

Carpets International (U.K.) plc

Accounts 31 December 1997

together with directors' and auditors' reports

Registered number: 924669



Directors' report

For the year ended 31 December 1997

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1997.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

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

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

Principal activities and business review

Carpets International (U.K.) plc, Britain's largest producer of tufted carpets, operates six manufacturing plants and four distribution facilities and has 1650 employees.

The principal activities of the company continue to be the manufacture of tufted carpets, polypropylene fibre extrusion and the processing of bulked continuous filament nylon and spun polyester yarns for use in tufted carpet manufacture. The company manufactures a variety of printed and solid dyed carpet with numerous styling effects.

The company sells its products throughout Great Britain, Ireland, and exports to most major countries for both residential and commercial applications.

During the last two years the company has taken major reorganisation steps to enhance its profitability by disposing of the Woven Division and concentrating solely on the core tufted business. This has allowed a reduction in inventory, increased machine efficiency and waste reductions leading to lower cost of production.

New middle range products and styling have been introduced, which have been widely accepted in the market place and along with a new Branded Warranty Programme have increased the company's market share.

Directors' report (continued)

Principal activities and business review (continued)

Another significant change in 1997 was the introduction of Carpets International's new fleet of trucks for direct delivery of carpet to our customers. This service has further enhanced the company's position with its customers, another 10 trucks will be added to the fleet in June to expand coverage to a greater number of customers providing a greater reliability of service.

The Directors are looking forward to 1998 with the company returning to profitability and continued improved relationships with our customers.

Results and dividends

The profit and loss account for the year is set out on page 5.

The directors recommend that no dividend is paid.

Directors and their interests

The directors who served during the year are as shown below.

M. Gibson	(Resigned 1 July 1997)
R.E. Shaw	
W.C. Lusk	
W.N. Little	
R. Boe	(Appointed 28 February 1997)

None of the directors have any interests required to be disclosed under section 234 of the Companies Act 1985.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, and to pay suppliers in accordance with these terms, provided that the suppliers meet their obligations.

The average number of days credit taken for trade purchases at 31 December 1997 was 39 days.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Directors' report (continued)

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.

By order of the Board,

Toftshaw Lane
Bradford
BD4 6QW



R. J. Boe

Director

31 March 1998

Auditors' report

Leeds

To the Shareholders of Carpets International (U.K.) plc:

We have audited the accounts on pages 5 to 21 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 to 9.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the company, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the company's state of affairs at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

St. Paul's House
Park Square
Leeds
LS1 2PJ

31 March 1998

Profit and loss account

For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	134,425	153,895
Cost of sales			
- exceptional items	6	-	(4,399)
- other		(109,219)	(134,109)
		<u>(109,219)</u>	<u>(138,508)</u>
Gross profit		25,206	15,387
Other operating expenses	3	(22,529)	(24,320)
Operating profit (loss)		2,677	(8,933)
Costs of a reorganisation of continuing operations	6	-	(18,628)
Provisions for sale of an operation	6	-	(2,739)
Investment income	4	215	3,285
Interest payable and similar charges	5	(5,247)	(2,813)
Loss on ordinary activities before taxation	6	(2,355)	(29,828)
Tax on loss on ordinary activities	8	-	-
		<u>(2,355)</u>	<u>(29,828)</u>
Loss for the financial year		(2,355)	(29,828)
Accumulated deficit, beginning of year		(53,015)	(23,187)
Accumulated deficit, end of year		<u>(55,370)</u>	<u>(53,015)</u>

The company has made no recognised gains or losses other than the losses reported in the profit and loss account above.

All results relate to continuing operations.

The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	9	29,580	25,981
Current assets			
Stocks	11	27,142	36,101
Debtors	12	20,851	40,936
Cash at bank and in hand		10,097	3,252
		58,090	80,289
Creditors: Amounts falling due within one year	13	(27,251)	(32,430)
Net current assets		30,839	47,859
Total assets less current liabilities		60,419	73,840
Creditors: Amounts falling due after more than one year	14	(52,823)	(80,576)
Provisions for liabilities and charges	15	(406)	(19,167)
Net assets (liabilities)		7,190	(25,903)
Capital and reserves			
Called-up share capital	16	255	255
Share premium account	17	160	160
Capital redemption reserve	17	260	260
Capital reserves	17	4,431	4,431
Capital contribution	17	57,454	22,006
Profit and loss account	17	(55,370)	(53,015)
Equity shareholders' funds	18	7,190	(25,903)

Signed on behalf of the Board

R. J. Boe



Director

31 March 1998

The accompanying notes are an integral part of this balance sheet.

Notes to accounts

For the year ended 31 December 1997

1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, are as follows:

a) *Basis of accounting*

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

A cash flow statement has not been prepared under the dispensation allowed in Financial Reporting Standard No. 1 (Revised) as the company's ultimate parent company, Shaw Industries Inc., produces accounts which are available to the public, and which include a consolidated cash flow statement.

Consolidated accounts have not been presented as the company is a wholly owned subsidiary undertaking of Shaw UK Holdings Limited which prepares consolidated accounts and is registered in England and Wales.

b) *Research and development expenditure*

Research and development expenditure is written off in the year in which it is incurred.

c) *Tangible fixed assets*

Fixed assets are shown at cost, any related government grants being reported as deferred income and amortised over the expected useful life of the asset concerned.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	50 years
Leasehold land and buildings	term of lease
Plant and machinery	3 to 10 years

d) *Stocks*

Stocks are stated at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition is based on:

Raw materials	- purchase cost on a first-in, first-out basis, including transport
Work-in-progress and finished goods	- cost of direct materials and labour, plus a reasonable proportion of manufacturing overheads based on normal levels of activity.

Notes to accounts (continued)

1 Accounting policies (continued)

e) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the accounts of the surrendering and recipient companies.

Deferred taxation is provided to the extent that directors estimate that tax may become payable in the foreseeable future.

f) *Pension costs*

The company provides pensions to employees through two funded defined benefit pension schemes. The assets of the schemes are held independently of the company by trustees.

The amount charged to the profit and loss account for the defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period adjusted to reflect variations from that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members. Any difference between amounts charged to the profit and loss account and contributions paid to the schemes is shown as a separately identified liability or asset in the balance sheet.

Further information on pension costs is provided in note 19d.

g) *Foreign currency*

In the accounts of individual undertakings, transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

h) *Turnover*

Turnover comprises the value of sales (excluding VAT and similar taxes and trade discounts) of goods and services in the normal course of business.

Notes to accounts (continued)

1 Accounting policies (continued)

i) Leases

The company enters into operating and finance leases.

Assets held under finance leases are initially reported at the fair value of the asset, with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is depreciated over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of return on the outstanding balance. Rentals are apportioned between finance charges and reduction of the liability, and allocated to cost of sales and other operating expenses as appropriate. Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

j) Deferred expenditure

Expenditure incurred on the production of carpet pattern books is charged to the profit and loss account over a period determined by the directors. The expenditure is expensed immediately unless it relates to new products in which case it is written off over a period of up to six months.

2 Turnover

The directors consider that the company operates only one class of business, being its principal activity.

Turnover is analysed by geographical destination as follows:

	1997 £'000	1996 £'000
United Kingdom	129,497	147,691
Europe	4,444	2,693
North America	286	3,073
Other	198	438
	<u>134,425</u>	<u>153,895</u>

All sales related to the company's principal activities, and originated in the United Kingdom and Eire.

Notes to accounts (continued)

3 Other operating expenses

	1997 £'000	1996 £'000
Distribution costs	17,112	18,306
Administrative expenses	5,417	6,014
	<u>22,529</u>	<u>24,320</u>

4 Investment income

	1997 £'000	1996 £'000
Waiver of interest on loans from group companies	-	3,033
Bank interest received	215	237
Exchange gain on loans from group companies	-	15
	<u>215</u>	<u>3,285</u>

5 Interest payable and similar charges

	1997 £'000	1996 £'000
On bank loans, overdrafts and other loans	5,183	2,644
On finance leases and hire purchase contracts	64	169
	<u>5,247</u>	<u>2,813</u>

Notes to accounts (continued)

6 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	1997 £'000	1996 £'000
<u>Operating Items</u>		
Exceptional costs	-	4,399
Depreciation of tangible fixed assets:		
- owned	2,951	6,340
- held under finance leases and hire purchase contracts	1,086	1,950
Operating lease rentals		
- land and buildings	863	554
- plant and machinery	1,043	1,059
- other	1,523	1,059
Auditors' remuneration		
- audit fees	60	73
- non-audit fees	102	101
Staff costs (see note 7)	<u>35,391</u>	<u>45,070</u>

Exceptional costs in the prior year relate to write down of fixed assets.

	1997 £'000	1996 £'000
<u>Non operating items</u>		
Exceptional items:		
Reorganisation and restructuring costs	-	18,628
Provisions for sale of an operation	<u>-</u>	<u>2,739</u>

Exceptional costs in the prior year in respect of reorganisation relate to provisions in respect of the decision to withdraw from the manufacture and distribution of woven carpets. Exceptional costs in respect of sale of operations relate to the Killacloyne manufacturing operation which was sold on 7 February 1997. The provisions were categorised as continuing as the operations of Killacloyne are not separately identifiable for financial reporting purposes.

Notes to accounts (continued)

7 Staff costs

Particulars of employees (including executive directors) are as shown below:

	1997 £'000	1996 £'000
Employee costs during the period amounted to:		
Wages and salaries	31,015	39,260
Social security costs	2,454	3,310
Other pension costs (see also note 19d)	1,922	2,500
	<u>35,391</u>	<u>45,070</u>

The average monthly number of persons employed by the company during the year was as follows:

	1997 Number	1996 Number
Production	1,256	1,922
Distribution	218	193
Administration and sales	257	236
	<u>1,731</u>	<u>2,351</u>

Directors' remuneration

Remuneration

The remuneration of the directors was as follows:

	1997 £'000	1996 £'000
Emoluments	85	155
Compensation for loss of office	266	-
	<u>351</u>	<u>155</u>

Pensions

One director was a member of a defined benefit pension scheme (1996 - one).

Notes to accounts (continued)

Directors' remuneration (continued)

Highest-paid director

The above amounts for remuneration include the following in respect of the highest-paid director.

	1997 £'000	1996 £'000
Emoluments	85	155
Compensation for loss of office	266	-
	<u>351</u>	<u>155</u>

8 Tax on loss on ordinary activities

At 31 December 1997 the company had tax losses available amounting to approximately £46.0m (1996 - £28.6m), subject to agreement with the Inland Revenue. There is no corporation tax charge for the year.

Notes to accounts (continued)

9 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost			
Beginning of year	7,626	44,527	52,153
Additions at cost	-	2,839	2,839
Disposals	(1,896)	(5,370)	(7,266)
Transfer from other group undertakings	9,092	-	9,092
End of year	<u>14,822</u>	<u>41,996</u>	<u>56,818</u>
Depreciation			
Beginning of year	1,044	25,128	26,172
Charge	129	3,908	4,037
Disposals	(52)	(3,944)	(3,996)
Transfer from other group undertakings	1,025	-	1,025
End of year	<u>2,146</u>	<u>25,092</u>	<u>27,238</u>
Net book value			
Beginning of year	<u>6,582</u>	<u>19,399</u>	<u>25,981</u>
End of year	<u>12,676</u>	<u>16,904</u>	<u>29,580</u>
Leased assets included in the above:			
Net book value			
Beginning of year	-	4,156	4,156
End of year	-	3,076	3,076

10 Fixed asset investments

The company has a 100% investment in the ordinary share capital of Texture-Tex (Europe) Limited, a non-trading company, incorporated in England and Wales.

Notes to accounts (continued)

11 Stocks

	1997 £'000	1996 £'000
Raw materials and consumables	11,717	14,487
Work-in-progress	790	1,525
Finished goods and goods for resale	14,635	20,089
	<u>27,142</u>	<u>36,101</u>

12 Debtors

	1997 £'000	1996 £'000
Amounts falling due within one year:		
Trade debtors	19,360	30,303
Amounts owed by subsidiary undertakings	-	871
Amounts owed by other group undertakings	-	7,489
Prepayments and accrued income	1,491	2,273
	<u>20,851</u>	<u>40,936</u>

13 Creditors: Amounts falling due within one year

	1997 £'000	1996 £'000
Obligations under finance leases and hire purchase contracts	1,108	1,513
Bank loans	32	32
Trade creditors	8,896	11,894
Bills of exchange payable	67	315
Amounts owed to other group undertakings	5,915	2,193
VAT	2,615	2,912
Taxation and social security	833	1,061
Accruals and deferred income	7,785	12,510
	<u>27,251</u>	<u>32,430</u>

Notes to accounts (continued)

14 Creditors: Amounts falling due after more than one year

	1997 £'000	1996 £'000
Obligations under finance leases and hire purchase contracts	2,151	3,229
Bank loans	50,416	77,075
Accruals and deferred income	256	272
	<u>52,823</u>	<u>80,576</u>

Borrowings are analysed as follows:

	1997 £'000	1996 £'000
Wholly repayable within five years:		
- bank loans	<u>50,416</u>	<u>77,075</u>

A bank loan of £1,331,000 is secured by a fixed and floating charge over certain of the company's assets. The remaining bank loans are guaranteed by the ultimate parent undertaking.

Amounts due at 31 December 1997 are payable as follows:

	1997 £'000	1996 £'000
Amounts payable		
- on demand or within one year	32	32
- between one and two years	1,431	-
- between two and five years	48,985	77,075
	<u>50,448</u>	<u>77,107</u>

Notes to accounts (continued)

14 Creditors: Amounts falling due after more than one year (continued)

Obligations under finance leases and hire purchase contracts are repayable as follows:

	1997 £'000	1996 £'000
Within 1 year	1,108	1,513
Within 1-2 years	898	1,067
Within 2-5 years	1,253	2,162
	<u>3,259</u>	<u>4,742</u>

15 Provisions for liabilities and charges

Provisions for liabilities and charges comprise:

	1997 £'000	1996 £'000
Property provisions	370	385
Reorganisation provision	36	18,782
	<u>406</u>	<u>19,167</u>

The movement on provisions comprises:

	Property provisions	Re- organisation provision	Total
At 1 January 1997	385	18,782	19,167
Utilised during the year	(15)	(18,746)	(18,761)
At 31 December 1997	<u>370</u>	<u>36</u>	<u>406</u>

Property provisions comprise the anticipated costs of discharging a property lease commitment.

Notes to accounts (continued)

15 Provisions for liabilities and charges (continued)

The reorganisation provision comprises the anticipated costs of a reorganisation of the continuing business.

Deferred taxation

The amounts of unprovided deferred taxation are as follows:

	1997 £'000	1996 £'000
Tax effect of rolled over capital gains	259	271
Tax effect of losses carried forward	(14,485)	(9,292)
Excess future tax allowances over book value of fixed assets	(2,923)	(3,376)
Other timing differences	(895)	(5,873)
	<u>(18,044)</u>	<u>(18,270)</u>

16 Called-up share capital

	1997 £'000	1996 £'000
<i>Authorised</i>		
1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called-up and fully-paid</i>		
255,000 ordinary shares of £1 each	<u>255</u>	<u>255</u>

Notes to accounts (continued)

17 Movement in reserves

	Capital reserves £'000	Share premium account £'000	Capital redemption reserve £'000	Capital contribution £'000	Profit and loss account £'000	Total £'000
Beginning of year	4,431	160	260	22,006	(53,015)	(26,158)
Capital contribution in the year	-	-	-	35,448	-	35,448
Retained loss for the year	-	-	-	-	(2,355)	(2,355)
End of year	<u>4,431</u>	<u>160</u>	<u>260</u>	<u>57,454</u>	<u>(55,370)</u>	<u>6,935</u>

18 Reconciliation of movement in equity shareholders' funds

	1997 £'000	1996 £'000
Opening equity shareholders' funds	(25,903)	(17,198)
Adjustment to capital reserve on acquisition	-	(883)
Capital contribution in the year	35,448	22,006
Loss for the financial year	(2,355)	(29,828)
Closing equity shareholders' funds	<u>7,190</u>	<u>(25,903)</u>

19 Guarantees and other financial commitments

a) Capital commitments

At the end of the year contracted capital commitments were £196,000 (1996 - £2,299,000)

b) Contingent liabilities

The company is registered with HM Customs & Excise as a member of the Carpets International (U.K) group for VAT purposes. All members registered under this scheme are jointly and severally liable on a continuing basis for amounts owing in respect of their VAT liabilities at any time.

c) Lease commitments

The company has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total rental (including interest) for the year ended 31 December 1997 was £1,523,000 (1996 - £1,059,000), which all related to the company. The lease agreements provide that the company will pay all insurance, maintenance and repairs.

Notes to accounts (continued)

19 Guarantees and other financial commitments (continued)

In addition, the company leases certain land and buildings on short and long-term operating leases. The annual rental on these leases was £863,000 (1996 - £782,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals under the foregoing leases are as follows:

	Property £'000	Plant and Machinery £'000
1997		
Operating leases which expire		
- within 1 year	-	178
- within 2-5 years	-	1,013
- after 5 years	863	-
	<u>863</u>	<u>1,191</u>
1996		
Operating leases which expire		
- within 1 year	-	661
- within 2-5 years	-	526
- after 5 years	785	-
	<u>785</u>	<u>1,187</u>

d) Pension arrangements

The company's employees are entitled to membership of one of two pension schemes; the Carpets International Pension Scheme (formerly Kosset Carpets Pension Scheme) and the Abingdon Carpets Pension Fund. These schemes are both defined benefit schemes.

The actuarial valuations of the Scheme as at 6 April 1996 have not yet been finalised.

The 1996 valuation of the Carpets International Pension Scheme showed that the Scheme's assets represented 96% of the past service liabilities as at the valuation date and that the regular pension cost of 9.6% of pensionable salaries would be increased to 10.0% of pensionable salaries for future years in order to eliminate the deficit at the valuation date over the future working lives of the active members.

The 1996 valuation of the Abingdon Carpets Pension Scheme showed that the scheme's assets represented 125% of the past service liabilities as at the valuation date and that the regular pension cost of 12% of pensionable salaries would be reduced to 7% of pensionable salaries for future years in order to eliminate the surplus at the valuation date over the future working lives of the active members.

The group pension charge for the year was £1,922,000 (1996 - £2,500,000).

Notes to accounts (continued)

20 Ultimate parent company

The company is a subsidiary undertaking of Shaw Industries Inc., incorporated in the United States of America.

The largest group of which Carpets International (U.K.) plc is a member and for which group accounts are drawn up is that headed by Shaw Industries Inc.. The smallest group is that headed by Shaw UK Holdings Limited registered in England and Wales. The consolidated accounts of these groups are available to the public and may be obtained from the address below:

Shaw Industries Inc
616 East Walnut Avenue
Dalton
Georgia
30722-2128
United States of America

As a subsidiary undertaking of Shaw Industries Inc., the company has taken advantage of the exemption in Financial Reporting Standard No. 8 "Related Party disclosures" not to disclose transactions with other members of the group headed by Shaw Industries Inc..