United Carpets Group plc

Annual Report

5 October 2012

UNITED CARPETS GROUP PLC

Contents

UNITED CARPETS GROUP PLC

Chairman's statement

The period under review has been extremely challenging for retailers in general and the Group in particular.

On 15 June 2012 the Board announced that a significant proportion of the Group's franchise network was finding it increasingly difficult to operate satisfactorily. Despite the considerable investment made by the Group in technology to provide detailed information on footfall and conversion rates to improve marketing effectiveness and retail performance, together with increased operational and financial support from the Group, franchisees continued to struggle to meet their liabilities to creditors and the Group. As a consequence, it was necessary to terminate a number of franchises and the Board resolved to review a further number of stores to ascertain whether they could remain viable under the current franchise model.

An update on the review was provided on 24 August 2012, when the Company announced that to prevent an accumulation of poorly performing stores, 6 stores had closed and 17 franchised stores had either been taken back into the Group or refranchised. A further tranche of stores were also identified for imminent closure. Whilst the impact of the closures already made and those anticipated at that time were still being quantified, it was apparent that substantial provisions would be required to be made in respect of impairment of property, plant and equipment and onerous contracts. The cash impact of existing leases no longer required was also uncertain at that time. In order to give a clearer picture of the Group's ongoing operations and provide a more accurate view of the financial implications of the store review, the Board decided to extend the accounting reference date from 31 March to 30 September. Since the Company was not in a position to publish financial results for the year ended 31 March 2012 by 30 September 2012, as required by the AIM Rules, trading in the Company's shares was suspended on 24 August 2012.

It became increasingly clear from the review that the financial support provided by the Group to franchisees, which was originally intended to be temporary, was becoming unsustainable and that without substantial rent reductions a significant number of stores would be unable to continue to trade, despite the underlying strength of the core locations. Negotiations with certain landlords to agree appropriately reduced rents were unsuccessful, and as a result, the Company announced the appointment of David Robert Acland and Lila Thomas of Begbies Traynor (Central) LLP as joint administrators of United Carpets (Northern) Limited ("UCN") on 4 October 2012. The immediate sale of the trade of UCN and the majority of UCN's assets to United Carpets (Franchisor) Limited ("UCF"), a wholly owned subsidiary of United Carpets Group plc, has enabled negotiations with landlords to be re-opened and where appropriate, to secure more favourable terms. These negotiations are ongoing which, together with appropriately adjusted central costs and modifications to the franchisor/franchisee trading arrangements, are expected to enable the majority of franchisees to trade successfully.

At present, the Group operates from 66 United Carpets branded stores, primarily across Northern and Central England, of which 15 are currently corporate stores and 51 are operated on a franchise basis. As a result of the arrangements put in place following the administration of UCN, the management team has been negotiating new leases with existing landlords. Terms have been agreed for nearly two thirds of the store network. In many cases alongside reduced rents which have benefitted our franchisees, reduced lease periods or break clauses have been achieved and historic potential dilapidation liabilities extinguished. Negotiations to finalise terms for most of the remaining stores are progressing and whilst every effort is being made to agree settlements which are acceptable to the landlord and achieve a viable future for the franchisee and the Group, this may not be achievable in all cases. In the meantime, UCF continues to occupy any stores where a lease has not yet been signed with a landlord, under licence from the administrator, and is therefore able to continue to operate from those locations.

The Board believes that as a result of the actions taken since June 2012, the Group is in a better position to tackle what remains a very challenging marketplace.

Following the publication of these results, the Board expects that the suspension of the Company's shares will be lifted allowing them to again be traded on AIM.

Peter Cowgill
Chairman

22 February 2013

Chief Executive's review

Despite having weathered four years of post credit-crunch recession, it became clear during 2012 that the Company needed to take radical action to address the significant number of underperforming franchised stores and better protect the Group's future. This process involved the closure of a number of stores and a re-evaluation of the business in order to create a smaller entity capable of operating successfully in this prolonged downturn.

The change of year end and the administration of UCN which, under International Financial Reporting Standards ("IFRS") is treated as a discontinued operation, makes trading comparisons more difficult. A proforma income statement showing the results for this period and the prior period on a comparable basis is presented below.

Total revenues for the period under review were £41.5m and profits before tax and exceptional items of the underlying, ongoing business were £0.4m. However, the provisions necessary in respect of the impairment of property plant and equipment and onerous contracts arising from store closures contributed to total exceptional costs of £3.0m in the period (further details on the exceptional items are included in notes 5 and 8 of these financial statements). Whilst many of these were non-cash items, the ongoing cash burden of paying rent and rates in respect of stores that had ceased trading was considered unsustainable leading to the decision to place UCN into administration.

Financial review

The Income Statement as previously prepared including discontinued activities is as follows:

	Results before exceptional items	**Exceptional items**	**Period ended 5 October 2012**	Results before exceptional items	Exceptional items	Year ended 31 March 2011
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Revenue	41,477	-	41,477	27,476	-	27,476
Cost of sales	(14,828)	-	(14,828)	(9,188)	-	(9,188)
Gross profit	26,649	-	26,649	18,288	-	18,288
Distribution costs	(4,074)	-	(4,074)	(2,562)	-	(2,562)
Administrative expenses	(22,412)	(2,966)	(25,378)	(14,355)	(237)	(14,592)
Other operating income	190	-	190	106	-	106
Operating profit/(loss) before financing costs	353	(2,966)	(2,613)	1,477	(237)	1,240
Financial income	9	-	9	8	-	8
Financial expenses	(6)	-	(6)	(5)	-	(5)
Profit/(loss) before tax	356	(2,966)	(2,610)	1,480	(237)	1,243
Income tax expense			466			(449)
(Loss)/profit after tax			(2,144)			794
Loss recognised on re-assessment of assets of disposal subsidiary			(1,045)			-
(Loss)/profit for the period			(3,189)			794
Earnings per share						
- Basic			(3.92)p			0.98p
- Diluted			(3.92)p			0.97p

Financial review (continued

For the 18 month period under 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 £105.8m. Revenue, which includes marketing and rental costs incurred by the Group and recharged to franchisees, was £41.5m.

Like for like sales across the network (which are based on stores that have traded throughout both the period under review and the corresponding period in the prior year and thus exclude stores that closed during either period) were down 1.0%. Flooring was up 0.2% whilst our Beds business declined by 13.7%. The small improvement in Flooring like for like sales generates only a small amount of revenue to the Group in franchise commission. Beds accounts for a smaller proportion of overall sales, approximately 8%, and has always been more vulnerable to weaker market conditions due to the higher average purchase prices. Weak Beds sales has a disproportionate impact on gross profit as the Group benefits from the full value of the sale less a commission paid to franchisees.

Whilst underlying gross margins in the Retail, Beds and Warehouse divisions all registered small increases on the prior year, overall gross margin declined from 66.6% in the prior year to 64.3% in the period under review. This reflects an increase in the proportion of Group revenue arising from corporate stores (as failing franchises were terminated and the stores were taken back), and an increase in the proportion of Group revenue from relatively low margin Warehouse sales offsetting a reduction in the proportion of Beds sales which operate on higher margins.

Distribution costs and administrative expenses includes rent, rates and salaries of the corporate stores staff and bad debt write-offs. Adjusting for the 18 month period, the increase principally reflects the increase in the average number of those corporate stores during the period under review and increasing levels of default by failing franchisees.

As a result of the store closures prior to the administration of UCN, additional provisions were required to reflect the financial impact of those closures. Property, plant and equipment was impaired by £0.9m being the write down of the assets in the stores that were closed and the associated costs of vacating those premises and the provision for onerous contracts was increased by a net amount of £2.6m to reflect the ongoing lease commitments of those empty properties. These provisions have been offset by £0.6m arising from fair value adjustments to the assets acquired by UCF.

Consequently, the profit before tax and exceptional items of £0.4m became a loss of £2.6m after taking account of those exceptional items.

The losses in UCN result in a net release of income tax provision in the period under review of £0.5m reducing the loss after tax for the Group to £2.1m.

The Group incurred a loss of £1.1m as a result of the discontinuation of the activities of UCN following its administration and consequently the loss after tax for the period was £3.2m.

Following the appointment of administrators to UCN on 4 October 2012, the trade of UCN and the majority of its assets were sold to UCF. Details of the acquisition are provided in note 14 of these financial statements and the balance sheet at 5 October 2012 reflects the opening position for the new trading entity. Following an initial payment of £0.6m to the administrators, cash balances at the balance sheet date were £0.8m. Details of the additional consideration payable to the administrators are also set out in note 14 of these financial statements**.**

Dividend

The Board is not recommending a final 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

We began the 18 month period with 85 stores in total, 18 of which were corporate stores operated by the Group, and 67 were franchised stores.

As a result of increasingly challenging market conditions, the Company announced on 15 June 2012 that it was necessary to terminate a number of franchises. The Board also resolved to review a number of stores to decrease the financial burden on the Group and ascertain their viability under the current franchise model.

On 24 August 2012, the Company provided an update on the store review and announced that a significant proportion of the franchise network were finding trading very challenging, resulting in an increasingly unsatisfactory situation for the Company. This led to the closure of 6 stores (4 corporate stores and 2 franchised stores) and a further 17 franchised stores being either taken back into the Group or refranchised. It was also noted that a further 8 stores were expected to close in the following weeks, and that depending on the outcome of ongoing negotiations with landlords, further closures might be necessary.

On 4 October 2012, the Company announced the appointment of administrators of UCN. At that time, UCN was the principal trading company of the Group, operating the Group's corporate stores and also acting as franchisor of the Group's franchises. The majority of UCN's assets were immediately sold to UCF, a direct wholly-owned subsidiary of the Company and also the sole shareholder in UCN. The sale amounted to 72 stores following the closure of 13 stores in the preceding months. Of the 72 stores, 18 were corporate and 54 were franchised. UCF is responsible for managing franchise agreements and operating the corporate stores. Two new subsidiary companies of United Carpets Group plc have been created; United Carpets (Commercial) Ltd to manage the Group's wholesaling, cutting and distribution activities and United Carpets (Property) Ltd to manage lease agreements with landlords and franchisees.

Following the administration of UCN, a further 9 stores were closed and the Group currently trades from 66 United Carpets branded stores across Northern and Central England, 15 of which are corporate stores and 51 are operated under franchise agreements. We have agreed new terms for nearly two thirds of the store network, which includes some of the strongest performing in the Group, and we expect the landlords of most of the remaining stores to also agree acceptable terms in due course. In the meantime, UCF continues to occupy any stores where a lease has not yet been signed with a landlord, under licence from the administrator, and is therefore able to continue to operate from those locations.

Retail

The majority of Group revenues are derived from the sale of floor coverings, predominantly carpet, laminate and vinyl flooring through franchised stores and the Group's own corporate stores. Whilst Flooring sales in the period were fractionally up, several years of little or no growth in Flooring sales had impacted disproportionally on poorly performing stores resulting in the failure of a significant number of franchisees. As those stores were taken back as corporate stores it proved extremely difficult to turn around their performance in an increasingly tough retail environment leading to mounting losses in the Retail division.

Beds

Beds continue to be a challenging area for the business with sales down 13.7% on a like for like basis. The Beds range has been renewed and simplified and plans are underway to alter the arrangements with franchisees; giving more ownership of Beds sales to the franchisees and providing them with greater financial incentive to maximise Beds sales.

Warehouse

Our in-house cutting operation continues to expand with turnover increasing to £7.2m for the 18 month period (2011: £4.2m for a 12 month period) as franchisees increasingly appreciate the opportunity to deliver a quick, efficient service at a more attractive price point for customers and, importantly, at an improved margin. Just prior to the start of the period, the Warehouse division commenced wholesaling activities for third parties that are progressing well.

People

During this period of significant change, the contribution of everyone connected to the Company has been remarkable. The Board is extremely grateful for the efforts of our staff and franchisees who have coped extremely well with the additional stress and pressures created by periods of uncertainty and the significantly increased workload arising from the administration process. We have received enormous support from our supplier partners during this period of transition and in particular from those suppliers of product. We look forward to continuing to develop these vitally important relationships as we strive to build a stronger and more stable business over the coming year.

Outlook

While the Board was very disappointed at the need to appoint administrators to UCN, the re-evaluation of the Group's business model was a necessary step in building a long-term future for United Carpets.

The Group is refocusing and re-establishing itself and once negotiations over the remaining stores have been completed, the operating base of stores will have reduced by around one third since the start of the period. Progress continues to be made in re-aligning central costs with this reduced operating base.

Trading conditions since the period end have continued to be very challenging. Increased pressure from competitors, negative perceptions created by the administration of UCN, reduced levels of marketing funds due to fewer stores and unhelpful weather conditions have all combined to make a difficult environment for the Group to re-launch itself and like for like sales in the 19 weeks since the period end are down 11.1%. Whilst this performance is disappointing, the removal of the majority of the loss making stores means that the Group and its remaining franchisees are better able to survive this downturn in trade.

Our new trading entities are well stocked to support the ongoing trading of the store portfolio. The Group has no borrowings and following the purchase of assets from UCN still retains reasonable cash reserves.

While we are not anticipating an uplift in the market conditions in the near term, the Group is now better placed to benefit from an improvement in future market conditions.

Paul Eyre
Chief Executive
22 February 2013

Board of directors and advisers

Directors

IF Bowness, FCA, aged 55, 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 59, 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 54, 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 30 years, he has managed a number of major U.K. retail businesses including Children's World, Do-It-All and Halfords Ltd. He is Chairman of Simplyhealth Group Ltd and a non-executive director of William Sinclair Holdings, Market Harborough Building Society and The Disabled Living Foundation.

Secretary

IF Bowness

Registered office

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

Nominated adviser and broker

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

Audit committee

KS Piggott
PA Cowgill

Remuneration committee

KS Piggott
PA Cowgill

Auditor

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

Solicitors

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

DWF LLP, Bridgwater Place, Water Lane, Leeds, LS11 5DY

Bankers

Santander UK plc, 1st Floor Telegraph House, High Street, Sheffield, S1 2AN

National Westminster Bank Plc, Lincoln Commercial Business Centre, 2nd Floor The Maltings, Brayford Wharf East, Lincoln, LN5 7DS

Registrars

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

Company number

Registered number – 5301665

The Directors present their report and the Group's audited accounts for the 18 months ended 5 October 2012.

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

On 24 August 2012 the Company announced that it was undertaking a review of its stores and that its accounting reference date would be extended to 30 September in order that these financial statements could reflect the impact of that review. Companies are permitted to end their financial reporting period up to 7 days either side of their accounting reference date and these financial statements therefore include the impact of the administration of the Company's main trading subsidiary, United Carpets (Northern) Ltd, on 4 October 2012.

Principal activities

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

Following the administration of United Carpets (Northern) Ltd, certain of the assets and trade of that company were acquired from the administrators by United Carpets (Franchisor) Ltd, a subsidiary of United Carpets Group plc. Further details of this acquisition are provided in note 14.

Business review

A review of the development of the business during the year and the prospects for the Group is given in the Chairman's statement and Chief Executive's review on pages 1 to 5.

Key performance indicators

	Period ended 5 October 2012	Year ended 31 March 2011
Network sales (a)	£105.8m	£71.6m
Revenue	£41.5m	£27.5m
Like for like sales (b)		
- Flooring	+0.2%	(0.1%)
- Beds	(13.7%)	(13.5%)
- Combined	(1.0%)	(1.4%)
Store numbers		
- Core corporate	2	2
- Other corporate	16	12
- Franchised	54	72
- Total	72	86
Gross margin (c)	64.3%	66.6%
Overheads as a proportion of sales (d)	63.9%	61.6%
Net funds (e)	£0.8m	£2.6m

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

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

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

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

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

Principal risks and uncertainties

Economic factors

The economy is a major influence on consumer spending with trends in housing transactions, 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 and hire purchase agreements. 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 year are set out on page 19.

Dividends

A dividend of £407,000 (2011: £611,000) has been paid during the period.

No dividend (2011: £407,000) has been proposed but not provided in the financial statements.

Substantial shareholders

At 8 February 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	2,885,325	3.5%
Barclayshare Nominees Limited	2,861,210	3.5%
IF Bowness	2,691,208	3.3%

The ordinary shares of the Company were suspended from trading on 24 August 2012 when the share price was 3.125p. The highest and lowest share prices during the period were 8.0p and 2.25p 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 28 (2011: 37). 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 £1,000 (2011: £900).

No political donations were made during the period (2011: £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 6.

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
22 February 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 year. The non-executive directors are considered by the Board to be independent of management and free from any relationship which could materially interfere with the exercise of this independent judgement. They receive a fixed fee for their services; the non-executive directors do not have a material interest in the shares of the Company. Concerns relating to the executive management of the Company can be raised with the non-executive directors.

Details of the Board members appear on page 6.

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

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

Appointments to the Board

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

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

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

Details of the directors' service contracts are given in the Board's report on directors' remuneration on pages 14 and 15. .

Committees of the Board

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

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 32 and in the opinion of the Audit Committee do not affect the auditor's independence or objectivity.

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

The Remuneration Committee comprises KS Piggott as Chairman, and PA Cowgill. The Board's report on directors' remuneration, which includes details of the Remuneration Committee, is set out on pages 14 and 15.

Internal financial control

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

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

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

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

- Powers reserved to the Board are clearly specified and include the approval of strategic plans and budgets, material capital expenditure, dividend policy, communication with shareholders and Board appointments.
- A simple organisational structure exists with close involvement of the executive directors and senior management.
- The Board meets generally monthly. The senior management team meets generally weekly to review and address trading performance and operational issues.
- Detailed budgets covering profits, cash flows and capital expenditure are prepared 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 5 and 9 to 10. The Company and Group have no borrowings and since the period end, 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 report 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 Company places a great deal of importance on communication with its shareholders. The Board maintains a dialogue with individual institutional shareholders. All available directors attend the Annual General Meeting and all shareholders have the opportunity to ask questions. Resolutions are proposed on each substantially separate issue. The Company will indicate the level of proxies lodged on each resolution and the balance for and against the resolution at each AGM.

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

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

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

Executive remuneration policy

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

No director participates in decisions about their own remuneration package.

The main elements of remuneration are:

- **Base salary and benefits**

  Base salaries are reviewed annually. All three executive directors are entitled to private medical insurance, company car, permanent health insurance, life assurance cover and pension contributions of 15% of salary. 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 5 October 2012:

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 5 October 2012:

IF Bowness	6,447,934

Directors' emoluments

The following emoluments were paid to the directors:

	Salary 2012 £'000	Bonuses 2012 £'000	Benefits 2012 £'000	Pension 2012 £'000	Period ended 5 October Total 2012 £'000	Year ended 31 March Total 2011 £'000
IF Bowness	263	-	47	39	349	319
PA Cowgill	64	-	-	-	64	42
PR Eyre	225	-	68	34	327	284
D Grayson	157	-	53	23	233	207
KS Piggott	52	-	-	-	52	35
	761	-	168	96	1,025	887

Three directors are accruing benefits under money purchase pension schemes (2011: three). The remuneration of each director who served during the year set out in the table above has been audited by RSM Tenon Audit Limited, the Group's auditor, as part of their audit of the financial statements on pages 19 to 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

22 February 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 estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

We have audited the financial statements of the Group and parent company on pages 19 to 51 for the period ended 5 October 2012 which comprise the consolidated income statement, consolidated and parent company balance sheets, 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 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit 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 5 October 2012 and of the Group's loss 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.

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

22 February 2013

UNITED CARPETS GROUP PLC

Consolidated income statement for the period from 1 April 2011 to 5 October 2012

	Note	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Continuing operations			
Administrative expenses	2	(724)	(1,139)
Operating loss before financing costs	5	(724)	(1,139)
Financial income	6	9	8
Loss before tax		(715)	(1,131)
Income tax expense	7	(116)	-
Loss for the period from continuing operations		(831)	(1,131)
(Loss)/profit for the period from discontinued operations	8	(2,358)	1,925
(Loss)/profit for the period		(3,189)	794
(Loss)/earnings per share	9		
- **Basic**		(3.92)p	0.98p
- **Diluted**		(3.92)p	0.97p
(Loss)/earnings per share – discontinued operations	9		
- **Basic**		(2.90)p	2.36p
- **Diluted**		(2.90)p	2.36p

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 23 to 51 form part of these financial statements.

UNITED CARPETS GROUP PLC

Consolidated and parent company balance sheets at 5 October 2012

	Note	Group		Company	
		At 5 October 2012 £'000	At 31 March 2011 £'000	**At 5 October 2012 £'000**	At 31 March 2011 £'000
Non-current assets					
Property, plant and equipment	12	400	5,590	-	-
Investments	13	-	-	-	3,520
		400	5,590	-	3,520
Current assets					
Inventories	15	2,200	2,233	-	-
Trade and other receivables	16	1,498	3,751	649	1,876
Cash and cash equivalents		757	2,587	757	1,594
		4,455	8,571	1,406	3,470
Total assets		4,855	14,161	1,406	6,990
Equity					
Issued capital	21	4,070	4,070	4,070	4,070
Share premium		1,106	1,106	1,106	1,106
Reserves		598	(2,556)	598	554
Retained earnings		(4,105)	2,601	(4,530)	866
Total shareholders' equity		1,669	5,221	1,244	6,596
Non-current liabilities					
Financial liabilities – borrowings	18	-	28	-	-
Trade and other payables	17	105	2,254	-	-
Provisions	19	-	626	-	-
Deferred tax liabilities	19	-	121	-	-
		105	3,029	-	-
Current liabilities					
Financial liabilities – borrowings	18	-	49	-	-
Trade and other payables	17	2,979	5,412	146	394
Current tax liabilities		102	450	16	-
		3,081	5,911	162	394
Total liabilities		3,186	8,940	162	394
Total equity and liabilities		4,855	14,161	1,406	6,990

The financial statements were approved by the Board and authorised for issue on 22 February 2013 and were signed on its behalf by:

PR Eyre
Director

D Grayson
Director

The notes on pages 23 to 51 form part of these financial statements.

Consolidated and parent company statements of changes in equity for the period ended 5 October 2012

Group

	Share capital £'000	Share premium £'000	Retained earnings £'000	Merger reserve £'000	Share-based payment reserve £'000
At 1 April 2010	4,070	1,106	2,418	(3,110)	493
Profit for the year	-	-	794	-	-
Dividends paid	-	-	(611)	-	-
Share-based payments	-	-	-	-	61
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

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) Ltd, the merger reserve has been transferred to retained earnings.

Company

	Share capital £'000	Share premium £'000	Retained earnings £'000	Share-based payment reserve £'000
At 1 April 2010	4,070	1,106	807	493
Profit for the year	-	-	670	-
Dividends paid	-	-	(611)	-
Share-based payments	-	-	-	61
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

The notes on pages 23 to 51 form part of these financial statements.

UNITED CARPETS GROUP PLC

Consolidated and parent company statements of cash flows for the period ended 5 October 2012

	Note	Group		Company	
		Period ended 5 October 2012	Year ended 31 March 2011	**Period ended 5 October 2012**	Year ended 31 March 2011
		£'000	£'000	**£'000**	£'000
Cash flows from operating activities					
Cash (utilised by)/generated from operations	23	(439)	1,186	(439)	1,186
Net cash flows from operating activities of continuing operations		(439)	1,186	(439)	1,186
Net cash flows from operating activities of discontinued operations		1,214	1,494	-	-
Net cash flows from operating activities		775	2,680	(439)	1,186
Cash flows from investing activities					
Acquisition of trade and assets		(642)	-	-	-
Interest received		9	8	9	8
Net cash flows from investing activities of continuing operations		(633)	8	9	8
Net cash flows from investing activities of discontinued operations		(1,449)	(1,635)	-	-
Net cash flows from investing activities		(2,082)	(1,627)	9	8
Cash flows from financing activities					
Dividends paid		(407)	(611)	(407)	(611)
Net cash flows from financing activities of continuing operations		(407)	(611)	(407)	(611)
Net cash flows from financing activities of discontinued operations		(116)	(56)	-	-
Net cash flows from financing activities		(523)	(667)	(407)	(611)
(Decrease)/increase in cash and cash equivalents in the period		(1,830)	386	(837)	583
Cash and cash equivalents at the start of the period		2,587	2,201	1,594	1,011
Cash and cash equivalents at the end of the period		757	2,587	757	1,594

The notes on pages 23 to 51 form part of these financial statements.

1. Significant accounting policies

United Carpets Group plc (the "Company") is a company domiciled in the United Kingdom. The consolidated financial statements of the Company for the period ended 5 October 2012 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 14.

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.(t).

(b) Basis of preparation

The financial period end was extended from 31 March 2012 to 30 September 2012 to allow a store review to be undertaken and reflected in the financial statements. That store review led to the eventual administration on 4 October 2012. The period end date was then extended by five days to 5 October 2012 to include the impact of the administration.

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) 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 income statement 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)*

(c) 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(c)(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.

(d) Foreign currency

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

(e) Property, plant and equipment

(i) Owned assets

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

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)*

(e) 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.(o).

(iii) Subsequent costs

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

(iv) Depreciation

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

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

The residual value is reassessed annually.

(v) Leases: Accounting by lessor

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

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

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

(f) Trade and other receivables

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

(g) Inventories

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

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

1. Significant accounting policies *(continued)*

(h) Cash and cash equivalents

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

(i) 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.

(j) 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)*

(k) 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.

(l) 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.

(m) Trade and other payables

Trade and other payables are stated at historical cost.

(n) Revenue

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

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

1. Significant accounting policies *(continued)*

(o) 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.

(p) Income tax

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

Current tax is the expected tax payable on the taxable income for the 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.

(q) 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 asses its performance, and for which discrete financial information is available.

1. Significant accounting policies *(continued)*

(r) 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.

(s) Recent accounting developments

The following accounts standards, amendments and interpretations issued by the IASB and IFRIC are effective for the Group's accounting periods beginning on or after 1 April 2011.

- IFRS 1 'First-time Adoption of International Financial Reporting Standards'
- IAS 1 'Presentation of Financial Statements'
- IAS 34 'Interim Financial Reporting'
- IFRIC 13 'Customer Loyalty Programmes'
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'
- IAS 24 'Related Party Disclosures'

These accounting standards, amendments and interpretations have had no material effect on the results or financial position of the Group disclosed within these financial statements.

Other new or revised accounting standards and interpretations issued by 22 February 2013 but not yet effective include those listed below. 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 5 October 2012.

- Amendment to IFRS 3 'Business combinations'
- IFRS 7 'Financial Instruments: Disclosures'
- Amendments to IAS 12 'Deferred Tax: Recovery of Underlying Assets'
- Amendments to IAS 1 'Presentation of items of other comprehensive income'
- IFRS 10 'Consolidated financial statements'
- IFRS 12 'Disclosure of interests in other entities'
- IFRS 13 'Fair value measurement'
- IAS 27 'Separate financial statements'
- Amendment to IFRS 7 'Financial Instruments (disclosures)'
- Amendment to IAS 1 'Presentation of financial statements'
- Amendment to IAS 16 'Property, plant and equipment'
- Amendment to IAS 32 'Financial instruments (presentation)'
- Amendment to IAS 34 'Interim financial reporting'

1. Significant accounting policies *(continued)*

(t) Critical accounting estimates and judgements

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

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

(i) Impairment of non-current assets

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

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

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

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

(iii) Trade and other receivables

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

(iv) Provisions

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

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

(v) 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)*

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

(vi) Share-based payment reserve

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

2. Segment reporting

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

The continuing operations as set out on the consolidated income statement represent the group administrative costs. United Carpets (Franchisor) Limited acquired the trade, assets and certain liabilities of United Carpets (Northern) Limited on 4 October but there was no trade to report during the period.

3. Employees

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Staff costs, including directors, consist of:		
Wages and salaries	5,804	3,755
Social security costs	613	368
Other pension costs (note 27)	141	79
Share-based payments (note 22)	44	61
	6,602	4,263
Continuing operations (note 5)	1,015	949
Discontinued operations (note 8(c))	5,587	3,314
	6,602	4,263

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

	Period ended 5 October 2012 Number	Year ended 31 March 2011 Number
Administration	51	48
Store development	2	9
Warehouse and stores	111	94
	164	151

4. Directors' remuneration

The emoluments of the directors were as follows:

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Remuneration for management services	929	823
Value of Group pension contributions to money purchase schemes	96	64
	1,025	887

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

5. Operating loss before financing costs

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

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Staff costs (note 3)	1,015	949
Negative goodwill on arising acquisition released to the income statement (note 14)	(560)	-

Further information on amounts charged to Operating loss before financing costs in discontinued activities 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 period from 1 April 2011 to 5 October 2012 is set out below:

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Audit services – statutory audit	58	33
Taxation services	16	5

Included in the Group audit fees and expenses paid to the Group's auditors are £3,000 paid in respect of the Company (2011: £2,200).

Included in the Group audit fees and expenses paid to the Group's auditors are £4,000 paid in respect of the audit of the Group financial statements (2011: £3,300).

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

6. Financial income

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Interest receivable	9	8

7. Income tax expense

(a) Analysis of charge for the year

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Current tax		
UK corporation tax	102	-
Deferred tax		
Charge for the year	14	-
Tax on profit on ordinary activities	116	-

(b) Reconciliation of total tax charge for the year

The tax charge for the year differs from the standard rate of corporation tax in the UK of 24% (2011: 28%). The differences are explained below:

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Loss before tax	(915)	(1,131)
Loss before tax multiplied by the rate of corporation tax in the UK of 24% (2011: 28%)	(220)	(317)
Effect of:		
Expenses not deductible for tax purposes	335	18
Change in future tax rate	1	5
Group relieved with discontinued operations	-	294
Total tax	116	-

(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, this has not yet been ratified in law.

8. Discontinued operations

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

(a) Income statement

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

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Revenue	41,477	27,476
Cost of sales	(14,828)	(9,188)
Gross profit	26,649	18,288
Distribution costs	(4,074)	(2,562)
Administrative expenses	(24,654)	(13,453)
Other operating income	190	106
Operating (loss)/profit before financing costs	(1,889)	2,379
Financial income	-	-
Financial expenses	(6)	(5)
(Loss)/profit before tax	(1,895)	2,374
Income tax expense	582	(449)
(Loss)/profit after tax from discontinued operations	(1,313)	1,925
Loss recognised on re-assessment of assets of disposal	(1,045)	-
(Loss)/profit for the period from discontinued operations	(2,358)	1,925

8. Discontinued operations (continued)

(b) Segmental information

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

Inter segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The costs of being quoted on AIM together with directors' emoluments and share-based payments are not allocated to segment results.

	Franchising		Retail		Beds		Warehouse		Consolidated	
	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	2012 £'000	2011 £'000	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Segment revenue	17,423	12,456	11,570	6,458	5,291	4,315	7,193	4,247	41,477	27,476
Segment operating (loss)/profit before financing costs	(2,270)	2,266	(621)	65	123	175	(166)	(127)	(2,934)	2,379
Net financing costs									(6)	(5)
Income tax expense									582	(449)
(Loss)/profit for the period									(2,358)	1,925

	At 5 October 2012 £'000	At 31 March 2011 £'000
Operating assets	3,898	11,574
Net cash	757	2,587
Operating liabilities	(3,186)	(8,940)
Total shareholders' equity	1,469	5,221
Additions to non-current assets	1,488	1,628
Depreciation	1,573	973
Impairment	908	201

8. Discontinued operations (continued)

(c) Operating (loss)/profit before financing costs

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Staff costs (note 3)	5,587	3,314
Depreciation of property, plant and equipment		
- Owned assets	1,534	922
- Leased assets	39	51
Operating leases		
- Property rentals payable	6,781	4,717
- Property rentals receivable	5,222	4,015
Exceptional items comprises:		
- Impairment of property, plant and equipment	908	201
- Net disposal costs of non-current assets	16	-
- Increase in provision against onerous contracts	2,750	283
- Release of provision against onerous contracts	(147)	(266)
- Loss on disposal of property, plant and equipment	-	19

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 £908,000 (2011: £201,000).

Provision against onerous contracts

Where there is an onerous contract this has been provided as an exceptional item. The charge in the year was £2,603,000 (2011: £17,000).

The contracts against which an onerous contract provision has been made expire at various times up to 14 years from the period end.

(d) Cashflow

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Net cash flows from operating activities of discontinued operations	1,214	1,494
Net cash flows from investing activities of discontinued operations	(1,449)	(1,635)
Net cash flows from financing activities of discontinued operations	(116)	(56)
Net cash flows from discontinued operations	(351)	(197)

9. Basic and diluted earnings per share

Basic earnings per share

The calculation of basic earnings per share for the period ended 5 October 2012 was based on the loss attributable to ordinary shareholders of £3,189,000 (2011: profit of £794,000) and a weighted average number of ordinary shares outstanding during the period ended 5 October 2012 of 81,400,000 (2011: 81,400,000).

Diluted earnings per share

Diluted earnings per share for the period ended 5 October 2012 was the same as basic earnings per share as the share options in issue were non-dilutive in the period.

The calculation of diluted earnings per share for the year ended 31 March 2011 was based on profit attributable to ordinary shareholders of £794,000 and a weighted average number of ordinary shares outstanding during the year ended 31 March 2011 of 81,535,942.

Weighted average number of ordinary shares (diluted)

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Weighted average number of ordinary shares at 5 October 2012 and 31 March 2011	81,400,000	81,400,000
Effect of share options in issue	-	135,942
Weighted average number of ordinary shares (diluted) at 5 October 2012 and 31 March 2011	81,400,000	81,535,942

Basic earnings per share – discontinued operations

The calculation of basic earnings per share for the period ended 5 October 2012 was based on the loss attributable to ordinary shareholders of £2,358,000 (2011: profit of £1,925,000) and a weighted average number of ordinary shares outstanding during the period ended 5 October 2012 of 81,400,000 (2011: 81,400,000).

Diluted earnings per share – discontinued operations

Diluted earnings per share for the period ended 5 October 2012 was the same as basic earnings per share as the share options in issue were non-dilutive in the period.

The calculation of diluted earnings per share for the year ended 31 March 2011 was based on profit attributable to ordinary shareholders of £1,925,000 and a weighted average number of ordinary shares outstanding during the year ended 31 March 2011 of 81,535,942.

10. Equity dividends

	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000
Final dividends relating to prior year, paid during the year on ordinary shares at 0.5p per share (2011: 0.5p per share)	407	407
Interim dividends paid during the year on ordinary shares (2011: 0.25p per share)	-	204
	407	611

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 income statement as permitted by Section 408 of the Companies Act 2006.

The Company's loss after taxation for the period ended 5 October 2012 amounted to £4,989,000 (2011: year £670,000).

12. Property, plant and equipment

Group	Leasehold property £'000	Fixtures, fittings and office equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2010	7,021	1,691	549	9,261
Additions	1,107	521	-	1,628
Disposals	(106)	(57)	-	(163)
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
Depreciation and impairment				
At 1 April 2010	2,799	897	417	4,113
Charge for the year	663	231	79	973
Impairments	178	23	-	201
Elimination on disposals	(94)	(57)	-	(151)
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
Net book value				
At 5 October 2012	-	385	15	400
At 31 March 2011	4,476	1,061	53	5,590
At 31 March 2010	4,222	794	132	5,148

Included within the net book value of £400,000 is £Nil (2011: £87,000) relating to assets held under hire purchase agreements.

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

Company

	Motor vehicles £'000	Total £'000
Cost		
At 1 April 2010, 31 March 2011 and 5 October 2012	225	225
Depreciation		
At 1 April 2010	197	197
Charge for the year	28	28
At 31 March 2011	225	225
Charge for the period	-	-
At 5 October 2012	225	225
Net book value		
At 5 October 2012	-	-
At 31 March 2011	-	-
At 31 March 2010	28	28

13. Investments

	Company	
	At 5 October 2012 £'000	**At 31 March 2011 £'000**
Shares in subsidiary undertakings at cost	-	3,520

	£'000
At 1 April 2011	3,520
Impairment in period	(3,520)
At 5 October 2012	-

The following were subsidiary undertakings at 5 October 2012 and have all been included in the consolidated financial statements.

Continuing operations:	*Principal activity:*
United Carpets (Franchisor) Limited	Dormant holding company of United Carpets (Northern) Limited prior to 4 October 2012. Thereafter its principal activity was carpet retailing and the franchising of carpet retail outlets
United Carpets (Commercial) Limited	Dormant company prior to 4 October 2012. Thereafter its principal activity was Trade sales, retailer of beds and carpet resale agents
United Carpets (Property) Limited	Dormant company prior to 4 October 2012. Thereafter its principal activity was leasing and subletting retail outlets
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:*
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 this company which was incorporated in England and Wales.

14. 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	Fair value £'000
Goodwill	183	(183)	-
Property, plant and equipment	400	-	400
Inventories	2,061	139	2,200
Trade and other receivables	827	615	1,442
Trade and other payables	(2,253)	94	(2,159)
Net assets acquired	1,218	665	1,883

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

	£'000
Cash	593
Deferred consideration	625
Deferred contingent consideration	105
Total consideration	1,323
Negative goodwill arising on acquisition released to the income statement	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.

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

	Fair value £'000
Cash consideration	593
Directly attributable costs paid	49
Total cash consideration	642

15. Inventories

	Group	
	At 5 October 2012	At 31 March 2011
Finished goods	2,200	2,233

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 £13,811,000 (2011: £8,620,000).

16. Trade and other receivables

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Trade receivables	936	2,267	-	-
Amounts owed by group undertakings	-	-	593	1,800
Deferred tax	48	-	48	62
Other debtors	300	515	-	4
Prepayments and accrued income	214	969	8	10
	1,498	3,751	649	1,876

Trade receivables included amounts totalling £Nil (2011: £281,000) which fall due for payment after more than one year. These amounts are stated after deducting impairment provisions of £Nil (2011: £230,000).

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 5 October 2012			At 31 March 2011
	Gross £'000	Provision £'000	Net £'000	Gross £'000	Provision £'000	Net £'000
Current	1,949	(1,213)	736	1,976	(404)	1,572
Overdue	-	-	-	1,197	(502)	695
	1,949	(1,213)	736	3,173	(906)	2,267

At 5 October 2012, trade receivables of £1,675,000 (31 March 2011: £1,997,000) were impaired and a provision of £1,213,000 had been made (31 March 2011: £906,000). The individually impaired amounts mainly relate to franchisees, who had encountered particularly difficult economic situations, The Group is working with those franchisees to achieve a viable outcome for them and the Group in order to recover as much of that debt as feasible. In view of the significant change in circumstances following the administration of United Carpets (Northern) Limited the previous ageing of impaired receivables is no longer meaningful.

At 5 October 2012, the Group had trade receivables of £nil (31 March 2011: £478,000) which were overdue and not impaired. It has not been possible to provide the movements on the group provision for impairment of trade receivables 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.

16. Trade and other receivables (continued)

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

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Accelerated capital allowances	40	-	40	47
Provisions	8	-	8	9
Other timing differences	-	-	-	6
	48	-	48	62

17. Trade and other payables

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Trade payables	1,835	2,330	3	9
Amounts owed to group undertakings	-	-	-	2
Social security and other taxes	17	616	58	22
Other creditors	793	434	-	-
Accruals and deferred income	334	2,032	85	361
	2,979	5,412	146	394

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Non-current				
Accruals and deferred income	105	2,254	-	-

18. 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 year end there were no committed undrawn facilities (31 March 2011: £Nil).

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Current				
Hire purchase agreements	-	49	-	-
Non-current				
Hire purchase agreements	-	28	-	-
	-	77	-	-

Hire purchase liabilities are secured against the relevant assets.

19. Provisions

	Group		Company	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Provision against onerous contracts	-	604	-	-
Deferred tax	-	121	-	-
Dilapidations	-	22	-	-
	-	747	-	-

Group

The movement in the provisions during the period was:

	Provision against onerous contracts		Dilapidations		Deferred tax	
	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000	At 5 October 2012 £'000	At 31 March 2011 £'000
Provision at start of period	604	721	22	22	121	106
Utilised	(111)	(134)	-	-	-	-
Charge for the period	2,750	283	-	-	-	15
Release for the period	(147)	(266)	-	-	-	-
Transfers to disposal group	(3,096)	-	(22)	-	(121)	-
Provision at end of period	-	604	-	22	-	121

19. Provisions (continued)

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

	At 5 October 2012 £'000	At 31 March 2011 £'000
Accelerated capital allowances	-	152
Provisions	-	(25)
Other timing differences	-	(6)
	-	121

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

20. Financial instruments

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

Interest-bearing loans and borrowings

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

Trade and other receivables/payables

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

21. Issued capital

Group and Company	Authorised At 5 October 2012 £'000	Authorised At 31 March 2011 £'000
200,000,000 ordinary shares of 5p each	10,000	10,000

	Allotted, called up and fully paid At 5 October 2012 £'000	Allotted, called up and fully paid At 31 March 2011 £'000
81,400,000 ordinary shares of 5p each	4,070	4,070

22. Share-based payments

The number of options granted during the period and options outstanding at 5 October 2012 under the Group's share option schemes were as follows:

	Granted Number 2012	Out-standing Number 2012	Granted Number 2011	Out-standing Number 2011
Granted 10 February 2005:				
Approved Company Share Option Scheme	-	960,000	-	1,080,000
Unapproved Company Share Option Scheme	-	400,000	-	400,000
Granted 20 July 2006:				
Approved Company Share Option Scheme	-	114,285	-	114,285
Unapproved Company Share Option Scheme	-	1,314,286	-	1,314,286
Granted 20 July 2007:				
Unapproved Company Share Option Scheme	-	1,052,631	-	1,052,631
Granted 31 January 2008:				
Approved Company Share Option Scheme	-	-	-	416,666
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
	-	7,768,524	-	8,305,190

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 year end. No other options were exercisable at the year end.

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

22. Share-based payments *(continued)*

Fair value of share options and assumptions for awards

	29 August 2009	29 August 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 year no options were exercised and 120,000 options lapsed.

The performance target that was applied to the options granted on 31 January 2008 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 2010, 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 2011 and if not satisfied then, was re-tested in respect of the three-year period ended 31 March 2012.

During the year no options were exercised and 416,666 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.

23. Cash generated from operations

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

	Group		Company	
	Period ended 5 October 2012 £'000	Year ended 31 March 2011 £'000	**Period ended 5 October 2012 £'000**	Year ended 31 March 2011 £'000
(Loss)/profit before taxation for the period	(715)	(1,131)	(4,959)	670
Depreciation and other non-cash items:				
Depreciation of property, plant and equipment	-	28	-	28
Impairment of investment in subsidiary undertaking	-	-	3,520	-
Negative goodwill written off	(560)	-	-	-
Acquisition costs written off	49	-	-	-
Share-based payments	44	61	44	61
Changes in working capital:				
Decrease/(increase) in trade and other receivables	1,000	2,232	1,213	431
(Decrease)/increase in trade and other payables	(248)	4	(248)	4
Financial income	(9)	(8)	(9)	(8)
Cash (utilised by)/generated from operations	(439)	1,186	(439)	1,186

24. Reconciliation of cash and cash equivalents

Cash and cash equivalents are solely bank balances.

25. 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 5 October 2012, the Group had commitments under non-cancellable operating leases as set out below:

	Land and buildings	
	At 5 October 2012 £'000	At 31 March 2011 £'000
Not later than one year	993	4,659
Later than one year and not later than five years	2,560	14,701
Later than five years	2,172	13,026
	5,725	32,386

At 5 October 2012, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

	At 5 October 2012 £'000	At 31 March 2011 £'000
Not later than one year	1,150	3,520
Later than one year and not later than five years	1,267	8,963
Later than 5 years	-	243
	2,417	12,726

There were no unprovided capital commitments at the period end (31 March 2011: £Nil).

26. 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 £1,025,000 for the period ended 5 October 2012, (year ended 31 March 2011: £887,000).

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 (Northern) Limited made purchases of £796,000 (2011: £548,000). No amounts were outstanding at 5 October 2012 or 31 March 2011.

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 (Northern) Limited made purchases of £956,000 (2011: £816,000). No amounts were outstanding at 5 October 2012 or 31 March 2011.

27. 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 £141,000 (year end 31 March 2011: £79,000).

28. 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.

29. Ultimate controlling party

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

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of UNITED CARPETS GROUP PLC will be held at Moorhead House, Moorhead Way, Bramley, Rotherham, South Yorkshire, S66 1YY on Thursday 21 March 2013 at 12.00 noon for the following purposes:

Ordinary Business

1. To receive and adopt the accounts for the period ended 5 October 2012, together with the reports of the directors and of the auditor thereon.

2. (a) To re-appoint RSM Tenon Audit Limited as auditor to the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company; and

   (b) To authorise the directors to determine the remuneration of the auditor of the Company.

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

4. To approve the Board's report on directors' remuneration for the period ended 5 October 2012.

To transact any other ordinary business of the Company.

Special Business

As special business, to consider and if thought fit pass the following resolutions which will be proposed as to resolutions 5, 6 and 9 as ordinary resolutions and as to resolutions 7 and 8 as special resolutions:

5. To ratify the conduct of the directors and the breach of the Company's Articles of Association in not holding an Annual General Meeting during 2012 and within 15 months of the last Annual General Meeting as required by the Articles of Association of the Company.

   The Company's Articles of Association require an Annual General Meeting to be held every year and within 15 months of the last Annual General Meeting. This would have required a meeting to be held prior to 30 December 2012. Once this error was discovered early in January 2013 the board determined to call an Annual General Meeting at the same time as the Company's audited accounts were issued so that shareholders would have had the opportunity to consider the audited accounts. The Companies Act 2006 provides a mechanism for shareholders to ratify this technical breach of the Articles of Association. This ratification is included in the resolutions proposed to shareholders.

6. THAT, subject to and in accordance with Article 16 of the Articles of Association of the Company the directors be generally and unconditionally authorised to exercise all powers of the Company in accordance with Section 551 of the Companies Act 2006 to allot Relevant Securities (as defined below) up to a maximum aggregate nominal amount of £1,357,000 (being approximately one third of the current issued share capital) provided that such authority shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 30 March 2014, save that the Company shall be entitled to make offers or agreements before the expiry of such authority which would or might require Relevant.

Securities to be allotted after such expiry and the directors shall be entitled to allot Relevant Securities pursuant to any such offer or agreement as if this authority had not expired.

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

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

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

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

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

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

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

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

7. THAT, subject to the passing of resolution 6 as set out in the notice of this meeting, and in accordance with Article 17 of the Articles of Association of the Company, the directors be empowered pursuant to Section 570 of the Companies Act 2006 to allot equity securities (as defined in Section 560 of that Act) for cash pursuant to the general authority conferred by resolution 6 as set out in the notice of this meeting as if sub-section (1) of Section 561 of the said Act did not apply to any such allotment provided that this power shall be limited to:

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

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

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

The authority conferred on the directors to allot equity securities under this resolution shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 30 March 2014, 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.

8. THAT the Company be generally and unconditionally authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases pursuant to Section 693 of that Act (as defined in Section 693(4) of the said Act), of ordinary shares in the capital of the Company provided that:

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

(b) the minimum price which may be paid for each share is 5p;

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

(d) the authority herein contained shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 30 March 2014 (except in relation to the purchase of shares the contracts for which were concluded before such date and which are executed wholly or partly after such date) unless such authority is renewed prior to such time.

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

22 February 2013

By Order of the Board
IF Bowness
Secretary

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

Notes:

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

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

3. As permitted by Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders who hold shares in uncertificated form must be entered on the Company's share register at 12.00 a.m. on 19 March 2013 in order to be entitled to attend and vote at the Annual General Meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

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

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