United Carpets Group plc

Annual Report

6 month period ended 31 March 2013

Company number: 05301665

UNITED CARPETS GROUP PLC

Contents

Chairman's statement

I am pleased to be able to report that the Group has been making steady progress following the restructuring which began in the second half of 2012.

To address the significant number of underperforming franchised stores and better protect the Group's future, the Board decided during 2012 to close a number of stores and re-evaluate the business, creating a smaller entity, better able to operate successfully in the current retail environment.

Sales for the period on a like for like basis were down by 9.7% during a difficult period for the retail sector and significant change for the Group. Profit before tax was £0.25m and the Group is now better placed to improve on this performance in the current financial year.

This report covers the 6 month period to 31 March 2013, however, the prior reporting period was for the 18 months to 5 October 2012.

Financial review

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), were £29.0m. Revenue, which as in previous years includes marketing and rental costs incurred by the Group and recharged to franchisees, was £11.3m.

Like for like sales across the whole of the network (based on stores that have traded throughout both the period under review and the corresponding period in the prior year and thus excluding stores that closed during either period) were down 9.7%. This reflected the continuation of challenging trading conditions, increased pressure from competitors, negative perceptions created by the administration of United Carpets (Northern) Ltd ("UCN"), reduced levels of marketing funds due to fewer stores and unhelpful weather conditions. Whilst this performance is disappointing, it represents an improvement compared to the first 19 weeks of the period which were down 11.1% with sales in March being more encouraging despite the adverse weather conditions. The removal of the majority of the loss making stores meant that the Group and its remaining franchisees were better able to withstand this downturn in trade.

Within the like for like sales performance, the core floor coverings business was 8.9% lower whilst our beds business (which accounts for just over 7% of retail sales) experienced a 19.3% decline.

Whilst underlying Flooring gross margins were maintained during the period in line with pre-administration levels, Warehouse and Beds margins declined. That coupled with an increased proportion of revenue from relatively low margin Warehouse sales, resulted in a reduction in gross margin to 62.7% compared to 64.3% pre-administration.

Distribution costs and administrative expenses include rent, rates and staff costs at the corporate stores and have reduced from their pre-administration levels in line with the reduction in the scale of the business. Further savings are anticipated from the reduction in store numbers since the period end.

Profit before tax and exceptional items was £0.25m. Basic earnings per share improved to 0.19p.

The balance sheet included net funds of £0.9m at 31 March 2013 (5 October 2012: £0.8m).

Dividend

The Board is not recommending a dividend. The ability to pay dividends in the future will be dependent on the trading of the Group and the availability of distributable reserves.

Operations review

At the start of the period under review the Group operated 72 stores of which 54 were franchised and 18 were corporate stores. At 31 March 2013, there were 64 stores of which 52 were franchised and 12 were corporate stores. Since then a further 3 stores have closed, 2 corporate and one franchise, so that today the Group operates 61 stores.

Operations review *(continued)*

It was clear during the course of 2012 that radical action was necessary in order to better secure the long term future of the Company. The process undertaken was not done lightly and it has caused substantial upheaval and change for multiple stakeholders. While the process is still ongoing, the Board believes the long term impact will be beneficial as it will create a smaller, more resilient network of stores better able to trade successfully during what has been a prolonged downturn in market conditions.

Of the 61 stores currently trading, leases are either in place or have been agreed in principle pending legal completion for 53 stores, with the remaining stores being occupied under licence from the administrator on the same terms that existed prior to the administration of UCN. In many cases, where new leases have been agreed, it has been possible to achieve more favourable terms with landlords through a combination of reduced rents, break clauses and elimination of historic dilapidation commitments. Negotiations in respect of those properties for which leases have not yet been agreed remain ongoing and a small number of further closures can be anticipated.

Franchising and Retail

Floor coverings are the Group's primary driver of sales (predominantly carpet, laminate and vinyl flooring) through both franchised stores and the Group's own corporate stores. It has been a particularly difficult trading period due to the changes taking place across the business and it is harder to draw conclusions from the trading patterns. There is no doubt that our markets remain competitive and consumer spending has continued to be tight. We nevertheless have a good proportion of stores achieving consistent sales of Flooring to show that it remains a market in which it is possible to achieve good returns.

On a like for like basis, sales of Flooring since the period end have improved significantly but still remain 1.6% down for the 16 weeks since the period end to 18 July 2013.

Warehousing and Beds

Our in-house cutting operation continues to expand with revenue of £3.9m in the period as franchisees continue to appreciate the opportunity to deliver a quick efficient service at an attractive price point and better margin.

Sales of Beds continue to under-perform their potential within the Group. During the period under review on a like for like basis Beds sales were 19.3% down and since the period end for the last 16 weeks they were down 20.3%. In practice they are only a small part of total sales and so do not make a material contribution. However, we believe they can make a greater contribution and the process of changing the way that Beds are sold through the network, giving more ownership of Beds sales to the franchisees and providing them with greater financial incentive to maximise Beds sales, will commence roll out shortly.

Property

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

People

This has been a very challenging period and therefore the Board is even more grateful to all members of staff and everyone connected to the business who have supported the business and worked hard to ensure the long term future of the Group. In addition, we would like to thank all our supplier partners who have helped during this period of transition and we look forward to repaying their support through increased opportunities for them as the Group moves forward.

Outlook

Whilst this has been a particularly difficult period, we are confident the actions taken are in the long term interests of the business and shareholders.

We remain focused on agreeing terms with those stores which will continue as part of the Group and enhancing sales from the core portfolio.

Outlook *(continued)*

Trading conditions have not materially improved, competition remains tough and consumer spending is tight with no real improvement in the 'feel good' factor so critical to retailers. That said, United Carpets is an experienced and specialist retailer providing an excellent shopping experience for customers looking for a combination of good quality and good value. Combined like for like sales performance has improved significantly for the 16 weeks since the period end but remains 2.9% down although Flooring like for like sales were positive prior to the recent fortnight of exceptionally hot weather.

The Group remains debt free, has reasonable cash reserves and stock levels and therefore can look forward with a degree of confidence that it can continue to make good progress in the current financial year on the basis it has established firmer foundations to meet the challenges of the current market environment.

Peter Cowgill
Chairman
6 September 2013

Directors

IF Bowness, FCA, aged 56, 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 60, Non-Executive Chairman

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

PR Eyre, aged 55, 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 51, 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 64, Non-Executive Director

Ken is a former Managing Director of Boots The Chemists Ltd and is a former Executive Director of The Boots Company Plc. In a career spanning over 40 years, he has managed a number of major U.K. retail businesses including Children's World, Do-It-All and Halfords Ltd. He is Chairman of Simplyhealth Group Ltd and a non-executive director of William Sinclair Holdings, Market Harborough Building Society and The Disabled Living Foundation.

Secretary

IF Bowness

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Nominated adviser and broker

Cantor Fitzgerald Europe
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Audit committee

KS Piggott
PA Cowgill

Remuneration committee

KS Piggott
PA Cowgill

Auditor

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Company number

Registered number: 05301665

The Directors present their report and the Group's audited accounts for the 6 month period ended 31 March 2013.

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.

On 4 October 2012, following the administration of United Carpets (Northern) Limited, the trade, assets and certain liabilities of that company were acquired from the administrators by United Carpets (Franchisor) Limited, a subsidiary of United Carpets Group plc. Further details of this acquisition are provided in note 15.

On 2 May 2013, the Company announced that its accounting reference date would revert from 30 September to its former accounting reference date of 31 March. These financial statements represent the 6 month period from 6 October 2012 to 31 March 2013, and the comparatives are for the 18 month period from 1 April 2011 to 5 October 2012.

Business review

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

Key performance indicators

	6 month period ended 31 March 2013	18 month period ended 5 October 2012
Network sales (a)	£29.0m	£105.8m
Revenue	£11.3m	£41.5m
Like for like sales (b)		
- Flooring	(8.9%)	+0.2%
- Beds	(19.3%)	(13.7%)
- Combined	(9.7%)	(1.0%)
Store numbers (period end)		
- Core corporate	2	2
- Other corporate	10	16
- Franchised	52	54
- Total	64	72
Gross margin (c)	62.7%	64.3%
Overheads as a proportion of sales (d)	63.9%	63.9%
Net funds (e)	£0.9m	£0.8m

Comparative figures for the 18 month period ended 5 October 2012 include the relevant figures for United Carpets (Northern) Limited which was a discontinued operation in the financial statements for that period.

(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 period's sales divided by last period's sales for all stores that traded throughout both periods.

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

Key performance indicators *(continued)*

(d) Overheads as a proportion of sales is calculated by dividing total distribution costs and administrative expenses (excluding exceptional items, negative goodwill arising on acquisition released to the statement of profit or loss, costs of reducing the number of operational stores and net gains arising in the current period relating to the group reorganisation) 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, unemployment, consumer confidence, mortgage approvals, consumer debt levels and interest rates affecting discretionary spending on the home. Any significant contraction of the market for either flooring or beds would adversely impact the Group as it impacts on the ability of franchisees to meet their financial commitments. Marketing is coordinated at Group level in order to maximise brand value and maintain and improve customer awareness and drive sales during challenging times.

Property costs are a material overhead for the Group and the potential liability associated with long term lease commitments can be significant. Following the administration of UCN, the Group has occupied properties under licence from the administrators whilst new lease agreements are being negotiated with landlords. New leases have been agreed where the Group is reasonably confident that the store can be operated on a basis that will provide a viable future for the franchisee or the Group as appropriate. As part of those negotiations, the Group seeks to reduce the life of the lease commitment, introduce appropriate break clauses, minimise potential dilapidations liabilities as well as reduce the overall rent cost.

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

Supply chain

The Group has established relationships with a number of carpet manufacturers. Carpet manufacturing is a highly competitive sector and alternative sources of supply exist in the event that one of the Group's suppliers 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.

A number of the Group's suppliers made use of credit insurance in their dealings with the Group. In view of the administration of UCN, that insurance has largely been withdrawn. It is anticipated that credit insurance will eventually be made available again and in the meantime, the majority of the Group's key suppliers have been prepared to continue to work with the Group with partial or no insurance cover.

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. In the event of a major failure of either the systems used to support the in-house cutting operation or of the physical premises, the Group would need to revert to providing a replacement service via wholesalers which could adversely impact on margins and price competitiveness. Business interruption insurance is reviewed annually and maintained at what is considered to be an appropriate level.

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

Principal risks and uncertainties *(continued)*

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. The administration of UCN may have a negative impact on the Group's ability to attract, motivate and retain key management personnel and franchisees.

Financial risk management objectives and policies

Following the administration of UCN, the Group has sought to modify arrangements with franchisees to ensure that as many as possible can anticipate a viable future at the same time as re-negotiating lease arrangements to better underpin that objective. Whilst there can be no guarantee of success, progress to date is encouraging.

The Group makes little use of financial instruments other than an operational bank account. Except as noted above, exposure to price risk, credit risk, liquidity risk and cash flow risk is not considered material for the assessment of the assets, liabilities, financial position and profit or loss of the Group.

Results

The results of the Group for the period are set out on page 17. The preliminary announcement released 25 July 2013 included £385,000 described as negative goodwill arising on acquisition released to the statement of profit or loss. Having considered this further, the directors are of the opinion that as these amounts reflect events since the acquisition date of the trade and assets of United Carpets (Northern) Limited on 4 October 2012, that they are better described as net gains arising in the current period relating to the group reorganisation.

Dividends

No dividend (2012: £407,000) has been paid during the period.

No dividend (2012: £Nil) has been proposed but not provided in the financial statements.

Substantial shareholders

At 28 August 2013, 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	2,807,902	3.4%
IF Bowness	2,691,208	3.3%

The ordinary shares of the Company were temporarily suspended from trading on 24 August 2012 when the share price was 3.125p. The suspension was lifted on 25 February 2013. The mid-market price of ordinary shares at 31 March 2013 was 1.75p. The highest and lowest share prices during the period from 25 February 2013 to 31 March 2013 were 2.625p and 1.75p 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 period end in respect of the Group was 20 (2012: 28). Because of the insignificant level of purchases by the Company the number of day's purchases represented by trade creditors at the period end in respect of the Company is not meaningful.

Political and charitable donations

During the period the Group made charitable donations of £2,000 (2012: £1,000).

No political donations were made during the period (2012: £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.

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

Directors

Details of the directors are given on page 4.

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

Statement of disclosure of information to auditors

The Directors of the Group have, individually, considered their responsibilities to provide information to the Group's 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 they ought to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditor

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
6 September 2013

There is a commitment to high standards of corporate governance throughout the Group and the Board agrees with the provisions set out in 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 period. 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 4.

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

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

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 12 and 13.

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:

Committees of the Board *(continued)*

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 31 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 12 and 13.

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 and are approved by the directors. Comprehensive monthly reports are produced of performance against forecasts which are prepared and reviewed regularly.
- Stocktakes within the company's own stores are generally performed at six monthly intervals.

Going concern

The Company's and Group's business activities together with factors likely to affect future development and performance are set out on pages 1 to 3 and 7 to 8. The Company and Group have minimal borrowings and since the period end, Group bank balances have improved. The directors have reviewed and approved Group cash flow forecasts, which incorporate the further anticipated amounts payable to the administrators of UCN, for a period of at least 12 months from this the date of approval of these financial statements and 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 Group 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 Group 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. No bonus scheme was in place during the period.

  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 2013:

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 2013:

IF Bowness	6,447,934

  In relation to directors, no share options were awarded or lapsed during the period.

Directors' emoluments

The following emoluments were paid to the directors:

	Salary 2013 £'000	Bonuses 2013 £'000	Benefits 2013 £'000	Pension 2013 £'000	6 month period ended 31 March 2013 Total £'000	18 month period ended 5 October 2012 Total £'000
IF Bowness	87	-	16	13	116	349
PA Cowgill	21	-	-	-	21	64
PR Eyre	75	-	23	11	109	327
D Grayson	55	-	18	8	81	233
KS Piggott	18	-	-	-	18	52
	256	-	57	32	345	1,025

Three directors are accruing benefits under money purchase pension schemes (2012: three). The remuneration of each director who served during the period 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 17 to 51.

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
6 September 2013

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 accounting 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; and
- 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 of the Group and parent company on pages 17 to 51 for the period ended 31 March 2013 which comprise the consolidated statement of profit or loss, consolidated and parent company statement of financial position, consolidated and parent company statement of changes in equity and consolidated and parent company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Group's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group's shareholders those matters we are required to them in an auditors' 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 Group and the Group's shareholders 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 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards' (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial accounts

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 Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2013 and of the Group's profit for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the 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:

Under the Companies Act 2006 we are required 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 of the information and explanations we require for our audit.

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

6 September 2013

UNITED CARPETS GROUP PLC

Consolidated statement of profit or loss for the 6 month period ended 31 March 2013

	Note	6 month period ended 31 March 2013	18 month period ended 5 October 2012
		£'000	£'000
Continuing operations			
Revenue	1, 2	11,302	-
Cost of sales		(4,213)	-
Gross profit		7,089	-
Distribution costs		(327)	-
Administrative expenses		(6,573)	(724)
Other operating income		59	-
Operating profit/(loss)	5	248	(724)
Financial income	6	2	9
Profit/(loss) before tax		250	(715)
Income tax expense	7	(93)	(116)
Profit/(loss) for the period from continuing operations		157	(831)
Loss for the period from discontinued operations	8	-	(2,358)
Profit/(loss) for the period		157	(3,189)
Earnings/(loss) per share	9		
From continuing and discontinued operations			
- Basic (pence per share)		0.19p	(3.92)p
- Diluted (pence per share)		0.19p	(3.92)p
Earnings/(loss) per share	9		
Discontinued operations			
- Basic (pence per share)		-	(2.90)p
- Diluted (pence per share)		-	(2.90)p

All amounts are attributable to the equity holders of the parent. There were no items of other comprehensive income and therefore no separate statement of other comprehensive income has been presented.

The notes on pages 21 to 51 form part of these financial statements.

UNITED CARPETS GROUP PLC

Consolidated and parent company statement of financial position at 31 March 2013
Registered number: 05301665

	Note	Group		Company	
		At 31 March 2013 £'000	At 5 October 2012 £'000	**At 31 March 2013 £'000**	At 5 October 2012 £'000
Non-current assets					
Property, plant and equipment	12	348	400	-	-
Investments	13	-	-	-	-
Deferred tax asset	14	27	48	47	48
		375	448	47	48
Current assets					
Inventories	16	1,426	2,200	-	-
Trade and other receivables	17	2,575	1,450	818	601
Cash and cash equivalents		930	757	578	757
		4,931	4,407	1,396	1,358
Total assets		5,306	4,855	1,443	1,406
Equity					
Issued capital	22	4,070	4,070	4,070	4,070
Share premium		1,106	1,106	1,106	1,106
Reserves		598	598	598	598
Retained earnings		(3,948)	(4,105)	(4,514)	(4,530)
Total shareholders' equity		1,826	1,669	1,260	1,244
Non-current liabilities					
Trade and other payables	18	229	105	-	-
		229	105	-	-
Current liabilities					
Financial liabilities – borrowings	19	21	-	-	-
Trade and other payables	18	3,056	2,979	161	146
Current tax liabilities		174	102	22	16
		3,251	3,081	183	162
Total liabilities		3,480	3,186	183	162
Total equity and liabilities		5,306	4,855	1,443	1,406

The financial statements were approved by the Board and authorised for issue on 6 September 2013 and were signed on its behalf by:

PR Eyre
Director

D Grayson
Director

IF Bowness
Director

The notes on pages 21 to 51 form part of these financial statements.

Consolidated and parent company statements of changes in equity for the 6 month period ended 31 March 2013

Group

	Share capital £'000	Share premium £'000	Retained earnings £'000	Merger reserve £'000	Share-based payment reserve £'000
At 31 March 2011	4,070	1,106	2,601	(3,110)	554
Loss for the period	-	-	(3,189)	-	-
Dividends paid	-	-	(407)	-	-
Transfer on disposal	-	-	(3,110)	3,110	-
Share-based payments	-	-	-	-	44
At 5 October 2012	4,070	1,106	(4,105)	-	598
Profit for the period	-	-	157	-	-
At 31 March 2013	4,070	1,106	(3,948)	-	598

The merger reserve was 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. Following the administration of United Carpets (Northern) Limited, the merger reserve has been transferred to retained earnings.

The share-based payment reserve relates to share options granted by the Company to Group employees under its employee share option plan. Further information about share-based payments to employees is set out in note 23.

Company

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payment reserve £'000
At 31 March 2011	4,070	1,106	866	554
Loss for the period	-	-	(4,989)	-
Dividends paid	-	-	(407)	-
Share-based payments	-	-	-	44
At 5 October 2012	4,070	1,106	(4,530)	598
Profit for the period	-	-	16	-
At 31 March 2013	4,070	1,106	(4,514)	598

The notes on pages 21 to 51 form part of these financial statements.

Consolidated and parent company statements of cash flows for the 6 month period ended 31 March 2013

	Note	Group		Company	
		6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000	**6 month period ended 31 March 2013 £'000**	18 month period ended 5 October 2012 £'000
Cash flows from operating activities					
Cash generated from/(utilised by) operations	24	628	(439)	(181)	(439)
Net cash flows from operating activities of continuing operations		628	(439)	(181)	(439)
Net cash flows from operating activities of discontinued operations		-	1,214	-	-
Net cash flows from operating activities		628	775	(181)	(439)
Cash flows from investing activities					
Acquisition of trade and assets		(475)	(642)	-	-
Acquisition of property, plant and equipment		(3)	-	-	-
Interest received		2	9	2	9
Net cash flows from investing activities of continuing operations		(476)	(633)	2	9
Net cash flows from investing activities of discontinued operations		-	(1,449)	-	-
Net cash flows from investing activities		(476)	(2,082)	2	9
Cash flows from financing activities					
Dividends paid		-	(407)	-	(407)
Net cash flows from financing activities of continuing operations		-	(407)	-	(407)
Net cash flows from financing activities of discontinued operations		-	(116)	-	-
Net cash flows from financing activities		-	(523)	-	(407)
Increase/(decrease) in cash and cash equivalents in the period		152	(1,830)	(179)	(837)
Cash and cash equivalents at the start of the period		757	2,587	757	1,594
Cash and cash equivalents at the end of the period		909	757	578	757

The notes on pages 21 to 51 form part of these financial statements.

1. Significant accounting policies

United Carpets Group plc (the "Company") is a company incorporated in England and Wales. The address of its registered office is disclosed on page 4. The consolidated financial statements of the Company for the period ended 31 March 2013 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 and the fair value adjustments arising on the acquisition of trade, assets and certain liabilities, as set out in note 15.

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 1(u).

(b) Basis of preparation

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

(c) Going Concern

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

(d) Basis of consolidation

(i) Subsidiaries

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

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

1. Significant accounting policies *(continued)*

(d) Basis of consolidation *(continued)*

(i) Subsidiaries (continued)

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

(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 for those business combinations which took place before transition to IFRS and using the acquisition method (see note 1(d)(i) for those business combinations which took place subsequent to the transition to IFRS). 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 transactions, 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.

(e) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the 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.

(f) 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 1(k)).

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)*

(f) Property, plant and equipment *(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 1(p).

(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.

(g) Trade and other receivables

Trade and other receivables are stated at their estimated recoverable amount after allowance for impairment losses (see accounting policy 1(k)).

(h) 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.

1. Significant accounting policies *(continued)*

(i) 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.

(j) Goodwill

Negative goodwill represents the excess of the fair value of the identifiable net tangibles and intangible assets acquired over the fair value of consideration. Under IFRS3 'Business Combinations' goodwill arising on acquisitions is not subject to amortisation but is tested for impairment whenever there is an indication that it may be impaired and at each reporting date.

Any impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its recoverable amount. Any such impairment losses recognised are not reversed.

Negative goodwill is released to the profit and loss account in the period in which it arises (see note 5).

(k) 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)*

(l) 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.

(m) 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.

(n) Trade and other payables

Trade and other payables are stated at historical cost.

(o) 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 and trade products is recognised when products have been delivered.

1. Significant accounting policies *(continued)*

(p) 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.

(q) Income tax

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss 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 period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following 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.

(r) Segment reporting

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

1. Significant accounting policies *(continued)*

(s) 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.

(t) New and revised IFRS's in issue but not yet effective

The Group has not applied the following new and revised IFRS's that have been issued but are not yet effective. The directors anticipate that the adoption of these accounting standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group when the relevant standards come into effect for periods commencing on or after 1 April 2013.

IFRS 9	Financial instruments
IFRS 10	Consolidated financial statements
IFRS 11	Joint arrangements
IFRS 12	Disclosure of interest in other entities
IFRS 13	Fair value measurement
Amendments to IFRS 7	Disclosures – offsetting financial assets and financial liabilities
Amendments to IFRS 9 and IFRS 7	Mandatory effective date of IFRS 9 and transition disclosures
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities, transition guidance
IAS 19 (as revised in 2011)	Employee benefits
IAS 27 (as revised in 2011)	Separate financial statements
IAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to IAS 32	Offsetting financial assets and liabilities
Amendments to IFRS's	Annual improvements to IFRS's 2009-2011 cycle except for the amendment to IAS1

(u) 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) Deferred tax assets

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits. Details of the deferred tax asset are given in note 14.

1. Significant accounting policies *(continued)*

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

(ii) 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.

(iii) Impairment of other assets.

The Group reviews the carrying value of all other assets for indications of impairment at each period end. If indicators of impairment exist, the carrying value of the asset is subject to further testing to determine whether its carrying value exceeds its recoverable amount. This process will usually involve the estimation of future cash flows which are likely to be generated by the asset.

(iv) 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.

(v) 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.

(vi) 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.

(vii) Income taxes

There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax 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.

1. Significant accounting policies *(continued)*

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

(viii) 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

On 4 October 2012 administrators were appointed to United Carpets (Northern) Limited. At that point control was lost of the main trading subsidiary and the activities of that company have been treated as discontinued within the comparatives. The discontinued operations segmental information is set out at note 8(b).

United Carpets (Franchisor) Limited acquired the trade, assets and certain liabilities of United Carpets (Northern) Limited on 4 October 2012. Details of the acquisition are included in note 15.

Segment information is presented in respect of the Group's business segments, which are the primary basis of segment reporting. Retail and Beds were previously reported separately and Property was previously reported in Franchising. The business segment reporting format reflects the Group's revised 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.

	Franchising and Retail		Warehousing and Beds		Property		Consolidated	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Segment revenue	6,148	-	3,865	-	1,289	-	11,302	-
Segment results	(85)	-	118	-	135	-	168	-
Unallocated income/(expenses)							21	(724)
Other operating income							59	-
Operating profit/(loss)							248	(724)
Financial income							2	9
Income tax expense							(93)	(116)
Profit/(loss) for the period from continuing operations							157	(831)

2. Segment reporting (*continued)*

	At 31 March 2013 £'000	At 5 October 2012 £'000
Operating assets	4,376	-
Net cash	909	-
Operating liabilities	(3,459)	-
Total shareholders' equity	1,826	-
Additions to non-current assets	3	-
Depreciation	19	-

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

3. Employees

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Staff costs, including directors, consist of:		
Wages and salaries	1,923	5,804
Social security costs	198	613
Other pension costs (note 28)	43	141
Share-based payments (note 23)	-	44
	2,164	6,602
Continuing operations (note 5)	2,164	1,015
Discontinued operations (note 8(c))	-	5,587
	2,164	6,602

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

	6 month period ended 31 March 2013 Number	18 month period ended 5 October 2012 Number
Administration	37	51
Store development	-	2
Warehouse and stores	91	111
	128	164

4. Directors' remuneration

The emoluments of the directors were as follows:

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Remuneration for management services	313	929
Value of Group pension contributions to money purchase schemes	32	96
	345	1,025

Further details of directors' remuneration are set out in the Board's report on directors' remuneration on pages 12 and 13.

5. Operating profit/(loss)

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

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Staff costs (note 3)	2,164	1,015
Negative goodwill arising on acquisition released to the statement of profit or loss (note 15)	-	(560)
Costs of reducing the number of operational stores	66	-
Net gains arising in the current period relating to the group reorganisation	(385)	-

Further information on amounts charged to Operating profit/(loss) in discontinued operations is included in note 8.

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 6 month period to 31 March 2013 is set out below:

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Audit services – statutory audit	32	58
Taxation services	5	16

Included in the Group audit fees and expenses paid to the Group's auditors are £3,000 paid in respect of the Company (2012: £3,000). Included in the Group audit fees and expenses paid to the Group's auditors are £5,000 paid in respect of the audit of the Group financial statements (2012: £4,000).

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 Limited is a separate company 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 income

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Interest receivable	2	9

7. Income tax expense

(a) Analysis of charge for the period

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Current tax:		
UK corporation tax in respect of the current period	78	102
UK corporation tax in respect of prior periods	(6)	-
	72	102
Deferred tax:		
In respect of the current period	14	14
In respect of prior periods	7	-
Total income tax expense recognised in the current period	93	116

(b) Reconciliation of total tax charge for the period

The tax charge for the period differs from the standard rate of corporation tax in the UK of 24% (2012: 24%). The differences are explained below:

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Profit/(loss) before tax	250	(715)
Profit/(loss) before tax multiplied by the rate of corporation tax in the UK of 24% (2012: 24%)	60	(172)
Effect of:		
Expenses not deductible for tax purposes	13	287
Change in future tax rate	-	1
Other timing differences	19	-
Prior year adjustments	1	-
Total tax	93	116

7. Income tax expense (continued)

(c) Factors affecting future tax charges

The corporation tax rate will be 23% from 1 April 2013. The rate is then proposed to reduce by a further 2% from 1 April 2014 when it will be 21%, however, the rate was not substantively enacted at the balance sheet date. The rate reduction is not reflected in these financial statements in accordance with FRS 19, as it is a non adjusting event occurring after the reporting period.

8. Discontinued operations

On 4 October 2012 administrators were appointed to United Carpets (Northern) Limited. At this point United Carpets Group plc did not have control of the subsidiary and therefore the administration was considered a disposal. That disposal was completed on 4 October 2012 and therefore no assets or liabilities were classified as held for sale at 5 October 2012.

(a) Statement of profit or loss

Analysis of the result of discontinued operations, and the result recognised on the re-assessment of assets of the disposal subsidiary is as follows:

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Revenue	-	41,477
Cost of sales	-	(14,828)
Gross profit	-	26,649
Distribution costs	-	(4,074)
Administrative expenses	-	(24,654)
Other operating income	-	190
Operating loss	-	(1,889)
Financial expenses	-	(6)
Loss before tax	-	(1,895)
Income tax expense	-	582
Loss after tax from discontinued operations	-	(1,313)
Loss recognised on re-assessment of assets of disposal	-	(1,045)
Loss for the period from discontinued operations	-	(2,358)

8. Discontinued operations (continued)

(b) 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 reflected 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.

	Franchising		Retail		Beds		Warehouse		Consolidated	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Segment revenue	-	17,423	-	11,570	-	5,291	-	7,193	-	41,477
Segment results	-	(2,270)	-	(621)	-	123	-	(166)	-	(2,934)
Financial expenses									-	(6)
Income tax expense									-	582
Loss for the period from discontinued operations									-	(2,358)

	At 31 March 2013 £'000	At 5 October 2012 £'000
Operating assets	-	4,098
Net cash	-	757
Operating liabilities	-	(3,186)
Total shareholders' equity	-	1,669
Additions to non-current assets	-	1,488
Depreciation	-	1,573
Impairment	-	908

8. Discontinued operations (continued)

(c) Operating loss

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Staff costs (note 3)	-	5,587
Depreciation of property, plant and equipment		
- Owned assets	-	1,534
- Leased assets	-	39
Operating leases		
- Property rentals payable	-	6,781
- Property rentals receivable	-	5,222
Exceptional items comprises:		
- Impairment of property, plant and equipment	-	908
- Net disposal costs of non-current assets	-	16
- Increase in provision against onerous contracts	-	2,750
- Release of provision against onerous contracts	-	(147)

Impairment of property, plant and equipment

At the end of each financial period, 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 period was £Nil (2012: £908,000).

Provision against onerous contracts

Where there is an onerous contract this has been provided as an exceptional item. The charge in the period was £Nil (2012: £2,603,000).

(d) Cashflow

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Net cash flows from operating activities of discontinued operations	-	1,214
Net cash flows from investing activities of discontinued operations	-	(1,449)
Net cash flows from financing activities of discontinued operations	-	(116)
Net cash flows from discontinued operations	-	(351)

9. Basic and diluted earnings/(loss) per share

Basic earnings/(loss) per share

The calculation of basic earnings per share for the period ended 31 March 2013 was based on the profit attributable to ordinary shareholders of £157,000 (2012: loss of £3,189,000) and a weighted average number of ordinary shares outstanding during the period ended 31 March 2013 of 81,400,000 (2012: 81,400,000).

Diluted earnings/(loss) per share

Diluted earnings per share for the periods ended 31 March 2013 and 5 October 2012 was the same as basic earnings per share as the share options in issue were non-dilutive in either period.

Basic earnings/(loss) per share – discontinued operations

The calculation of basic earnings per share for the period ended 31 March 2013 was based on the loss attributable to ordinary shareholders of £Nil (2012: loss of £2,358,000) and a weighted average number of ordinary shares outstanding during the period ended 31 March 2013 of 81,400,000 (2012: 81,400,000).

Diluted earnings/(loss) per share – discontinued operations

Diluted earnings per share for the periods ended 31 March 2013 and 5 October 2012 was the same as basic earnings per share as the share options in issue were non-dilutive in either period.

10. Equity dividends

	6 month period ended 31 March 2013 £'000	18 month period ended 5 October 2012 £'000
Final dividends relating to prior period, paid during the period on ordinary shares (2012: 0.5p per share)	-	407

No final dividend has been proposed but not provided in these financial statements.

11. Company profit and loss account

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

The Company's profit after taxation for the period ended 31 March 2013 amounted to £16,000 (2012: loss of £4,989,000).

12. Property, plant and equipment

Group	Leasehold property £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 31 March 2011	8,022	2,155	549	10,726
Additions	1,140	296	52	1,488
Acquisitions through business combinations	-	385	15	400
Transfers to disposal group	(9,162)	(2,451)	(376)	(11,989)
At 5 October 2012	-	385	240	625
Additions	-	2	1	3
Disposals	-	(36)	-	(36)
At 31 March 2013	-	351	241	592
Depreciation and impairment				
At 31 March 2011	3,546	1,094	496	5,136
Charge for the period	1,123	398	52	1,573
Impairments	711	184	13	908
Transfers to disposal group	(5,380)	(1,676)	(336)	(7,392)
At 5 October 2012	-	-	225	225
Charge for the period	-	17	2	19
At 31 March 2013	-	17	227	244
Net book value				
At 31 March 2013	-	334	14	348
At 5 October 2012	-	385	15	400
At 31 March 2011	4,476	1,061	53	5,590

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

Company

	Motor vehicles £'000	Total £'000
Cost		
At 31 March 2011, 5 October 2012 and 31 March 2013	225	225
Depreciation		
At 31 March 2011, 5 October 2012 and 31 March 2013	(225)	(225)
Net book value		
At 31 March 2011, 5 October 2012 and 31 March 2013	-	-

13. Investments

	Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000
Shares in subsidiary undertakings at cost	-	-

The following were subsidiary undertakings at 31 March 2013 and have all been included in the consolidated financial statements.

Continuing operations:	*Principal activity:*
United Carpets (Franchisor) Limited	On 4 October 2012, following the administration of United Carpets (Northern) Limited, the trade, assets and certain liabilities of that company were acquired from the administrators by United Carpets (Franchisor) Limited. Up until this date the company was dormant. Following the acquisition, the principal activity of the company was the retailing of carpets and beds and the franchising of carpet retail outlets.
United Carpets (Commercial) Limited (formerly UC Commercial Limited)	Following incorporation on 2 May 2012, the company was dormant until 4 October 2012. Thereafter its principal activity was trade sales, retailer of beds and carpet resale agents.
United Carpets (Property) Limited (formerly UC Stores Limited)	Following incorporation on 2 May 2012, the company was dormant until 4 October 2012. Thereafter its principal activity was leasing and sub-letting retail units.
Debrik Investments Limited	Dormant subsidiary of United Carpets Group plc
Weavers Carpets Limited	Dormant subsidiary of United Carpets Group plc
Nottingham Carpet Warehouse Limited	Dormant subsidiary of United Carpets Group plc
Carpetmania Limited	Dormant subsidiary of Nottingham Carpet Warehouse Limited
United Carpets (Central) Limited	Dormant subsidiary of United Carpets Group plc

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

Discontinued operations:	*Principal activity:*
UNCN Realisations 2012 Limited (formerly United Carpets (Northern) Limited)	Carpet retailing and the franchising of carpet retail outlets. Administrators appointed 4 October 2012.
United Carpets (Retailing) Limited	Dormant subsidiary of United Carpets (Northern) Limited

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

14. Deferred tax asset

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Deferred tax	27	48	47	48

The movement in provisions during the period was:

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Provision at start of period	48	-	48	62
Charged for the period	-	48	-	-
Released for the period	(21)	-	(1)	(14)
Provision at end of period	27	48	47	48

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

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Accelerated capital allowances	18	40	39	40
Other timing differences	9	8	8	8
	27	48	47	48

15. Acquisition

The trade, assets and certain liabilities of United Carpets (Northern) Limited were acquired by United Carpets (Franchisor) Limited on 4 October 2012.

	Book values pre-acquisition £'000	Fair value adjustments £'000	Provisional fair value at 5 October 2012 £'000	Revision to fair value adjustments £'000	Provisional fair value at 31 March 2013 £'000
Goodwill	183	(183)	-	-	-
Property, plant and equipment	400	-	400	-	400
Inventories	2,061	139	2,200	-	2,200
Trade and other receivables	827	615	1,442	-	1,442
Trade and other payables	(2,253)	94	(2,159)	-	(2,159)
Net assets acquired	1,218	665	1,883	-	1,883

The calculations of fair values are provisional and may be subject to further change.

The acquisition of the trade from a connected company may give rise to a deferred tax asset in United Carpets (Franchisor) Ltd. An estimate of any such asset will be made once there is further clarity on the tax position of United Carpets (Northern) Ltd to 5 October 2012.

The fair value of the purchase consideration is analysed as follows:

	At 5 October 2012 £'000	Payments during the period £'000	At 31 March 2013 £'000
Cash	593	475	1,068
Deferred consideration	625	(475)	150
Deferred contingent consideration	105	-	105
Total consideration	1,323	-	1,323

	18 month period ended 5 October 2012 £'000
Negative goodwill arising on acquisition released to the statement of profit or loss	(560)

The estimate of deferred contingent consideration above will be determined based on net profits of the Group during the period to 4 October 2013.

15. Acquisition *(continued)*

The outflow of cash resulting from the acquisition was as follows:

	Fair value 6 month period ended 31 March 2013 £'000	Fair value 18 month period ended 5 October 2012 £'000
Cash consideration	475	593
Directly attributable costs paid	-	49
Total cash consideration	475	642

16. Inventories

	Group At 31 March 2013	Group At 5 October 2012
Finished goods	1,426	2,200

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 £3,971,000 (2012: £13,811,000). The net expense relating to the write down of inventories recognised in the period and included in cost of sales is £81,000.

17. Trade and other receivables

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Trade receivables	1,063	936	7	-
Amounts owed by group undertakings	-	-	789	593
Other debtors	429	300	15	-
Prepayments and accrued income	1,083	214	7	8
	2,575	1,450	818	601

The Group only extends credit to its franchisee partners. Receivable balances are monitored on an on-going basis with the aim of minimising the Group's exposure to bad debts or being unable to realise amounts recoverable on contracts.

	At 31 March 2013			At 5 October 2012		
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
Current	1,321	(688)	633	2,149	(1,213)	936
Overdue	680	(250)	430	-	-	-
	2,001	(938)	1,063	2,149	(1,213)	936

At 31 March 2013, trade receivables of £1,231,000 (2012: £1,675,000) were impaired and a provision of £938,000 had been made (2012: £1,213,000). The individually impaired amounts mainly relate to accumulated debts acquired from the administrators of United Carpets (Northern) Limited against which substantial provisions were established. The Group is working with those debtors to achieve a viable outcome for them and the Group in order to recover as much of that debt as feasible.

At 31 March 2013, the Group had trade receivables of £393,000 (2012: £Nil) which were overdue and not impaired.

Movement on the provision is shown below:

	Group At 31 March 2013 £'000
Provision at start of period	1,213
Utilised	(176)
Charged for the period	287
Released for the period	(386)
Provision at end of period	938

17. Trade and other receivables *(continued)*

It has not been possible to provide the movements on the group provision for impairment of trade receivables for the comparative period as a result of the administration.

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.

18. Trade and other payables

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Trade payables	1,222	1,835	6	3
Social security and other taxes	606	17	41	58
Other creditors	351	793	-	-
Accruals and deferred income	877	334	114	85
	3,056	2,979	161	146

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Non-current				
Accruals and deferred income	229	105	-	-

19. Financial liabilities - borrowings

The Group seeks to ensure that it has sufficient cash resources available to meet all short term cash requirements and to meet its capital expenditure programme for the foreseeable future. At the period end there were no committed undrawn facilities (2012: £Nil).

	Group		Company	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Borrowings	21	-	-	-

20. Provisions

Group

The movement in provisions during the period was:

	Provision against onerous contracts		Dilapidations		Deferred tax	
	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000	At 31 March 2013 £'000	At 5 October 2012 £'000
Provision at start of period	-	604	-	22	-	121
Utilised	-	(111)	-	-	-	-
Charged for the period	-	2,750	-	-	-	-
Released for the period	-	(147)	-	-	-	-
Transfers to disposal group	-	(3,096)	-	(22)	-	(121)
Provision at end of period	-	-	-	-	-	-

21. Financial instruments

The Group makes little use of financial instruments other than an operational bank account and trade and other receivables/payables. Except as noted in the Directors' report, 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.

Trade and other receivables/payables

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

Risk management

(a) Credit risk

The Group does not have significant concentrations of credit risk as exposure is spread over a number of counterparties and customers.

(b) Liquidity risk and interest rate risk

The Group finances its operations from operational cash flows.

(c) Foreign exchange risk

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

22. Issued capital

Group and Company	At 31 March 2013	At 5 October 2012
	£'000	£'000
Authorised		
200,000,000 ordinary shares of 5p each	10,000	10,000

	At 31 March 2013	At 5 October 2012
	£'000	£'000
Allotted, called up and fully paid		
81,400,000 ordinary shares of 5p each	4,070	4,070

23. Share-based payments

The number of options granted during the period and options outstanding at 31 March 2013 under the Group's share option schemes were as follows:

	Granted Number 2013	Out-Standing Number 2013	Granted Number 2012	Out-Standing Number 2012
Granted 10 February 2005:				
Approved Company Share Option Scheme	-	930,000	-	960,000
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 29 August 2008:				
Unapproved Company Share Option Scheme	-	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
	-	7,738,524	-	7,768,524

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.

On 4 October 2012, employees of United Carpets (Northern) Limited transferred to United Carpets (Franchisor) Limited and United Carpets (Commercial) Limited and those employees continue to participate in the Group's share option schemes.

The options granted on 10 February 2005, 20 July 2006, 20 July 2007 and 31 January 2008 were exercisable at the period end. No other options were exercisable at the period 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.

23. Share-based payments (continued)

Fair value of share options and assumptions for awards

	29 August 2009	29August 2008	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 period no options were exercised (2012: Nil) and 30,000 (2012: 120,000) 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 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.

24. Cash flows from operating activities

Reconciliation of result for the period to cash flows from operating activities:

	Group		Company	
	6 month period ended 31 March 2013 £'000	**18 month period ended 5 October 2012 £'000**	**6 month period ended 31 March 2013 £'000**	**18 month period ended 5 October 2012 £'000**
Profit/(loss) before tax	250	(715)	23	(4,959)
Depreciation and other non-cash items:				
Depreciation of property, plant and equipment	19	-	-	-
Loss on disposal of fixed assets	36	-	-	-
Impairment of investment in subsidiary undertaking		-	-	3,520
Negative goodwill written off	-	(560)	-	-
Share-based payments	-	44	-	44
Acquisition costs written off	-	49	-	-
Changes in working capital:				
Decrease in inventories	796	-	-	-
(Increase)/decrease in trade and other receivables	(1,148)	1,000	(325)	1,213
Increase/(decrease) in trade and other payables	677	(248)	123	(248)
Financial income	(2)	(9)	(2)	(9)
Cash generated from/(utilised by) operating activities	628	(439)	(181)	(439)

25. Reconciliation of cash and cash equivalents

Cash and cash equivalents are solely bank balances.

26. 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 11 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At 31 March 2013, the Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	At 31 March 2013 £'000	At 5 October 2012 £'000
Not later than one year	1,738	993
Later than one year and not later than five years	4,925	2,560
Later than five years	2,933	2,172
	9,596	5,725

At 31 March 2013, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	At 31 March 2013 £'000	At 5 October 2012 £'000
Not later than one year	1,324	1,150
Later than one year and not later than five years	1,877	1,267
Later than five years	758	-
	3,959	2,417

There were no unprovided capital commitments at the period end (2012: £Nil).

27. 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 £345,000 for the 6 month period ended 31 March 2013, (18 month period ended 5 October 2012: £1,025,000).

During the period 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 (Property) Limited made purchases of £194,000 (2012: £Nil). At 31 March 2013, £47,000 was owed by UC Developments Limited to United Carpets (Property) Limited (2012: £Nil).

During the period 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 (Franchisor) Limited made purchases of £634,000 (2012: £Nil) and sales of £10,000 (2012: £Nil). At 31 March 2013, £25,000 was owed by United Carpets (Franchisor) Limited to United Carpets Holdings Limited (2012: £Nil). United Carpets (Property) Limited made purchases of £223,000 (2012: £Nil). At 31 March 2013, £55,000 was owed by United Carpets (Property) Limited to United Carpets Holdings Limited (2012: £Nil).

28. 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 £43,000 (2012: £141,000).

29. Contingencies

HM Revenue & Customs are enquiring into Employee Benefit Trusts set up by certain Group companies in 2004, 2005 and 2006. The directors have formed the view, after taking advice, that legal precedent is in the Group's favour and that it will be concluded that no additional taxation liabilities will arise to the Group in respect of the Employee Benefit Trust contributions. No provision has thus been made for any future economic outflows in this matter.

It may take several years before the position is finally established and as such there is a possibility, which the directors have assessed as more than remote, that liabilities will arise. Whilst HMRC has issued PAYE and NIC determinations showing amounts of £807,000, it is not possible at this stage to predict with any reasonable degree of certainty the likelihood of these sums being payable, the amount of such sums and the date on which they could become payable. Potential interest on these liabilities currently totals £347,000.

The Group has the benefit of indemnities given by director shareholders in respect of these potential liabilities and in the event payments were necessary any liability should be reduced by corporation tax relief estimated at £194,000.

30. 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 (the "Company") will be held at Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY on Monday 30 September 2013 at 10.00 a.m. for the transaction of the following business:

To consider and, if thought fit, to pass the following resolutions, numbers one to eight of which will be proposed as ordinary resolutions and numbers nine and ten as special resolutions:

Ordinary Resolutions

1 THAT the accounts for the 6 month period ended 31 March 2013, together with the report of the directors and of the auditor thereon, be received and adopted.

2 (a) THAT RSM Tenon Audit Limited be re-appointed as auditors to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company; and

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

3 THAT IF Bowness be re-elected as a director.

4 THAT PA Cowgill be re-elected as a director.

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

6 THAT the Board's report on directors' remuneration for the 6 month period ended 31 March 2013 be approved.

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

8 THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company the directors be and are generally and unconditionally authorised to exercise all powers of the Company in accordance with Section 551 of the Companies Act 2006 to allot Relevant Securities (as defined below) up to a maximum aggregate nominal amount of £1,357,000 (being approximately one third of the current issued share capital) provided that such authority shall, unless renewed, varied or revoked by the Company, expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 January 2015, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require Relevant Securities to be allotted after such expiry and the directors shall be entitled to allot Relevant Securities pursuant to any such offer or agreement as if this authority had not expired.

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

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

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

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

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

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

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

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

Special Resolutions

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

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

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

(c) the allotment (otherwise than pursuant to sub-paragraph (a) and (b) of this resolution) of equity securities, up to an aggregate nominal amount not exceeding £203,500 (being approximately 5% of the current nominal amount of the issued ordinary share capital of the Company).

The authority conferred on the directors to allot equity securities under this resolution 9 shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 31 January 2015, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require equity securities to be allotted after such expiry and the directors shall be entitled to allot equity securities pursuant to any such offer or agreement as if the power conferred hereby had not expired.

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

10. THAT the Company be and is hereby generally and unconditionally authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases pursuant to Section 693 of that Act (as defined in Section 693(4) of the said Act), of ordinary shares of 5p each in the capital of the Company (”Ordinary Shares”) provided that:

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

(b) the minimum price which may be paid for an Ordinary Share is 5p per share, being the nominal amount thereof (exclusive of expenses);

(c) the maximum price which may be paid for each share (exclusive of expenses) shall not be more than 5% above the average of the middle market quotations for ordinary shares as

derived from the London Stock Exchange Daily Official List for the 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 2015 (except in relation to the purchase of shares the contracts for which were concluded before such date and which are executed wholly or partly after such date) unless such authority is renewed or revoked prior to such time.

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

6 September 2013

By Order of the Board
IF Bowness
Secretary

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

Notes:

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

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

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

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

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

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

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

6. To be valid, the form of proxy must be completed and signed and received by the Company's registrars at Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands B63 3DA by no later than 10.00 a.m. on 28 September 2013.

7. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered in the register of members of the Company as at 10.00 a.m. on 28 September 2013 shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at such time. If the AGM is adjourned, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the adjourned meeting is 6.00pm on the day preceding the date fixed for the adjourned meeting. Changes to the register of members after the relevant times shall be disregarded in determining the rights of any person to attend and vote at the AGM.

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

9. As at 5 September 2013 (being the latest practicable date prior to the publication of this document), the Company's issued share capital consists of 81,400,000 ordinary shares of 5p each and which each carry one vote. Therefore, the total voting rights in the Company as at 5 September 2013 are 81,400,000.

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