# Carpets International (U.K.) plc

Accounts 31 December 1996
together with directors' and auditors' reports

Registered number: 924669

# Directors' report
For the year ended 31 December 1996

The directors present their report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1996.

**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**
The principal activities of the company continue to be the manufacture of carpets, polypropylene fibre extrusion and the processing of bulk filament nylon yarns used in carpet manufacture.

A decision to undertake a reorganisation of the business was taken in 1996, with the company withdrawing from the manufacture of woven carpets. As part of this reorganisation, the company sold its yarn manufacturing operations in Killacloyne, Eire, to a third party on 7 February 1997. In addition, as a consequence of the decision during 1996 to reorganise its other wool manufacturing operations, the company made substantial provisions during the year (see note 15).

The directors consider that, while the results for the year were disappointing, the actions taken were essential to the long term future of the company.

**Results and dividends**
The profit and loss account for the year is set out on page 4.

The directors recommend that no dividend is paid.

# Directors' report (continued)

**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.

**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.

**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.

**Auditors**

The directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

R. J. Boe

Director

Toftshaw Lane
Bradford
BD4 6QW

3 July 1997

# Auditors' report

Leeds

**To the Shareholders of Carpets International (UK) Plc:**

We have audited the accounts on pages 4 to 20 which have been prepared under the historical cost convention and the accounting policies set out on pages 6 to 8.

**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 1996 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

3 July 1997

# Profit and loss account

For the year ended 31 December 1996

| | Notes | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|---|
| **Turnover** | 2 | 153,895 | 168,521 |
| Cost of sales | | | |
| - exceptional items | 6 | (4,399) | (5,583) |
| - other | | (134,109) | (155,717) |
| | | (138,508) | (161,300) |
| **Gross profit** | | 15,387 | 7,221 |
| Other operating expenses | | | |
| - exceptional items | 6 | - | (2,016) |
| - other | | (24,320) | (20,388) |
| | 3 | (24,320) | (22,404) |
| **Operating loss** | | (8,933) | (15,183) |
| Costs of a reorganisation of continuing operations | 6 | (18,628) | - |
| Provisions for sale of an operation | 6 | (2,739) | - |
| Investment income | 4 | 3,285 | 123 |
| Interest payable and similar charges | 5 | (2,813) | (4,147) |
| **Loss on ordinary activities before taxation** | 6 | (29,828) | (19,207) |
| Tax on loss on ordinary activities | 8 | - | (449) |
| **Loss for the financial year** | | (29,828) | (19,656) |
| **Accumulated deficit, beginning of year** | | (23,187) | (3,531) |
| **Accumulated deficit, end of year** | | (53,015) | (23,187) |

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

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.

# Balance sheet

31 December 1996

| | Notes | 1996 £'000 | 1995 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 9 | 25,981 | 29,338 |
| Investments | 10 | - | - |
| | | 25,981 | 29,338 |
| **Current assets** | | | |
| Stocks | 11 | 36,101 | 32,533 |
| Debtors | 12 | 40,936 | 38,913 |
| Cash at bank and in hand | | 3,252 | 10,033 |
| | | 80,289 | 81,479 |
| **Creditors:** Amounts falling due within one year | 13 | (32,430) | (35,796) |
| **Net current assets** | | 47,859 | 45,683 |
| **Total assets less current liabilities** | | 73,840 | 75,021 |
| **Creditors:** Amounts falling due after more than one year | 14 | (80,576) | (91,473) |
| **Provisions for liabilities and charges** | 15 | (19,167) | (746) |
| **Net liabilities** | | (25,903) | (17,198) |
| **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 | 5,314 |
| Capital contribution | 17 | 22,006 | - |
| Profit and loss account | 17 | (53,015) | (23,187) |
| **Equity shareholders' funds** | 18 | (25,903) | (17,198) |

**Signed on behalf of the Board**

R. J. Boe Director

3 July 1997

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

# Notes to accounts

For the year ended 31 December 1996

## 1 Accounting policies

The principal accounting policies, all of which have been applied consistently throughout the year and the preceding period, 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.

The company has net liabilities at 31 December 1996. The directors have prepared the accounts on a going concern basis as the company's ultimate parent company is committed to providing continued financial support, including guarantee of the principal bank borrowings of the company, to ensure the company meets its debts as they fall due for the foreseeable future, being for a period not less than one year from the date the directors approve the accounts.

*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:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| United Kingdom | 147,691 | 157,649 |
| Europe | 2,693 | 8,899 |
| North America | 3,073 | 1,290 |
| Other | 438 | 683 |
| | 153,895 | 168,521 |

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

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Distribution costs | 18,306 | 15,459 |
| Administrative expenses | 6,014 | 6,945 |
| | 24,320 | 22,404 |

## 4 Investment income

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Waiver of interest on loans from group companies | 3,033 | - |
| Bank interest received | 237 | 123 |
| Exchange gain on loans from group companies | 15 | - |
| | 3,285 | 123 |

## 5 Interest payable and similar charges

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| On bank loans, overdrafts and other loans | 2,644 | 3,308 |
| Exchange loss on loans from group companies | - | 555 |
| On finance leases and hire purchase contracts | 169 | 284 |
| | 2,813 | 4,147 |

# Notes to accounts (continued)

**6 Loss on ordinary activities before taxation**

Loss on ordinary activities before taxation is stated after charging:

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Operating Items | | |
| Exceptional costs | 4,399 | 7,599 |
| Depreciation of tangible fixed assets: | | |
| - owned | 6,340 | 3,635 |
| - held under finance leases and hire purchase contracts | 1,950 | 1,087 |
| Operating lease rentals | | |
| - land and buildings | 554 | 535 |
| - plant and machinery | 1,059 | 748 |
| - other | 1,059 | 1,016 |
| Auditors' remuneration | | |
| - audit fees | 73 | 60 |
| - non-audit fees | 101 | 52 |
| Staff costs (see note 7) | 45,070 | 43,669 |

Exceptional costs in the prior year relate to reorganisation costs associated with the integration of the Carpets business acquired from Coats Viyella plc. These comprised costs of reorganisation and restructuring of £6,639,000 and loss on disposal of tangible fixed assets of £960,000. Exceptional costs in the current year relate to write down of fixed assets (see note 9).

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Non operating items | | |
| Exceptional items: | | |
| Reorganisation and restructuring costs | 18,628 | - |
| Provisions for sale of an operation | 2,739 | - |

Exceptional costs 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 have been 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:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Employee costs during the period amounted to: | | |
| Wages and salaries | 39,260 | 38,002 |
| Social security costs | 3,310 | 3,337 |
| Other pension costs (see also note 19d) | 2,500 | 2,330 |
| | 45,070 | 43,669 |

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

| | 1996<br>Number | 1995<br>Number |
|---|---|---|
| Production | 1,922 | 1,994 |
| Distribution | 193 | 200 |
| Administration and sales | 236 | 274 |
| | 2,351 | 2,468 |

Directors' remuneration:

Directors' remuneration in respect of directors of the company was as follows:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Directors' emoluments (including pension contributions) | 176 | 91 |

The directors' remuneration shown above (excluding pensions and pension contributions) included:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Chairman | - | - |
| Highest paid director | 155 | 87 |

# Notes to accounts (continued)

## 7 Staff costs (continued)

Directors received emoluments (excluding pensions and pension contributions) in the following ranges:

| | 1996 | 1995 |
|---|---|---|
| | Number | Number |
| £ 0 - £ 5,000 | 3 | 4 |
| £ 85,001 - £ 90,000 | - | 1 |
| £155,001 - £160,000 | 1 | - |

## 8 Tax on loss on ordinary activities

| | 1996 | 1995 |
|---|---|---|
| | £'000 | £'000 |
| Adjustment to corporation tax in respect of prior years | - | 449 |

At 31 December 1996 the company had tax losses available amounting to approximately £28.6m (1995 - £21.6m), subject to agreement with the Inland Revenue.

The exceptional costs in the current year have not resulted in any current tax credit. The provisions represent deferred tax other timing differences, until costs are incurred, at which time the expenditure contributes to tax losses carried forward.

# 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 | 7,954 | 39,832 | 47,786 |
| Additions at cost | 34 | 5,741 | 5,775 |
| Disposals | (362) | (1,046) | (1,408) |
| End of year | 7,626 | 44,527 | 52,153 |
| **Depreciation** | | | |
| Beginning of year | 996 | 17,452 | 18,448 |
| Charge | 153 | 8,137 | 8,290 |
| Disposals | (105) | (461) | (566) |
| End of year | 1,044 | 25,128 | 26,172 |
| **Net book value** | | | |
| Beginning of year | 6,958 | 22,380 | 29,338 |
| End of year | 6,582 | 19,399 | 25,981 |

Leased assets included in the above:

| | | | |
|---|---|---|---|
| **Net book value** | | | |
| Beginning of year | - | 5,236 | 5,236 |
| End of year | - | 4,156 | 4,156 |

Included in the depreciation charge for the year is a charge of £4,399,000 relating to a permanent diminution in value of certain items of plant and equipment.

# Notes to accounts (continued)

**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.

**11 Stocks**

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Raw materials and consumables | 14,487 | 9,885 |
| Work-in-progress | 1,525 | 3,495 |
| Finished goods and goods for resale | 20,089 | 19,153 |
| | 36,101 | 32,533 |

**12 Debtors**

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | 30,303 | 32,374 |
| Amounts owed by subsidiary undertakings | 871 | 897 |
| Amounts owed by other group undertakings | 7,489 | 4,198 |
| Prepayments and accrued income | 2,273 | 1,444 |
| | 40,936 | 38,913 |

**13 Creditors: Amounts falling due within one year**

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Obligations under finance leases and hire purchase contracts | 1,513 | 1,274 |
| Bank loans | 32 | 32 |
| Trade creditors | 11,894 | 12,211 |
| Bills of exchange payable | 315 | 302 |
| Amounts owed to other group undertakings | 2,193 | - |
| VAT | 2,912 | 3,679 |
| Taxation and social security | 1,061 | 950 |
| Accruals and deferred income | 12,510 | 17,348 |
| | 32,430 | 35,796 |

# Notes to accounts (continued)

**14 Creditors: Amounts falling due after more than one year**

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Obligations under finance leases and hire purchase contracts | 3,229 | 984 |
| Bank loans | 77,075 | 21,395 |
| Amounts owed to other group undertakings | - | 68,822 |
| Accruals and deferred income | 272 | 272 |
| | 80,576 | 91,473 |

Borrowings are analysed as follows:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Not wholly repayable within five years: | | |
| Not by installment | | |
| - amounts owed to other group undertakings | - | 68,822 |
| Wholly repayable within five years: | | |
| - bank loans | 77,075 | 21,395 |

A bank loan of £1,363,000 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 1996 are payable as follows:

| | 1996<br>£'000 | 1995<br>£'000 |
|---|---|---|
| Amounts payable | | |
| - on demand or within one year | 32 | 32 |
| - between one and two years | - | 20,000 |
| - between two and five years | 77,075 | - |
| - after five years | - | 70,217 |
| | 77,107 | 90,249 |

# 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:

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Within 1 year | 1,513 | 1,274 |
| Within 1-2 years | 1,067 | 563 |
| Within 2-5 years | 2,162 | 421 |
| | 4,742 | 2,258 |

**15 Provisions for liabilities and charges**

Provisions for liabilities and charges comprise:

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Property provisions | 385 | 746 |
| Reorganisation provision | 18,782 | - |
| Deferred taxation | - | - |
| | 19,167 | 746 |

The movement on provisions comprises:

| | Deferred taxation | Property provisions | Reorganisation provision | Total |
|---|---|---|---|---|
| At 1 January 1996 | - | 746 | - | 746 |
| Charged to profit and loss account | - | - | 21,367 | 21,367 |
| Utilised during the year | - | (361) | (2,585) | (2,946) |
| At 31 December 1996 | - | 385 | 18,782 | 19,167 |

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*

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Excess of tax allowances over book depreciation of fixed assets | - | 2,152 |
| Other timing differences | - | (1,251) |
| Tax effect of losses carried forward | - | (726) |
| ACT recoverable | - | (175) |
| | - | - |

The amounts of unprovided deferred taxation are as follows:

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Tax effect of rolled over capital gains | 271 | 271 |
| Tax effect of losses carried forward | (9,292) | (6,405) |
| Excess future tax allowances over book value of fixed assets | (3,376) | - |
| Other timing differences | (5,873) | - |
| | (18,270) | (6,134) |

**16 Called-up share capital**

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| *Authorised* | | |
| 1,000,000 ordinary shares of £1 each | 1,000 | 1,000 |
| *Allotted, called-up and fully-paid* | | |
| 255,000 ordinary shares of £1 each | 255 | 255 |

# 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 | 5,314 | 160 | 260 | - | (23,187) | (17,453) |
| Adjustment to capital reserve (see below) | (883) | - | - | - | - | (883) |
| Capital contribution in the year | - | - | - | 22,006 | - | 22,006 |
| Retained loss for the year | - | - | - | - | (29,828) | (29,828) |
| End of year | 4,431 | 160 | 260 | 22,006 | (53,015) | (26,158) |

In the prior year the company acquired the trade and certain assets of the Carpets division of Coats Viyella plc. A capital reserve of £5,314,000 arose as a result. At the time of the acquisition a dispute existed as to whether finance lease obligations were transferred. The directors made a fair value provision of £3,500,000 in the prior year based upon their estimate of the obligations likely to transfer. During 1996, the dispute has been settled with finance lease obligations of £4,383,000 being assumed by the company. Accordingly an adjustment has been made to the capital reserve on acquisition.

**18 Reconciliation of movement in equity shareholders' funds**

| | 1996 £'000 | 1995 £'000 |
|---|---|---|
| Opening equity shareholders' funds | (17,198) | (2,856) |
| Adjustment to capital reserve on acquisition (see note 17) | (883) | 5,314 |
| Capital contribution in the year | 22,006 | - |
| Loss for the financial year | (29,828) | (19,656) |
| Closing equity shareholders' funds | (25,903) | (17,198) |

**19 Guarantees and other financial commitments**

*a) Capital commitments*

At the end of the year contracted capital commitments were £2,299,000 (1995 - £2,385,000)

*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.

# Notes to accounts (continued)

**19 Guarantees and other financial commitments (continued)**

*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 1996 was £1,059,000 (1995 - £845,000), which all related to the company. The lease agreements provide that the company will pay all insurance, maintenance and repairs. The company may continue, at its option, to use the plant and machinery after the expiration of the initial lease period at a nominal rental.

In addition, the company leases certain land and buildings on short- and long-term operating leases. The annual rental on these leases was £782,000 (1995 - £535,000). 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 |
|---|---|---|
| 1996 | | |
| Operating leases which expire | | |
| - within 1 year | - | 661 |
| - within 2-5 years | - | 526 |
| - after 5 years | 785 | - |
| | 785 | 1,187 |
| 1995 | | |
| Operating leases which expire | | |
| - within 1 year | - | 587 |
| - within 2-5 years | 235 | 499 |
| - after 5 years | 235 | - |
| | 470 | 1,086 |

*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 latest formal review of the Abingdon Carpets Pension Fund was carried out at 1 January 1993. As a result of this review, the regular pension cost of 10.92% has been reduced to 5.91% of Pensionable Salaries for future years, in order to eliminate the surplus at 1 January 1993 over the anticipated remaining service lives of the employees.

# Notes to accounts (continued)

**19 Guarantees and other financial commitments (continued)**

The latest valuation of the Carpets International Pension Scheme was carried out at 6 April 1993 and the value of the fund's assets represented 94% of past service liabilities. In light of conservative assumptions made in the valuation, the actuary believes the effective rate of contributions in the prior period is satisfactory to ensure the proper funding of accrued pension liabilities over the working life of the member employees.

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

The pension charge for the period was £2,500,000 (1995 - £2,330,000).

**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..