Victoria PLC

2822021

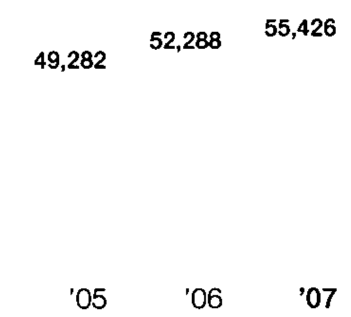
Annual Report 2007

Contents

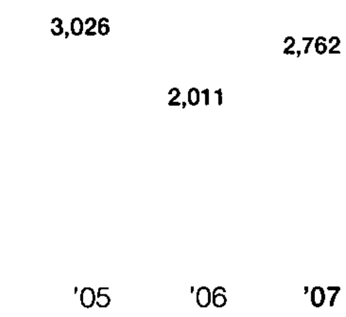
Highlights of the year

- Group revenue up by 6 0% to £55.43 million
- Gross margin up by 1.5% to 29.6%
- Profits before tax increased by 37% to £2 76 million (2006: £2 01 million)
- Earnings per share adjusted to exclude restructuring costs (see note 9) increased by 14 8% to 28.92p (2006 25 20p)
- Proposed dividend increased by 8 7% to 12.50p per share
- Return on operating assets up from 7 36% to 9.02%
- Net asset value per share increased by 4.3% to 417p (2006· 400p)
- Net cash increase of £2 66 million (2006 decrease of £0.52 million)

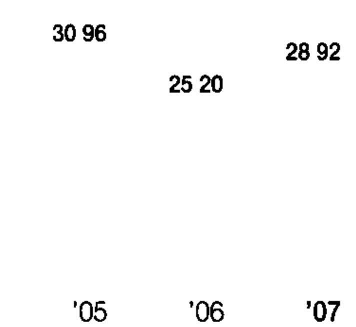
Revenue (£m)



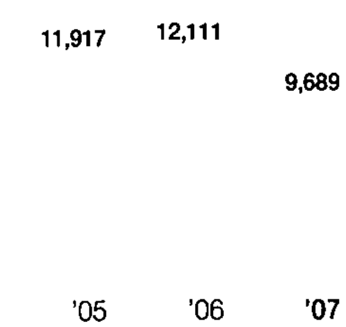
Profit before tax (£m)



Earnings per share (adjusted) (pence)



Borrowings (£m)



Welcome to Victoria

"Where Great Carpets Begin"

For over a century, the Victoria Carpets brand has been synonymous with carpets of the finest quality, whether they are for the home or for a commercial installation

Taking the skills developed and honed initially in the manufacture of woven carpets, our business has combined these traditional skills with a flair for fashion, design and colour Using cutting-edge technology to manufacture in a cost-efficient and environmentally acceptable manner, we use the very best in materials to create carpets that are fit to grace all types of homes and commercial installations for the most discerning customers

Today, Victoria PLC is a global high-quality product business with modern vertically integrated manufacturing facilities in both the United Kingdom and Australia

In addition to these two core market territories and with our established export markets, we have an ever-increasing international presence in Ireland, Canada and New Zealand for our expanding product portfolio, offering both carpeting and other floor covering products

The Group achieved solid results in 2007 delivering £55 43 million of sales Total revenue, split across the global market, is reflected as 43% in the UK, 41% in Australasia, 11% in Ireland and 5% in Canada We believe that this geographic spread affords the Group a somewhat counter cyclical mix of market risk

Victoria currently employs around 710 people across its business and is proud of what it delivers in terms of value, quality and customer service

Our Customers

Whether it is in Australia, Ireland, Canada or the UK, Victoria places a high importance in its customer relationships across the board, from the smaller independent retailer through to the 'blue-chip' customer partnerships such as The John Lewis Partnership

Victoria is continually seeking long-term relationships with its customers and focusing its efforts in establishing itself as 'the supplier of choice' whilst also constantly striving to deliver added-value and higher levels of service

Our Strategy

Our strategic approach is focused on growth, taking advantage of opportunities to exploit and build on our leading market position

Victoria aims to provide consistently improving returns to all stakeholders This is achieved through the commitment of its employees, by delivering improved productivity and profitability and, at the same time ensuring that we meet our customers' demand for excellence both in products and service

Chairman's Statement

Despite the fact that the economic and trading conditions in the key markets in which our business operates have remained tough and indeed challenging, I believe that the Group has made good progress on all fronts

Revenues from the Group's activities amounted to £55 43 million, an increase of 6 0% on last year, whilst profit before tax increased by 37 3% to £2 76 million

Earnings and Dividend

Basic earnings per share increased by 24 1% from 23 30p to 28 92p and your Board is recommending a dividend of 12 50p per share, an increase of 8 7% on last year

The dividend of 12 50p per share which is subject to Shareholder approval at the Annual General Meeting will be paid to Shareholders on 30 July 2007 The Company's ordinary shares go ex-dividend on 27 June 2007, whilst the Record Date is 29 June 2007

Operations

Whilst overall in the United Kingdom and Ireland demand from the residential market has again remained subdued, we have produced a very strong performance particularly when viewed against the state of the trade in general

Revenues in the period increased by 7 0% from £29 65 million to £31 72 million Operating profits were up by 80 91% to £1 56 million from £0 87 million last year and Profit before tax significantly improved by 130 7% from £0 53 million to £1 22 million

In Australia, the market has for the second year in succession remained difficult However, against a tough economic and trading environment, coupled with the merger of the Industry's two largest carpet manufacturers, which created both additional challenges and some opportunities, we again managed to win market share

Revenues from within the Australasian region improved from £22 64 million to £23 71 million, a 4 7% increase This was, however, at the expense of margin with Operating profits down slightly from £2 22 million to £2 08 million (-6 3%), whilst Profit before tax was £1 81 million, 8 2% down on last year

In Canada, our Associate Company, Colin Campbell & Sons, had another very successful year with sales moving forward by 16 2% to C$9 12 million and Profit before tax up by 51 1% to C$0 59 million

Property

A detailed planning application to develop the Company's former sports field site in Kidderminster is close to being submitted to the Local Authority The past year has been spent in satisfying planning matters which are a requirement if the detailed planning application is to succeed The site will hopefully become, subject to final planning approval, an indoor and outdoor Bowling Centre of Excellence, a budget hotel and public house/restaurant The net sale proceeds, subject to capital gains tax, are likely to be around £1 million

The Board

During the year, we have seen several changes to the Board

Firstly, Mark Lee the Group Finance Director left the Company in September 2006 to pursue a career within a larger organisation On behalf of everyone involved with Victoria, I would like to thank Mark for his efforts and commitment during his 8-year tenure and wish him every possible success in his new career

I would then like to welcome Ian Davies to the Board as our new Group Finance Director I am sure that Ian will make a significant contribution to the Board and to the future development and growth of the Group

Last, but not least, John Duncan retired from the Company on 30 April 2007 having spent 37 years with Victoria Carpets in the UK, 11 years of which he was part of the Group Board John has been a great servant to the Group throughout his career and he will be greatly missed by both his colleagues and the trade in general On behalf of the Board and the Shareholders may I wish John and his wife Margaret a very happy and long retirement Above all, I would also like to thank him for all he has done for the Company

Employees

The continued good performance of the Group and its sound prospects for the future could not have been achieved without a committed and highly competent team at all levels of the business I take this opportunity to express my personal thanks to everyone in the Group for the efforts they have put into achieving yet another successful year

Prospects

Although we are unlikely to see any real improvement in general overall market conditions in the year ahead, the Board believe that we have the structure, products and people in place to achieve our objectives for the year and in particular to deliver an improved performance again within this new financial year

Bob Gilbert

R M Gilbert
Chairman
20 June 2007

Bob Gilbert

Pictured
State-of-the-art multi-roll loop pile tufter used in the manufacture of most of Victoria's modern textured loop pile carpets

Group Managing Director's Operating Review

United Kingdom

The past twelve months in the UK have been extremely challenging with erratic market conditions prevailing The market in the first half of the financial year was badly affected by the long, hot, dry spell of weather, which was hardly conducive to consumers buying carpeting The autumn trading was then stronger, only to see the effects of higher energy costs and interest rate increases sapping consumer confidence after Christmas and through into the first quarter of 2007

Statistics have shown a 5% decline during the year in the market and yet despite this backdrop, I am pleased to report that Victoria has performed well and has continued to take market share from its competitors

Carpet Sales were up by 7 3% from £25 46 million to £27 32 million, primarily driven by an extremely active programme of new range launches As we stated at the time of our interim results, there were nine new product introductions alone in the first half of our financial year, which undoubtedly helped us out-perform the market

Carpet Sales in the UK were up from £21 69 million to £23 28 million, reflecting particularly strong growth to the John Lewis Partnership (+20 9%), who remain our biggest customer Sales to our core independent retail sector also saw good growth (+7 9%) and, in fact, this sector remains key to our market strategy and within these results represents 63% of our total UK sales

Export sales also increased from £3 77 million to £4 04 million, a 7 2% improvement over last year

Operationally, Victoria Carpets has focused on maximising operational efficiencies by making full use of the additional space created following the planned closure of both the Axminster weaving and dye house in March 2005 and April 2006 respectively

I am pleased to report that despite significant increases in energy costs, we have seen a 14 8% reduction in the kWh of electricity used over the past twelve months as a direct result of investing in energy saving measures

Victoria Carpets' spend on both new ranges and 'Point of Sale' (POS) merchandising displays has again been kept at high levels throughout the year Our investment in keeping product ranges fashionable and current is, we believe, keeping us ahead of our competitors and is in no small measure responsible for us growing our business within what is reported to be a declining market

Likewise, service remains a priority and at the forefront as we seek to differentiate ourselves from the competition Victoria has again been recognised for its efforts in this area when, for the fifth year in succession, we won the Greendale Flooring award for "Best Service Provider" Greendale is perhaps the UK's foremost independent retail buying group and their members are very important to us We were also delighted at the same time to be awarded "Best Product" by the same buying group for our recently re-coloured Tudor Twist Collection which has proved to be a very successful range within our portfolio

During the year, Victoria entered into a new five-year service agreement with The John Lewis Partnership (JLP) Under this agreement, we warehouse, cut and deliver all of JLP branded carpet ranges to their UK store network As part of this new service contract, Victoria has installed new IT Systems, which will link all JLP stores on-line to our warehousing, thereby improving stock checking and order processing Victoria is rightly proud of its special relationship with JLP and we believe that this extension to our service agreement underpins this relationship

Looking ahead to the current financial year Victoria has placed an order for an additional 1/8th gauge tufting machine which is needed to meet demand Victoria has again an active programme of new product introductions planned for the first half of 2007, which should enable us to continue to grow the business despite market conditions which are unlikely to show any real improvement in the short term

Westwood Yarns, the Group's UK spinner, has enjoyed a reasonably busy year with the bulk of its yarn capacity being utilised in-house at Victoria Carpets A new white blending line has been installed during the year, which is now enabling us to manufacture the very light white and beige shades of carpets that are so popular with today's consumer, with less risk of contamination from either foreign coloured fibres or vegetable matter

We have also placed a contract with a specialist machinery manufacturer which will enable Westwood Yarns to manufacture plied yarns for the first time The new equipment will be installed during summer 2007 and we expect it to be operational in the second half of this new financial year

This enhancement at Westwood's plant will see overall yarn capacity increased by around 10% More importantly, it will enable them to supply Victoria with some of the premium value yarns that it currently has to outsource from the market, whilst also providing security of supply, further operational efficiencies and cost savings

Group Managing Director's Operating Review continued

Australia

During the past year, the State economies of Queensland and Western Australia have maintained a degree of buoyancy whilst the more populous States of Victoria and New South Wales have experienced little or no growth at all

New building starts have continued at a low level throughout the year, whilst spending on consumer durables such as carpets remained weak

Against this backdrop and in a year of contrasting halves, our Australian operation recovered well from a weak first half which saw Net profits down by almost 24% to record a Net profit of A$4 50 million for the full year, just 4% down on the previous year's reported profits of A$4 70 million This was a robust performance in a tough market and was in line with our budget expectations

Sales for the year were up by 9 0% from A$53 73 million to A$58 52 million This, in a market which showed no real growth at all but which was assisted by the extremely positive reaction to both our new wool and synthetic ranges made on a new state-of the-art level cut loop (LCL) tufting machine installed at Dandenong in late 2006

We have been particularly pleased with the general market reaction to our increased range of synthetic products which we have added to our product offering during the year Although we will still be remaining focused on the wool and wool-rich products, which are our core business, we will look to continue to develop our synthetic ranges

The acquisition by Godfrey Hirst of its major competitor Feltex in October 2006 and the subsequent rationalisation of these two major Australian/New Zealand carpet manufacturers has, as we anticipated, caused some market disruption It has also presented us with additional sales opportunities as well as allowing us to identify and attract to our Australian operation some extremely talented key personnel from these leading players, which has substantially bolstered our Sales & Marketing team

Today, Victoria is now the number two producer of residential carpet in Australia and, despite somewhat indifferent market conditions, our Australian business continues to take market share from the competition

Our exports to New Zealand and Pacific Rim countries, particularly North America, increased strongly by 18% in the year despite the continuing strength of the Australian dollar

The strength of the Australian currency, however, does have some implications for the level of imported products being brought into the local market, particularly in view of the reduced import protection now afforded to Australian manufacturers

Operationally, we have had a busy year in Australia

Carpet production levels at our Dandenong factory reached an all-time record in the year, up by 13% on the previous record levels achieved last year As well as adding to the tufting plant's capacity and flexibility with the installation of a new LCL tufter, the main item of investment in plant and equipment during the year was the installation of a completely new finishing oven at the Dandenong plant This major project was executed and successfully completed in the summer shut-down without any disruption to sales The backing line has afforded us improved productivity through increased line speeds, greater energy efficiency and higher quality of finished carpet

Our two Spinning Mills at Bendigo and Castlemaine, both in the State of Victoria, operated below full capacity in the first half of the year and, whilst they were better utilised during the second half, they still had some under-utilised capacity The performance of both Mills during the year was satisfactory and they contributed well to the overall performance of the Australian operation

In accordance with the terms of our 2002 Purchase Agreement, when we acquired the Pacific Textiles Spinning Mill in Bendigo, we exercised the option to acquire the freehold of the land at the option price previously agreed of A$1 70 million This brought total capital expenditure made in Australia during the course of the year to A$3 90 million

We believe that our Australian business is well positioned to improve on its solid performance achieved last year Our continued investment in plant, new product development and quality people places us in a particularly strong position to deal with the competition we experience within this marketplace from Australian and New Zealand manufacturers, as well as from growing imports

Whilst we are optimistic that we will this year once again out-perform the market, it is likely that there will be no positive assistance from the economy in general, which remains flat and may continue to be so until after Federal elections are completed later this year

Group Managing Director's Operating Review continued

Ireland

Our Irish businesses are focused primarily on distribution to two different segments of the floor coverings market Munster Carpets markets and sells mainly through the design and specification route targeting the commercial contract market Navan Carpets on the other hand is marketing and selling principally to the residential market through the independent retailers, as well as to the hotel industry

As is often the case, these markets run at difference paces and are dependent on the economic cycle, and this has certainly been the case in the year currently under review

Over the past year, the Irish economy in general has been relatively robust, with a strong growth in GDP of around 6% p a This growth has flowed well into the commercial contract market for floor coverings and I am pleased to report that Munster Carpets has exploited these market conditions well Their sales were up by 21% in volume, 31% in value and the margins on these sales were very pleasing too, with net profits advancing by 48%

From a residential floor covering perspective, the pattern of trade in both the Irish and UK markets has been somewhat similar with the long hot summer of 2006 badly affecting footfall through the retail shops Despite the poor start to the year, the autumn trading season picked up well and, for the year as whole, sales were up by 8% The margins were, however, affected by the discontinuation of some ranges being cleared to make way for new product introductions

Overall, our combined Irish businesses produced a creditable performance with revenues up by 15 3% and profit before tax up by 13 7%

The maturing Special Savings Incentive Accounts (SSIAs), a government supported tax-efficient savings scheme may give a boost to consumer confidence later in 2007 Irrespective of whether or not this does flow through into additional floor covering sales in the forthcoming year, our Irish businesses still have fairly good prospects for organic growth with the strong programme of new product introductions planned for launch in the coming year This should underpin both sales revenues and profits in the year ahead

Pictured
The Hermitage Clinic, Dublin — carpeted with over 7,000m^2 of high quality woven Wilton by Munster Carpets

Group Managing Director's Operating Review continued

Canada

Colin Campbell, our Canadian Associate Company, has enjoyed another very successful year as their business continues to go from strength to strength

The Western Canadian economy in which Campbells mainly operate has been buoyant for a while now and its strength has been underpinned by both its wealth of natural resources and the Winter Olympics, which are to be held in British Columbia in 2010

Campbell's prime business is as a decorative supply house, "trade-only showroom" supplying high quality floor coverings to interior designers and architects who are dealing with both high-end residential and leading commercial clients I am pleased to report that this part of the business has continued to perform well and during the second half of the year under review, Campbells added an exclusive range of designer furniture to their product offering, which represents the first step to providing a wider product assortment of home furnishings The business will of course continue to focus on broadloom, wall-to-wall carpeting, as well as area rugs for which the business has perhaps been better known But we are confident that by adding other decorative items, such as furniture, we can further expand sales through the architects and designers who, in addition to specifying floor covering, also buy other items of furnishings

In September 2006, Campbells opened innovative contemporary showrooms in the Vancouver waterfront area Taking a disused fish packer's warehouse, a leading Vancouver architect has created a fashionable and chic showroom which has rapidly become a destination venue for British Columbia's designers and architects looking for great floor coverings These showrooms, as well as offering increased floor space for merchandising, have proved highly attractive to the design community, our core customer

In addition to the decorative supply business, Campbells has been pioneering sales through the Internet portal called "Nature's Carpets"

Nature's Carpets are totally non-toxic and biodegradable carpets suitable for people who may be allergic to certain chemicals or off-gases These products are made using natural undyed wools with no chemical treatment and are tufted into natural jute and backed with natural latex They are totally "green" being made from renewable resources

Given the growing demand and very positive results achieved through Internet sales of this form of carpeting, Campbells will now be rolling out an extended sales and marketing programme across the United States and Canada using a dedicated sales team as well continuing with the web-based programme which will attract increased sales for this niche product offering

Overall, Campbell's sales increased during the period by 16 2% from Can$7 85 million to Can$9 12 million, whilst profit before tax was up from Can$389k to Can$590k (+51 1%) Net margin on sales rose from 4 9% to 6 4% Victoria's associated share of profits in the year were Can$0 30 million, up from Can$ 0 20 million last year

The outlook for our Canadian business remains promising With the stronger product offering planned, we are confident of seeing continuing growth within this business

A Bullock
Group Managing Director
20 June 2007

Victoria PLC Registered Office
Worcester Road
Kidderminster
Worcestershire
DY10 1HL
Registered Number 282204

Honorary President
G S F Anton

Principal Subsidiaries and their Directors

Victoria Carpets Limited
Manufacture and Sale of Carpets
Kidderminster, UK
A R Bullock (Chairman and Managing)
T A Danks
S W Lewis
N S Glover

The Victoria Carpet Company Pty Limited
Manufacture and Sale of Carpets
Dandenong, Australia
M W Oakley (Non-executive Chairman)
B I Poynter (Managing)
A K Seymour
A R Bullock
M J Davies (non-executive)

Westwood Yarns Limited
Manufacture and Sale of Carpet Yarns
Holmfirth, UK
A R Bullock (Chairman)
T J Chippendale (Managing)
N Gledhill
T A Danks

Munster Carpets Limited
Sale of Carpets
Dublin, Ireland
S Kelly (Managing)
A R Bullock
T A Danks

Associated Undertaking
Colin Campbell & Sons Limited
Distributors of Carpets, Rugs and Furniture
Vancouver, Canada
R A Munden (President)
C Bolt
A R Bullock
K Metrick
A K Seymour

Advisors

Solicitors	**Wragge & Co LLP** 55 Colmore Row Birmingham B3 2AS
Public Relations	**Citigate Dewe Rogerson** 9 The Apex 6 Embassy Drive Edgbaston Birmingham B15 1TP
Stockbroker	**Arden Patners Ltd** Arden House Highfield Road Edgbaston Birmingham B15 3DU
Auditors	**Deloitte & Touche LLP** Four Brindleyplace Birmingham B1 2HZ
Registrars	**Capita Registrars Ltd** Northern House Woodsome Park Fenay Bridge Huddersfield Yorkshire HD8 0LA
Bankers	**Barclays Bank PLC** Midland Corporate Banking PO Box 3333 15 Colmore Row Birmingham B3 2WN

Financial Review

Headline results

Profit before tax increased by 37 3% to £2 76 million, compared to £2 01 million for 2006 Revenue rose by 6 0% from £52 29 million to £55 43 million

Earnings per share, as per note 9, were 28 92p, up 24 1% (2006 23 30p) with adjusted earnings per share also at 28 92p, showing an increase of 14 8% on the prior year (2006 25 20p)

Revenue and operating profit

UK and Ireland

Revenue was up 7 0% from £29 64 million to £31 72 million The business in the UK operated in a market that did not demonstrate any significant growth Against this background, the business continued to focus on tight operating and material cost control Combined with the operational gearing effect of higher revenues, this enabled operating margin to increase from 2 9% to 4 9%

Operating profit for the UK and Ireland increased by 80 8% to £1 56 million (2006 £0 87 million)

Australia

Revenue rose by 8 9% to A$58 52 million compared to A$53 73 million for 2006 The market conditions in Australia remained subdued but the increased profile of synthetic carpet has supported growth Price competition amongst carpet suppliers has continued to be a feature of the marketplace and our operating margin declined from 9 8% to 8 8% Operating profit has fallen by 2 5% from A$5 27 million to A$5 14 million

Further investments have been made in our equipment and facilities This continues to attract grants under the Australian government's Strategic Investment Programme, which accounted for A$0 4 million of operating profit in comparison with A$0 51 million last year

Share of profits of Associated Company

There was also an increased contribution from our associated company, Colin Campbell and Sons, which is 50% owned by the Group Revenues increased by 16 2% from Can$7 84 million to Can$9 12 million, accompanied by an improvement in operating margins Our share of the pre-tax profit increased by Can$0 10 million to Can$0 30 million

Interest

Interest costs remained in line with the previous year at £0 73 million The increase in base rates in the period was mitigated by lower borrowings and the movement in the fair value of financial instruments Interest was covered 4 6 times by operating profit (2006 3 9 times)

Profit before taxation

Profit before taxation for the year was £2 76 million (2006 £2 01 million)

Taxation

The effective rate of tax on profit for the year was 27 3% This is higher than 2006 (19 5%) which had benefited from extra reliefs in Australia that had reduced the deferred tax provision for the realisation of property values through sale Without these extra reliefs, the effective rate in 2006 would have been approximately 27%

Earnings per share

Basic earnings per share grew by 24 1% to 28 92p (2006 23 30p) The growth in earnings per share, however, was impacted by the rise in the effective rate of tax

Adjusted earnings per share is also 28 92p, compared to 25 20p, excluding restructuring costs in 2006 The number of shares in issue remained constant during the year and there remain no options or other dilutive arrangement

Dividends

We are recommending a final dividend of 12 50p per share this year, compared to 11 50p in 2006 This represents an 8 7% increase and our aim will be to deliver continued dividend growth in future years

Net assets

Our net asset value at the financial year end increased by 4 2% to £28 98 million (2006 £27 81 million) The main movement in the balance sheet was financial liabilities which reduced by £2 06 million from £12 40 million to £10 33 million

Pictured
Sisal Weave — a recently introduced textured loop pile carpet crafted in 100% wool

Financial Review continued

Cash flow and net debt

Our net cash inflow was £2 66 million, reducing our cash and cash equivalent borrowings to £3 69 million (2006 £6 36 million) This compares with a net cash outflow in 2006 of £0 52 million

We have continued to invest in our facilities and equipment during the year, and our capital expenditure totalled £1 96 million (2006 £2 77 million) Spend on plant and machinery is down £1 84 million on previous years, in line with expectations, as key equipment replacement programmes have been completed During the year, we acquired the freehold to the property at Bendigo in Australia, which we had leased since acquisition of the business at that location, for £0 75 million

Hedging

The Group uses derivative financial instruments to manage our interest rate exposure in the UK The Group has two swaps covering £3 00 million, with maturity dates in July 2007 and July 2009 Our policy is to continue to utilise such instruments as deemed appropriate

The Group reviews its currency exposure relating to trading operations involving the export sale of goods or import of raw materials or capital equipment The Group may utilise forward currency contracts to manage any currency exposures where it is considered that currency movements may be volatile and the amounts involved significant

The principal exposure of the Group relates to the investment in its Australian subsidiary The Group maintains a significant proportion of its borrowings in Australian dollars which helps to provide a natural hedge against the investment exposure

Future funding

The gearing of the Group is now significantly lower than in 2006 and our current facilities will provide sufficient debt capacity in 2007 The strong cash generation is providing capacity for future investments Capacity exists in Sterling, Euros and Australian dollars to cover anticipated capital expenditure and working capital requirements

Key Performance Indicators (KPIs)

As part of the detailed budgeting process, each subsidiary is required to establish targets across a range of financial and non-financial indicators At the monthly board meetings, the Managing Director is required to present a review on progress against these targets The non-financial KPIs may differ in each subsidiary but are focused on delivering high levels of customer satisfaction, introducing new products and services which meet the needs of our customers, ensuring operational effectiveness and attracting, retaining and developing key employees

The financial KPIs reviewed and reported by all subsidiaries, focus on profit growth, profitability improvement, inventory management, levels of debt, cash generation, future levels of borrowing requirement and return on capital employed

Changes in accounting policies

There have been no changes in accounting policies this year

Ian Davies

Ian Davies
Group Finance Director
20 June 2007

Ian Davies

Board of Directors

Non-executives

Bob Gilbert

Non-executive Chairman ▲●

age 59

Joined the Board as Chairman in July 1996 Also Chairman of GSH Group PLC, Nominet (UK) Limited, ADAC Paintbox Limited and MDUK, the Government's Motor Sport Development Board Previously held a number of non-executive positions of both quoted and unquoted companies and until he retired in 2004, was a senior partner of Wragge & Co , the Group's solicitors

Keith Ackroyd, CBE

Non-executive, Senior Independent Director ▲●■

age 72

Joined the Board in August 1998 Previously non-executive Chairman of Silentnight Holdings Plc and a main board director of The Boots Company PLC where he was responsible for Boots the Chemists and then the whole retail division

Alexander Anton

Non-executive ▲●■

age 47

Alexander joined the Board of Victoria PLC in April 1995 having acted as non-executive director and subsequently Chairman of Victoria Carpets Limited between 1987 and 2004 He is founder and Chairman of Fraser Corporate Real Estate, a property management business, and Legacy Portfolio, a lease liability fund He is also Chairman of the Federation of Corporate Real Estate Advisors and Chairman of the Queen's Club Alexander has also been a partner in Top Technology, the manager of Hambros Advanced Technology Fund plc, a venture capital fund focusing on early stage UK and US technology companies

- ▲ Audit Committee
- ● Remuneration Committee
- ■ Nominations Committee

Executives

Alan Bullock
Group Managing Director■
age 59

Alan has been with the Group since 1972 and has a wide range of experience in the carpet industry ranging from financial, export sales and marketing to operational He was the Export Director of Victoria Carpets for 17 years before being appointed to the Board of Victoria PLC in September 1996 as Group Managing Director

Ian Davies ACA
Group Finance Director
age 41

Joined the Board in March 2007 from Umeco PLC where he was the Financial and Commercial Director of Umeco's Components Division and a member of the Group's Executive Committee Prior to this, he worked for Continental AG and Ferranti Technologies

Barry Poynter
Executive Director
age 57

Joined the Victoria Carpet Company Pty Limited in Australia as Financial Director in March 1996 He was then appointed Managing Director of the Australian subsidiary in October 2004, before being appointed to the PLC board in August 2006

John Duncan
Executive Director (Retired 30 April 2007)
age 62

Appointed to the Board of Victoria PLC as Sales & Marketing Director in September 1996 Also Joint Managing Director of Victoria Carpets Limited, which he joined in 1970 and where he held the posts of Regional Sales Manager and Sales and Marketing Director

Senior Management Team

UK

Terry Danks FCCA

Company Secretary — Victoria PLC, Finance Director — Victoria Carpets UK

age 59

Terry joined Victoria Carpets in 1985 as Chief Accountant and has been responsible for both the accounting and IT function within the Company since that date Terry was subsequently appointed as Finance Director of Victoria Carpets in 1989 and was appointed as Company Secretary to Victoria PLC in 1993 Terry has a breadth of experience and knowledge of the industry and his high standards of financial control are invaluable to the Group

Shaun Lewis

Sales & Marketing Director — Victoria Carpets UK

age 53

Shaun joined the Company in July 2001 as National Sales Manager having held a similar position in Tomkinson Carpets for some years He has been instrumental in establishing a strong sales infrastructure at Victoria Carpets and has been focused on developing key client relationships and a service culture throughout the Company Shaun was appointed Sales & Marketing Director in January 2004 and is now also involved in the development of the Company's innovative and exciting product ranges

Neil Glover BSC (HONS)

Operations Director — Victoria Carpets UK

age 40

Neil is a graduate in textile engineering from Leeds University and has had extensive experience in the carpet industry having previously worked for over 14 years with Brintons Ltd, who he joined as a graduate trainee His experience covers logistics and supply chain management and he has developed a sound understanding in the management of relationships between costs, customer service, inventory and manufacturing and purchasing efficiencies

Trevor Chippendale BSC (HONS) MBA

Managing Director— Westwood Yarns

age 36

Trevor joined Westwood Yarns in December 2005 He was previously Operations Director with Riverstone Spinning and has been involved in the textile industry all his career to date Trevor is focused on quality of yarn production and his hands on approach and enthusiasm are a valuable asset to the business He is also responsible for materials buying at Westwoods

Neil Gledhill

Operations Director — Westwood Yarns

age 63

Neil has been involved in the dyeing and textile spinning industry for most of his career and has gained a wealth of experience including the buying of wools Neil has been a Director with Westwoods for 16 years

Ireland

Sean Kelly

Managing Director — Munster & Navan Carpets, Ireland

age 52

Sean joined the Group when it acquired Munster Carpets in 2002 and at that time he was appointed as Managing Director Sean has been involved in the carpet industry most of his career with extensive experience in both the retail and contract sectors Prior to working for Munster, Sean was employed by Ulster Carpet Mill where he worked as both Residential and Contract Sales Manager for Ireland

Australia

Michael Oakley

Non-Executive Chairman — Victoria Carpets, Australia

Age 68

Michael Oakley has been non-executive Chairman since he retired from the Board in an executive capacity in August 2006 Michael served for 12 years on the Group PLC Board and 27 years in total with our Australian business as both Managing Director and then Executive Chairman He is still involved with the Carpet Institute of Australia as its President and brings a wide breadth of experience to our Australian Board His continued stewardship is of great value to the business

Michael Davies

Non-Executive Director — Victoria Carpets, Australia

Age 59

Joined the Board in February 2005 Michael is Group Vice-President of ITW Construction Products with responsibility for the Construction Products Group operations in Australia, New Zealand and Asia Prior to joining ITW, he was Managing Director of Selleys Chemical Company, having previously held general management and senior marketing positions with Dulux and James Hardie Industries

Anne Seymour

Sales & Marketing Director — Victoria Carpets, Australia

Age 42

Anne has been in charge of sales and marketing for Victoria Carpets Pty, our Australian operation, since she joined us nine years ago Anne has over twenty years of sales and marketing experience in total in Australasia She has played a major role in formulating the Company's sales and marketing strategy that has propelled Victoria Carpets to the number two player in the Australian market over the past few years and is actively involved in the small but highly effective management team running our Australian business

Canada

Richard Munden

President — Colin Campbell & Sons, Canada

Age 42

Richard joined Campbells in October 2003 having spent the whole of his working life in the floor covering industry in both the retail and distribution sides of the business Richard was recruited from G E Shnier, one of Canada's leading distributors, where he was Sales Manager for Ontario Richard is responsible for driving the strategy for the business set by Victoria and our joint venture partners Elte and has overseen the excellent growth we have seen in the business since he joined in 2003

June Sookaim

Corporate Secretary & General Manager — Colin Campbell & Sons, Canada

Age 58

June was born in British Guyana and gained her education in the UK where she lived for six years before emigrating to Canada in 1970 June joined Campbells in 1986 having gained experience working at Sainsbury's head office in the UK and the Bank of Montreal in Canada June is responsible for the accounts, administration and IT function within Campbells

Directors' Report

The directors present their report and the audited accounts for the year ended 31 March 2007

Principal activities and business review

The Group is engaged in the manufacture and sale of carpets and carpet yarns A review of the business during the year and its future development is included in the Chairman's Statement, the Operating Review and Financial Review on pages 4 to 17 These reviews contain information on the key performance measures used to manage and control the Group's operations Information on risks affecting the Group is contained in the Risk Management section Details of subsidiary companies are set out in note 13 to the accounts

Results and dividends

	£000
Profit attributable to shareholders	2,008
Final dividend paid	799
Retained profit	1,209

The dividend of 12 50p per share which is subject to Shareholder approval at the Annual General Meeting will be paid to Shareholders on 30 July 2007 The Company's ordinary shares go ex-dividend on 27 June 2007, whilst the Record Date is 29 June 2007

Fixed assets

Movements in fixed assets are shown in notes 11, 12 and 13 to the accounts

Financial instruments

The financial risk management objectives and policies of the Group and its exposure to price, credit, liquidity and cash flow risk in relation to financial instruments are set out in note 17 to the accounts

Directors and their interests

The directors of the Company are listed on pages 18 and 19 together with biographical details, and their interests in the shares of the Company are shown in the Directors' Remuneration Report on page 30

The directors retiring by rotation are Mr R M Gilbert and Mr K Ackroyd, who, being eligible, offer themselves for re-election It is proposed that Mr I G Davies be elected at the AGM having been appointed Group Finance Director in March 2007 Details of all directors' service contracts are set out in the Directors' Remuneration Report on page 30 No director, either during or at the end of the financial year, was materially interested in any significant contract with the Company or any subsidiary undertaking

Directors' indemnities

The Company has made qualifying third-party indemnity provisions for the benefit of its directors which were made during the year following approval at the 2005 AGM and which remain in force at the date of this report

Substantial shareholdings

Other than directors, at 1 June 2007, the following material interests in more than 3% of the issued Ordinary Share capital had been notified to the Company

G S F Anton	7 5%
Fortress Finance Investment Inc	6 9%
C G F Anton	4 6%
Small Companies Dividend Trust	4 3%
J R D Anton	4 0%
J H H Anton	3 7%
P J Anton	3 6%
N E Anton	3 3%
F F Anton	3 1%
G H Anton	3 0%

Employees

Employees are encouraged to attend training courses and there is regular consultation with employee representatives to ensure that employees are informed of all matters affecting them Applications for employment by disabled persons are given full and fair consideration having regard to their particular aptitudes and abilities Appropriate training within their capabilities is provided for disabled employees seeking career development Employees who become disabled during their employment have continued in employment wherever possible

Payment policy

The Group does not have a written code or standard on payment practice It negotiates settlement terms with each of its suppliers Payments are then made to suppliers in accordance with those terms provided the supplier has carried out his agreed obligations in a satisfactory manner The amount due to trade creditors on 31 March 2007 represented 55 days' purchases from suppliers (2006 54 days)

Charitable and political contributions

The total charitable contributions made in the Group amounted to £3,241 (2006 £375) There were no political contributions

Taxation status

The directors are informed that the Company is not a 'close company' within the provisions of the Income and Corporation Taxes Act 1988

Going concern

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

Auditors

In the case of each person who was a director at the time when the Directors' Report was approved, he confirms that

a) So far as the director was aware, there was no relevant audit information of which the auditors are unaware, and

b) He has taken all reasonable steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Annual General Meeting

The notice of AGM, to be held on 24 July 2007, is set out on pages 65 to 66 The AGM resolutions include three items of special business which are tabled every year, namely the renewal of the directors' authority to allot Ordinary Shares, the disapplication of pre-emption rights to permit limited allotment of Ordinary Shares for cash, and the repurchase by the Company of up to 10% of its own shares

By Order of the Board

Terry Danks

T A Danks
Secretary
20 June 2007

Terry Danks

Corporate Social Responsibility Report

At Victoria we believe that we have a responsibility to make a positive contribution to the communities in which we operate We believe that a strong commitment to corporate responsibility delivers a competitive advantage and contributes to the delivery of the Group's business strategy

Although this is the first year we have formally reported on corporate responsibility, we have had management systems and structures in place for many years Our Company motto is that we "continually aim to improve" and we recognise that our performance must be evaluated by measuring ourselves against realistic objectives

We believe that effective management of our policies

- is vital to the well-being of employees, customers, shareholders, the community and, of course, the environmental changes that are occurring around the globe,
- has a role to play in enhancing the reputation of businesses and helping us to achieve high performances, and
- is financially beneficial to our business

Our policies set out the framework for the development and implementation of the corporate social responsibilities across the Group

Employment

It is Group policy to promote employee involvement, as we recognise the importance and success of gaining the opinions of our most important assets We believe strongly in providing equal opportunities during recruitment and employment without regard to race, colour, religion, sexual orientation, national origin, age or disability Our aim is to be a business where people choose to work as opposed to being a convenience relationship

- We welcome job applications from all sections of the community
- We aim to treat people fairly, as one would expect to be treated
- We recognize that our employees are vital to the success of the business
- We encourage our employees to improve themselves
- The Group believes in equal opportunities and non-discrimination
- The Group complies with its obligations under the Disability Discrimination Act in the UK
- When suitable vacancies arise, disabled people are employed
- The Group complies with the Employment Equality (Age) Regulations 2006 in the UK by considering applicants of all ages We are pleased to report that we have granted all requests to work past the default age of retirement
- We have a labour turnover of 1 6% and 60% of the employees have over five years' service, which demonstrates that people generally remain in our employment and enjoy their service
- The Group consults with its employees to share information and to seek mutual opportunities We have developed a structured format of disseminating information whereby we meet with the works council regularly
- We have seen a 2% reduction in absence over the past twelve months, since the introduction of a Company Management of Absence & Rehabilitation Policy We measure levels of absence using a scoring point system

Training

The Group recognises how vital role training plays in developing knowledge and skills of employees

- The Group has developed its own training programmes, which we administer via internally appointed training facilitators at each company within the Group
- We have strong links with local colleges, schools and relevant training institutions
- Induction training is provided to all new employees
- We maintain a comprehensive, auditable Training Matrix, which we constantly review
- We also use external recognised bodies and institutes to advise and consult on our training programmes
- We continue to invest in specific education, training and development of our customers and suppliers

Environment

Victoria is committed to continual improvement of both its environmental management systems and the prevention of pollution We are also committed to satisfactorily meeting the standards set by environmental legislation in the countries within which we operate We continue to work with national and local enforcement bodies and we pride ourselves in continuing to maintain a positive realistic approach to all environmental matters

- The Company recognises the importance of the ISO 14001 environmental management system
- We endeavour to use reusable packaging materials within the Group and we annually monitor our usages
- None of the processes used to manufacture our products requires any government authorisation
- Energy saving has seen a 14 8% reduction in kWh over the past twelve months (2006) by investing in energy saving equipment
- We have introduced many initiatives for the recycling of paper, plastic, wood and steel via registered waste recycling organizations We bale incoming polythene and send it to be recycled into plastic bags We reuse cardboard tubes where practicable and send any unusable ones for recycling
- We are currently in the process of introducing a climate change and energy awareness campaign, with the objective of enhancing a more responsive culture through employee involvement

Health & Safety
It is the policy of Victoria to give high priority to safeguarding the Health & Safety of the public and our employees by compliance with the terms of the Health & Safety at Work Act 1974 and subsequent statutory provisions We aim to provide and maintain a healthy and safe working environment The Group's Health & Safety objective is to minimize the number of instances of occupational accidents and illnesses and ultimately to achieve an accident-free workplace

- We are continually updating the Company's Health & Safety Policy Manual and risk assessments in accordance with the Health & Safety At Work Act 1974 and Management of Health & Safety at Work Regulations 1999
- The Group constantly monitors its performance using specific Key Performance Indicators (KPIs)
- We are happy to report a 50% reduction of minor industrial accidents over the past two years
- We supply all new employees with a specific Health & Safety Induction to include relevant policies and documentation
- In the UK, Victoria Carpets, alongside The Carpet Foundation and other manufacturers and retailers throughout the UK, have pioneered a Health & Safety Forum that meets regularly to share management initiatives and best practices The Company's Health & Safety Manager has been made available to assist specifically with any health or safety matters that may arise with customers, suppliers and competitors This, we believe, gives us an edge in the marketplace, as we do not just deliver product and service, but we are able to coordinate efficiently our moral and legal obligations without any unnecessary obstructions or interference

Social Responsibilities

- The Group's companies and their workforces donate to local charities
- The Group donates unwanted electrical items and computers, etc to charity
- In the UK, each year the Group is influential in the organisation of the carpet trade's charity golf tournament, which has been in existence for the past 50 years Last year's proceeds of £25,000 were shared between FTBA (Furnishing Trades Benevolent Association), who support needy retired employees within the trade, and the Macmillan Cancer Relief
- We provide work experience opportunities for pupils attending local schools

Customer Relationships
Naturally our customers are of paramount importance to us We aim to retain customers and to establish long and lasting relationships with them, built on mutual respect and trust

To this end, we focus heavily on customer service, with customers being actively encouraged to visit our manufacturing facilities and to take part in various training courses we hold

The directors meet customers on a regular basis, which provides both parties with an excellent opportunity to build on relationships and to have a frank exchange of views

Supplier Relationships
Our procurement professionals manage our supply chain relationships and encourage our suppliers to adopt sound business practices and to maintain ethical behaviour standards

Corporate Governance Statement

The Board is committed to high standards of corporate governance throughout the Group It has reviewed the Combined Code on Corporate Governance (the Combined Code) published in 2003 The Board reports here on how it applies the principles of good governance and complies with the Combined Code, and explains where it does not

The Board and Committees
Details of the Board and its standing committees are as follows

The Board
The Board is committed to maintaining an appropriate balance between executive and non-executive directors It currently consists of three executive and three non-executive directors, as shown on pages 18 and 19 This is considered by the Board to be a proper balance for a company of Victoria's size Mr Ackroyd has been nominated as the senior independent director The Board meets monthly throughout the year A formal schedule of matters reserved for the decision of the Board covers key areas of the Group's affairs The Board's primary role is to set the strategic direction of the Group as a whole, leaving day-to-day operational matters delegated to the two executive boards, which meet monthly, one for the UK and Ireland and one for Australia The executive boards are attended by the Group Managing Director and the Group Finance Director Board papers are distributed the week before Board meetings and Board decisions are only taken when adequate information is available to the Board and are deferred when further information is required

During the year, the Board met 12 times Board meetings are usually held at the operating sites in order that the Board members have the opportunity to gain a direct appreciation of the Group's operations

The non-executive directors meet as required to discuss matters that do not concern the executive directors There was no such meeting held during the year

During the course of the year, reviews of the remuneration of the Chairman, the non-executive directors and the executive directors were carried out

Mr Ackroyd is considered by the Board to be "independent" and Mr Gilbert and Mr Anton would be, save for their length of service as non-executive directors on the Board

The Board has established a procedure for directors, if deemed necessary, to take independent professional advice at the Company's expense, in the furtherance of their duties and has secured appropriate insurance cover for the directors

Attendance at Board and Committee Meetings
The numbers of principal Board and Committee meetings attended by each director during the financial year were as follows

	Board (12 Meetings)	Audit Committee (2 Meetings)	Nominations Committee (3 Meetings)	Remuneration Committee (2 Meetings)
Bob Gilbert (Chairman)	12	2		2
Alan Bullock (Group Managing Director)	10		3	
Keith Ackroyd (Senior Independent Director)	10	1	2	2
Alexander Anton	10	2	3	2
Ian Davies (Appointed 19/03/07)	0/0*			
John Duncan (Retired 30/04/07)	11			
Michael Oakley (Retired 07/08/06)	4/4*			
Barry Poynter (Appointed 07/08/06)	4/7*			
Mark Lee (Resigned 18/09/07)	5/6*			

Actual attendance/maximum number of meetings a director could attend as a Board/Committee member

Audit Committee
The Audit Committee is appointed by the Board from the non-executive directors of the Group and comprises R M Gilbert (Chairman), I A Anton and K Ackroyd The Audit Committee met twice during the year

The Committee's responsibilities include the following

- To review the adequacy of the Group's accounting, financial and operating controls and make recommendations as appropriate
- To review the proposed accounts of the Group prior to publication and make recommendations regarding the rate of dividend and any other special appropriations
- To recommend the appointment of auditors and review the scope and results of their audit
- To review the planning of internal and external audits, receive reports thereon and deal with any control weaknesses identified
- To monitor the extent of non-audit work that the auditors can perform to ensure that the provision of these non-audit services falls within the Group's policies and does not impair their objectivity or independence

The Audit Committee is required to report its findings to the Board, identifying any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken The Chairman of the Audit Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee

Nominations Committee
The Nominations Committee comprises I A Anton (Chairman), K Ackroyd and A R Bullock The Committee meets when required to review the structure, size and composition of the Board, and makes recommendations with regard to any changes that are considered necessary, both in the identification and nomination of new directors and the continuation of existing directors in office The Committee retains external search consultants as appropriate The Committee also advises the Board on succession planning for executive board appointments, although the Board itself is responsible for succession generally

The Committee met in September 2006 to consider the results of the search process carried out for the Group by external consultants, which identified candidates for the position created by the resignation of Mark Lee This process led to the appointment of Ian Davies as Group Finance Director in March 2007

Remuneration Committee
The Directors' Remuneration Report on pages 30–32 includes details of the composition and policy of the Remuneration Committee and how it has contributed to the Board's compliance with the Code of Best Practice

Information and Professional Development
The Chairman seeks to ensure that the Board is supplied in a timely manner with information that is relevant, accurate and complete in order that the Board is able to carry out its duties

All directors follow an induction programme on joining the Board and the Chairman seeks to ensure that all directors regularly update and refresh relevant skills and knowledge

Internal Control
The Combined Code includes the principle that "the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets"

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness This system is designed to manage rather than eliminate the risks of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss

The Board has put in place a system under which there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group This system has been in place for the year under review and up to the date of approval of these accounts The system is regularly reviewed and accords with the guidance in the Turnbull Report

During the year, the Board has reviewed the effectiveness of the system of internal control by a process of continuous monitoring The executive directors of each business unit are responsible for ensuring that controls are operating effectively Exceptions are reported to the two executive boards and, if sufficiently serious, to the PLC Board, with any required improvements fed back for action The Board has kept under review any need for an internal audit function and has reconfirmed that such a function is not required as it believes it to be inappropriate in a group of Victoria PLC's size and complexity

Corporate Governance Statement

continued

Investor Relations

The Chairman and the Board seek to ensure that the views of major shareholders are understood by the Board The Chairman maintains regular contact with major shareholders and the Senior Independent Director, Keith Ackroyd, offers a line of contact should the shareholders decide they need further understanding of their issues or concerns The Group Managing Director and Group Finance Director meet regularly with the major shareholders and updates are provided to all Board meetings

The Board recognises the Annual General Meeting (AGM) as an important opportunity to meet private shareholders At its AGM, which is chaired by the Chairman, the Company complies with the provisions of the Code relating to the disclosure of proxy votes, the separation of resolutions and the attendance of the Committee Chairmen The Company's procedure is to arrange for the notice of the AGM and related papers to be posted to shareholders at least twenty working days in advance to allow for consideration prior to the meeting

Financial Reporting

The Board seeks to present a balanced and understandable assessment of the Company's position and prospects Details are given in the Chairman's report and the Operating and Financial Reviews

Compliance with the provisions of the Combined Code

The Company applied the principles set out in Section 1 of the Combined Code throughout the year and has complied with the detailed provisions set out therein with the following exceptions

- Mr Gilbert and Mr Anton will continue as non-executive directors beyond a term of nine years, as the Board considers that they continue to make a valuable and effective contribution Due to the tenure of Mr Gilbert and Mr Anton, the Combined Code would not consider the Audit Committee to be fully independent The Board however, considers the Audit Committee as appropriate given the size and operation of the Group
- No formal reviews were undertaken of the performance of individual directors or of the effectiveness of the Board as a whole, as each director's performance is evaluated annually in conjunction with the remuneration review and the Board does not consider that a formal review of its effectiveness would be of any significant value

The Company's auditors, Deloitte & Touche LLP, are required to review whether the above statement reflects the Company's compliance with the nine provisions of the Combined Code specified for its review by the Listing Rules and to report if it does not reflect such compliance No such report has been made

By Order of the Board

Terry Danks

T A Danks Terry Danks

Secretary

20 June 2007

Risk Management

The directors continue to develop processes for identifying, understanding and evaluating the risks faced by the organisation The directors recognise that the management of significant risks is necessary in order that the Group achieves its objective of creating sustainable, growing returns for our shareholders

At both Group and subsidiary level, we categorise risk across four key areas Financial, operational, organisational and external For each key risk, we review the likelihood of its occurrence, its potential effect on our performance and identify management responsibility for the risk, control measures in place and any mitigating actions that are required

We have listed in the table below examples of key risks being managed by the business and mitigating actions or controls

Business Risk

Risk Area	Description	Potential impact	Mitigation
Finance	Interest rates — exposure to market rate	Increased borrowing costs	Hedging policy See financial review
	Funding — Lack of available funds	Inability to pursue capital expenditure or acquisitions	Debt capacity See financial review
	Foreign exchange — exposure to market rates	Unexpected impact on material or investment cost	Use of forward contracts See financial review
Operational	Health & Safety — personal injury to employees	Loss of availability of employees	Procedures, First Aiders on duty, Health & Safety Officers
	Customer satisfaction — Insufficient quality or on-time delivery	Failure to retain and grow key customers accounts	Proactive service and quality management, regular customer meetings, own fleet (UK)
	Equipment — breakdown of key plant	Inability to produce carpet in accordance with production plan	Maintenance programme and reciprocal breakdown agreements
Organisational	People — loss of key staff	Failure to retain and develop key management	Service agreements, regular line management reviews
External	Market — major downturn	Inability to maintain sales growth	Geographic spread and mix of business
	Regulations — breach of applicable rules	Unexpected impact on sales and profit	Internal controls, ongoing training, insurance

Directors' Remuneration Report

The report is divided into two sections, unaudited and audited information, in accordance with schedule 7A of the Companies Act 1985 The audited information commences on page 32

Unaudited information

Remuneration Committee
The members of the Remuneration Committee throughout the year were R M Gilbert (Chairman), I A Anton and K Ackroyd, of whom all were non-executive directors

The committee meets at least twice a year to review and determine the remuneration of the executive directors and the directors of subsidiary companies

During the year, the Committee met twice and each member attended the meetings It received material assistance from advice given by the Group Managing Director, A R Bullock, and the non-executive director of the Company's Australian subsidiary, M J Davies No external advice was taken during the year

Directors' Remuneration Policy
The directors' remuneration policy for the year ended 31 March 2007 and future years is to ensure that remuneration is sufficiently attractive to attract, retain and motivate executive directors and directors of subsidiary companies of a calibre that meets the Group's needs to achieve its performance against financial objectives and relevant competitors Remuneration throughout the Group is designed to be competitive in the country of employment The Committee gives full consideration to the requirements in Schedule A of the Combined Code The principal components of remuneration, which will remain in operation for the next financial year and thereafter, for executive directors and directors of subsidiary companies are

Basic salary and benefits
Basic salary reflects the responsibility of the job and individual performance The Company also provides a company car or allowance and, in the UK, private healthcare cover and death in service cover

Performance-related bonus
The remuneration policy of the Committee follows the principle of the Combined Code that the performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive directors and should be designed to align their interests with those of shareholders and to give these directors keen incentives to perform at the highest levels

The Group operates an annual bonus scheme for executive directors and directors of subsidiary companies The scheme is designed to encourage performance which the Remuneration Committee considers would contribute most to increasing shareholder value

Bonuses, which are awarded at the discretion of the Remuneration Committee, would normally be in the range of 0–40% of basic salary Bonuses are not pensionable

Long-term incentives and share options
The Remuneration Committee has decided against the use of any long-term incentive plan (LTIP) or share option scheme for executive directors and directors of subsidiary companies

Pensions
Executive directors participate in various defined contribution schemes, with the UK executive directors having a normal retirement age of 65

Service contracts
Executive directors, in line with Group policy, have notice periods of 12 months except following a change of control when the period of notice required from the employer is extended to 24 months All new appointments are intended to have these same notice periods, but it is recognised that for some appointments a longer period may initially be necessary for competitive reasons, reducing to 12 months thereafter

The services of non-executive directors are secured under contracts in the form of letters of appointment with a three-year term Their remuneration is reviewed periodically and determined by the full Board

Directors' interests
The directors of the Company who held office at 31 March 2007 had the following interests in the Ordinary Shares of the Company

	31 March 2007		1 April 2006	
	Beneficial	**Non-Beneficial**	Beneficial	Non-Beneficial
K Ackroyd	—	—	—	—
I A Anton	**74,275**	**80,000**	74,275	80,000
A R Bullock	**28,750**	—	28,750	—
J A Duncan	**16,240**	—	16,240	—
R M Gilbert	—	—	—	—
B Poynter	—	—	—	—
I Davies	—	—	—	—

The interests of the directors in the shares of the Company and its subsidiaries have not changed between the year end and 1 June 2007

Directors' service contracts
Details of the service contracts or contracts for services of the directors who served during the year are as follows

R M Gilbert
The services of R M Gilbert as Chairman and non-executive director are provided under a contractual letter of continuing appointment dated 9 May 2005 with Winchdown Limited, of which he is a director The appointment runs from 10 May 2005 until 10 May 2008 The contract does not include any provision for early termination

I A Anton
The services of I A Anton as a director are provided under a contractual letter of continuing appointment dated 18 October 2005 with Harrison Sydney Limited, of which he is a director The appointment runs from 1 December 2005 until 30 November 2008 The contract does not include any provision for early termination

K Ackroyd
K Ackroyd serves as a non-executive director under a contractual letter of continuing appointment dated 2 December 2004 The appointment expires on 2 December 2007 and there are no provisions for early termination

Executive Directors
The executive directors are employed under service contracts which include the following terms

		Notice period from the Company	
Director	Date of contract	Under normal circumstances	Following a change of control
A R Bullock	25 February 1997	12 months	24 months
J A Duncan*	25 February 1997	12 months	24 months
B I Poynter	1 April 2001	12 months	24 months
I G Davies	19 March 2007	12 months	24 months

*Retired on 30 April 2007

TSR — Total Shareholder Returns
The following chart shows the total shareholder return on ordinary shares in Victoria PLC over the last five years

Victoria PLC — Total Return on Investment

The performance is measured against the FTSE Small Cap index (excluding Investment Trusts), which is considered by the directors to be the most appropriate broad-based comparator Total shareholder return represents the increase in the value of a share held by an investor assuming immediate reinvestment of dividends

Directors' Remuneration Report

continued

Audited Information

Directors' emoluments and pensions

The emoluments of all directors for the year ended 31 March 2007 were

	Salary/Fees	Benefits in kind	Car/fuel allowance	Bonus	**Total 2007**	Total 2006
Executive						
A R Bullock	141	14	—	44	**199**	156
J A Duncan	60	14	—	18	**92**	92
M S W Lee	47	—	5	—	**52**	104
M W Oakley	38	31		3	**72**	187
B I Poynter	92	6	—	37	**135**	—
I G Davies	4	1	—	—	**5**	—
Non-executive						
R M Gilbert (Chairman)	40	—	—	—	**40**	34
K Ackroyd	22	—	—	—	**22**	20
I A Anton	20	—	—	—	**20**	20
					637	613

Each director served for the full year with the exception of

M W Oakley who retired on 7 August 2006,
B I Poynter who was appointed on 7 August 2006,
M S W Lee who resigned on 18 September 2006, and
I G Davies who was appointed on 19 March 2007

Share options

No director held options to purchase shares during the year

Directors' pension entitlements

Five directors were members of money purchase schemes
Contributions paid by the Group in respect of such schemes were

	2007 £000	2006 £000
A R Bullock	**33**	25
J A Duncan	**17**	17
M S W Lee	**7**	14
M W Oakley	**4**	27
B I Poynter	**8**	—
I G Davies	**—**	—
	69	83

By Order of the Board

Terry Danks

T A Danks Terry Danks
Secretary
20 June 2007

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements The directors are required to prepare financial statements for the Group in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and have also elected to prepare financial statements for the Company in accordance with IFRS Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires the financial statements to be presented fairly, for each financial year, the Company's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions, in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and Presentation of Financial Statements" In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards Directors are also required to

- Properly select and apply accounting policies,
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- Provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance

The directors are responsible for keeping proper accounting records which disclose the reasonable accuracy, at any time, of the financial position of the parent company They have a general responsibility for taking such steps, as are reasonably open to them, to safeguard the assets and for the prevention and detection of fraud and other irregularities The directors are also responsible for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985

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

Independent Auditors' Report to the Members of Victoria PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Victoria PLC for the year ended 31 March 2007 which comprise the consolidated income statement, the consolidated and individual company balance sheets, the consolidated and individual company cash flow statements, the consolidated statement of recognised income and expense and the related notes 1 to 27 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the directors' remuneration report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements The other information comprises only the directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review and the corporate governance statement We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the annual report

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited

Opinion

In our opinion

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended,
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2007,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements

Separate opinion in relation to IFRSs

As explained in the Accounting policies, the Group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board

In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 March 2007 and of its profit for the year then ended

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Birmingham

20 June 2007

Deloitte + Touche LLP

Consolidated Income Statement

For the 52 weeks ended 31 March 2007

		Notes	52 weeks ended 31 March 2007 £000	52 weeks ended 1 April 2006 £000
Revenue		1	**55,426**	52,288
Cost of sales			**(39,003)**	(37,566)
Gross profit			**16,423**	14,722
Distribution costs			**(10,641)**	(9,770)
Administrative expenses			**(3,097)**	(3,007)
Other operating income			**700**	921
Restructuring costs			—	(188)
Operating profit		1	**3,385**	2,678
Share of results of associated company			**104**	73
Finance costs		3	**(727)**	(740)
Profit before tax		1,4	**2,762**	2,011
Taxation		7	**(754)**	(393)
Profit for the period			**2,008**	1,618
Attributable to equity holders of the parent			**2,008**	1,618
Earnings per share — pence	basic	9	**28 92**	23 30
	diluted	9	**28 92**	23 30

Consolidated Statement of Recognised Income and Expense

For the 52 weeks ended 31 March 2007

	52 weeks ended 31 March 2007 £'000	52 weeks ended 1 April 2006 £'000
Exchange differences on translation of foreign operations	(33)	83
Net income/(loss) recognised directly in equity	**(33)**	83
Profit for the period	**2,008**	1,618
Total recognised income and expense for the period	**1,975**	1,618
Attributable to		
Equity holders of the parent	1,975	1,618

Balance Sheets

As at 31 March 2007

	Notes	Group 31 March 2007 £000	Group 1 April 2006 £000	Company 31 March 2007 £000	Company 1 April 2006 £000
Non-current assets					
Intangible assets	11	**491**	527	**—**	—
Property, plant and equipment	12	**23,846**	24,172	**5,312**	5,373
Investment property	13	**180**	180	**180**	180
Investment in subsidiary undertakings	13	**—**	—	**3,321**	3,321
Investment in associated company	13	**469**	440	**56**	56
Deferred tax asset	18	**983**	659	**3**	13
Total non-current assets		**25,969**	25,978	**8,872**	8,943
Current assets					
Inventories	14	**15,740**	16,110	**—**	—
Trade and other receivables	15	**9,603**	10,215	**4,505**	4,074
Financial asset	17	**10**	—	**10**	—
Cash at bank and in hand		**644**	234	**—**	—
Total current assets		**25,997**	26,559	**4,515**	4074
Total assets		**51,966**	52,537	**13,387**	13,017
Current liabilities					
Trade and other payables	16	**8,234**	8,505	**61**	130
Current tax liabilities		**998**	961	**—**	—
Financial liabilities	17	**5,261**	7,551	**2,782**	2,645
Total current liabilities		**14,493**	17,017	**2,843**	2,775
Non-current liabilities					
Trade and other payables		**1,209**	1,090	**—**	—
Financial liabilities	17	**5,072**	4,849	**—**	—
Deferred tax liabilities	18	**2,209**	1,774	**695**	682
Total non-current liabilities		**8,490**	7,713	**695**	682
Total liabilities		**22,983**	24,730	**3,538**	3,457
Net assets		**28,983**	27,807	**9,849**	9,560
Equity					
Issued share capital	19	**1,736**	1,736	**1,736**	1,736
Share premium	20	**829**	829	**829**	829
Retained earnings	20	**26,418**	25,242	**7,284**	6,995
Total equity	21	**28,983**	27,807	**9,849**	9,560

The accounts on pages 36 to 63 were approved by the Board of Directors and authorised for issue on 20 June 2007

They were signed on its behalf by

R M Gilbert
I G Davies
Directors

Cash Flow Statements

For the 52 weeks ended 31 March 2007

		Group		Company	
		52 weeks ended 31 March 2007	52 weeks ended 1 April 2006	52 weeks ended 31 March 2007	52 weeks ended 1 April 2006
	Notes	£000	£000	£000	£000
Net cash inflow from operating activities	22	5,061	2,957	574	407
Investing activities					
Dividends received from associates		32	23	32	23
Purchases of intangible fixed assets		—	—	—	—
Purchases of property, plant and equipment		(1,959)	(2,773)	—	—
Proceeds of disposals of property, plant and equipment		74	435	—	10
Net cash used in investing activities		(1,853)	(2,315)	32	33
Financing activities					
(Decrease)/increase in long-term loans		347	(73)	—	—
Receipts from financing of assets		870	639	—	—
Payment of finance leases/HP liabilities		(963)	(934)	—	—
Dividends paid		(799)	(799)	(799)	(799)
Net cash (used in)/from investing activities		(545)	(1,167)	(799)	(799)
Net (decrease)/increase in cash and cash equivalents		2,663	(525)	(193)	(358)
Cash and cash equivalents at beginning of period		(6,363)	(5,827)	(2,590)	(2,232)
Effect of foreign exchange rate changes		7	(11)	—	—
Cash and cash equivalents at end of period	23	(3,693)	(6,363)	(2,783)	(2,590)

Accounting Policies

The financial statements have been prepared in accordance with International Financial Reporting Standards The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS regulation

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments The principal accounting policies adopted are set out below

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

The results of subsidiaries acquired or disposed of during the year 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 their accounting policies into line with those used by other members of the Group

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the continued synergies of the combination Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit An impairment loss recognised for goodwill is not reversed in a subsequent period

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes Sales of goods are recognised when goods are dispatched

Interest income is accrued on a time basis

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability

Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below)

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term

Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency) For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date

Accounting Policies

continued

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in sterling using exchange rates prevailing on the balance sheet date Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation

All other borrowing costs are recognised in profit or loss in the period in which they are incurred

Government grants

Government grants relating to property, plant and equipment are treated as deferred income, and released to profit or loss over the expected useful lives of the assets concerned Other government grants, including those towards staff training costs, are recognised in profit or loss over the periods necessary to match them with the related costs and are deducted in reporting the related expense

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due Payments made to state managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on taxable profit for the year Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their deemed cost, being the fair value at the date of adoption of IFRS, less any subsequent accumulated depreciation and subsequent accumulated impairment losses Depreciation on buildings is charged to profit or loss

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use

Fixtures and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, less any anticipated residual value, over their estimated useful lives

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets

The expected useful lives of assets are

Buildings	50 years
Plant and equipment	3 to 20 years
Motor vehicles	4 to 5 years

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any) Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs

Recoverable amount is the higher of fair value less costs to sell and value in use

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Inventories

Inventories are stated at the lower of cost and net realisable value Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition Cost is calculated using the weighted average method Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument

Accounting Policies

continued

Trade receivables

Trade receivables are measured at initial recognition at fair value Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, overnight, deposits, bank overdrafts and loans repayable within one year

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs Finance charges, including premiums payable on settlement or redemption are accounted for on an accrual basis in profit or loss

Derivative financial instruments and hedge accounting

The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates

The Group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions The significant interest rate risk arises from bank loans, finance leases and hire purchase contracts The Group's policy is to convert a proportion of its floating rate debt to fixed rates

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives consistent with the Group's risk management strategy

The Group does not use derivative financial instruments for speculative purposes

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement Changes in the fair value of derivative instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

IFRS not yet applied

The following IFRSs are available for early application but have not been applied by the Company or the Group in these financial statements

- IFRS7 'Financial instruments' Disclosures applicable for years commencing on or after 1 January 2007, and
- IFRS8 'Operating Segments' — applicable for years commencing on or after 1 January 2009

The application of IFRS7 or IFRS8 would not have affected the balance sheets or income statements as the standards are only concerned with disclosures

The Group plans to adopt IFRS7 on 1 April 2007 and IFRS8 on 1 April 2009

Notes to the Accounts

1 Segmental information

For management purposes, the Group is organised into three operating divisions according to the geographical areas where they are managed These divisions are the basis on which the Group reports its primary segment information The three divisions are UK & Ireland, Australia and the Canadian Associate

Geographical segment information for revenue, operating profit and a reconciliation to entity net profit is presented below

Income statement	**52 weeks ended 31 March 2007**				52 weeks ended 1 April 2006			
	Revenue £000	**Operating profit £000**	**Finance charges £000**	**Profit before tax* £000**	Revenue £000	Operating profit £000	Finance charges £000	Profit before tax* £000
UK & Ireland	**31,720**	**1,564**	**(346)**	**1,218**	29,647	865†	(337)	528
Australia	**23,706**	**2,082**	**(271)**	**1,811**	22,641	2,222	(250)	1,972
	55,426	**3,646**	**(617)**	**3,029**	52,288	3,087	(587)	2,500
Share of results of associate	—	—	—	**104**	—	—	—	73
Central costs	—	**(261)**	**(110)**	**(371)**	—	(409)	(153)	(562)
Total continuing operations	**55,426**	**3,385**	**(727)**	**2,762**	52,288	2,678	(740)	2,011
Tax				**(754)**				(393)
Profit after tax from continuing activities				**2,008**				1,618

* The share of profits of the associated company is shown net of tax as required by IAS1

† Operating profit from the UK and Ireland operations is stated after a £188,000 charge for business reorganisation costs (closure of Kidderminster dyehouse)

Intersegment sales between the UK and Ireland and Australia were immaterial in the current and comparative periods

Balance sheet	**As at 31 March 2007**		As at 1 April 2006	
	Segment assets £000	**Segment liabilities £000**	Segment assets £000	Segment liabilities £000
UK & Ireland	**28,239**	**9,901**	30,058	12,675
Australia	**22,994**	**9,544**	21,652	8,598
Canada	**469**	—	440	—
Unallocated central assets/liabilities	**264**	**3,538**	387	3,457
	51,966	**22,983**	52,537	24,730

Notes to the Accounts

continued

1 **Segmental information** continued

The investment in associated company is held directly by the parent entity and does not relate specifically to either geographic segment

Other segmental information

	52 weeks ended 31 March 2007 £000	52 weeks ended 1 April 2006 £000
Depreciation and amortisation		
UK and Ireland	**1,024**	1,139
Australia	**1,229**	1,181
Unallocated central	**—**	—
	2,253	2,320

No other significant non-cash expenses were deducted in measuring segment results

Capital expenditure		
UK and Ireland	**379**	1,298
Australia	**1,580**	1,475
Unallocated central	**—**	—
	1,959	2,773

Business segments

No secondary segmental information is reported as the directors consider that substantially all of the Group's operations relate to a single activity, that of the manufacture and sale of carpets

2 **Revenue**

	52 weeks ended 31 March 2007 £000	52 weeks ended 1 April 2006 £000
Continuing operations		
Sale of goods	**55,426**	52,288
	55,426	52,288
Other operating income	**700**	921
Investment income	**32**	23
	56,158	53,232

3 **Finance costs**

	2007 £000	2006 £000
Loans and overdrafts wholly repayable within five years	**543**	581
Other loans	**—**	(16)
Hire purchase and finance lease interest	**184**	175
	727	740

4 Profit on ordinary activities before taxation

		2007 £000	2006 £000
After charging/(crediting)			
Net foreign exchange (gains)/losses		(33)	(56)
Depreciation		2,226	2,293
Amortisation of intangible assets		27	27
(Profit)/loss on sale of fixed assets		8	(55)
Charges under operating leases		517	567
Auditors' remuneration	— audit services	77	85
	— other assurance services	—	21
	— tax services	20	16
	— other services	2	2

The total Auditors' remuneration in respect of the Company was £18,000 (2006 £31,000) and in respect of the subsidiaries was £59,000 (2006 £54,000)

5 Staff costs

	2007 £000	2006 £000
Wages and salaries	13,708	13,761
Social security costs	1,083	1,079
Other pension costs	890	825
Total employee benefits expense	15,681	15,665

Average number employed	United Kingdom & Ireland	Australia	Total
2007	374	327	701
2006	397	316	713

The only employees of the Company were the three (2006 three) executive directors based in the UK whose service contracts are with Victoria PLC

Pension costs

The Group operates a number of money purchase pension schemes The companies and the employees contribute towards the schemes

The total pension cost for the Group was £890,000 (2006 £825,000), of which £358,000 (2006 £301,000) relates to the UK schemes

Notes to the Accounts
continued

6 Directors' remuneration

Aggregate remuneration

The total amounts of directors' remuneration and other benefits were as follows

	2007 £000	2006 £000
Emoluments (detailed in the Directors' Remuneration Report on page 32	**637**	613
Contributions to money purchase pension schemes	**69**	83
	706	696

Pension benefits

At 31 March 2007, retirement benefits in respect of qualifying services were accruing to four directors under money purchase schemes (1 April 2006 four directors)

7 Tax

	2007 £000	2006 £000
Current tax		
— Current year	**—**	—
— Current year overseas	**641**	655
— Prior years	**1**	(6)
	642	649
Deferred tax (note 18)		
— Current year	**115**	(99)
— Prior years	**(3)**	(157)
	112	(256)

Corporation tax is calculated at 30 per cent (2006 30 per cent) of the estimated assessable profit for the year in the United Kingdom and Australia Taxation for other jurisdictions is calculated at the prevailing rates in those jurisdictions

The tax charge for the year can be reconciled to the profit per the income statement as follows

	2007 £000	2007 %	2006 £000	2006 %
Profit before tax				
Continuing operations	**2,762**		2,011	
	2,762		2,011	
Tax at the UK corporation tax rate of 30% (2005 30%)	**828**		603	30 0
Tax effect of share of result of associate	**(31)**	**(1 1)**	(22)	(1 1)
Tax effect of expenses that are not deductible in determining taxable profit	**32**	**1 2**	26	1 3
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(52)**	**(1 9)**	(46)	(2 3)
Movement in short-term timing differences	**(22)**	**(0 8)**	(4)	(0 2)
Adjustments to prior periods	**(1)**	**(0 1)**	(164)	(8 2)
Tax expense and effective tax rate for the year	**754**	**27 3**	393	19 5

8 Dividends

	2007 £000	2006 £000
Amounts recognised as distributions to equity holders in the period		
Final dividend for the year ended 1 April 2006 paid during the year 11 5p per share	**799**	799
Proposed final dividend for the year ended 31 March 2007 of 12 5p per share (2006 11 5p)	**868**	799

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements

9 Earnings per share

The calculation of earnings per ordinary equity share in the parent entity is based on the following earnings and number of shares

	2007	2006
Earnings (£000) basic and diluted		
Profit attributable to ordinary equity holders of the parent entity	**2,008**	1,618
Number of shares (thousands)		
— in issue throughout the period	**6,944**	6,944
Earnings per share (basic and undiluted) in pence	**28 92**	23 30

No arrangements existed during the period or the comparative period that might require the issue of shares and hence the diluted earnings per share are the same as the basic earnings per share

The calculation of the following non-statutory item used in the Chairman's Statement and Financial Review is set out below

Adjusted earnings	2007 £000	2006 £000
Profit from continuing operations attributable to ordinary equity holders of the parent entity	**2,008**	1,618
Restructuring costs (net of 30% tax)	**—**	132
	2,008	1,750
Adjusted earnings per share	**28 92p**	25 20p

10 Rates of exchange

The results of overseas subsidiary and associated undertakings have been translated into sterling at the average exchange rates prevailing during the periods The balance sheets are translated at the exchange rates prevailing at the period ends

	2007		2006	
	Average	**Year End**	Average	Year End
Australia	**2 4687**	**2 4279**	2 3730	2 4326
Euro	**1 4717**	**1 4735**	1 4623	1 4333
Canada	**2 1540**	**2 2627**	2 1276	2 0235

Notes to the Accounts

continued

11 Intangible fixed assets

	Note	2007 £000	2006 £000
Goodwill		**65**	65
Other intangible assets		**426**	462
		491	527

The intangible assets were acquired with the trade and assets of Munster Carpets and Navan Carpets and relate to customer lists acquired and the brand name They are amortised over 20 years

a) Goodwill

	Group	
At cost	2007 £000	2006 £000
At 2 April 2006	**65**	65
Exchange difference	—	—
Purchased during the period	—	—
Arising on consolidation of business acquired during the period	—	—
	65	65

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units that are expected to benefit from that combination The carrying amount of goodwill is allocated as follows

	2007 £000	2006 £000
UK and Ireland		
Munster Carpets	65	65

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired As at 31 March 2007 no impairment provision was considered necessary as its value in use exceeded its cost based upon the profitability and cash flow of this unit and its anticipated growth, discounted at a weighted average cost of capital of 11 4%

b) Other intangible assets

		Group	
		2007 £000	2006 £000
Cost	At 2 April 2006	**547**	540
	Exchange differences	**(11)**	7
	At 31 March 2007	**536**	547
Amortisation	At 2 April 2006	**85**	57
	Exchange differences	**(2)**	1
	Charge for the period	**27**	27
	At 31 March 2007	**110**	85
Net book value	**At 31 March 2007**	**426**	462
	At 1 April 2006	**462**	484

No intangible assets were held by the Company

12 Property, plant and equipment

	Property, plant and equipment Group					Company		
	Freehold land and buildings £000	Plant and machinery £000	Fixtures, vehicles and equipment £000	Assets held under finance leases £000	Total £000	Freehold land and buildings £000	Fixtures, vehicles and equipment £000	Total £000
Cost or valuation								
At 3 April 2005								
Cost	9,050	26,029	1,743	1,886	38,708	5,493	28	5,521
Currency	11	21	4	7	43	—	—	—
Additions	97	2,377	201	98	2,773	—	—	—
Disposals	—	(491)	(229)	(14)	(734)	—	(28)	(28)
Transfers	—	—	—	—	—	—	—	—
At 1 April 2006	9,158	27,936	1,719	1,977	40,790	5,493	—	5,493
At 2 April 2006	9,158	27,936	1,719	1,977	40,790	5,493	—	5,492
Currency	17	43	(2)	(10)	48	—	—	—
Additions	765	537	135	522	1,959	—	—	—
Disposals	—	(620)	(155)	(12)	(787)	—	—	—
Transfers	—	1,267	45	(1,312)	—	—	—	—
At 31 March 2007	**9,940**	**29,163**	**1,742**	**1,165**	**42,010**	**5,493**	**—**	**5,493**
Aggregate depreciation								
At 3 April 2005	100	13,189	1,152	454	14,895	60	16	76
Currency	—	1	2	(2)	1	—	—	—
Charge for the year	104	1,833	172	184	2,293	60	—	60
Transfers	—	—	—	—	—	—	—	—
Exceptional write-downs	—	87	—	—	87	—	—	—
Disposals	—	(488)	(160)	(10)	(658)	—	(16)	(16)
At 1 April 2006	204	14,622	1,166	626	16,618	120	—	120
At 2 April 2006	204	14,622	1,166	626	16 618	120	—	120
Currency	1	31	(1)	(6)	25	—	—	—
Charge for the year	103	1,838	151	134	2,226	61	—	61
Transfers	—	524	27	(551)	—	—	—	—
Disposals	—	(608)	(89)	(8)	(705)	—	—	—
At 31 March 2007	**308**	**16,407**	**1,254**	**195**	**18,164**	**181**	**—**	**181**
Net book value								
At 31 March 2007	**9,632**	**12,756**	**488**	**970**	**23,846**	**5,312**	**—**	**5,312**
At 1 April 2006	8,954	13,314	553	1,351	24,172	5,373	—	5,373

12 Property, plant and equipment continued

Land and buildings were professionally valued at 4 April 2004 and this valuation was adopted as deemed cost on adoption of IFRS

Included within fixed assets are the following

	Group		
	Plant and machinery £000	Fixtures, vehicles and equipment £000	Total £000
Held under finance leases			
Cost at 31 March 2007	**792**	**373**	**1,165**
Accumulated depreciation at 31 March 2007	**50**	**145**	**195**
Depreciation charged in year	**74**	**60**	**134**
Being acquired under hire purchase agreements			
Cost at 31 March 2007	**4,426**	**30**	**4,456**
Accumulated depreciation at 31 March 2007	**1,035**	**17**	**1,052**
Depreciation charged in year	**314**	**5**	**319**

Capital expenditure authorised and committed

	Group	
	2007 £000	2006 £000
Contracts placed	**821**	158

The Company held no assets under finance lease or hire purchase agreements and had no capital commitments at either year end

13 Fixed asset investments

		Group		Company	
	Note	**2007 £000**	2006 £000	**2007 £000**	2006 £000
Investment property	(a)	**180**	180	**180**	180
Investments in subsidiaries	(b)	**—**	—	**3,321**	3,321
Investment in associated company	(c)	**469**	440	**56**	56

a) Investment property

Investment property were professionally valued at 4 April 2004 and this valuation was adopted as deemed cost on adoption of IFRS

13 Fixed asset investments continued

b) Investment in subsidiaries

The investment represents shares in subsidiaries at cost

Victoria PLC owns directly or indirectly the whole of the allotted ordinary share capital of the following principal subsidiary companies

	Country of incorporation and operation	Nature of business
Victoria Carpets Limited	England	Carpet manufacture
Munster Carpets Limited	Ireland	Carpet sales
Westwood Yarns Limited	England	Yarn manufacture
The Victoria Carpet Company Pty Limited	Australia	Carpet manufacture

c) Investment in associated undertaking

Victoria PLC owns 50% of the common shares of Colin Campbell & Sons Limited, a carpet distributor incorporated in Canada, whose accounting period ended on 31 March 2007 (2006 31 March)

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Cost of investment	**101**	101	**101**	101
Return of capital	**(45)**	(45)	**(45)**	(45)
Share of post-acquisition profits (retained by associated undertaking)	**413**	384	**—**	—
	469	440	**56**	56

14 Inventories

	Group	
	2007	2006
	£000	£000
Raw materials	**4,670**	5,530
Work-in-progress	**460**	693
Finished goods	**10,610**	9,887
	15,740	16,110

The Company held no inventories at either year end There is no material difference between the balance sheet value of inventories and their replacement cost

Cost of sales in the Income Statement represents the amount of inventories recognised as an expense in the period

Notes to the Accounts

continued

15 Trade and other receivables

Amounts falling due within one year

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Trade debtors	**8,813**	9,506	**—**	—
Amounts owed by subsidiaries	**—**	—	**4,434**	3,880
Amounts owed by associated undertaking	**185**	193	**71**	72
Other debtors	**115**	114	**—**	—
Prepayments and accrued income	**490**	402	**—**	122
	9,603	10,215	**4,505**	4,074

An allowance has been made for estimated irrecoverable amounts from trade debtors of £0 13 million (2006 £0 12 million) This allowance has been determined by reference to specific debts and past experience of recoverability The amount charged against income in respect of bad and doubtful debts was £0 01 million (2006 £0 03 million)

The directors consider that the carrying amount of trade and other receivables approximates their fair value

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments

The Group's credit risk is primarily attributable to its trade receivables The amounts presented in the balance sheet are net of allowance for doubtful receivables An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction on the recoverability of the cash flows

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers

16 Trade and other payables

Amounts falling due within one year

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Trade creditors	**5,917**	5,608	**—**	—
Amounts due to subsidiaries	**—**	—	**26**	1
Other creditors	**730**	820	**—**	—
Accruals and deferred income	**1,587**	2,077	**35**	129
	8,234	8,505	**61**	130

17 Financial liabilities

Amounts falling due within one year

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Loans — secured commercial bills	**—**	—	**—**	—
Bank loans and overdrafts	**4,337**	6,597	**2,782**	2,590
Hire purchase and finance lease creditors	**924**	899	**—**	—
Fair value of interest rate swaps	**(10)**	55	**(10)**	55
	5,251	7,551	**2,772**	2,645
Shown as				
Financial assets	**(10)**	—	**(10)**	—
Financial liabilities	**5,261**	7,551	**2,782**	2,645
	5,251	7,551	**2,772**	2,645
Amounts falling due after more than one year				
Loans — Secured commercial bills				
— between one and two years	**—**	—	**—**	—
— between two and five years	**2,883**	2,261	**—**	—
Bank loans				
— between one and two years	**204**	279	**—**	—
— between two and five years	**—**	209	**—**	—
Hire purchase and finance lease obligations payable				
— between one and two years	**574**	787	**—**	—
— between two and five years	**1,259**	1,002	**—**	—
— after five years	**152**	311	**—**	—
	5,072	4,849	**—**	—

The loans falling due after more than one year are repayable as follows

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Between one and two years	**204**	279	**—**	—
Between two and five years	**2,883**	2,470	**—**	—

Bank borrowings in the United Kingdom amounting to £3 93 million (2006 £6,063,000) are secured by charges over a freehold property Bank borrowings of £2 3 million (2006 £2 04 million) by the Australian subsidiary are secured by a mortgage on certain freehold properties and a floating charge over its assets

The Company has guaranteed the bank borrowings of its UK subsidiaries, and there is a Composite Accounting Agreement between the Company, Victoria Carpets Limited, Westwood Yarns Limited and Barclays Bank PLC The Company has also guaranteed a loan and overdraft facility provided by Barclays Bank PLC to Munster Carpets Limited, of which £0 61 million was outstanding at 31 March 2007

Notes to the Accounts
continued

17 Financial liabilities continued

Operating lease arrangements

The Group as lessee

The Company had no operating leases during the years ended 31 March 2007 and 1 April 2006 Details of operating lease arrangements for the Group are as follows

	2007 £000	2006 £000
Minimum lease payments under operating leases recognised in income for the year	**517**	567

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

	2007 £000	2006 £000
Within one year	**502**	514
In the second to fifth years inclusive	**631**	805
After five years	**53**	32
	1,186	1,351

Operating lease payments represent rentals payable by the Group principally for vehicles and certain of its properties Leases of vehicles are usually negotiated for a term of 3–5 years and rentals are fixed for the term of the lease Leases of land and buildings are usually negotiated for 5–15 years and rentals reviewed after 5 years

18 Deferred taxation

	Group £000	Company £000
At 3 April 2005	1,367	647
Exchange adjustment	4	—
Profit and loss account	(256)	22
At 1 April 2006	1,115	669
At 2 April 2006	1,115	669
Exchange adjustment	(1)	—
Profit and loss account (Note 7)	112	23
At 31 March 2007	**1,226**	**692**

18 Deferred taxation continued

The potential liability and provision for deferred taxation are as follows

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Capital allowances	**1,729**	1,303	**303**	280
Liability on recovering value through sale	**480**	471	**392**	402
Deferred grant income	**(303)**	(279)	**—**	—
Tax losses	**(375)**	(367)	**—**	—
Other timing differences	**(305)**	(13)	**(3)**	(13)
	1,226	1,115	**692**	669

The potential liability and provision are based on taxation rates of 30% in the UK and 30% in Australia (2006 30% and 30% respectively)

The deferred tax balances shown on the balance sheet are

Deferred tax liabilities	**2,209**	1,774	**695**	682
Deferred tax assets	**(983)**	(659)	**(3)**	(13)
	1,226	1,115	**692**	669

Post-balance sheet event note

In March 2007, the UK Government announced that they would introduce legislation that would reduce the corporation tax rate to 28% with effect from 1 April 2008 This legislation is expected to be substantially enacted in July 2007 If the change is enacted, the deferred tax assets and liabilities, currently stated at 30% of the temporary differences, will be restated at 28% of those amounts In addition, the effective tax rate for the period to 31 March 2009 is expected to reduce accordingly

19 Share capital

	2007	2006
	£000	£000
Authorised		
8,500,000 Ordinary Shares of 25p each — equity	**2,125**	2,125
Allotted, called up and fully paid		
6,943,556 Ordinary Shares of 25p each (2006 6,943,556) — equity	**1,736**	1,736

No options were outstanding over Ordinary Shares during the year

Notes to the Accounts
continued

20 Reserves

	Year ended 1 April 2006			Year ended 31 March 2007			
	At 3 April 2005 £000	Profit and loss account £000	Other movements £000	At 1 April 2006 £000	Profit and loss account £000	Other movements £000	**At 31 March 2007 £000**
Group							
Share premium	829	—	—	829	—	—	**829**
Profit and loss account	26,614	819	—	27,433	1,209	—	**28,642**
Adjustments arising on consolidation							
Goodwill	(1,553)	—	—	(1,533)	—	—	**(1,533)**
Exchange rates	(741)	—	83	(658)	—	(33)	**(691)**
Retained earnings	24,340	819	83	25,242	1,209	(33)	**26,418**
Company							
Share premium	829	—	—	829	—	—	**829**
Retained earnings	6,854	141	—	6,995	289	—	**7,284**

The profit of the Company for the year determined in accordance with the Companies Act 1985 was £289,000 The Company is exempt under s 230 of the Companies Act 1985 from presenting its own profit and loss account

21 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Profit on ordinary activities after taxation	**2,008**	1,618
Dividends	**(799)**	(799)
	1,209	819
Other recognised net gains/(losses) relating to the year	**(33)**	83
Net addition to/(reduction in) shareholders' funds	**1,176**	902
Opening shareholders' funds	**27,807**	26,905
Closing shareholders' funds	**28,983**	27,807

22 Notes to the cash flow statement

Reconciliation of operating profit to net cash from operating activities

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Operating profit from continuing operations	**3,385**	2,678	**1,215**	1,092
Adjustments for				
— Depreciation of property, plant and equipment	**2,226**	2,293	**61**	61
— Business reorganisation costs	**—**	188	**—**	—
— Amortisation of intangible assets	**27**	27	**—**	—
— (Profit)/loss on disposal of property, plant and equipment	**8**	(55)	**—**	—
— Exchange rate difference on consolidation	**(18)**	36	**—**	—
Operating cash flows before movements in working capital	**5,628**	5,167	**1,276**	1,153
Increase/(decrease) in working capital	**801**	(1,093)	**(526)**	(592)
Cash generated by operations	**6,429**	4,074	**750**	561
Interest paid	**(792)**	(740)	**(176)**	(153)
Income taxes (paid)/received	**(576)**	(377)	**—**	(1)
Net cash from operating activities	**5,061**	2,957	**574**	407

23 Analysis of net debt

	At 1 April 2006 £000	Cash flow £000	Other non-cash changes £000	Exchange movement £000	**At 31 March 2007 £000**
Cash	234	410	—	—	**644**
Bank loans payable less than one year and overdrafts	(6,597)	2,253	—	7	**(4,337)**
Cash and cash equivalents	(6,363)	2,663	—	7	**(3,693)**
Secured commercial bills					
Payable less than one year	—	—	—	—	**—**
Payable more than one year	(2,261)	(618)	—	(4)	**(2,883)**
Finance leases and hire purchase agreements					
Payable less than one year	(899)	963	(986)	(2)	**(924)**
Payable more than one year	(2,100)	(870)	986	(1)	**(1,985)**
Bank loans payable more than one year	(488)	271	—	(13)	**(204)**
Net debt	(12,111)	2,409	—	13	**(9,689)**

The Group's policy on Derivatives and Other Financial Instruments is set out in note 25

Notes to the Accounts
continued

24 Government grants

Dunng the year ended 31 March 2007, the Group's Australian operations benefited from government assistance under the SIP (Strategic Investment Programme) which was accounted for a follows

	2007 £000	2006 £000
Deferred income as 2 April 2007	**904**	902
Total grant income recognised in the year	**265**	211
Less Grants related to income (taken to Income and shown as Other Operating Income)	**(12)**	(67)
Less Amortisation of deferred income by release through cost of production in the year	**(150)**	(151)
Exchange differences	**3**	9
Deferred income at 31 March 2007	**1,010**	904
Presented in		
Current liabilities	**142**	125
Non-current provisions	**868**	779
Deferred income at 31 March 2007	**1,010**	904

There are no unfulfilled conditions or other contingencies attaching to government assistance that has been recognised

25 Treasury policy

Background

Operating internationally, and financed by a combination of equity and debt, both UK and overseas, the Group is exposed to risks relating to interest rates, liquidity and foreign currency

The "financial instruments" which are affected by these risks comprise borrowings, cash and liquid resources used to provide finance for the Group's operations, together with various items such as trade debtors and trade creditors that arise directly from its operations, and any derivatives transactions (such as interest rate swaps and forward foreign currency contracts) used to manage interest rate and currency rates

Policy

The following policies, established by the Board, have been applied throughout the year under review

a) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank facilities, including hire purchase and lease finance The Group borrows in the desired currency at floating or fixed rates of interest and may then use interest rate swaps to secure the desired interest profile and manage exposure to interest rate fluctuations

b) Liquidity risk

The Group's policy has, throughout the year, been to ensure continuity of funding, with the intention that at least 50% of its borrowing should mature after more than one year

25 **Treasury policy** continued

c) Currency risk

The main currency exposure of the Group arises from the ownership of the Australian subsidiary, which accounts for approximately 46% of the Group's net assets

It is the Board's policy not to hedge against movements in the sterling/Australian exchange rate beyond the natural hedge of maintaining a relatively high proportion of the Group's borrowings in Australian dollars

Other currency exposure derives from trading operations where goods are exported or raw materials and capital equipment are imported These exposures may be managed by forward currency contracts, particularly when the amounts or periods to maturities are significant and at times when currencies are particularly volatile

d) Trading

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken

Treasury activity

a) Interest rate risk

(i) Effective interest rate analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced

	As at 31 March 2007					As at 1 April 2006				
	Effective interest rate %	**Total £000**	**0–1 years £000**	**1–2 years £000**	**2–5 years £000**	Effective interest rate %	Total £000	0–1 years £000	1–2 years £000	2–5 years £000
Group										
Cash and equivalents	3 97	644	644	—	—	3 78	234	234	—	—
Bank overdrafts and loans	6 06	(4,541)	(4,541)	—	—	5 23	(7,085)	(7,085)	—	—
Commercial bills	6 27	(2,883)	(2,883)	—	—	6 02	(2,261)	(2,261)	—	—
Finance lease and HP	6 19	(2,909)	(1,329)	(52)	(1,528)	5 70	(2,999)	(1,930)	(99)	(970)
	6 30	(9,689)	(8,109)	(52)	(1,528)	5 52	(12,111)	(11,042)	(99)	(970)
Company										
Bank overdrafts	6 25	(2,782)	(2,782)	—	—	5 500	(2,590)	(2,590)	—	—

(ii) Interest rate swaps

Interest rate swaps with aggregate nominal value of £3 million were taken out in July 2004 The average fixed rate payable is 5 48 per cent for periods up until July 2009 against 3 month LIBOR receivable The fair value of swaps entered into at 31 March 2007 was an asset of £10,259 (2006 a liability of £55,000) Net receipts or payments and movements in fair value are taken through the income statement as "finance costs"

b) Liquidity

At the year end, 33% of the Group's net borrowing was due to mature after one year and 25% was due to mature after more than two years

Notes to the Accounts

continued

26 Key sources of estimation uncertainty

In applying the Group's accounting policies appropriate estimates have been made in a number of areas and the actual outcome may vary from the position described in the Company's and Group's balance sheet at 31 March 2007 The key sources of uncertainty at the balance sheet date that may give rise to a material adjustment to the carrying value of assets and liabilities within the next financial year are as follows

Goodwill (£65,000, 2006 £65,000)

The impairment test for Goodwill is dependent on the forecasts of the cash flows of the cash-generating units and the assumptions relating the growth rate No impairment resulted from the annual impairment test at 31 March 2007

Deferred tax assets (£983,000, 2006 £659,000)

Deferred tax assets are recognised at the balance sheet date based on the assumption that there is a high expectation that the asset will be realised in due course This assumption is dependent on the Group's ability to generate sufficient future taxable profits

Inventories (£15,740,000, 2006 £16,110,000)

A small proportion of inventory is made up of stocks which are not expected to sell for the full normal selling price, either because they are remnants, come from discontinued ranges, or are below the required quality standard This inventory is carried at a value which reflects the directors' best estimates of achievable selling prices The movement in the provision during the year was a reduction of £112,000 (2006 £28,000 increase)

Trade receivables

Details of the provision made for non-recoverability of debts due to the Group from the sale of goods are set out under note 14

27 Related parties

Identity of related parties

The Group has a related party relationship with its associate and its directors and executive officers

The Company has a related party relationship with its associate, its subsidiaries, and its directors and executive officers

Transactions with key management personnel

Key management personnel are considered to be the directors of the Company

As at 31 March 2007, directors of the Company and their immediate relatives controlled 2 87 per cent of the voting shares of the Company

The remuneration of the Directors is disclosed within the Directors' remuneration report on page 32

Transactions with associated undertaking

	Group 52 weeks		Company 52 weeks	
	31 March 2007 £000	1 April 2006 £000	**31 March 2007 £000**	1 April 2006 £000
Management charges	**71**	72	**71**	72
Dividend income	**32**	23	**32**	23
Sale of goods	**560**	412	**—**	—
	As at 31 March 2007 £000	As at 1 April 2006 £000	**As at 31 March 2007 £000**	As at 1 April 2006 £000
Amounts due from associated undertaking	**185**	193	**71**	72

Transactions with subsidiary undertakings

	Company 52 weeks	
	31 March 2007 £000	1 April 2006 £000
Management charges	**—**	—
Dividends	**930**	843
Rental income	**658**	658
	As at 31 March 2007 £000	As at 1 April 2006 £000
Amounts due from subsidiary undertakings	**4,434**	3,880
Amounts due to subsidiary undertakings	**26**	1

Five Year Record

		IFRS			UK GAAP	
		2007	2006	2005	2004	2003
		£000	£000	£000	£000	£000
Results of continuing operations						
Revenue		**55,426**	52,288	49,282	54,622	44 367
EBITDA		**5,742**	5,259	6,016	6,865	5,158
Depreciation and amortisation		**(2,253)**	(2,320)	(2,240)	(2,094)	(1,799)
EBIT		**3,489**	2,939	3,776	4,771	3,359
Interest		**(727)**	(740)	(764)	(586)	(352)
Trading profit		**2,762**	2,199	3,012	4,185	3,007
Exceptional items		**—**	(188)	—	—	—
Profit before tax		**2,762**	2,011	3,012	4,185	3,007
Tax		**(754)**	(393)	(871)	(1,180)	(917)
Profit attributable to shareholders		**2,008**	1,618	2,141	3,005	2,090
Dividend — proposed		**868**	799	799	799	625
ASSETS EMPLOYED						
Operating assets						
Non-current assets		**24,986**	25,319	25,193	24,461	22,217
Net current assets (note a)		**16,121**	16,804	16,141	14,470	10,150
Non-current liabilities		**(2,435)**	(2,205)	(2,512)	(2,441)	(1,760)
		38,672	39,918	38,822	36,490	30,607
Financed by						
Share capital and premium		**2,565**	2,565	2,565	2,565	2,565
Retained reserves		**26,418**	25,242	24,340	22,766	19,887
Shareholders' funds		**28,983**	27,807	26,905	25,331	22,452
Net borrowings		**9,689**	12,111	11,917	11,159	8,155
		38,672	39,918	38,822	36,490	30,607
ANALYSIS						
Return on operating assets	%	**9 02**	7 36	9 73	13 07	10 97
Return on shareholders' funds	%	**9 52**	7 23	11 19	16 52	13 39
Earnings per share (basic)	p	**28 9**	23 3	12 1	43 3	30 1
Earnings per share (adjusted)	p	**28 9**	25 2	31 0	43 3	30 1
Dividend per share — proposed	p	**12 5**	11 5	11 5	11 5	9 0
Dividend cover (basic)	times	**2 31**	2 03	1 05	3 76	3 34
Dividend cover (adjusted)	times	**2 31**	2 19	2 69	3 76	3 34

Notes

(a) Excluding net debt, but including fair value of financial instruments

The amounts disclosed for 2004 and earlier are stated on the basis of UK GAAP because it is not practicable to restate amounts for periods prior to the date of transition to IFRS The principal differences between UK GAAP and IFRS are that under IFRS

1 The results of foreign operations are included at average exchange rates
2 Properties are included at their valuation on the transition date
3 Deferred tax is provided on property values
4 Goodwill is not amortised
5 Proposed dividends are not shown as a liability

Notice of Annual General Meeting

Notice is hereby given that the seventy-fourth Annual General Meeting of the Company will be held at the Registered Office of the Company, Worcester Road, Kidderminster, DY10 1HL on Tuesday, 24 July 2007 at 2 30 p m for the following purposes

Ordinary Business

1 To receive and adopt the Directors' Report and Audited Accounts for the year ended 31 March 2007

2 To approve the Directors' Remuneration Report for the year ended 31 March 2007

3 To declare the dividend of 12 5 pence per share proposed in respect of the year ended 31 March 2007

4 To re-elect as a director, Mr R M Gilbert* who retires by rotation pursuant to Article 92 of the Company's Articles of Association and, being eligible, offers himself for re-election

5 To re-elect as a director, Mr K Ackroyd* who retires by rotation pursuant to Article 92 of the Company's Articles of Association and, being eligible, offers himself for re-election

6 To elect as a director Mr I G Davies

7 To reappoint Deloitte & Touche LLP as auditors of the Company, and to authorise the directors to determine their remuneration for the ensuing year

* denotes member of Remuneration Committee

Special Business

To consider and, if thought fit, to pass the following resolutions, of which Resolution 8 is proposed as an Ordinary Resolution and Resolutions 9 and 10 are proposed as Special Resolutions

8 That the directors be and are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities as defined in that section up to an aggregate amount of £389,111, provided that this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company and 15 months after the date this resolution is passed, save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired

9 That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by Resolution 8 if passed as if Sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited

(a) to the allotment of equity securities in connection with an offer open for acceptance for a period fixed by the directors to holders of Ordinary Shares of 25p each in the capital of the Company where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them (subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of or the requirements of any recognised regulatory body or any stock exchange in any territory), and

(b) to the allotment otherwise than pursuant to paragraph (a) above of equity securities up to an aggregate nominal value of £86,794

and shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and 15 months after the date this resolution is passed save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired

Notice of Annual General Meeting

continued

10 That the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 of the Companies Act 1985) of Ordinary Shares of 25p each in the capital of the Company (Ordinary Shares) provided that

(a) the maximum number of Ordinary Shares authorised to be purchased is 694,355 (representing approximately 10% of the present issued share capital of the Company),

(b) the minimum price (excluding stamp duty, dealing or other costs) which may be paid for an Ordinary Share so purchased is 25p,

(c) the maximum price which may be paid for an Ordinary Share so purchased is an amount equal to 5% above the average of the middle market quotations shown for an Ordinary Share in the London Stock Exchange Daily Official List of the five business days immediately preceding the day on which the Ordinary Share is purchased,

(d) the authority hereby conferred shall expire at the conclusion of the next Annual General meeting of the Company, unless such authority is renewed, varied or revoked prior to such time, and

(e) the Company may prior to the expiry of such authority make a contract to purchase Ordinary Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract

By Order of the Board
T A Danks
Secretary
20 June 2007

Terry Danks

Worcester Road
Kidderminster
DY10 1HL

Notes

(i) Only holders of Ordinary Shares entered on the Register of Members of the Company at 5 00 p m on the second day prior to the date of the Meeting or any adjournment thereof shall (if otherwise entitled to do so) be entitled to attend and vote at the Meeting or any such adjournment This is in accordance with paragraph 41 of the Uncertificated Securities Regulations 2001 and Article 61 of the Company's Articles of Association

(ii) A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, to vote instead of him/her A proxy need not be a member of the Company A form of proxy is enclosed

(iii) To be valid for the Meeting a form of proxy should be completed, signed and lodged (together with any power of attorney or other authority under which it is signed or a duly certified copy of such power or authority) with the Company Secretary no later than 48 hours before the time for which the Meeting is convened

(iv) Copies of the Directors' service contracts are available for inspection during usual business hours at the registered office of the Company on any weekday (Saturdays and public holidays excepted) from the date of this notice until the date of the Annual General Meeting and also at the place of the Annual General meeting for at least 15 minutes prior to and until the conclusion of, the Meeting A copy of the Company's Articles of Association will also be available for inspection at the company's Registered Office at the same time

(v) The dividend of 12 50p per share which is subject to Shareholder approval at the Annual General Meeting will be paid to Shareholders on 30 July 2007 The Company's ordinary shares go ex-dividend on 27 June 2007, whilst the Record Date is 29 June 2007