



**CARPETS INTERNATIONAL (UK)
LIMITED**

Report and Financial Statements

31 December 1998

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



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REPORT AND FINANCIAL STATEMENTS 1998

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
39 Victoria Street
London
SW1H 0ED

SOLICITORS

Eversheds
Cloth Hall Court
Infirmary Street
Leeds
LS1 2JB

AUDITORS

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



DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 1998.

COMPANY RE-REGISTRATION

On 2 April 1998 Carpets International (UK) Plc re-registered as a private company, Carpets International (UK) Limited.

ACTIVITIES

Carpets International (UK) Limited, Britain's largest producer of tufted carpets, operates six manufacturing plants and four distribution facilities and has 1,660 employees (1997 - 1,650 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 and exports to most major countries for both residential and commercial applications.

There was a change in ownership of the company on 3 April 1998 when Carpet Holdings Limited, a company incorporated in England and Wales, purchased the whole of the issued share capital from Shaw Industries Inc., a company incorporated in the United States of America.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

Carpets International (UK) Limited went through a major change in 1998 as it was divested from the largest carpet manufacturer in the world to a stand alone UK group. This happened post a successful turnaround which had begun in 1997.

The resulting company now has more staying power with an improved balance sheet, lower break-even position, more efficient operation through less complex product assortment and value added programs for our direct customers and the consumer. For the year we were pleased to report a modest profit, especially at a time when the UK carpet industry experienced some reported decline in consumption.

All indications are that 1999 will be a challenging year for the manufacturing sectors in the UK. In the carpet business we expect that imports, which already comprise over half the market, will continue to grow due to declining markets in Europe.

The company will continue to move ahead with expansion of existing marketing initiatives and service programs to add value to our offering. In addition, there are new projects geared to new product design, new raw materials and added consumer benefits to further differentiate Carpets International (UK) Limited from its competitors.

Efficient production and service are musts to long term survival, and these will be addressed with capital projects, process changes and continual improvement programs. Each of our six plant locations are dedicated to achieving a major cost reduction project per year to keep us on this continual improvement path. Outstanding product quality will not be compromised in these programs. All our efforts are pursued with an environmentally favourable and safe approach for the benefit of our employees, customers and society at large.

Through frequent and consistent surveys we determine customer reaction and satisfaction to our efforts. This constant feed back assists in making the right decisions to meet our mission to provide outstanding quality and service to our customers.

Total team involvement is required to achieve the best results. Periodic formal reviews are held with all employees to define results needed, routes to accomplishing them, definition of responsibility and feed back on progress to ultimately provide individual and organisational growth and satisfaction.

Ultimately, it is management's responsibility to assure that Carpets International (UK) Limited provides adequate return on capital employed in the business to its investors. This will be accomplished when all of the above merge.

**DIRECTORS' REPORT (continued)****DIVIDENDS**

The directors are unable to propose a dividend (1997: £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

R Boe

B A McLean (Appointed 3 April 1998)

R L Cravey (Appointed 3 April 1998)

R E Shaw (Resigned 3 April 1998)

W C Lusk (Resigned 3 April 1998)

W N Little (Resigned 3 April 1998)

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

The directors have considered the risks and uncertainties associated with the Year 2000 issue. A review is currently being undertaken on the company's hardware and software and its relationship with the key customers and suppliers. The review is incomplete and consequently the directors are unable to quantify the effects of the Year 2000, although its findings to date indicate that the impact on the company is unlikely to be material.

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.

POST BALANCE SHEET EVENT

Please refer to note 17 to the financial statements.



DIRECTORS' REPORT (continued)

AUDITORS

Arthur Andersen resigned as auditors during the year. Deloitte & Touche were appointed auditors to the company and a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

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

A handwritten signature in cursive script, appearing to read 'A W Barfield', written over the printed name.

A W Barfield

Secretary

15 March 1999

**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;
- 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. 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 7 to 19 which have been prepared under the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5 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 1998 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

17 March 1999



PROFIT AND LOSS ACCOUNT
Year ended 31 December 1998

| | Note | 1998 £'000 | 1997 £'000 |
|---|------|-----------------|-----------------|
| TURNOVER: continuing operations | 2 | 129,640 | 134,425 |
| Cost of sales | | (103,789) | (109,219) |
| Gross profit | | <u>25,851</u> | <u>25,206</u> |
| Other operating costs | 3 | (21,123) | (22,529) |
| OPERATING PROFIT: continuing operations | | <u>4,728</u> | <u>2,677</u> |
| Investment income | 5 | 251 | 215 |
| Interest payable and similar charges | 6 | (3,768) | (5,247) |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | 4 | <u>1,211</u> | <u>(2,355)</u> |
| Tax on profit on ordinary activities | 8 | - | - |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR | 18 | <u>1,211</u> | <u>(2,355)</u> |
| Accumulated deficit brought forward | 18 | (55,370) | (53,015) |
| Accumulated deficit carried forward | 18 | <u>(54,159)</u> | <u>(55,370)</u> |

There are no recognised gains or 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.


**BALANCE SHEET
31 December 1998**

| | Note | 1998 £'000 | 1997 £'000 |
|--|------|---------------|---------------|
| FIXED ASSETS | | | |
| Tangible assets | 9 | 27,788 | 29,580 |
| CURRENT ASSETS | | | |
| Stocks | 11 | 28,953 | 27,142 |
| Debtors | 12 | 19,968 | 20,851 |
| Cash at bank and in hand | | 51 | 10,097 |
| | | 48,972 | 58,090 |
| CREDITORS: amounts falling due within one year | 13 | (26,810) | (27,251) |
| NET CURRENT ASSETS | | 22,162 | 30,839 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 49,950 | 60,419 |
| CREDITORS: amounts falling due after more than one year | 14 | (28,837) | (52,823) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (312) | (406) |
| NET ASSETS | | 20,801 | 7,190 |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 16 | 255 | 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 | (54,159) | (55,370) |
| EQUITY SHAREHOLDERS' FUNDS | | 20,801 | 7,190 |

These financial statements were approved by the Board of Directors on 15 March 1999.

Signed on behalf of the Board of Directors

R. Boe

Director

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**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.



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

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:

| | 1998 £'000 | 1997 £'000 |
|----------------|----------------|----------------|
| United Kingdom | 127,950 | 129,497 |
| Europe | 1,388 | 4,444 |
| North America | 74 | 286 |
| Other | 228 | 198 |
| | <u>129,640</u> | <u>134,425</u> |

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

3. OTHER OPERATING COSTS

| | 1998 £'000 | 1997 £'000 |
|-------------------------|---------------|---------------|
| Distribution costs | 15,954 | 17,112 |
| Administrative expenses | 5,169 | 5,417 |
| | <u>21,123</u> | <u>22,529</u> |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

4. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

| | 1998 £'000 | 1997 £'000 |
|--|-------------------|-------------------|
| Profit/(loss) on ordinary activities before taxation is stated after charging: | | |
| Depreciation of tangible fixed assets: | | |
| Owned | 3,039 | 2,951 |
| Held under finance leases and hire purchase contracts | 1,061 | 1,086 |
| Operating lease rentals: | | |
| Land and buildings | 947 | 863 |
| Plant and machinery | 903 | 1,043 |
| Other | 1,734 | 1,523 |
| Auditors' remuneration: | | |
| Audit fees | 42 | 60 |
| Non-audit fees | 13 | 102 |
| | <u> </u> | <u> </u> |

5. INVESTMENT INCOME

| | 1998 £'000 | 1997 £'000 |
|------------------------|-------------------|-------------------|
| Bank interest received | 251 | 215 |
| | <u> </u> | <u> </u> |

6. INTEREST PAYABLE AND SIMILAR CHARGES

| | 1998 £'000 | 1997 £'000 |
|---|-------------------|-------------------|
| On bank loans and overdrafts | 3,730 | 5,183 |
| On finance leases and hire purchase contracts | 38 | 64 |
| | <u> </u> | <u> </u> |
| | <u>3,768</u> | <u>5,247</u> |

Interest payable and similar charges includes £267,000 of finance costs in respect of the issue costs of the bank loan.

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

| | 1998 £'000 | 1997 £'000 |
|---|-------------------|-------------------|
| Employee costs during the period amounted to: | | |
| Wages and salaries | 29,092 | 31,015 |
| Social security costs | 2,271 | 2,454 |
| Other pension costs | 1,788 | 1,922 |
| | <u> </u> | <u> </u> |
| | <u>33,151</u> | <u>35,391</u> |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (continued)

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

| | 1998 Number | 1997 Number |
|--------------------------|----------------|----------------|
| Production | 1,219 | 1,256 |
| Distribution | 241 | 218 |
| Administration and sales | 187 | 257 |
| | <u>1,647</u> | <u>1,731</u> |

Directors' emoluments

| | 1998 £'000 | 1997 £'000 |
|---------------------------------|---------------|---------------|
| Emoluments | 252 | 85 |
| Compensation for loss of office | - | 266 |
| | <u>252</u> | <u>351</u> |

Pensions

No directors were members of the defined benefit pension schemes (1997 : one).

Highest paid director

| | 1998 £'000 | 1997 £'000 |
|---------------------------------|---------------|---------------|
| Emoluments | 252 | 85 |
| Compensation for loss of office | - | 266 |
| | <u>252</u> | <u>351</u> |

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no tax charge for the year due to losses brought forward and unrecognised deferred tax assets. At 31 December 1998 the company had tax losses available amounting to approximately £47 million (1997 : £47 million) subject to agreement with the Inland Revenue.



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

9. TANGIBLE FIXED ASSETS

| | Freehold land and buildings £'000 | Plant and Machinery £'000 | Total £'000 |
|--------------------------------------|--|---------------------------------|----------------|
| Cost | | | |
| At 1 January 1998 | 14,822 | 41,996 | 56,818 |
| Additions at cost | 370 | 1,960 | 2,330 |
| Disposals | - | (76) | (76) |
| At 31 December 1998 | <u>15,192</u> | <u>43,880</u> | <u>59,072</u> |
| Accumulated depreciation | | | |
| At 1 January 1998 | 2,146 | 25,092 | 27,238 |
| Charge | 290 | 3,810 | 4,100 |
| Disposals | - | (54) | (54) |
| At 31 December 1998 | <u>2,436</u> | <u>28,848</u> | <u>31,284</u> |
| Net book value | | | |
| At 31 December 1998 | <u>12,756</u> | <u>15,032</u> | <u>27,788</u> |
| At 31 December 1997 | <u>12,676</u> | <u>16,904</u> | <u>29,580</u> |
| Leased assets included in the above: | | | |
| Net book value | | | |
| At 31 December 1997 | <u>-</u> | <u>3,076</u> | <u>3,076</u> |
| At 31 December 1998 | <u>-</u> | <u>2,015</u> | <u>2,015</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

| | 1998 £'000 | 1997 £'000 |
|-------------------------------------|---------------|---------------|
| Raw materials and consumables | 13,322 | 11,717 |
| Work-in-progress | 1,160 | 790 |
| Finished goods and goods for resale | 14,471 | 14,635 |
| | <u>28,953</u> | <u>27,142</u> |

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



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

12. DEBTORS

| | 1998 £'000 | 1997 £'000 |
|---------------------------------|---------------|---------------|
| Trade debtors | 16,856 | 19,360 |
| Amounts due from parent company | 1,588 | - |
| Prepayments and accrued income | 1,524 | 1,491 |
| | <u>19,968</u> | <u>20,851</u> |

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Bank overdraft | 1,171 | - |
| Bank loan (see note 14) | 1,740 | 32 |
| Trade creditors | 7,647 | 8,896 |
| Obligations under finance leases and hire purchase contracts | 967 | 1,108 |
| Bills of exchange payable | 29 | 67 |
| Amounts owed to parent company | - | 2,617 |
| Amounts owed to subsidiary undertaking | 674 | 674 |
| Amounts owed to other group companies | 2,624 | 2,624 |
| VAT | 2,465 | 2,615 |
| Taxation and social security | 720 | 833 |
| Other creditors | 1,200 | - |
| Accruals and deferred income | 7,573 | 7,785 |
| | <u>26,810</u> | <u>27,251</u> |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

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

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Obligations under finance leases and hire purchase contracts | 1,312 | 2,151 |
| Bank loan | 23,845 | 50,416 |
| Other creditors | 3,475 | - |
| Accruals and deferred income | 205 | 256 |
| | <u>28,837</u> | <u>52,823</u> |

Amounts due under bank loan at 31 December 1998 are payable as follows:

| | 1998 £'000 | 1997 £'000 |
|--------------------------------|---------------|---------------|
| Amounts payable | | |
| - on demand or within one year | 1,740 | 32 |
| - between one and two years | 2,280 | 1,431 |
| - between two and five years | 21,565 | 48,985 |
| | <u>25,585</u> | <u>50,448</u> |

The bank loan is stated net of unallocated issue costs of £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:

| | 1998 £'000 | 1997 £'000 |
|------------------|---------------|---------------|
| Within 1 year | 967 | 1,108 |
| Within 1-2 years | 942 | 898 |
| Within 2-5 years | 370 | 1,253 |
| | <u>2,279</u> | <u>3,259</u> |

Other creditors are repayable as follows:

| | 1998 £'000 | 1997 £'000 |
|------------------|---------------|---------------|
| Within 1 year | 1,200 | - |
| Within 1-2 years | 1,200 | - |
| Within 2-5 years | 2,275 | - |
| | <u>4,675</u> | <u>-</u> |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

| | 1998 £'000 | 1997 £'000 |
|--------------------------|---------------|---------------|
| Property provisions | 312 | 370 |
| Reorganisation provision | - | 36 |
| | <u>312</u> | <u>406</u> |

The movement on provisions comprises:

| | Property provisions | Re-organisation provision | Total |
|--------------------------|------------------------|------------------------------|------------|
| At 1 January 1998 | 370 | 36 | 406 |
| Utilised during the year | (58) | (36) | (94) |
| At 31 December 1998 | <u>312</u> | <u>-</u> | <u>312</u> |

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

Deferred taxation

The amounts of unprovided deferred taxation are as follows:

| | 1998 £'000 | 1997 £'000 |
|--|-----------------|-----------------|
| Tax effect of rolled over capital gains | 250 | 259 |
| Tax effect of losses carried forward | (14,023) | (14,485) |
| Excess future tax allowances over book value of fixed assets | (2,389) | (2,923) |
| Other timing differences | (491) | (895) |
| Total (asset) | <u>(16,653)</u> | <u>(18,044)</u> |

16. CALLED UP SHARE CAPITAL

| | 1998 £'000 | 1997 £'000 |
|--|---------------|---------------|
| Authorised 1,000,000 ordinary shares of £1 each | <u>1,000</u> | <u>1,000</u> |
| Called up, allotted and fully paid 255,000 ordinary shares of £1 each | <u>255</u> | <u>255</u> |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

17. SHARE CAPITAL TO BE ISSUED

| | 1998 £'000 | 1997 £'000 |
|----------------------------|---------------|---------------|
| Share capital to be issued | 12,400 | - |

An amount of £12,400,000 was received during the year by the company from its parent company, Carpet Holdings Limited, in relation to an intended issue of shares by the company. 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.

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 1998 | 160 | 260 | 4,431 | 57,454 | (55,370) | 6,935 |
| Retained profit for the year | - | - | - | - | 1,211 | 1,211 |
| At 31 December 1998 | 160 | 260 | 4,431 | 57,454 | (54,159) | 8,146 |

19. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

| | 1998 £'000 | 1997 £'000 |
|--------------------------------------|---------------|---------------|
| Opening equity shareholders' funds | 7,190 | (25,903) |
| Share capital to be issued | 12,400 | - |
| Capital contribution in the year | - | 35,448 |
| Profit/(Loss) for the financial year | 1,211 | (2,355) |
| Closing equity shareholders' funds | 20,801 | 7,190 |



NOTES TO THE ACCOUNTS
Year ended 31 December 1998

20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital commitments

At the end of the year contracted capital commitments were £230,000 (1997 : £196,000).

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 1998 was £1,734,000 (1997 : £1,523,000). The lease agreements provide that the company will pay all insurance.

In addition, the company leases certain land and buildings on short and long-term operating leases. The annual rental on these leases was £947,000 (1997 : £863,000). 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 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/> | <hr/> <hr/> |
| 31 December 1997 | | |
| Operating leases which expire: | | |
| - within 1 year | - | 178 |
| - within 2-5 years | - | 1,013 |
| - after 5 years | 863 | - |
| | <hr/> | <hr/> |
| | 863 | 1,191 |
| | <hr/> <hr/> | <hr/> <hr/> |

**NOTES TO THE ACCOUNTS**
Year ended 31 December 1998**20. GUARANTEES AND OTHER FINANCIAL COMMITMENTS (continued)****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 last actuarial valuations for these schemes were as at 6 April 1996.

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 would be increased by 0.4% 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 Fund showed that the scheme's assets represented 124% of the past services liabilities as at the valuation date and that this is sufficient to support a suspension of the company's contributions until April 2000.

The company pension charge for the year was £1,788,000 (1997 : £1,922,000).

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 £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 £326,700, and these expenses have been recharged by CGW Southeast Partners III LLP to Carpets International (UK) Limited. At 31 December 1998 £48,300 was due to CGW Southeast Partners III LLP.

22. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The company was formerly a subsidiary undertaking of Shaw Industries Inc., a company incorporated in the United States of America. Following a change of ownership on 3 April 1998, the company became a subsidiary undertaking of Carpet Holdings Limited, 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.