

**CARPETS INTERNATIONAL (UK)
LIMITED**

Report and Financial Statements

31 December 1999



**Deloitte & Touche
10-12 East Parade
Leeds
LS1 2AJ**

CARPETS INTERNATIONAL (UK) LIMITED**REPORT AND FINANCIAL STATEMENTS 1999**

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Auditors' report	5
Profit and loss account	6
Balance sheet	7
Notes to the accounts	8

CARPETS INTERNATIONAL (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 1999

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R Boe
B A McLean
R L Cravey

SECRETARY

A W Barfield

REGISTERED OFFICE

Toftshaw Lane
Bradford
BD4 6QW

BANKERS

Bank Boston
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London
SW1H 0ED

SOLICITORS

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LS1 2JB

AUDITORS

Deloitte & Touche
10-12 East Parade
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LS1 2AJ

CARPETS INTERNATIONAL (UK) LIMITED**DIRECTORS' REPORT**

The directors present their annual report and the audited financial statements for the year ended 31 December 1999.

ACTIVITIES

Carpets International (UK) Limited ("CI"), the UK's largest producer of tufted carpets, operated seven manufacturing sites and four distribution facilities with 1712 people during 1999. All carpets are produced in two plants from yarns and fibres processed in five separate operations, which include; polypropylene and polyester extrusion; filament twisting and heat setting and wool and synthetic fibre spinning. The range of styling and price points offer solid colours in different textures, solid and coloured patterns and a five year stain warranty on most of the well known brands for the Retail and Contract trades. Carpets are sold mainly through Kosset, Wilton Royal, Abingdon, Crossley, Lancaster and CI, with a large distribution network to service retailers direct throughout the UK with a dedicated transport fleet. While the major portion of business is in the UK, sales have been expanded on medium priced patterned products to Europe, the Mid-East and the US.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Trading in '99 was a mirror image of '98, with a weak first half followed by a strong second half and continued import growth with the strong Pound. Carpets International (UK) Ltd repeated the 1% pre-tax profit for two years running, following the substantial losses reported in 1995 and 1996. This has been a result of continual product mix change (average price increased 2.5%) along with attention to cost reduction during a difficult market and competitive environment. Absent those moves, the company would have made a loss for the year as business in the first half of '99 was significantly below budget and the prior year negatively affecting cost during that period. In addition, reduction in debt and lower interest rates provided a significant decrease in interest payments. Costs associated with the relocation of the company's warehousing and distribution facilities in the period amounting to £1.8 million were covered by the profit realised on the disposal of the vacated premises.

The balance sheet was strengthened further in '99 with paydown of term loans and capital leases through more efficient use of working capital. The current debt to equity ratio of 1.10 is much improved over levels in the mid-90's.

The company's mission is to be the carpet supplier of choice in the UK providing superior service over competition and through value added initiatives. The major distribution move and consolidation to our new Hull site should allow CI to further enhance direct deliveries throughout the UK more effectively. During the move from October 1999 to March 2000 the disruption has affected day-to-day operations and cost, but post completion the positive effects will be significant.

Business in 2000 is expected to provide modest growth over the previous two years. The launch of Kosset's new Microfibre products offering softness and durability to the consumer in contemporary styling and natural colour palettes should provide new business in domestic as well as overseas markets. In addition, a totally new fibre system produced in the company's South Wales facility will be introduced in high value products to compete more favourably with imports, which have taken a large share of the domestic retail market. Further emphasis will be placed in the contract segments with new products for the Hotel/Hospitality sectors.

While there have been modest gains in efficiency in some of the manufacturing plants, this will be more aggressively pursued during 2000 to achieve more significant cost reductions with no product compromise. In all areas, we strive for continuous improvement in all functions performed. The feedback from frequent customer surveys is extremely helpful in defining routes to enhancing our offering to the customer.

Company plans and performance are routinely reviewed with all employees to ensure complete understanding of objectives, approaches to achieve them and individual involvement to produce proper feedback to employees on their accomplishments against objectives.

We will continue to strengthen the balance sheet to create value for the company's investors.

Our thanks to all our employees for their efforts in helping CI to accomplish the results of the past two years.

DIRECTORS' REPORT**DIVIDENDS**

The directors are unable to propose a dividend (1998 : £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

R Boe

B A McLean

R L Cravey

None of the directors have any interests in the company.

The interests of the directors in the parent company, Carpet Holdings Limited, are disclosed in that company's accounts.

YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not anticipated to be significant.

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.

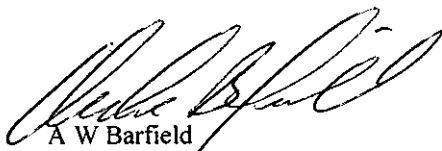
EMPLOYEE CONSULTATION

The company places 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

A resolution for the reappointment of Deloitte & Touche as auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



A W Barfield

Secretary

25 April 2000

CARPETS INTERNATIONAL (UK) LIMITED**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements 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 financial statements comply with the Companies Act 1985. 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.



AUDITORS' REPORT TO THE MEMBERS OF CARPETS INTERNATIONAL (UK) LIMITED

We have audited the financial statements on pages 6 to 18 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. 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 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche
Chartered Accountants
and Registered Auditors
4 May 2000

CARPETS INTERNATIONAL (UK) LIMITED
PROFIT AND LOSS ACCOUNT
Year ended 31 December 1999

	Note	1999 Before exceptional items £'000	1999 Exceptional items £'000	1999 Total £'000	1998 Total £'000
TURNOVER: continuing operations					
Cost of sales	2	127,572 (102,552)	- -	127,572 (102,552)	129,640 (103,789)
Gross profit		25,020		25,020	25,851
Other operating costs	3	(21,165)	(1,800)	(22,965)	(21,123)
OPERATING PROFIT: continuing operations		3,855	(1,800)	2,055	4,728
Profit on sale of fixed assets in continuing operations		-	1,800	1,800	-
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		3,855	-	3,855	4,728
Interest receivable and similar income	5	-	-	-	251
Interest payable and similar charges	6	(2,463)	-	(2,463)	(3,768)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,392	-	1,392	1,211
Tax on profit on ordinary activities	8	-	(52)	(52)	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR	18	1,392	(52)	1,340	1,211

There are no recognised gains and losses for the current or preceding financial year other than as stated above. Therefore, no statement of total recognised gains and losses has been presented for the current or preceding financial year.

CARPETS INTERNATIONAL (UK) LIMITED

**BALANCE SHEET
31 December 1999**

	Note	1999 £'000	1998 £'000
FIXED ASSETS			
Tangible assets	9	23,378	27,788
CURRENT ASSETS			
Stocks	11	24,305	28,953
Debtors	12	29,406	19,968
Cash at bank and in hand		3,596	51
		<u>57,307</u>	<u>48,972</u>
CREDITORS: amounts falling due within one year	13	<u>(32,344)</u>	<u>(25,936)</u>
NET CURRENT ASSETS		<u>24,963</u>	<u>23,036</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>48,341</u>	<u>50,824</u>
CREDITORS: amounts falling due after more than one year	14	(24,427)	(28,837)
PROVISIONS FOR LIABILITIES AND CHARGES	15	<u>(1,773)</u>	<u>(1,186)</u>
NET ASSETS		<u>22,141</u>	<u>20,801</u>
CAPITAL AND RESERVES			
Called up share capital	16	12,655	255
Share capital to be issued	17	-	12,400
Share premium account	18	160	160
Capital redemption reserve	18	260	260
Capital reserves	18	4,431	4,431
Capital contribution	18	57,454	57,454
Profit and loss account	18	<u>(52,819)</u>	<u>(54,159)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>22,141</u>	<u>20,801</u>

These financial statements were approved by the Board of Directors on 25 April 2000

Signed on behalf of the Board of Directors

R Boe
Director



NOTES TO THE ACCOUNTS
Year ended 31 December 1999**1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

Consolidated accounts

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

Tangible fixed assets

Fixed assets are shown at cost.

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

No depreciation is provided in relation to land.

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

Taxation

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

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements, to the extent that it is probable that a liability or asset will crystallise in the future.

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 and administered 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 liability or asset in the balance sheet.

Further information on pension costs is provided in note 20

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

1. ACCOUNTING POLICIES (continued)

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.

Turnover

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

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. 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.

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:

	1999	1998
	£'000	£'000
United Kingdom	124,212	127,950
Europe	2,966	1,388
North America	215	74
Other	179	228
	<u>127,572</u>	<u>129,640</u>

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

3. OTHER OPERATING COSTS

	1999	1998
	£'000	£'000
Distribution costs	15,925	15,954
Administrative expenses	7,040	5,169
	<u>22,965</u>	<u>21,123</u>

Administrative expenses includes exceptional costs of £1,800,000 (1998: £Nil). These are costs associated with the relocation of the company's warehousing and distribution facilities.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1999 £'000	1998 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	3,000	3,039
Held under finance leases and hire purchase contracts	961	1,061
Operating lease rentals:		
Land and buildings	930	947
Plant and machinery	978	903
Other	1,568	1,734
Auditors' remuneration:		
Audit fees	43	42
Non-audit fees	10	13
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	1999 £'000	1998 £'000
Bank interest	-	251
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1999 £'000	1998 £'000
On bank loans and overdrafts	2,449	3,730
On finance leases and hire purchase contracts	14	38
	<u> </u>	<u> </u>
	<u>2,463</u>	<u>3,768</u>

All borrowings are repayable within five years.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 1999

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	1999 £'000	1998 £'000
Employee costs during the period amounted to:		
Wages and salaries	30,533	29,092
Social security costs	2,379	2,271
Other pension costs	1,904	1,788
	<u>34,816</u>	<u>33,151</u>

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

	1999 No.	1998 No.
Production	1,263	1,219
Distribution	258	241
Administration and sales	191	187
	<u>1,712</u>	<u>1,647</u>

Directors' emoluments

	1999 £'000	1998 £'000
Emoluments	<u>382</u>	<u>252</u>

Pensions

No directors were members of the defined benefit pension schemes (1998 : Nil).

Highest paid director

	1999 £'000	1998 £'000
Emoluments	<u>382</u>	<u>252</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1999 £'000	1998 £'000
United Kingdom corporation tax at 30% based on the profit for the year	-	-
Deferred taxation	157	-
ACT written back	(105)	-
	<u>52</u>	<u>-</u>

The tax charge is low as a result of trading losses brought forward and unrecognised deferred tax assets. At 31 December 1999 the company had tax losses available amounting to approximately £43 million (1998 : £47 million) subject to agreement with the Inland Revenue.

CARPETS INTERNATIONAL (UK) LIMITED
NOTES TO THE ACCOUNTS
Year ended 31 December 1999
9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost			
At 1 January 1999	15,192	43,880	59,072
Additions at cost	100	2,351	2,451
Disposals	(3,567)	-	(3,567)
At 31 December 1999	<u>11,725</u>	<u>46,231</u>	<u>57,956</u>
Accumulated depreciation			
At 1 January 1999	2,436	28,848	31,284
Charge	290	3,671	3,961
Disposals	(667)	-	(667)
At 31 December 1999	<u>2,059</u>	<u>32,519</u>	<u>34,578</u>
Net book value			
At 31 December 1999	<u>9,666</u>	<u>13,712</u>	<u>23,378</u>
At 31 December 1998	<u>12,756</u>	<u>15,032</u>	<u>27,788</u>
Leased assets included in the above:			
Net book value			
At 31 December 1998	<u>-</u>	<u>2,015</u>	<u>2,015</u>
At 31 December 1999	<u>-</u>	<u>1,072</u>	<u>1,072</u>

10. FIXED ASSET INVESTMENTS

The company owns all of the issued ordinary share capital of each of Texture-Tex (Europe) Limited, White Horse Carpets Limited and Abingdon Carpet (Export) Limited. Each of these entities were incorporated in England and Wales and they are all dormant companies.

11. STOCKS

	1999 £'000	1998 £'000
Raw materials and consumables	9,913	13,322
Work-in-progress	1,267	1,160
Finished goods and goods for resale	13,125	14,471
	<u>24,305</u>	<u>28,953</u>

In the opinion of the directors, the replacement cost of stocks is not materially different to the values shown.

CARPETS INTERNATIONAL (UK) LIMITED

**NOTES TO THE ACCOUNTS
Year ended 31 December 1999**

12. DEBTORS

	1999 £'000	1998 £'000
Trade debtors	20,514	16,856
Amounts due from parent company	1,670	1,588
Prepayments and accrued income	7,222	1,524
	<u>29,406</u>	<u>19,968</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1999 £'000	1998 (as restated) £'000
Bank overdraft	-	1,171
Bank loan (see note 14)	2,280	1,740
Obligations under finance leases and hire purchase contracts	944	967
Trade creditors	9,448	7,647
Bills of exchange payable	67	29
Amounts owed to subsidiary undertaking	674	674
Amounts owed to other group companies	2,624	2,624
VAT	3,316	2,465
Taxation and social security	956	720
Other creditors	1,400	1,200
Accruals and deferred income	10,635	6,699
	<u>32,344</u>	<u>25,936</u>

An amount of £874,000 has been reclassified from 'accruals and deferred income' to 'provisions for liabilities and charges' as at 31 December 1998. The amount relates to pension obligations and the classification is considered more appropriate by the directors.

NOTES TO THE ACCOUNTS
Year ended 31 December 1999

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1999 £'000	1998 £'000
Bank loan	21,790	23,845
Obligations under finance leases and hire purchase contracts	369	1,312
Other creditors	2,163	3,475
Accruals and deferred income	105	205
	<u>24,427</u>	<u>28,837</u>

Amounts due under bank loan at 31 December 1999 are payable as follows:

	1999 £'000	1998 £'000
Amounts payable		
- on demand or within one year	2,280	1,740
- between one and two years	2,940	2,280
- between two and five years	18,850	21,565
	<u>24,070</u>	<u>25,585</u>

The bank loan is stated net of unallocated issue costs of £290,000 (1998: £515,000). These are being allocated to the profit and loss account over the term of the debt at a constant rate of return on the carrying amount.

The bank loan and overdraft are secured via fixed and floating charges over certain assets of the company.

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

	1999 £'000	1998 £'000
Within 1 year	944	967
Within 1-2 years	274	942
Within 2-5 years	95	370
	<u>1,313</u>	<u>2,279</u>

Other creditors are repayable as follows:

	1999 £'000	1998 £'000
Within 1 year	1,400	1,200
Within 1-2 years	1,200	1,200
Within 2-5 years	963	2,275
	<u>3,563</u>	<u>4,675</u>

CARPETS INTERNATIONAL (UK) LIMITED

**NOTES TO THE ACCOUNTS
Year ended 31 December 1999**

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	Deferred Taxation £'000	Property £'000	Pensions obligations £'000	Re- organisation £'000	Total £'000
Balance at 1 January 1999 (as restated – see note 13)	-	312	874	-	1,186
Profit and loss account charge	52	-	165	431	648
Applied	-	(61)	-	-	(61)
	<u>52</u>	<u>(61)</u>	<u>165</u>	<u>431</u>	<u>648</u>
Balance at 31 December 1999	<u>52</u>	<u>251</u>	<u>1,039</u>	<u>431</u>	<u>1,773</u>

Property provision

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

Pensions obligations

See note 20.

Reorganisation provision

This provision represents expected costs directly attributable to the relocation of the company's warehousing and distribution facilities.

Deferred taxation

The amounts of provided deferred tax are as follows:

	1999 £'000	1998 £'000
At 1 January	-	-
Charge/(credit) for the year	157	-
Unrelieved ACT	(105)	-
	<u>52</u>	<u>-</u>
At 31 December	<u>52</u>	<u>-</u>

CARPETS INTERNATIONAL (UK) LIMITED

**NOTES TO THE ACCOUNTS
Year ended 31 December 1999**

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts of unprovided deferred taxation are as follows:

	1999 £'000	1998 £'000
Tax effect of rolled over capital gains	250	250
Tax effect of losses carried forward	(13,909)	(14,023)
Excess future tax allowances over book value of fixed assets	(2,667)	(2,389)
Other timing differences	(656)	(491)
Total (asset)	<u>(16,982)</u>	<u>(16,653)</u>

16. CALLED UP SHARE CAPITAL

	1999 £'000	1998 £'000
Authorised		
15,000,000 ordinary shares of £1 each (1998: 1,000,000)	<u>15,000</u>	<u>1,000</u>
Called up, allotted and fully paid		
12,655,000 ordinary shares of £1 each (1998: 255,000)	<u>12,655</u>	<u>255</u>

An amount of £12,400,000 was received during the year ended 31 December 1998 by the company from its parent company, Carpet Holdings Limited, in relation to an intended issue of shares by the company. At 31 December 1998 this balance was presented as 'share capital to be issued'.

On 17 February 1999 the authorised share capital of the company was increased to 15,000,000 ordinary shares of £1 each. On 17 February 1999, the company issued 12,400,000 ordinary shares of £1 each at par. The consideration for these shares was settled by the monies previously received from Carpet Holdings Limited, as described above.

17. SHARE CAPITAL TO BE ISSUED

	1999 £'000	1998 £'000
Share capital to be issued	<u>-</u>	<u>12,400</u>

See note 16.

18. MOVEMENTS IN RESERVES

	Share Premium Account £'000	Capital Redemption Reserve £'000	Capital Reserves £'000	Capital Contribution £'000	Profit and Loss Account £'000	Total £'000
At 1 January 1999	160	260	4,431	57,454	(54,159)	8,146
Retained profit for the year	-	-	-	-	1,340	1,340
At 31 December 1999	<u>160</u>	<u>260</u>	<u>4,431</u>	<u>57,454</u>	<u>(52,819)</u>	<u>9,486</u>

CARPETS INTERNATIONAL (UK) LIMITED

**NOTES TO THE ACCOUNTS
Year ended 31 December 1999**

19. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	1999 £'000	1998 £'000
Opening equity shareholders' funds	20,801	7,190
Share capital to be issued	-	12,400
Profit for the financial year	1,340	1,211
	<hr/>	<hr/>
Closing equity shareholders' funds	<u>22,141</u>	<u>20,801</u>

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital commitments

At the end of the year contracted capital commitments were approximately £420,000 (1998 : £230,000).

Contingent liabilities

The company is registered with HM Customs & Excise as a member of the Carpets International (UK) 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.

Lease commitments

The company has entered into non-cancellable operating leases in respect of certain plant and machinery, the payments for which extend over a period of up to five years. The total rental, including interest, for the year ended 31 December 1999 was £1,568,000 (1998 : £1,734,000). The lease agreements provide that the company will pay all insurance, maintenance and repairs.

In addition, the company leases certain land and buildings on short and long-term operating leases. The annual rental on these leases was £930,000 (1998 : £947,000). 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 & Machinery £'000
31 December 1999		
Operating leases which expire:		
- within 1 year	-	29
- within 2-5 years	472	1,607
- after 5 years	850	115
	<hr/>	<hr/>
	1,322	1,751
	<hr/>	<hr/>
31 December 1998		
Operating leases which expire:		
- within 1 year	-	124
- within 2-5 years	241	965
- after 5 years	706	-
	<hr/>	<hr/>
	947	1,089
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS
Year ended 31 December 1999**Pension arrangements**

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

The latest available actuarial valuations for these schemes were as at 6 April 1999.

The 1999 valuation of the Carpets International Pension Scheme showed that the scheme's assets represented 92% of the past service liabilities as at the valuation date and recommended that the regular pension cost would be increased by 1.5% 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 1999 valuation of the Abingdon Carpets Pension Fund showed that the scheme's assets represented 112% of the past services liabilities as at the valuation date and that this is sufficient to support a reduced level of company contributions.

The company pension charge for the year was £1,904,000 (1998 : £1,788,000).

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in FRS8 not to disclose details of related party transactions with other group companies.

During the period the company paid approximately £151,000 (1998 : £108,000) to CGW Southeast Partners III LLP, the ultimate controlling party, in relation to management services received. CGW Southeast Partners III LLP also settled certain salary expenses on behalf of Carpets International (UK) Limited amounting to approximately £821,000 (1998 : £326,700), and these expenses have been recharged by CGW Southeast Partners III LLP to Carpets International (UK) Limited. At 31 December 1999 £Nil (1998 : £48,300) was due to CGW Southeast Partners III LLP.

22. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The company is a wholly owned subsidiary undertaking of Carpet Holdings Limited, a company incorporated in England and Wales. The consolidated accounts of Carpet Holdings Limited may be obtained from Companies House, Crown Way, Maindy, Cardiff.

CGW Southeast Partners III LLP own 96% of the total issued share capital of Carpet Holdings Limited.