United Carpets Group plc

Annual Report & Accounts 2010

UNITED CARPETS GROUP PLC

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UNITED CARPETS GROUP PLC

Chairman's statement

I am pleased to be able to announce that the Group delivered a solid trading performance for the year. Revenues increased to £27.47m and profit before tax and exceptional items, increased by 7.3% to £1.46m. The year under review was one of consolidation, following a significant increase in the number of stores in the previous year, and the objective was to reduce the number of corporate stores by matching them with new franchisees. We achieved this and introduced 24 new franchisees to the Group so that, at the period end, there were 82 stores of which 12 were corporate stores compared to the 23 corporate stores at the start of the financial year.

Financial review

Revenue, which as in previous years includes marketing and rental costs incurred by the Group and recharged to franchisees, increased by 2.5% to £27.47m (2009: £26.79m). Network sales across the Group, including the value of retail sales by our franchisees (to give a measure of the Group's turnover on a more comparable basis to a conventional retailer), increased 7.4% to £69.9m (2009: £65.1m).

Like for like sales across the whole of the network were up 1.0% compared to the previous year. We are pleased that we have continued the trend of overall positive like for like sales, which compares well against the wider retail sector, and we believe reflects positively on the franchise structure which tends to reduce sales volatility and ensures each store is run by a self-motivated management team.

As we always advise, given United Carpets' franchise structure, like for like sales are not necessarily the best measure of the Group's financial performance but they do provide a good steer on the overall trading performance. Within the like for like sales performance, the core floor coverings business achieved a 1.0% like for like increase on the previous year and bed like for like sales also increased by 1.0%.

Gross margin increased from 64.0% to 66.2% reflecting the increased proportion of franchise related income to total revenue as corporate stores turnover, beds and trade sales accounted for a smaller proportion of revenue as more corporate stores were franchised.

Distribution costs include staff costs at the corporate stores and were similar to the previous year with heavier costs at the beginning of the year offset later in the year as corporate stores were franchised. Administrative expenses, increased by 2.8% and included £0.4m of exceptional costs related to certain loss making stores (2009: £0.8m).

Profit before tax and exceptional items was £1.46m (2009 £1.36m). Basic earnings per share were 0.84p (2009: 0.40p).

The balance sheet continues to be robust with net funds of £2.1m at the year end (2009: £1.7m).

Dividend

The Board is pleased to recommend a final dividend of 0.5p per share (2009: 0.5p), which together with the interim dividend of 0.25p per share (2009: Nil) paid in January makes a total ordinary dividend of 0.75p per share for the year (2009: 0.5p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 3 December 2010 to those shareholders whose names are on the register on 5 November 2010

Operations review

At the year end, the Group had 82 United Carpets branded stores across its core areas of operation in Northern and Central England, up from 80 stores at the beginning of the financial year. With the exception of 12 corporate stores, the remainder were all franchises operating under the United Carpets' bespoke franchise model, which aims to combine the advantages of a multiple retailer with the entrepreneurial drive of an independent.

We continued to differentiate the United Carpets offer through a series of planned advertising campaigns focusing on our key selling strengths namely:

- Extensive quality ranges of flooring and beds
- Affordable price points
- Superior customer service

Advertising campaigns were run throughout the year on regional television channels in Northern and Central England supported by radio, print and direct mail marketing. The United Carpets brand has very high recognition in our target markets and has established an excellent reputation for value and service. Our marketing objectives revolve around maintaining brand awareness and driving sales led by innovative product offerings and selected price discounts.

Supporting our marketing strategies, our ongoing investment in training across the Group is a key focus seeking to continually improve the quality of our staff and management teams. To maintain high customer service levels, it is critical to constantly seek to improve knowledge of the product ranges, sales techniques and customer service levels. In the last year, in addition to our biannual franchisee conferences designed to refresh product knowledge and spread best practice across the Group, we have carried out numerous mystery shopper exercises and customer surveys to obtain accurate feedback on our performance and to seek ways to further improve our customer service.

Franchising

Having expanded the number of stores significantly in the previous financial year, the focus was to match new stores and a significant proportion of the existing corporate stores with new franchisees. We achieved this goal, introducing 24 new franchisees during the year and as a result, the number of corporate stores reduced from 23 to 12 during the period under review.

The Group started the year with 57 franchised stores and, during the period, added 1 new franchised store in Peterborough. In addition, we converted 8 franchisee stores back into corporate stores. An additional 20 corporate stores were also franchised, giving us 70 franchised stores at the period end.

Since the period end, we have converted 4 franchised stores into corporate stores, refranchised 1 corporate store and opened a new franchised store in Leeds, resulting in a current total of 68 franchised stores. There is a healthy pipeline of new stores, some of which already have franchisees identified.

Flooring

The majority of Group revenues are derived from the sale of floor coverings, predominantly carpet, laminate and vinyl flooring through franchised stores and the Group's own corporate stores. Trading across the network started modestly in the first quarter and improved strongly before being adversely affected by the severe weather conditions experienced in the fourth quarter. However, the overall result was positive with like for like sales up 1.0% over the period.

Having started the year with 23 corporate stores, 1 new corporate store opened during the period in Halifax, 8 franchised stores were taken back into the corporate arm and a total of 20 corporate stores were franchised during the year leaving us with 12 corporate stores at the period end.

Of the 12 corporate stores, 3 are considered to be core, to be retained to enable ongoing training and product development, with the Group seeking to franchise the remainder with quality candidates. Since the year end, we have successfully refranchised 1 corporate store and taken back 4 franchised stores giving us a total of 15 corporate stores currently.

In the first 17 weeks since the year end, like for like sales were down 2.6%, this period includes the World Cup, the general election and subsequent budget which together have made for an exceptionally tough trading period.

Beds

The Beds division, which accounts for a little under 10% of network sales, delivered a 1.0% increase in like for like sales. After such a strong result from Beds in the previous period, this was a satisfactory result but we had hoped to continue the momentum. While Beds are a natural extension of flooring sales, they are typically a larger purchase, with an average sale price approaching £300 compared to the average flooring sale which is c. £180. With consumers once again becoming more cautious, the higher purchase cost of beds slowed sales in the last quarter.

This has continued in the first 17 weeks of the new financial year when, against strong comparatives in the previous year, like for like sales were down by 25.5%.

Trade sales

In addition to the introduction of 7 day a week coverage to the stores, the Group has invested in developing its own in-house cutting operation for flooring providing improvements in efficiency and service to the network. During the year, a new cutting machine and sortation system was successfully introduced, increasing the capacity and efficiency of this important facility.

People

I would like to thank all our employees for their hard work and commitment. Since joining the AIM market, the business has grown substantially with revenues more than doubling and the number of people who work under the United Carpets brand has also increased significantly. We hope to continue to expand the business and are grateful for the support of everyone involved with the Group.

Outlook

Given the uncertainty across the UK in terms of the impact of the tightened fiscal regime and wider global trends it is hard to predict the future. Certainly, the first 17 weeks of trading of the current year have continued to reflect the weaker trading patterns of the last quarter of 2009/10. We are therefore adopting a cautious approach to future trading although we will continue to invest in marketing and store expansion where we believe we can generate good returns. However, until confidence in the economy and the housing market returns, we believe the trading environment will continue to be challenging.

Peter Cowgill
Chairman

7 September 2010

Directors

IF Bowness, FCA, aged 53, 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.

PA Cowgill, aged 57, Non-Executive Chairman

Peter is Executive Chairman of JD Sports Fashion plc and senior partner in Cowgill Holloway LLP, chartered accountants. He is a non-executive director of a number of private companies and Non-Executive Chairman of MBL Group plc.

PR Eyre, aged 52, Chief Executive

Paul, a founder of the business, has over 30 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.

D Grayson, aged 48, Commercial Director

Deborah, a founder of the business, also has over 30 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 has also had responsibility for developing the Beds retailing side of the business.

KS Piggott, aged 61, 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 30 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 and a non-executive director of William Sinclair Holdings, Market Harborough Building Society, The Disabled Living Foundation and Dyslexia Action.

Secretary

IF Bowness

Registered office

Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY

Nominated adviser and broker

Seymour Pierce Limited, 7th Floor, 20 Old Bailey, London, EC4M 7EN

Audit committee

KS Piggott
PA Cowgill

Remuneration committee

KS Piggott
PA Cowgill

Auditor

RSM Tenon Audit Limited, Statutory Auditor, The Poynt, 45 Wollaton Street, Nottingham, NG1 5FW

Solicitors

Shoosmiths, Waterfront House, Waterfront Plaza, 35 Station Street, Nottingham, NG2 3DQ

Bankers

National Westminster Bank Plc, Business Centre, 3rd Floor General Buildings, Brayford Wharf East, Lincoln, LN5 7DS

Registrars

Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands,
B63 3DA

Company number

Registered number – 5301665

The Directors present their report and the Group's audited accounts for the year ended 31 March 2010.

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

Principal activities

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 year and the prospects for the Group is given in the Chairman's statement on pages 1 to 4.

Key performance indicators

	2010	2009
Network sales (a)	£69.9m	£65.1m
Revenue	£27.47m	£26.79m
Like for like sales (b)		
- Flooring	+1.0%	+0.5%
- Beds	+ 1.0%	+9.2%
- Combined	+ 1.0%	+1.2%
Store numbers		
- Core corporate	3	5
- Other corporate	9	18
- Franchised	70	57
- Total	82	80
Gross margin (c)	66.2%	64.0%
Overheads as a proportion of sales (d)	61.3%	59.6%
Net funds (e)	£2.07m	£1.73m

(a) Network sales includes the value of retail sales by franchisees to give a measure of the Group's turnover on a more comparable basis to a conventional retailer.

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

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

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

(e) Net funds comprises cash and cash equivalents less financial liabilities – borrowings.

Principal risks and uncertainties

Economic factors

The economy is a major influence on consumer spending with trends in housing transactions, consumer confidence, mortgage approvals, consumer debt levels and interest rates affecting discretionary spending on the home. Over the longer term, the carpet market has tended to remain fairly stable; however, any significant contraction of the market for either flooring or beds would adversely impact the Group. Marketing is coordinated at Group level in order to maximise brand value and maintain and improve customer awareness and drive sales during challenging times.

The Group's strategy of controlled expansion, funded from cash reserves, requires a regular supply of potential properties the availability of which will be influenced by the general economic environment. The recent challenging trading environment has resulted in a number of retailers ceasing to trade increasing the availability of property opportunities.

The Group's franchise structure ensures 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 experienced 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.

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 maintain margins at very competitive retail prices.

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.

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 makes little use of financial instruments other than an operational bank account and hire purchase agreements. 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.

Results

The results of the Group for the year are set out on page 19.

Dividends

A dividend of £611,000 (2009: £448,000) has been paid during the year.

A final dividend of £407,000 (2009: £407,000) has been proposed but not provided in the financial statements.

Substantial shareholders

At 27 August 2010, 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%
Vidacos Nominees Limited	8,593,100	10.6%
L R Nominees Limited Des: Nominee	3,095,846	3.8%
HSBC Global Custody Nominee (UK) Limited Des: 934567	2,839,279	3.5%
IF Bowness	2,691,208	3.3%

The mid-market price of ordinary shares at 31 March 2010 was 8.875p. The highest and lowest share prices during the financial year were 11.5p and 4.5p respectively.

Creditor payment policy and practice

It is the Group's policy to settle all trade creditors within the normal commercial terms of trade agreed with each supplier. The number of day's purchases represented by trade creditors at the year end in respect of the Group was 25 (2009: 34). Because of the insignificant level of purchases by the Company the number of day's purchases represented by trade creditors at the year end in respect of the Company is not meaningful.

Political and charitable donations

During the year the Group made charitable donations of £500 (2009: £500).

No political donations were made during the year (2009: £Nil).

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.

Directors

Details of the directors are given on page 5.

Statement of disclosure of information to auditors

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

Auditor

Our auditors have changed their name to RSM Tenon Audit Limited and have signed the audit report in their new name.

A resolution proposing to re-appoint RSM Tenon Audit Limited as the Company's auditor will be put to members at the Annual General Meeting.

On behalf of the Board

IF Bowness
Secretary

7 September 2010

There is a commitment to high standards of corporate governance throughout the Group and the Board agrees with the provisions set out in Section 1 of the Combined Code which after the year end has been replaced by the UK Corporate Governance Code (as appended to the listing rules). The main area of non-compliance is that the Group does not have a Nomination Committee. The Audit Committee comprises two non-executive directors rather than three non-executives and the Remuneration Committee also comprises two non-executive directors. The Board is of the opinion that the current arrangement for the Audit and Remuneration Committees is appropriate given the size of the Company and the composition of its Board. A Nomination Committee would be formed should a need arise.

The Board is accountable to the Company's shareholders for good governance and the statement set out below describes how the principles identified in the Combined Code are applied by the Company.

Directors

The Board consists of three executives and two non-executive directors and meets regularly throughout the year. The non-executive directors are 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 5.

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.

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 pages 14 and 15.

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 the scope, cost-effectiveness, independence and objectivity of the external auditor under review; this includes monitoring the level of non-audit fees. These are disclosed on page 35 and in the opinion of the Audit Committee do not affect the auditor's independence or objectivity.

The Committee can 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 14 and 15.

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 has reviewed the effectiveness of the system of internal financial control for the 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 weekly to review and address trading performance and operational issues.

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

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

Going concern

After making enquiries, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

Communication

The Company places a great deal of importance on communication with its shareholders. 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 Company will indicate the level of proxies lodged on each resolution and the balance for and against the resolution at each AGM.

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 three executive directors are entitled to private medical insurance, company car, permanent health insurance, life assurance cover and pension contributions of 15% of salary. They were also each entitled to a cash bonus of up to 150% of salary for the year ended 31 March 2010 based on the achievement of certain operating profits by the Group during 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 2010:

IF Bowness	760,590

  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 2010:

IF Bowness	6,447,934

Directors' emoluments

The following emoluments were paid to the directors:

	Salary 2010 £'000	Bonuses 2010 £'000	Benefits 2010 £'000	Pension 2010 £'000	Total 2010 £'000	Total 2009 £'000
IF Bowness	175	105	31	26	337	229
PA Cowgill	42	-	-	-	42	42
PR Eyre	150	90	37	23	300	233
D Grayson	107	60	35	18	220	179
KS Piggott	35	-	-	-	35	35
	509	255	103	67	934	718

Three directors are accruing benefits under money purchase pension schemes (2009: three). The remuneration of each director who served during the year set out in the table above has been audited by RSM Tenon Audit Limited, the Group's auditor, as part of their audit of the financial statements on pages 19 to 49.

Service contracts

Each executive director has a service contract with the Company from 10 February 2005 which may be terminated upon 12 month's notice by either party.

Non-executive directors

The service 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

7 September 2010

Statement of directors' responsibilities

Company law in the United Kingdom requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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 the financial statements may differ from legislation in other jurisdictions.

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

We have audited the financial statements (the "financial statements") of United Carpets Group plc on pages 19 to 49 for the year ended 31 March 2010, which comprise the consolidated income statement, consolidated and parent company balance sheets, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the 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 provisions of the Companies Act 2006;
- the financial statements have been prepared in accordance with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Alistair Hunt, Senior Statutory Auditor
For and on behalf of RSM Tenon Audit Limited, Statutory Auditor
The Poynt
45 Wollaton Street
Nottingham
NG1 5FW

7 September 2010

UNITED CARPETS GROUP PLC

Consolidated income statement for the year ended 31 March 2010

	Note	**Results before exceptional items**	**Exceptional items**	**2010**	Results before exceptional items	Exceptional items	2009
		£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	2	27,475	-	27,475	26,792	-	26,792
Cost of sales		(9,295)	-	(9,295)	(9,658)	-	(9,658)
Gross profit		18,180	-	18,180	17,134	-	17,134
Distribution costs		(2,976)	-	(2,976)	(2,898)	-	(2,898)
Administrative expenses		(13,858)	(365)	(14,223)	(13,065)	(769)	(13,834)
Other operating income		111	-	111	119	-	119
Profit on disposal of property, plant and equipment		2	-	2	4	-	4
Operating profit before financing costs	5	1,459	(365)	1,094	1,294	(769)	525
Financial income		10	-	10	73	-	73
Financial expenses	6	(6)	-	(6)	(3)	-	(3)
Profit before tax		1,463	(365)	1,098	1,364	(769)	595
Income tax expense	7			(415)			(271)
Profit for the year				683			324
Earnings per share	8						
- Basic				0.84p			0.40p
- Diluted				0.84p			0.40p

All amounts are attributable to the equity holders of the parent, and all arise from continuing activities. No amounts were recognised directly in equity, and therefore no separate statement of other comprehensive income has been presented.

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

UNITED CARPETS GROUP PLC

Consolidated and parent company balance sheets at 31 March 2010

	Note	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Non-current assets					
Property, plant and equipment	11	5,148	5,455	28	71
Investments	12	-	-	3,520	3,520
		5,148	5,455	3,548	3,591
Current assets					
Inventories	13	2,670	2,763	-	-
Trade and other receivables	14	3,184	2,766	2,307	3,231
Cash and cash equivalents		2,201	1,848	1,011	349
		8,055	7,377	3,318	3,580
Total assets		13,203	12,832	6,866	7,171
Equity					
Issued capital	19	4,070	4,070	4,070	4,070
Share premium		1,106	1,106	1,106	1,106
Reserves		(2,617)	(2,699)	493	411
Retained earnings		2,418	2,446	807	1,419
Total shareholders' equity		4,977	4,923	6,476	7,006
Non-current liabilities					
Financial liabilities – borrowings	16	76	76	-	-
Trade and other payables	15	2,349	1,826	-	-
Provisions	17	743	591	-	-
Deferred tax liabilities	17	106	126	-	-
		3,274	2,619	-	-
Current liabilities					
Financial liabilities – borrowings	16	57	39	-	-
Trade and other payables	15	4,416	5,011	390	165
Current tax liabilities		479	240	-	-
		4,952	5,290	390	165
Total liabilities		8,226	7,909	390	165
Total equity and liabilities		13,203	12,832	6,866	7,171

The financial statements were approved by the Board and authorised for issue on 7 September 2010 and were signed on its behalf by:

PR Eyre
Director

D Grayson
Director

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

Consolidated and parent company statements of changes in equity for the year ended 31 March 2010

Group

	Share capital £'000	Share premium £'000	Retained earnings £'000	Merger reserve £'000	Share-based payment reserve £'000
At 1 April 2008	4,070	1,106	2,570	(3,110)	321
Profit for the financial year	-	-	324	-	-
Dividends paid	-	-	(448)	-	-
Share-based payments	-	-	-	-	90
At 31 March 2009	4,070	1,106	2,446	(3,110)	411
Profit for the financial year	-	-	683	-	-
Dividends paid	-	-	(611)	-	-
Share-based payments	-	-	(100)	-	82
At 31 March 2010	4,070	1,106	2,418	(3,110)	493

The merger reserve is the difference between the nominal value of shares issued in order for the parent company to acquire the merged entities and the share capital and share premium account of the merged entities.

Company

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payment reserve £'000
At 1 April 2008	4,070	1,106	1,513	321
Profit for the financial year	-	-	354	-
Dividends paid	-	-	(448)	-
Share-based payments	-	-	-	90
At 31 March 2009	4,070	1,106	1,419	411
Profit for the financial year	-	-	99	-
Dividends paid	-	-	(611)	-
Share-based payments	-	-	(100)	82
At 31 March 2010	4,070	1,106	807	493

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

UNITED CARPETS GROUP PLC

Consolidated and parent company statements of cash flows for the year ended 31 March 2010

		Group		Company	
	Note	**2010**	2009	**2010**	2009
		£'000	£'000	**£'000**	£'000
Cash flows from operating activities					
Cash generated from operations	21	1,879	3,341	1,263	643
Interest paid		(6)	(3)	-	-
Income tax paid		(196)	(393)	-	-
Net cash flow from operating activities		1,677	2,945	1,263	643
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		20	4	-	-
Acquisition of property, plant and equipment		(695)	(2,141)	-	-
Interest received		10	73	10	-
Net cash flow from investing activities		(665)	(2,064)	10	-
Cash flows from financing activities					
Payment of finance lease liabilities		(48)	(33)	-	-
Dividends paid		(611)	(448)	(611)	(448)
Net cash flow from financing activities		(659)	(481)	(611)	(448)
Net increase in cash and cash equivalents		353	400	662	195
Cash and cash equivalents at the start of the year		1,848	1,448	349	154
Cash and cash equivalents at the end of the year		2,201	1,848	1,011	349

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

1. Significant accounting policies

United Carpets Group plc (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 March 2010 comprise the Company and its subsidiary undertakings (together referred to as the "Group").

(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 that are endorsed 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. Although these judgements and estimates are based on management's best knowledge of the amount, event or actions and 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 accounting policy (s).

(b) Basis of preparation

These 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 annual reporting date, 31 March 2010.

The accounting policies have been applied consistently throughout the Group for the purposes of these consolidated financial statements.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of all subsidiaries are prepared to the same reporting date as the Company.

1. Significant accounting policies *(continued)*

(ii) Uniting of interests method

The results of the Group and all of its subsidiary undertakings are consolidated using the uniting of interests' method of accounting. The investment is recorded in the Company's balance sheet at the nominal value of the shares issued, together with the fair value of any additional consideration paid.

Merged subsidiary undertakings are treated as if they had always been a member of the Group, for business combinations which took place before transition to IFRS. This treatment is permitted under the exemption in IFRS 1 to not restate acquisitions before transition.

The corresponding figures for the previous period include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to reserves.

(iii) Transactions eliminated on consolidation

Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing these consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains.

(d) 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 balance sheet 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.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

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.

1. Significant accounting policies *(continued)*

(ii) Leased assets

Leased items of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Lease payments are accounted for as described in accounting policy (n).

(iii) Subsequent costs

The Group recognises, in the carrying amount of an item of property, plant and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits, embodied within the item, will flow to the Group and the cost of the item can be measured reliably. On the capitalisation of subsequent costs, original cost and any related accumulated depreciation are de-recognised. All other costs are recognised in profit or loss as an expense as incurred.

(iv) Depreciation

Depreciation is calculated so as to write off the cost of an asset less 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:

- Leasehold property	over the term of the lease
- Fixtures and fittings	10% straight line
- Office and computer equipment	25% straight line
- Motor vehicles	25% straight line

The residual value is reassessed annually.

(v) 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.

(f) Trade and other receivables

Trade and other receivables are stated at their estimated recoverable amount after allowance for impairment losses (see accounting policy (i)).

1. Significant accounting policies *(continued)*

(g) Inventories

Stocks 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.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(i) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet 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.

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.

1. Significant accounting policies *(continued)*

(j) Employee benefits

(i) Defined contribution plans

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.

(k) Provisions

A provision is recognised in the balance sheet 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 determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, 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.

(l) Trade and other payables

Trade and other payables are stated at historical cost.

(m) Revenue

Franchise commission is recognised on the provision of services to franchises in the period in which the services are provided. The initial franchise fee is recognised over the 10 year term of the franchise arrangement.

Other turnover and operating income represents amounts receivable for goods and services provided in the United Kingdom net of VAT. Turnover on retail products is recognised when products have been delivered and payment becomes due. Turnover on trade products is recognised when products have been delivered.

1. Significant accounting policies *(continued)*

(n) Expenses

(i) Operating lease payments

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

(ii) Net financing costs

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

Interest income is recognised in profit or loss as it accrues, using the effective interest method.

(o) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 timing 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 balance sheet 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.

1. Significant accounting policies *(continued)*

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing particular products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(q) Employee benefit trust

The Group has established trusts for the benefit of employees, former employees and certain of their dependants. Monies held in these trusts are held by independent trustees and managed at their discretion.

Where the Group retains future economic benefit from, and has de facto control of the assets and liabilities of the trust, they are accounted for as assets and liabilities of the Group until the earlier of the date that an allocation of trust funds to employees in respect of past services is declared and the date that assets of the trust vest in identified individuals.

Where monies held in a trust are determined by the Group on the basis of employees' past services to the business and the Group can obtain no future economic benefit from those monies, such monies, whether in the trust or accrued for by the Group are charged to the profit and loss account in the period to which they relate.

(r) Recent accounting developments

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations, which have been applied in these financial statements were in issue but not yet effective for the year ended 31 March 2010.

IAS 23 'Borrowing Costs'

IFRIC 12 'Service Concession Arrangements'

IFRIC 13 'Customer Loyalty Programmes'

IFRIC 14 IAS 19 'The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their intention'

IFRIC 15 'Agreements for the Construction of Real Estate'

IFRIC 16 'Hedges of a Net Investment in a Foreign Operation'

IFRIC 17 'Distribution of Non-Cash Assets'

IFRIC 18 'Transfer of Assets from Customers'

IFRS 9 'Financial Instruments' (amendments)

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group when the relevant standards come into effect for periods commencing on or after 1 April 2010.

1. Significant accounting policies *(continued)*

(s) Critical accounting estimates and judgements

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.

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.

(i) Impairment of non-current assets

The Group assesses the impairment of property, plant and equipment and intangible assets 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 events.

(iii) Trade and other receivables

Trade and other receivables are recognised to the extent that they are judged recoverable. Management reviews are performed to estimate the level of reserves required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain.

(iv) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event for which it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flow at a rate that reflects the time value of money and the risks specific to the liability.

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.

1. Significant accounting policies *(continued)*

(s) Critical accounting estimates and judgements *(continued)*

(v) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(vi) Share-based payment reserve

The estimation of the fair value of share options and other equity instruments at the date of their grant requires management to make estimates concerning the expected volatility of the underlying shares, the dividends payable on the shares, the estimate of the proportion of instruments that will vest and the time at which employees are likely to exercise vested options.

2. Segment reporting

Segment information is presented 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.

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. The costs of being quoted on AIM together with directors' emoluments and share-based payments are not allocated to segment results.

	Franchising		Flooring		Beds		Trade sales		Consolidated	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Segment revenue	11,347	9,172	8,032	10,348	4,834	4,439	3,262	2,833	27,475	26,792
Segment results	2,034	1,227	(71)	(162)	391	394	(56)	55	2,298	1,514
Unallocated expenses									(1,204)	(989)
Operating profit before financing costs									1,094	525
Net financing costs									4	70
Income tax expense									(415)	(271)
Profit for the year									683	324

At 31 March 2010

	Franchising £'000	Flooring £'000	Beds £'000	Trade sales £'000	Consolidation/ unallocated £'000	Total £'000
Operating assets	7,077	925	1,218	1,781	1	11,002
Net cash	1,460	555	112	(937)	1,011	2,201
Operating liabilities	(6,595)	(1,312)	(485)	(490)	656	(8,226)
Total shareholders' equity	1,942	168	845	354	1,668	4,977
Additions to non-current assets	658	-	10	92	-	760
Depreciation	824	-	18	27	43	912
Impairment	138	-	-	-	-	138

At 31 March 2009	Franchising	Flooring	Beds	Trade sales	Consolidation/ unallocated	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Operating assets	6,529	1,990	825	1,560	80	10,984
Net cash	176	958	296	69	349	1,848
Operating liabilities	(6,382)	(2,709)	(651)	(1,224)	3,057	(7,909)
Total shareholders' equity	323	239	470	405	3,486	4,923
Additions to non-current assets	2,136	-	21	20	-	2,177
Depreciation	739	-	19	25	55	838
Impairment	200	-	-	-	-	200

Unallocated operating liabilities include the balance on the merger reserve.

All sales are conducted in the U.K. and purchases are conducted in the U.K. and Europe.

3. Employees

	2010 £'000	2009 £'000
Staff costs, including directors, consist of:		
Wages and salaries	4,098	4,234
Social security costs	453	449
Other pension costs (note 25)	88	107
Share-based payments (note 20)	82	90
	4,721	4,880

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

	2010 Number	2009 Number
Administration	45	41
Store development	7	12
Warehouse and stores	112	128
	164	181

4. Directors' remuneration

Further details of directors' remuneration are set out in the Board's report on directors' remuneration on pages 14 and 15.

The emoluments of the directors were as follows:

	2010 £'000	2009 £'000
Remuneration for management services	867	654
Value of Group pension contributions to money purchase schemes	67	64
Pension contribution based on a share-based performance bonus	100	-
	1,034	718

5. Operating profit before financing costs

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

	2010 £'000	2009 £'000
Staff costs (note 3)	4,721	4,880
Depreciation of property, plant and equipment		
- Owned assets	869	801
- Leased assets	43	37
Profit on disposal of property, plant and equipment	(2)	(4)
Operating lease rentals payable		
- Property	4,340	3,861
Exceptional items comprises:		
- Impairment of property, plant and equipment	138	200
- Net provision against onerous leases	227	569

Impairment of property, plant and equipment

At the end of each financial year, loss making stores are reviewed and where the directors consider that the fair value of the related fixed assets less the costs to sell those assets is lower than their net book value an impairment charge has been included in administrative expenses. The impairment in the year was £138,000 (2009: £200,000).

Provision against onerous leases

Where there is an onerous property lease this has been provided as an exceptional item. The charge in the year was £227,000 (2009: £569,000).

The leases against which an onerous lease provision has been made expire between 4 and 14 years.

5. Operating profit before financing costs *(continued)*

Services provided by the Group's auditors

A summary of the audit and non-audit fees in respect of services provided by RSM Tenon charged to operating profit in the year ended 31 March 2010 is set out below:

	2010 £'000	2009 £'000
Audit services – statutory audit	36	32
Taxation services	9	9
Other services	-	3

Included in the Group audit fees and expenses paid to the Group's auditors is £2,200 paid in respect of the Company (2009: £2,200).

Included in the Group audit fees and expenses paid to the Group's auditors is £3,300 paid in respect of the audit of the Group financial statements.

Audit services are provided by RSM Tenon Audit Limited. RSM Tenon Audit Limited is a company registered to carry out audit work by the Institute of Chartered Accountants in England and Wales. RSM Tenon Group plc is a separate group that provides professional resources and certain services to RSM Tenon Audit Limited under the terms of a formal agreement on an arms-length basis.

6. Financial expenses

	2010 £'000	2009 £'000
Interest on hire purchase obligations	6	3

7. Income tax expense

(a) Analysis of charge for the year

	2010 £'000	2009 £'000
Current tax		
UK corporation tax	433	353
Adjustments in respect of prior years	2	26
	435	379
Deferred tax (note 17)		
Release for the year	(21)	(82)
Adjustments in respect of prior years	1	(26)
Tax on profit on ordinary activities	415	271

7. Income tax expense *(continued)*

(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 28% (2009: 28%). The differences are explained below:

	2010 £'000	2009 £'000
Profit before tax	1,098	595
Profit before tax multiplied by the rate of corporation tax in the UK of 28% (2009: 28%)	307	167
Effect of:		
Expenses not deductible for tax purposes	38	34
Non qualifying depreciation	76	79
Marginal relief	(4)	(9)
Adjustments to tax charge in respect of prior years	3	-
Other	(5)	-
Total tax	415	271

(c) Factors affecting future tax charges

The corporation tax rate for the year ending 31 March 2011 will be 28% and for the year ending 31 March 2012 it will be 27%, reducing by 1% each year until 31 March 2015 when it will be 24%.

8. Basic and diluted earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2010 was based on the profit attributable to ordinary shareholders of £683,000 (2009: £324,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2010 of 81,400,000 (2009: 81,400,000).

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2010 was based on profit attributable to ordinary shareholders of £683,000 and a weighted average number of ordinary shares outstanding during the year ended 31 March 2010 of 81,480,759. Diluted earnings per share for the year ended 31 March 2009 was the same as basic earnings per share as the share options in issue were non-dilutive during that year.

8. Basic and diluted earnings per share *(continued)*

Weighted average number of ordinary shares (diluted)

	2010	2009
Weighted average number of ordinary shares at 31 March	81,400,000	81,400,000
Effect of share options in issue	80,759	-
Weighted average number of ordinary shares (diluted) at 31 March	81,480,759	81,400,000

9. Equity dividends

	2010 £'000	2009 £'000
Final dividends relating to prior year, paid during the year on ordinary shares at 0.5p per share (2009: 0.55p per share)	407	448
Interim dividends paid during the year on ordinary shares at 0.25p per share (2009: Nil)	204	-
	611	448

A final dividend of £407,000 (0.5p per share) has been proposed but not provided in these financial statements.

10. Company profit and loss account

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

The Company's profit after taxation for the year amounted to £99,000 (2009: £354,000).

11. Property, plant and equipment

Group	Leasehold property £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2008	4,549	1,290	566	6,405
Additions	1,992	159	26	2,177
Disposals	-	-	(22)	(22)
At 31 March 2009	6,541	1,449	570	8,560
Additions	480	242	39	761
Disposals	-	-	(60)	(60)
At 31 March 2010	7,021	1,691	549	9,261
Depreciation and impairment				
At 1 April 2008	1,354	473	261	2,088
Charge for the year	533	186	119	838
Impairments	147	53	-	200
Elimination on disposals	-	-	(21)	(21)
At 31 March 2009	2,034	712	359	3,105
Charge for the year	627	185	100	912
Impairments	138	-	-	138
Elimination on disposals	-	-	(42)	(42)
At 31 March 2010	2,799	897	417	4,113
Net book value				
At 31 March 2010	4,222	794	132	5,148
At 31 March 2009	4,507	737	211	5,455
At 31 March 2008	3,195	817	305	4,317

Included within the net book value of £5,148,000 is £138,000 (2009: £113,000) relating to assets held under hire purchase agreements.

There are no fixed assets leased by the Group to third parties under operating leases.

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

Company	Motor vehicles £'000	Total £'000
Cost		
At 1 April 2008, 31 March 2009 and 31 March 2010	225	225
Depreciation		
At 1 April 2008	99	99
Charge for the year	55	55
At 31 March 2009	154	154
Charge for the year	43	43
At 31 March 2010	197	197
Net book value		
At 31 March 2010	28	28
At 31 March 2009	71	71
At 31 March 2008	126	126

12. Investments

	Company	
	2010 £'000	2009 £'000
Shares in subsidiary undertakings at cost	3,520	3,520

The following were subsidiary undertakings at 31 March 2010 and have all been included in the consolidated financial statements.

Subsidiary:	*Principal activity:*
United Carpets (Franchisor) Limited	Holding company of United Carpets (Northern) Limited
United Carpets (Northern) Limited	Franchising of carpet retail outlets
Debrik Investments Limited	Carpet retailer
Weavers Carpets Limited	Trade sales and carpet resale agents
Nottingham Carpet Warehouse Limited	Retailer of beds
Carpetmania Limited	Dormant subsidiary of Nottingham Carpet Warehouse Limited

12. Investments *(continued)*

United Carpets (Retailing) Limited	Dormant subsidiary of United Carpets (Northern) Limited
United Carpets (Central) Limited	Dormant subsidiary of United Carpets Group plc

On 31 March 2010, the trade and assets of Debrik Investments Ltd, Weavers Carpets Ltd and Nottingham Carpet Warehouse Ltd were sold to United Carpets (Northern) Ltd and Debrik Investments Ltd, Weavers Carpets Ltd and Nottingham Carpet Warehouse Ltd became dormant from 1 April 2010.

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

13. Inventories

	Group	
	2010	**2009**
	£'000	**£'000**
Finished goods	2,670	2,763

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 expense and included in cost of sales amount to £8,830,000 (2009: £9,214,000).

14. Trade and other receivables

	Group	Group	Company	Company
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Trade receivables	2,187	1,413	-	-
Amounts owed by group undertakings	-	-	2,237	3,164
Deferred taxation	-	-	62	58
Other debtors	109	160	-	-
Prepayments and accrued income	888	1,193	8	9
	3,184	2,766	2,307	3,231

Trade receivables included amounts totalling £177,000 which fall due for payment after more than one year. These amounts are stated after deducting impairment provisions of £182,000.

14. Trade and other receivables *(continued)*

The Group trades only with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the Group's exposure to bad debts or being unable to realise amounts recoverable on contracts. There are no significant concentrations of credit risk within the Group.

			2010			2009
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
Current	1,561	(165)	1,396	993	-	993
Overdue	1,287	(496)	791	836	(416)	420
	2,848	(661)	2,187	1,829	(416)	1,413

The group has reviewed in detail all items comprising the above past due but not impaired trade receivables to ensure that no impairment exists.

At 31 March 2010, trade receivables of £2,068,000 (2009: £907,000) were impaired and a provision of £661,000 was made (2009: £416,000). The individually impaired amounts mainly relate to franchisees, who are in unexpectedly difficult economic situations, however a portion of the receivables is expected to be recovered. The ageing of impaired receivables is as follows:

	2010 £'000	2009 £'000
Up to 4 months	1,076	373
5 to 12 months	706	347
Over 12 months	286	187
	2,068	907

At 31 March 2010, the Group had trade receivables of £475,000 (2009: £77,000) which were overdue and not impaired. Movements on the group provision for impairment of trade receivables are as follows:

	2010 £'000	2009 £'000
At 1 April	416	284
Provision for receivables impairment	615	285
Receivables written off during the year as uncollectible	(31)	(34)
Unused amounts reversed	(339)	(119)
At 31 March	661	416

The creation and release of provision for impaired receivables have been included in administrative expenses. Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

14. Trade and other receivables *(continued)*

The deferred tax asset consists of the tax effect of timing differences in respect of:

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Accelerated capital allowances	-	-	45	36
Provisions	-	-	10	15
Other timing differences	-	-	7	7
	-	-	62	58

15. Trade and other payables

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current				
Trade payables	1,631	2,321	7	16
Social security and other taxes	730	779	155	19
Other creditors	517	26	150	-
Accruals and deferred income	1,538	1,885	78	130
	4,416	5,011	390	165

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Non-current				
Accruals and deferred income	2,349	1,826	-	-

16. Financial liabilities - borrowings

The Group ensures 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 (2009: Nil).

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Current				
Hire purchase agreements	57	39	-	-
Non-current				
Hire purchase agreements	76	76	-	-
	133	115	-	-

Hire purchase liabilities are secured against the relevant assets.

17. Provisions

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Provision against onerous leases	721	569	-	-
Deferred taxation	106	126	-	-
Dilapidations	22	22	-	-
	849	717	-	-

17. Provisions *(continued)*

Group

The movement in the provisions during the year was:

	Provision against onerous leases		Dilapidations		Deferred taxation	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Provision at 1 April	569	-	22	22	126	234
Utilised	(75)	-	-	-	-	-
Charge for the year	449	569	-	-	-	-
Release for the year	(222)	-	-	-	(20)	(108)
Provision at 31 March	721	569	22	22	106	126

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2010 £'000	2009 £'000
Accelerated capital allowances	162	164
Provisions	(49)	(31)
Other timing differences	(7)	(7)
	106	126

There are no unrecognised temporary differences in respect of investments in subsidiaries. There are no unused tax losses and unused tax credits for which a deferred tax asset should be recognised.

18. Financial instruments

The Group makes little use of financial instruments other than an operational bank account and hire purchase agreements. 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.

Interest-bearing loans and borrowings

In the opinion of the directors there is no significant difference between the fair value of the hire purchase contracts and the carrying value in the financial statements.

Trade and other receivables/payables

The carrying value is deemed to reflect the fair value for all trade and other receivables/payables.

19. Issued capital

Group and Company	Authorised 2010 £'000	Authorised 2009 £'000
200,000,000 ordinary shares of 5p each	10,000	10,000

	Allotted, called up and fully paid 2010 £'000	Allotted, called up and fully paid 2009 £'000
81,400,000 ordinary shares of 5p each	4,070	4,070

20. Share-based payments

The number of options granted during the period and options outstanding at 31 March 2010 under the Group's share option schemes were as follows:

	Granted Number 2010	Out-standing Number 2010	Granted Number 2009	Out-standing Number 2009
Granted 10 February 2005:				
Approved Company Share Option Scheme	-	1,140,000	-	1,340,000
Unapproved Company Share Option Scheme	-	400,000	-	400,000
Granted 20 July 2006:				
Approved Company Share Option Scheme	-	114,285	-	114,285
Unapproved Company Share Option Scheme	-	1,314,286	-	1,314,286
Granted 20 July 2007:				
Unapproved Company Share Option Scheme	-	1,052,631	-	1,052,631
Granted 31 January 2008:				
Approved Company Share Option Scheme	-	416,666	-	416,666
Granted 29 August 2008:				
Unapproved Company Share Option Scheme	-	1,772,151	1,772,151	1,772,151
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	8,365,190	1,772,151	6,410,019

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.

20. Share-based payments *(continued)*

The options granted on 10 February 2005, 20 July 2006 and 20 July 2007 were exercisable at the year end. No other 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.

Fair value of share options and assumptions for awards

	29 August 2009	29 August 2009	31 January 2008	20 July 2007	20 July 2006	10 February 2005
Fair value at measurement date	3.5p	2.6p	3.6p	4.9p	2.4p	10.3p/9.6p
Share price	8.12p	9.875p	12.0p	14.25p	8.75p	25.0p
Exercise price	8.12p	9.875p	12.0p	14.25p	8.75p	22.5p/25.0p
Expected volatility (expressed as weighted average volatility used in the modelling under Black Scholes model)	80%	55%	55%	55%	55%	55%
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	4 years	4 years	4 years	4 years	4 years	4 years
Expected dividends	6.15%	8.35%	6.5%	5.25%	8.0%	3.0%
Risk-free interest rate (based on national government bonds)	2.4%	4.40%	4.25%	5.6%	4.7%	4.4%

Lapsed options

The performance target that was applied to the options granted on 10 February 2005 enabled an option to be exercised if, over the period of three consecutive financial years of the Company commencing with the financial year ended 31 March 2005, the percentage growth in earnings per share of the Company equalled or exceeded the percentage growth in the Retail Prices Index over the same period by at least 3 per cent per annum. If that performance condition was not satisfied in that period, it was re-tested in respect of the three year period ended on 31 March 2008 and if not satisfied then, was re-tested in respect of the three-year period ended 31 March 2009.

During the year no options were exercised and 200,000 options lapsed.

Options not yet vested

The performance target applicable to the options granted on the dates 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

20. Share-based payments *(continued)*

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.

21. Cash flows from operating activities

Reconciliation of profit for the year to cash flows from operating activities:

	Group 2010 £'000	Group 2009 £'000	Company 2010 £'000	Company 2009 £'000
Profit for the year	683	324	99	354
Depreciation and other non-cash items:				
Depreciation of property, plant and equipment	912	838	43	55
Impairment of property, plant and equipment	138	200	-	-
Profit on disposal of property, plant and equipment	(2)	(4)	-	-
Share-based payments	(18)	90	(18)	90
Changes in working capital:				
Decrease/(increase) in inventories	93	(416)	-	-
(Increase)/decrease in trade and other receivables	(418)	472	928	343
Provision against onerous leases	152	569	-	-
(Decrease)/increase in trade and other payables	(72)	1,067	225	(176)
Financial income	(10)	(73)	(10)	-
Financial expenses	6	3	-	-
Tax	415	271	(4)	(23)
Cash flows from operating activities	1,879	3,341	1,263	643

22. Reconciliation of cash and cash equivalents

Cash and cash equivalents are solely bank balances.

23. 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 17 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At 31 March 2010, the Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	2010	**2009**
	£'000	**£'000**
Not later than one year	4,322	4,302
Later than one year and not later than five years	15,318	14,792
Later than five years	13,343	14,755
	32,983	33,849

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2010	**2009**
	£'000	**£'000**
Not later than one year	3,710	2,919
Later than one year and not later than five years	11,111	6,322
Later than 5 years	215	95
	15,036	9,336

There were no unprovided capital commitments at the year end (2009: £Nil).

24. Related party transactions

Transactions with key management personnel

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of £934,000 for the year ended 31 March 2010, (31 March 2009: £718,000).

During the year the Group traded with UC Developments Limited a company in which PR Eyre is a director and shareholder. All trading was on normal commercial terms. United Carpets (Northern) Limited made purchases of £514,000 (2009: £331,000). No amounts were outstanding at 31 March 2010 or 31 March 2009.

24. Related party transactions *(continued)*

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 (Northern) Limited incurred expenses totalling £45,000 (2009: £Nil) on behalf of United Carpets Holdings Limited and these were recharged during the year. Purchases were also made during the year amounting to £677,000 (2009: £525,000). At 31 March 2010, £28,000 was owed by United Carpets Holdings Ltd to United Carpets (Northern) Ltd (2009: £Nil).

25. Pensions

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. The pension cost represents contributions payable by the Group to the funds and amounted to £88,000 (2009: £107,000).

26. Ultimate controlling party

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

UNITED CARPETS GROUP PLC

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of UNITED CARPETS GROUP PLC will be held at Moorhead House, Moorhead Way, Bramley, Rotherham, S66 1YY on Thursday 30 September 2010 at 10.00 a.m., for the following purposes:

Ordinary Business

1. To receive and adopt the accounts for the year ended 31 March 2010, together with the Reports of the directors and of the auditor thereon.

2. To declare a final dividend for the year ended 31 March 2010 of 0.50p per share to be paid on 3 December 2010 to members whose names appear on the register of members at the close of business on 5 November 2010.

3. (a) To re-appoint RSM Tenon Audit Limited 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) To authorise the directors to determine the remuneration of the auditors of the Company.

4. To re-elect as a director I Bowness, who retires by rotation in accordance with Article 111 of the Company's Articles of Association.

5. To re-elect as a director P Cowgill, who retires by rotation in accordance with Article 111 of the Company's Articles of Association.

6. To re-elect as a director K Piggott, who retires by rotation in accordance with Article 111 of the Company's Articles of Association.

7. To approve the Board's report on directors' remuneration for the year ended 31 March 2010.

To transact any other ordinary business of the Company.

Special Business

As special business, to consider and if thought fit pass the following resolutions which will be proposed as to resolutions 8 and 11 as ordinary resolutions and as to resolutions 9 and 10 as special resolutions:

8. THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company the directors be 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 £1,357,000 (being approximately one third of the current issued share capital) provided that such authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 January 2012, 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.

   This resolution 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.

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.

(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.

9. THAT, subject to the passing of resolution 8 as set out in the notice of this meeting, and in accordance with Article 17 of the Articles of Association of the Company, the directors be 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 as set out in the notice of this meeting 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 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 £203,500 (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 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 January 2012, 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 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 in the capital of the Company provided that:

    (a) the maximum number of ordinary shares of 5p each in the capital of the Company 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 each share is 5p;

    (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 five 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 January 2012 (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 prior to such time.

11. THAT the Company be authorised to make donations to EU political organisations and to incur EU political expenditure (both as defined in Part 14 of the Companies Act 2006), not exceeding £20,000 in total during the period of one year beginning with the date of the current Annual General Meeting.

Dated: 7 September 2010
Registered Office:
Moorhead House
Moorhead Way
Bramley
Rotherham
South Yorkshire
S66 1YY

By Order of the Board
Ian Bowness
Secretary

Notes:

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.

2. In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Neville Registrars, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 10.00 a.m. on 28 September 2010 in order to be entitled to attend and vote at the Annual General Meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

4. Copies of the service contracts of each of the directors, and the register of directors' interests in shares of the Company will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

5. Biographical details of each director who is being proposed for re-appointment or re-election by shareholders, including their membership of Board committees, are set out in the Annual Report of the Company, a copy of which will be available at the Annual General Meeting.