annual amortisation rates applied to the group's intangible assets on a straight-line basis are as follows:

- Software — 3 to 5 years

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and any impairment losses (see accounting policy 1(n)).

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leased items of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

Assets used by the Group which have been funded through finance leases are capitalised in property, plant and equipment at the fair value of the minimum lease payments and the resulting lease obligations are included in liabilities. The assets are depreciated over their useful lives. The interest element of the lease payments is charged to the income statement over the period of the lease.

Operating lease payments are accounted for as described in accounting policy 1(r)*(i)*.

1. Significant accounting policies *(continued)*

(g) Property, plant and equipment *(continued)*

(iii) Depreciation

Depreciation is calculated so as to write off the cost of an asset to its residual value and is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- Investment property	40 years
- Freehold property	40 years
- Leasehold property	term of the lease
- Fixtures and fittings	10 years
- Office and computer equipment	4 years
- Motor vehicles	4 years

The residual value is reassessed annually.

(h) Investment property

Investment property is carried at depreciated historical cost net of any impairment. Investment property is reviewed for impairment when there is an indication of impairment as policy 1(n). The recoverable amount is the higher of fair value less costs to sell and the value in use calculation. Depreciation is calculated as policy 1(g)*(iii).*

(i) Leases - accounting by lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

All leases granted by the Group are sub-leases of property that is leased by the Group under operating leases with third parties.

Lease income is recognised over the term of the lease on a straight-line basis.

(j) Investment in subsidiaries

The Company's investment in subsidiary undertakings is recognised at cost and is accounted for net of impairment losses.

(k) Trade receivables and payables

Trade and other receivables are initially recognised at fair value then subsequently at amortised cost, using the effective interest method, less any allowance for expected credit loss.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days overdue. The expected loss rate against certain balances is adjusted where there are specific indicators that the trade receivable is either irrecoverable or the risk of loss is high. Indicators include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period greater than 120 days past due.

Trade and other payables are initially recognized at fair value, are not interest-bearing and are stated at amortised cost using the effective interest rate method.

1. Significant accounting policies *(continued)*

(l) Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow-moving items.

Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

(m) Cash and cash equivalents

Cash and cash equivalents comprise bank balances and cash floats.

(n) Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Cash-generating units are used where an individual asset does not generate cash flows which are independent of other assets. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Employee benefits

(i) Defined contribution plans

The Group operates various defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

(ii) Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options based on the Group's best estimate of the instruments that will vest. The fair value of the options granted is measured using a Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

1. Significant accounting policies *(continued)*

(p) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are discounted at a rate that reflects the time value of money and the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(q) Revenue

Franchise commission is recognised net of VAT on the provision of services to franchises in the period in which the services are provided. The initial franchise fee received net of fees earned for the store launch is recognised over the 10-year term of the franchise arrangement.

Other revenue and operating income represent amounts receivable for goods and services provided in the United Kingdom net of VAT. Revenue on retail and trade products is recognised at the point of time when the customer obtains control of the goods, which is generally when products have been delivered.

Revenue from a contract to provide services is recognised over time as the services are rendered based on either a fixed price or an hourly rate.

Lease income is recognised in accordance with policy 1(i).

(r) Expenses

(i) Operating lease payments and receipts

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Income received under operating leases is recognised in the income statement on a straight-line basis over the term of the lease.

(ii) Financial income and expenses

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, and interest receivable on funds invested.

Financial income is recognised in the income statement as it accrues, using the effective interest method.

(s) Exceptional items

Non-recurring transactions which are material by virtue of their nature or size are disclosed as exceptional items.

(t) Taxation

Taxation on the profit or loss for the periods presented comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

1. Significant accounting policies *(continued)*

(t) Taxation *(continued)*

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(u) Dividends

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders or, in the case of interim dividends, paid.

(v) Segment reporting

An operating segment is a component that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker (the Board) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(w) New and revised IFRSs in issue but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for 31 March 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16 'Leases' – to be adopted in the 2020 financial year

This standard is applicable to annual reporting periods beginning on or after 1 January 2019 and the Group will adopt this standard in the accounts for the year ending 31 March 2020. The standard replaces IAS 17 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration or removal costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under IFRS 16 will be higher when compared to lease expenses under IAS 17. However, results from operating activities before depreciation, amortisation and share-based payment charges will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under IFRS 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

1. Significant accounting policies *(continued)*

(w) New and revised IFRSs in issue but not yet effective *(continued)*

IFRS 16 'Leases' – to be adopted in the 2020 financial year (continued)

Given the complexity of the standard and the number of leases held by the Group, the implementation project remains work in progress and the figures quoted below are therefore illustrative at this stage.

The Group is proposing to adopt the full retrospective approach. The expected impact on the year ended 31 March 2019 is to recognise a right of use asset of £18.6m and a capitalised lease liability of £20.6m and reduce the profit before tax for the year by £0.3m.

2. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Impairment of non-financial assets

The Group assesses the impairment of property, plant and equipment including investment property subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner of the use of the acquired assets or the strategy for the overall business; and
- significant negative industry or economic trends.

(ii) Provisions to write inventories down to net realisable value

The Group makes provisions for obsolescence, mark downs and shrinkage based on historical experiences and management estimates of future recovery.

(iii) Trade and other receivables

Trade and other receivables are initially recognised at fair value then subsequently at amortised cost, using the effective interest method, less any allowance for expected credit loss.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and days overdue. The expected loss rate against certain balances is adjusted where there are specific indicators that the trade receivable is either irrecoverable or the risk of loss is high. Indicators include, amongst others, the failure of a debtor to engage in a repayment plan with the Group and a failure to make contractual payments for a period greater than 120 days past due.

(iv) Provisions

Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and management's judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.

3. Segment reporting

Segment information is presented in the financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Franchising and Retail is the income that the Group receives from its franchise activities together with the results of its corporate stores and instalment payment channel. Warehousing reflects the results of the Group's in-house cutting operation which services the franchised and corporate stores and some third parties. The Property division leases properties from third parties and sublets those properties to the store network.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated income in the prior year included the final dividend from the liquidators of UNCN Realisations 2012 Limited (as note 6).

	Franchising and Retail		**Warehousing**		**Property**		**Consolidated**	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Gross sales	14,479	12,046	9,676	9,092	3,236	3,062	27,391	24,200
Inter-segment sales	-	-	(2,521)	(1,751)	(887)	(728)	(3,408)	(2,479)
Segment revenue	14,479	12,046	7,155	7,341	2,349	2,334	23,983	21,721
Segment results	561	1,319	120	82	(198)	(79)	483	1,322
Unallocated income							105	187
Other operating income							-	10
Operating profit							588	1,519
Financial income							12	8
Financial expenses							(5)	(3)
Income tax expense							(177)	(242)
Profit for the year							418	1,282

Revenue recognized during the year arises from the following activities:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Sale of goods recognized at a point in time	14,498	12,196
Rendering of services recognized at a point in time	9,485	9,525
	23,983	21,721

Included within sales of goods recognised at a point in time are instalment payment channel sales which suffers an inherently greater risk of default than traditional retail sales. All instalment payment plans are arranged for a period of less than 12 months and the greater risk of default is incorporated within the Group's expected credit loss model. No single customer accounted for more than 10% of total sales in either year.

3. Segment reporting *(continued)*

	Franchising and Retail		Warehousing		Property		Company		Eliminations		Consolidated	
											At 31 March	At 31 March
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Segment assets:												
Segment assets	5,946	3,975	2,214	2,036	567	543	2,697	3,154	(242)	(200)	11,182	9,508
Inter-segment balances	-	129	347	100	376	472	1,024	755	(1,747)	(1,456)	-	-
Total assets	5,946	4,104	2,561	2,136	943	1,015	3,721	3,909	(1,989)	(1,656)	11,182	9,508
Segment liabilities:												
Segment liabilities	3,472	2,102	1,263	950	676	544	466	641	(42)	-	5,835	4,237
Inter-segment balances	682	150	689	655	50	50	326	601	(1,747)	(1,456)	-	-
Total liabilities	4,154	2,252	1,952	1,605	726	594	792	1,242	(1,789)	(1,456)	5,835	4,237
Other profit and loss disclosures												
Depreciation and amortisation	286	195	14	13	-	-	50	58	(23)	(22)	327	244

The Group's operations were undertaken entirely within the United Kingdom.

The Company's assets are shown separately as they are non-operating in nature and do not have a direct impact on the operating segments.

4. Employees

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Staff costs, including directors, consist of:		
Wages and salaries	3,616	3,129
Social security costs	410	346
Pension costs	132	127
	4,158	3,602

The average monthly number of employees, including directors, during the year was as follows:

	Year ended 31 March 2019 Number	Year ended 31 March 2018 Number
Administration	43	37
Warehouse and stores	70	50
	113	87

5. Directors' remuneration

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Remuneration for management services	1,021	1,120
Value of Group pension contributions to money purchase schemes	47	81
	1,068	1,201

Further details of directors' remuneration are set out in the Board's report on directors' remuneration on pages 17 and 18.

6. Operating profit

Operating profit is arrived at after charging/(crediting):

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amortisation of intangible assets	33	-
Depreciation of property, plant and equipment		
- owned assets	265	225
- leased assets	27	17
Profit on disposal of property, plant and equipment	(31)	-
Depreciation of investment property	2	2
Operating leases – land and buildings	3,186	2,892
UNCN Realisations 2012 Limited - final dividend	-	(115)

During the prior year, a first and final dividend of 3.56p in the pound was received from the liquidators of UNCN Realisations 2012 Limited (formerly United Carpets (Northern) Limited) in respect of amounts owed to United Carpets Group plc by United Carpets (Northern) Limited.

Services provided by the Group's auditor

A summary of the audit and non-audit fees in respect of services provided by RSM UK Audit LLP and its related entities charged to operating profit in the year is set out below:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Audit services – statutory audit	51	56
Taxation compliance services	11	9
Taxation advisory services	7	4
Audit related assurance services	8	8
Other services	2	-

Included in the Group audit fees and expenses paid to the Group's auditors are £2,000 paid in respect of the Company (2018: £2,000). Included in the Group audit fees and expenses paid to the Group's auditors are £5,000 paid in respect of the audit of the Group financial statements (2018: £5,000).

7. Financial income

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Interest receivable	12	8

8. Income tax expense

(a) Analysis of charge for the year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current tax:		
Current year	87	219
Adjustment in respect of prior years	44	(62)
	131	157
Deferred tax:		
Current year	39	45
Adjustment in respect of prior years	7	40
	46	85
Total income tax expense recognised in the current year	177	242

(b) Reconciliation of total tax charge for the year

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax	595	1,524
Profit before tax multiplied by the rate of corporation tax in the UK of 19% (2018: 19%)	113	290
Effect of:		
Expenses not deductible for tax purposes	8	8
Non-taxable income	-	(22)
Adjustments in respect of prior years	51	(22)
Other	5	(12)
Total tax	177	242

(c) Factors affecting future tax charges

Legislation to reduce the main rate of corporation tax from 19% to 17% from 1 April 2020 has been enacted before the year end. The deferred tax balances within these financial statements have been reassessed to reflect the rates within the period that any related timing difference is expected to reverse.

9. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2019 was based on the profit attributable to ordinary shareholders of £418,000 (2018: £1,282,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2019 of 81,400,000 (2018: 81,400,000).

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2019 was based on the profit attributable to ordinary shareholders of £418,000 (2018: £1,282,000) and a weighted average number of ordinary shares outstanding and potential ordinary shares due to options during the year ended 31 March 2019 of 81,400,000 (2018: 81,668,952).

10. Equity dividends paid

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Special dividend of 1.0p per ordinary share	-	814
Final dividend in respect of 2017/18 of 0.285p per ordinary share	232	-
Interim dividend in respect of 2018/19 of 0.135p per ordinary share	110	-
Final dividend in respect of 2016/17 of 0.275p per ordinary share	-	224
Interim dividend in respect of 2017/18 of 0.135p per ordinary share	-	110
	342	1,148

A final dividend of 0.285p per share in respect of the year ended 31 March 2019 has been recommended.

11. Company profit and loss account

The Company has not presented its own statement of profit or loss as permitted by Section 408 of the Companies Act 2006.

The Company's profit after taxation for the year ended 31 March 2019 amounted to £604,000 (2018: £708,000).

12. Intangible assets

Group	Software £'000
Cost	
At 1 April 2017	-
Additions	143
At 1 April 2018	143
Additions	15
Transfer to property, plant and equipment	(16)
At 31 March 2019	142
Amortisation	
At 1 April 2017 and 1 April 2018	-
Charge for the year	33
At 31 March 2019	33
Net book value	
At 31 March 2019	109
At 31 March 2018	143
At 31 March 2017	-

Amortisation of the costs of a new in-store computer system commenced on 1 April 2018 and is included within administrative expenses.

13. Property, plant and equipment

Group	Freehold property £'000	Short leasehold property £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 31 March 2017	888	615	866	213	2,582
Additions	-	150	474	-	624
At 31 March 2018	888	765	1,340	213	3,206
Additions	-	161	355	215	731
Transfer from intangible assets	-	-	16	-	16
Disposals	-	(4)	(5)	(143)	(152)
At 31 March 2019	888	922	1,706	285	3,801
Depreciation					
At 31 March 2017	22	103	298	142	565
Charge for the year	22	67	103	50	242
At 31 March 2018	44	170	401	192	807
Charge for the year	22	84	143	43	292
Eliminated on disposal	-	(2)	(3)	(139)	(144)
At 31 March 2019	66	252	541	96	955
Net book value					
At 31 March 2019	822	670	1,165	189	2,846
At 31 March 2018	844	595	939	21	2,399
At 31 March 2017	866	512	568	71	2,017

Motor vehicles with a cost of £215,000 (2018: £44,000) and net book value of £191,000 (2018: £14,000) were held under finance leases. Depreciation of £27,000 (2018: £17,000) was charged against leased assets during the year.

13. Property, plant and equipment *(continued)*

Company	**Motor vehicles £'000**	**Total £'000**
Cost		
At 31 March 2017 and 31 March 2018	137	137
Additions	153	153
Disposals	(110)	(110)
At 31 March 2019	180	180
Depreciation		
At 31 March 2017	94	94
Charge for the year	34	34
At 31 March 2018	128	128
Charge for the year	25	25
Eliminated on disposal	(106)	(106)
At 31 March 2019	47	47
Net book value		
At 31 March 2019	133	133
At 31 March 2018	9	9
At 31 March 2017	43	43

Motor vehicles with a cost of £146,000 (2018: £nil) and net book value of £133,000 (2018: £nil) were held under finance leases. Depreciation of £13,000 (2018: £6,000) was charged against leased assets during the year.

14. Investment property

	Group £'000	Company £'000
Cost		
At 31 March 2017, 31 March 2018 and 31 March 2019	100	988
Depreciation		
At 31 March 2017	3	25
Charge for the year	2	24
At 31 March 2018	5	49
Charge for the year	2	25
At 31 March 2019	7	74
Net book value		
At 31 March 2019	93	914
At 31 March 2018	95	939
At 31 March 2017	97	963

The investment properties were purchased in February 2016 and the disclosed cost is considered to be representative of their market value.

	Group		**Company**	
	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Rental income	20	20	104	97

15. Investments

	Company Shares in subsidiary undertakings at cost £'000
At 31 March 2018 and 31 March 2019	200

The following were subsidiary undertakings at 31 March 2019 and have all been included in the consolidated financial statements.

Company:	*Principal activity:*
United Carpets (Franchisor) Limited	Carpets and beds retailing and franchising of retail outlets
United Carpets (Commercial) Limited	Trade sales, retailer of beds and carpet resale agents
United Carpets (Property) Limited	Leasing and sub-letting retail units
Online Flooring and Beds Limited	Sales agent for United Carpets (Commercial) Limited
Pay Per Week Carpets and Beds Limited (incorporated 24 September 2018)	Dormant subsidiary of United Carpets Group plc (commenced trading 1 April 2019)
Carpetmania Limited	Dormant subsidiary of United Carpets Group plc
Debrik Investments Limited (dissolved 25 January 2019)	Dormant subsidiary of United Carpets Group plc
Weavers Carpets Limited (dissolved 24 April 2018)	Dormant subsidiary of United Carpets Group plc

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The Group controls 100% of the voting rights and ordinary share capital of each company. All companies are incorporated in England and Wales.

The registered office for each of the above subsidiaries was Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY with the exception of Online Flooring and Beds Limited and Pay Per Week Carpets and Beds Limited which were Horizon House, 2 Whiting Street, Sheffield, S8 9QR.

16. Deferred tax assets

	Group At 31 March 2019 £'000	At 31 March 2018 £'000	**Company** At 31 March 2019 £'000	At 31 March 2018 £'000
Deferred tax	53	99	33	38

The movement in assets during the year was:

	Group At 31 March 2019 £'000	At 31 March 2018 £'000	**Company** At 31 March 2019 £'000	At 31 March 2018 £'000
Assets at the start of the year	99	184	38	34
(Charge)/credit for the current year	(39)	(45)	(5)	3
(Charge)/credit for prior periods	(7)	(40)	-	1
Assets at the end of the year	53	99	33	38

The deferred tax asset consists of the tax effect of:

	Group				**Company**			
	Net movement for the year ended 31 March 2019 £'000	**Asset at 31 March 2019 £'000**	Net movement for the year ended 31 March 2018 £'000	Asset at 31March 2018 £'000	**Net movement for the year ended 31 March 2019 £'000**	**Asset at 31 March 2019 £'000**	Net movement for the year ended 31 March 2018 £'000	Asset at 31 March 2018 £'000
Capital allowances	(69)	9	(74)	78	(7)	22	2	29
Other timing differences	23	44	(11)	21	2	11	2	9
	(46)	53	(85)	99	(5)	33	4	38

The net reversal of deferred tax assets expected in 2019/20 is £30,000.

17. Inventories

Group	**At 31 March 2019 £'000**	At 31 March 2018 £'000
Finished goods for resale	2,146	1,890

In the opinion of the directors, there is no material difference between the replacement cost of stock and the amounts stated above. The cost of inventories recognised as an expense and included in cost of sales amounted to £8,237,000 (2018: £7,491,000). The net expense relating to the write down of inventories recognised in the year and included in cost of sales is £87,000 (2018: £163,000).

18. Trade and other receivables

	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Trade receivables	3,610	1,815	19	19
Less: Allowance for expected credit losses	(981)	(506)	(19)	(19)
	2,629	1,309	-	-
Amounts owed by group undertakings	-	-	1,024	755
Other receivables	25	62	1	1
Prepayments and accrued income	1,009	871	22	14
	3,663	2,242	1,047	770

Allowance for expected credit losses

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The Group principally extends credit to its franchisee partners and to customers utilising the instalment channel with instalment channel customers identified as a distinct credit risk category. The expected loss rate against certain trade receivables is adjusted where there are specific indicators that the receivable is either irrecoverable or carries a greater risk of loss. Indicators include, amongst others, the failure of a debtor to engage in a repayment plan with the group and a failure to make contractual payments for a period greater than 120 days past due.

The consolidated entity has recognised a loss of £579,000 (2018: £31,000) in profit or loss in respect of the expected credit losses for the year ended 31 March 2019. Receivable balances are monitored on an on-going basis with the aim of minimising the Group's exposure to bad debts.

The ageing of the receivables and allowances for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2019 %	2018 %	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Not overdue	22.1	6.2	1,643	898	(467)	(59)
Overdue:						
0 to 3 months	36.4	49.4	415	121	(238)	(118)
3 to 6 months	29.8	54.1	125	51	(53)	(60)
Over 6 months	33.3	53.0	446	239	(223)	(269)
	27.2	27.9	2,629	1,309	(981)	(506)

Whilst the overall credit loss rate has not changed significantly year on year, the increase in revenue generated from the instalment payment channel during the year ended 31 March 2019 has led to a marked increase in the loss rate applied to debts not yet overdue with a corresponding decrease in other ageing categories. The level of charge incurred against these debts is in line with the expected level of default within the original planning model.

18. Trade and other receivables *(continued)*

Movement in the allowance for expected credit losses are as follows:

	Group At 31 March 2019 £'000	At 31 March 2018 £'000
At the beginning of the year	506	475
Utilised	(104)	-
Additional provisions recognised (charge for the year)	662	200
Unused amounts reversed (release for the year)	(83)	(169)
At the end of the year	981	506

19. Borrowings – finance leases

The Group seeks to ensure that it has sufficient cash resources available to meet all short-term cash requirements and to meet its capital expenditure programme for the foreseeable future. At the year-end there were no committed undrawn facilities (2018: £nil).

Current	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Finance leases payable within one year	62	3	43	-

Non-current	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Finance leases payable between one and five years	96	-	71	-

Obligations under finance leases and hire purchase contracts are secured by the related assets. The net book value of secured assets is disclosed in note 13.

20. Trade and other payables

Current	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Trade payables	1,158	843	12	11
Amounts owed to group undertakings	-	-	325	601
Social security and other taxes	1,057	834	113	107
Other payables	1,279	344	-	7
Accruals and deferred income	1,448	1,412	186	392
	4,942	3,433	636	1,118

Non-current	Group At 31 March 2019 £'000	At 31 March 2018 £'000	Company At 31 March 2019 £'000	At 31 March 2018 £'000
Accruals and deferred income	584	519	-	-

21. Provisions

Current	Group At 31 March 2019 £'000	At 31 March 2018 £'000
At the beginning of the year	151	156
Utilised:		
Impairment of property, plant and equipment	(5)	-
Store closure costs	-	(5)
Charge for the year	13	44
Release for the year	(8)	(44)
At the end of the year	151	151

The above provision reflects an estimate of the potential cost associated with vacating a small number of underperforming stores. One store was vacated during the year and it is expected that the remaining provision will be utilised in 2019/20.

22. Financial instruments

The Group makes little use of financial instruments other than an operational bank account and trade and other receivables and payables. Except as noted in the strategic report and critical accounting estimates and judgements, exposure to price risk, credit risk, liquidity risk and cash flow risk is not considered material for the assessment of the assets, liabilities, financial position and profit or loss of the Group or Company.

Trade and other receivables and payables

The carrying value is deemed to reflect the fair value for all cash, trade and other receivables and payables and finance lease liabilities.

Risk management

(a) Credit risk

The Group does not have significant concentrations of credit risk as exposure is spread over a number of counterparties and customers. The development of the instalment payment channel increases the Group's exposure to credit risk. Levels of default are closely monitored in comparison to expected levels in the original planning model.

(b) Liquidity risk and interest rate risk

The Group finances its operations from operational cash flows and has no borrowings other than a small number of finance leases. Cash flows and forecasts are managed to minimise net interest expense, are monitored daily and are reviewed by the Board.

(c) Foreign exchange risk

The Group does not operate outside of the United Kingdom. However, as discussed in the strategic report, a number of the Group's suppliers are based in Europe which means that the Group is exposed to fluctuations in the value of the euro compared with sterling. Prices are agreed in sterling but are regularly reviewed as exchange rates vary.

22. Financial instruments *(continued)*

Capital management

The Group's objective when managing capital, which is deemed to be total equity plus total debt, is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, through the optimisation of the debt and equity balance, and to maintain a strong credit rating. The Group manages its capital structure and makes appropriate decisions in the light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a sound capital base so as to maintain investor, creditor and market confidence and sustain future development of the business.

The funding requirements of the Group are met by the utilisation of finance leases together with available cash.

The carrying amount of the Group and Company's financial assets and liabilities, deemed to reflect fair value, are summarised by category below:

	Group		**Company**	
Financial assets	**At 31 March 2019 £'000**	At 31 March 2018 £'000	**At 31 March 2019 £'000**	At 31 March 2018 £'000
Cash and cash equivalents	2,259	2,640	1,394	1,953
Measured at amortised cost				
Trade and other receivables	3,037	1,746	1	1
Amounts owed by group undertakings	-	-	1,024	755
	5,296	4,386	2,419	2,709

	Group		**Company**	
Financial liabilities	**At 31 March 2019 £'000**	At 31 March 2018 £'000	**At 31 March 2019 £'000**	At 31 March 2018 £'000
Measured at amortised cost				
Trade and other payables	3,056	2,408	184	410
Amounts owed to group undertakings	-	-	325	601
Finance leases	158	3	114	-
	3,214	2,411	623	1,011

23. Issued capital

Group and Company	**At 31 March 2019 £'000**	At 31 March 2018 £'000
Authorised		
200,000,000 ordinary shares of 1p each	2,000	2,000

	At 31 March 2019 £'000	At 31 March 2018 £'000
Allotted, called up and fully paid		
81,400,000 ordinary shares of 1p each	814	814

24. Share-based payments

At 10 February 2005, the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the entity. All option exercises are to be settled by physical delivery of shares.

No options were granted during the year. The number of options outstanding at 31 March 2019 under the Group's share option schemes were as follows:

	Outstanding Number 2019	Outstanding Number 2018
Granted 29 August 2009:		
Approved Company Share Option Scheme	246,305	246,305
Unapproved Company Share Option Scheme	1,908,866	1,908,866
	2,155,171	2,155,171

All options were exercisable at the year end.

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a Black-Scholes model. The expected volatility is based on the average historical volatility of comparable listed companies. The contractual life of the option (10 years) is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes model.

24. Share-based payments *(continued)*

Fair value of share options and assumptions for awards

	29 August 2009
Fair value at measurement date	3.5p
Share price at date of grant	8.12p
Exercise price	8.12p
Expected volatility (expressed as weighted average volatility used in the modelling under Black Scholes model)	80%
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	4 years
Expected dividends	6.15%
Risk-free interest rate (based on national government bonds)	2.4%

During the period no options were exercised (2018: nil) and no options lapsed (2018: 1,052,631).

The performance target applicable to the options granted on the date above is that an option may only be exercised if, over the period of three consecutive financial years of the Company commencing with the financial year in which the option was granted, the percentage growth in earnings per share of the Company equals or exceeds the percentage growth in the Retail Prices Index over the same period by at least 3 per cent per annum. In the event that the performance targets are not satisfied in the vested period, the cumulative growth in earnings per share over a three-year period specified above will be retested at the end of the following two financial years. The options are exercisable not earlier than three years after the date at which they were granted.

25. Cash generated from/(utilised by) operations

Reconciliation of the result for the year to cash generated from operations:

	Group Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000	**Company** Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Profit before tax	595	1,524	727	829
Depreciation and other non-cash items:				
Amortisation of intangible assets	33	-	-	-
Depreciation of property, plant and equipment	292	242	25	34
Profit on disposal of property, plant and equipment	(31)	-	(28)	-
Depreciation of investment property	2	2	25	24
Changes in working capital:				
Increase in inventories	(256)	(169)	-	-
Increase in trade and other receivables	(1,421)	(406)	(277)	(28)
Increase/(decrease) in trade and other payables	1,574	1,027	(482)	1
Decrease in provisions	-	(5)	-	-
Financial income	(12)	(8)	(33)	(62)
Financial expenses	5	3	3	2
Cash generated from/(utilised by) operations	781	2,210	(40)	800

26. Defined contribution schemes

The Group operates defined contribution pension schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The charge to profit or loss in respect of defined contribution schemes was £132,000 (2018: £127,000). At 31 March 2019, £41,000 (2018: £45,000) had been accrued in the financial statements but not paid into the defined contribution schemes.

27. Operating lease and capital commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The remaining lease terms are for various periods up to 22 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At 31 March 2019, the Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	At 31 March 2019 £'000	At 31 March 2018 £'000
Not later than one year	2,538	2,477
Later than one year and not later than five years	7,789	7,090
Later than five years	14,577	15,414
	24,904	24,981

As described in note 3, the Group leases properties to the franchisee store network and has one investment property (see note 14).

At 31 March 2019, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Land and buildings	
	At 31 March 2019 £'000	At 31 March 2018 £'000
Not later than one year	996	1,156
Later than one year and not later than five years	2,256	2,960
Later than five years	322	604
	3,574	4,720

The Company holds 3 investment properties which generated an annual rent of £104,000.

There were unprovided capital commitments at the year-end of £204,000 (2018: £nil).

28. Related party transactions

Transactions between the Company and its subsidiary undertakings, which are related parties, amounted to £2,388,000 (2018: £2,333,000) in the year. These transactions related to recharges to subsidiaries and were charged on a cost-plus basis. Balances with subsidiary undertakings are shown in notes 18 and 20. Details of transactions between the Group and other related parties are disclosed below.

During the year the Group traded with United Carpets Holdings Limited, a company in which PR Eyre is a director and majority shareholder. All trading was on normal commercial terms. United Carpets Group plc made sales of £1,000 (2018: £1,000), United Carpets (Franchisor) Limited made sales of £1,000 (2018: £10,000) and purchases of £6,000 (2018: £1,575,000), United Carpets (Commercial) Limited made sales of £nil (2018: £1,000) and United Carpets (Property) Limited made purchases of £115,000 (2018: £617,000). At 31 March 2019, £1,000 (2018: £nil) was owed by United Carpets (Franchisor) Limited to United Carpets Holdings Limited and £nil (2018: £3,000) was owed by United Carpets (Property) Limited to United Carpets Holdings Limited.

28. Related party transactions *(continued)*

During the year the Group traded with UC Developments Limited, a company in which PR Eyre and D Grayson are directors and shareholders. All trading was on normal commercial terms. United Carpets (Franchisor) Limited made sales of £1,000 (2018: £1,000) and United Carpets (Property) Limited made purchases of £380,000 (2018: £453,000). At 31 March 2019, £nil (2018: £1,000) was owed to United Carpets (Franchisor) Limited by UC Developments Limited and £2,000 (2018: £1,000) was owed by United Carpets (Property) Limited to UC Developments Limited.

During the prior year, a number of properties either owned by United Carpets Holdings Limited or UC Developments Limited were sold to third parties. All sales were at market value and the existing leases to United Carpets (Property) Limited, which had been previously agreed on normal commercial terms, remain in place.

During the year the Group traded with Keyrental Limited, a company connected to PR Eyre. All trading was on normal commercial terms. United Carpets (Franchisor) Limited made sales of £1,000 (2018: £2,000) and purchases of £253,000 (2018: £134,000) and United Carpets (Commercial) Limited made sales of £13,000 (2018: £6,000) and purchases of £121,000 (2018: £135,000). At 31 March 2019, £41,000 (2018: £1,000) was owed by United Carpets (Franchisor) Limited to Keyrental Limited and £10,000 (2018: £15,000) was owed by United Carpets (Commercial) Limited to Keyrental Limited.

During the year the Group leased a property from PA Grayson and D Grayson. All trading was on normal commercial terms. United Carpets (Property) Limited made purchases of £35,000 (2018: £35,000).

During the year the Group traded with iJump Trampoline Parks Limited, a company in which PR Eyre and D Grayson are shareholders. All trading was on normal commercial terms. United Carpets (Franchisor) Limited made sales of £1,000 (2018: £nil) and United Carpets (Commercial) Limited made sales of £nil (2018: £5,000).

During the year the Group traded with Elite Lifestyle Parks Limited, a company in which PR Eyre and D Grayson are directors and shareholders. All trading was on normal commercial terms. United Carpets (Franchisor) Limited made sales of £69,000 (2018: £1,000) and United Carpets (Commercial) Limited made sales of £nil (2018: £1,000).

Transactions with key management personnel

Key management personnel are the directors who together have authority and responsibility for planning, directing and controlling the activities of the group. Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits.

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Emoluments	1,021	1,120
Pensions	47	81
Employers national insurance	114	143
	1,182	1,344

Further details are set out in the Board's report on directors' remuneration on pages 17 and 18.

29. Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of UNITED CARPETS GROUP PLC (the "Company") will be held at Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY on 19 September 2019 at 12 noon for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, numbers 1 to 8 of which will be proposed as ordinary resolutions and numbers 9 and 10 as special resolutions:

Ordinary Resolutions

1 THAT the accounts for the year ended 31 March 2019, together with the report of the directors and of the auditor thereon, be received and adopted.

2 THAT a final dividend of 0.285p per share be declared on the ordinary shares.

3 (a) THAT RSM UK Audit LLP be re-appointed as auditor to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company; and

(b) THAT the directors be authorised to agree and determine the remuneration of the auditors of the Company.

4 THAT PD Newton be re-elected as a director.

5 THAT KS Piggott be re-elected as a director.

6 THAT the Board's report on directors' remuneration for the year ended 31 March 2019 be approved.

7 THAT the Company be and is hereby generally and unconditionally authorised to (a) make political donations to political parties and/or independent election candidates; (b) make political donations to political organisations other than political parties; and (c) incur political expenditure, in each case during the period of one year beginning with the date of the passing of this resolution, the aggregate donations and expenditure under (a), (b) and (c) above not to exceed £20,000. For the purposes of this resolution the terms "political donation", "political parties", "independent election candidates", "political organisation" and "political expenditure" have the meanings given by sections 363 to 365 of the Companies Act 2006.

8 THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company the directors be and are generally and unconditionally authorised to exercise all powers of the Company in accordance with Section 551 of the Companies Act 2006 to allot Relevant Securities (as defined below) up to a maximum aggregate nominal amount of £271,000 (being approximately one third of the current issued share capital) provided that such authority shall, unless renewed, varied or revoked by the Company, expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 December 2020, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require Relevant Securities to be allotted after such expiry and the directors shall be entitled to allot Relevant Securities pursuant to any such offer or agreement as if this authority had not expired.

For the purposes of this resolution, "Relevant Securities" means:

(a) shares in the Company other than shares allotted pursuant to:

(i) an employee share scheme (as defined by Section 1166 of Companies Act 2006);

(ii) a right to subscribe for shares in the Company where the grant of the right itself constituted a Relevant Security; or

(iii) a right to convert securities into shares in the Company where the grant of the right itself constituted a Relevant Security; and

Ordinary Resolutions *(continued)*

(b) any right to subscribe for or to convert any security into shares in the Company other than rights to subscribe for or convert any security into shares allotted pursuant to an employee share scheme (as defined by Section 1166 of the Companies Act 2006).

References to the allotment of Relevant Securities in this resolution include the grant of such rights.

This resolution 8 revokes and replaces all unexercised authorities previously granted to the directors to allot Relevant Securities but without prejudice to any allotment of shares or grant of rights already made, offered or agreed to be made pursuant to such authorities.

Special Resolutions

9. THAT, subject to the passing of resolution 8 in this notice of AGM, and in accordance with Article 17 of the Articles of Association of the Company, the directors be and are empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560 of that Act) for cash, pursuant to the general authority conferred by resolution 8 above, as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited to:

(a) the allotment of equity securities in connection with a rights issue, open offer or other offer of securities in favour of ordinary shareholders on the register of members on such record date(s) as the directors may determine where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate to, as near as may be practicable, the respective numbers of ordinary shares held or deemed to be held by them but subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal or practical problems arising in or under the laws of any territory or regulations or requirements of any regulatory authority or any stock exchange in any territory;

(b) the allotment of equity securities pursuant to the terms of any share scheme for employees of the Company; and

(c) the allotment (otherwise than pursuant to sub-paragraph (a) and (b) of this resolution) of equity securities, up to an aggregate nominal amount not exceeding £40,700 (being approximately 5 per cent of the current nominal amount of the issued ordinary share capital of the Company).

The authority conferred on the directors to allot equity securities under this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 December 2020, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

This resolution revokes and replaces all unexercised powers previously granted to the directors to allot equity securities as if Section 561(1) of the Companies Act 2006 did not apply but without prejudice to any allotment of equity securities already made or agreed to be made pursuant to such powers.

10. THAT the Company be and is hereby generally and unconditionally authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases pursuant to Section 693 of that Act (as defined in Section 693(4) of the said Act), of ordinary shares of 1p each in the capital of the Company ("Ordinary Shares") provided that:

Special Resolutions *(continued)*

(a) the maximum number of Ordinary Shares which may be purchased is 4,070,000 being approximately 5% of the Company's issued ordinary share capital;

(b) the minimum price which may be paid for an Ordinary Share is 1p per share, being the nominal amount thereof (exclusive of expenses);

(c) the maximum price which may be paid for each share (exclusive of expenses) shall not be more than 5% above the average of the middle market quotations for ordinary shares as derived from the London Stock Exchange Daily Official List for the 5 business days before the date on which the contract for the purchase is made; and

(d) the authority herein contained shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 December 2020 (except in relation to the purchase of shares the contracts for which were concluded before such date and which are executed wholly or partly after such date) unless such authority is renewed or revoked prior to such time.

Ordinary Shares purchased pursuant to the authority conferred by this resolution shall be either: (i) cancelled immediately upon completion of the purchase; or (ii) be held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

Registered Office:
Moorhead House
Moorhead Way
Bramley
Rotherham
South Yorkshire
S66 1YY

By Order of the Board

IF Bowness
Secretary

23 August 2019

Notes:

1. Copies of the following documents will be available for inspection at the Company's registered office at Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice of AGM until the conclusion of the AGM and at the place of the AGM itself from 15 minutes before the AGM until the conclusion of the AGM:

1.1 the service contracts of each of the executive directors of the Company; and

1.2 the letters of appointment between the Company and each of the non-executive directors of the Company.

2. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the AGM. A shareholder may appoint more than one proxy in relation to the AGM, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Where more than one proxy is appointed, a member must specify the number of shares the rights in respect of which each proxy is entitled to exercise. A proxy need not be a shareholder of the Company.

3. The return of a completed form of proxy will not prevent a shareholder attending the AGM and voting in person if he/she wishes to do so.

4. In the case of joint holders, where more than one of the joint holders' purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

5. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice.

6. To be valid, the form of proxy must be completed and signed and received by the Company's registrars at Neville Registrars Limited, Neville House, Steelpark Road, Halesowen, West Midlands, B62 8HD by no later than 12 noon on 17 September 2019.

7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company as at 12 noon on 17 September 2019 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at such time. If the AGM is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned meeting is 6.00pm on the day preceding the date fixed for the adjourned meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the AGM.

8. Persons who are not shareholders (or duly appointed proxies or corporate representatives of shareholders) in the Company will not be admitted to the AGM unless prior arrangements are made with the Company.

9. As at 22 August 2019 (being the latest practicable date to the publication of this document), the Company's issued share capital consists of 81,400,000 ordinary shares of 1p each and which each carry one vote. Therefore, the total voting rights in the Company as at 22 August 2019 are 81,400,000.

10. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

11. For the purposes of Article 110 of the Company's Articles of Association, please note that resolution 5 relates to the proposed re-appointment as a director of the Company of KS Piggott, who has reached the age of 70 years or more.