

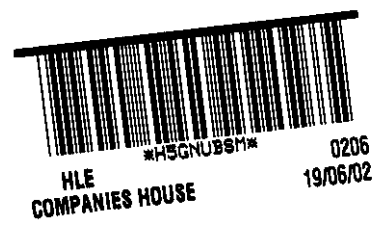
Company Registration No. 924669

**CARPETS INTERNATIONAL (UK)
LIMITED**

Report and Financial Statements

31 December 2001

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



CARPETS INTERNATIONAL (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

CONTENTS	PAGE
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	5
Independent Auditors' report	6
Profit and loss account	8
Balance sheet	9
Notes to the accounts	10

CARPETS INTERNATIONAL (UK) LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

R Boe
B A McLean
R L Cravey
M A Hield

SECRETARY

A W Barfield

REGISTERED OFFICE

P O Box 255
4 Coop Place
Rooley Lane
BRADFORD
West Yorkshire
BD5 8XQ

BANKERS

Fleet Boston Financial
39 Victoria Street
LONDON
SW1H 0ED

SOLICITORS

Eversheds
Cloth Hall Court
Infirmery Street
LEEDS
LS1 2JB

AUDITORS

Deloitte & Touche
10-12 East Parade
LEEDS
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 2001.

ACTIVITIES

Carpets International (UK) Limited ("C.I.") is the UK's largest manufacturer of tufted carpets, which produced in excess of 23 million square metres of carpet in 2001. The company operates vertically integrated, multi-site, manufacturing activities involving fibre extrusion; yarn spinning, twisting and heat-setting; and carpet production.

C.I.'s carpets are made with face fibres of nylon, polypropylene, wool and polyester and are sold primarily into the residential market in the U.K. Its brands are amongst the most widely recognised in the market and include Kosset, Wilton Royal, Abingdon, Crossley and Lancaster. The company also has significant sales of specialised broadloom and tile ranges into the commercial sector, marketed under its C.I. Contract brand. C.I.'s well-established 5 year stain warranty and recently introduced wear warranty programmes provide additional strength to its highly regarded product offering.

The company provides a generally ex-stock delivery service to its large network of specialist retailers and contractors. This is operated through its dedicated transport fleet, located at its purpose-built warehouse and distribution centres at Hull and Abingdon.

As anticipated in last year's financial statements, 2001 represented a significant watershed in C.I.'s development. A comprehensive business restructuring plan was undertaken, involving a major rationalisation of production facilities. As a result of this plan, three production sites were closed, the head-office activities were relocated to new premises in Bradford and the total headcount was reduced by over 500 from the previous level of 1,790 employees.

The business now operates from six production and distribution sites with all carpet production consolidated at its two main sites at Donaghadee in Northern Ireland and Newbridge in South Wales.

REVIEW OF DEVELOPMENTS

Total sales in the year were 5% lower than in 2000. The decline was most marked in the last quarter, as the restructuring plan moved ahead. In contrast, sales in the first quarter of 2001 were slightly ahead of those achieved in the previous year, due in part to the improvements in stock availability and delivery service resulting from the full operation of the new distribution facility at Hull.

Consumer confidence in the important autumn selling season was affected substantially by the events in America following 11th September. This delayed the start to the normal seasonal uplift in demand by around five weeks and consequently suppressed the overall market activity.

Despite general commentary of sustained strength in the U.K. housing market, driven in part by low interest rates, we are yet to see appreciable recovery in the current year in some market sectors. Hence unusually strong promotional activity by the major high street retailers has been required to support the residential market through the early part of 2002.

The main feature affecting the results for 2001 is the exceptional cost associated with the company's restructuring and consolidation plan.

This plan involved two main phases:

The first was the closure of two old and inefficient yarn spinning plants at Gomersal and Wellington, with the conversion to externally-sourced yarns, purchased from dedicated specialist spinners. This was completed in mid 2001 and involved approximately 230 redundancies and closure costs of £2.7million. Compensating savings of over £1million per annum in yarn costs and asset realisations of over £1.5million are anticipated from these closures.

CARPETS INTERNATIONAL (UK) LIMITED

DIRECTORS' REPORT (continued)

REVIEW OF DEVELOPMENTS (continued)

The second, and larger, phase was based on downsizing carpet production by circa 15% and consolidating manufacturing activities. This involved the closure of the Bradford site and relocating production to other sites, primarily at Donaghadee. The consolidation required the withdrawal from certain high-volume, low-margin and unprofitable product areas.

The details were finalised and communicated to the workforce in September 2001 and a successful rundown and closure plan negotiated. This commenced in November 2001, with the production activity ceasing at the Bradford site prior to Christmas 2001.

The consolidation programme is now virtually complete. It has involved over 200 redundancies and total closure / relocation costs of around £4.5million. There are very substantial benefits in terms of lower overall operating costs and the associated future asset realisation is expected to exceed £3.5million.

Implementation of the total plan required additional short / medium term funding which was provided by the company's bankers and through an injection of £4.5million of additional loan capital by the company's majority shareholder.

FUTURE PROSPECTS

C.I. continues to be a leading force in the U.K. carpet industry and remains the largest UK producer. As a result of the recent restructuring and through refocusing on our strengths we are confident that the company's well-laid plans will restore it to a more satisfactory level of profit in 2002 and lay the foundation for sustained longer-term growth and success.

DIVIDENDS

The directors are unable to propose a dividend due to the lack of distributable reserves (2000 : £Nil).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown below.

R Boe
B A McLean
R L Cravey
M A Hield (appointed 2 July 2001)

None of the directors have any interest in the company.

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

PEOPLE

In May 2001, Ralph Boe returned to the US and moved into the role of Non-Executive Chairman. He continues to be closely involved with the strategic direction and operation of company. Ralph's executive duties were taken over by Michael Hield who joined the company in June as Managing Director.

The changes initiated in 2001 and which have moved into full implementation in the current year have placed considerable extra demands on our employees. We thank them all for their unstinting dedication, hard work and loyalty and we also acknowledge our appreciation to our suppliers and customers for their sustained support.

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

CARPETS INTERNATIONAL (UK) LIMITED

DIRECTORS' REPORT (continued)

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

12 April 2002

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.



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

We have audited the financial statements of Carpets International (UK) Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of opinion

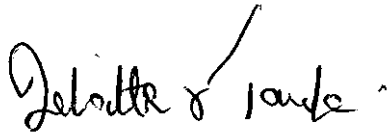
We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates 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.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants and
Registered Auditors

12 April 2002

CARPETS INTERNATIONAL (UK) LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 31 December 2001

	Note	2001 Before exceptional items £'000	2001 Exceptional items £'000	2001 Total £'000	2000 Total £'000
TURNOVER: continuing operations					
Cost of sales	2	115,379 (96,693)	- -	115,379 (96,693)	121,568 (102,267)
Gross profit		18,686	-	18,686	19,301
Operating expenses	3	(19,356)	(6,809)	(26,165)	(24,293)
OPERATING LOSS: continuing operations	4	(670)	(6,809)	(7,479)	(4,992)
Interest receivable and similar income	5	115	-	115	24
Interest payable and similar charges	6	(2,300)	-	(2,300)	(2,463)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,855)	(6,809)	(9,664)	(7,431)
Tax on loss on ordinary activities	8	-	-	-	52
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR TRANSFERRED FROM RESERVES	18	(2,855)	(6,809)	(9,664)	(7,379)

All results in the current and previous financial years relate to continuing operations.

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.

CARPETS INTERNATIONAL (UK) LIMITED

BALANCE SHEET
31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	9	19,055	21,973
CURRENT ASSETS			
Stocks	11	21,101	24,348
Debtors	12	17,489	19,570
Cash at bank and in hand		7,321	801
		45,911	44,719
CREDITORS: amounts falling due within one year	13	(31,968)	(27,216)
NET CURRENT ASSETS		13,943	17,503
TOTAL ASSETS LESS CURRENT LIABILITIES		32,998	39,476
CREDITORS: amounts falling due after more than one year	14	(24,632)	(23,570)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(3,268)	(1,144)
		5,098	14,762
CAPITAL AND RESERVES			
Called up share capital	16	12,655	12,655
Share premium account	17	160	160
Capital redemption reserve	17	260	260
Capital reserves	17	4,431	4,431
Capital contribution	17	57,454	57,454
Profit and loss account	17	(69,862)	(60,198)
TOTAL EQUITY SHAREHOLDERS' FUNDS		5,098	14,762

These financial statements were approved by the Board of Directors on 12 April 2002.

Signed on behalf of the Board of Directors

B A McLean

Director

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom 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

Tangible fixed assets are shown at cost less provision for impairment.

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

Net realisable value is based on estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

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.

Foreign currency

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.

Cashflow

During the accounting period, the company was a wholly owned subsidiary Carpet Holdings Limited. As a result, the company's and group's cashflows will be included in the consolidated cashflow statement Carpet Holdings Limited and under FRS 1 (Revised 1996), the company is exempt from publishing its own cashflow statement.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

1. ACCOUNTING POLICIES (continued)

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.

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.

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:

	2001 £'000	2000 £'000
United Kingdom	111,785	118,010
Europe	2,943	2,813
North America	434	612
Other	217	133
	<u>115,379</u>	<u>121,568</u>

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

Turnover is stated after deduction of exceptional items of £Nil (2000: £950,000). These costs in 2000 related to an excessive level of returns as a result of the relocation of the company's warehousing and distribution facilities.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS
Year ended 31 December 2001

3. OPERATING EXPENSES

	2001	2000
	£'000	£'000
Distribution costs	14,685	19,029
Administrative expenses	11,480	5,264
	<u>26,165</u>	<u>24,293</u>

Exceptional costs of £6,809,000 are included in administrative expenses. These exceptional costs relate to the streamlining of the company's operations in order to have a more effective cost base. The exceptional costs in 2000 of £3,749,000 were associated with the relocation of the company's warehousing and distribution facilities and were included within distribution expenses.

4. OPERATING LOSS

	2001	2000
	£'000	£'000
Operating loss is stated after charging:		
Depreciation of tangible fixed assets:		
Owned	2,744	2,704
Held under finance leases and hire purchase contracts	210	417
Impairment of fixed assets	614	-
(Profit)/loss on the sale of fixed assets	(677)	38
Operating lease rentals:		
Land and buildings	1,592	1,113
Plant and machinery	676	891
Vehicles	1,770	1,640
Auditors' remuneration:		
Audit fees	48	44
Non-audit fees	210	36
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2001	2000
	£'000	£'000
Other income	115	24
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2001	2000
	£'000	£'000
On bank loans and overdrafts	2,289	2,447
On finance leases and hire purchase contracts	11	16
	<u>2,300</u>	<u>2,463</u>

All borrowings are repayable within five years.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

7. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

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

	2001 £'000	2000 £'000
Staff costs during the year (including directors):		
Wages and salaries	28,493	32,745
Social security costs	2,084	2,463
Pension costs	1,751	1,975
	<u>32,328</u>	<u>37,183</u>

Average number of persons employed:

	2001 No.	2000 No.
Production	1,098	1,276
Distribution	234	275
Administration and sales	226	239
	<u>1,558</u>	<u>1,790</u>

Directors' emoluments

	2001 £'000	2000 £'000
Emoluments	<u>223</u>	<u>422</u>

	2001 £'000	2000 £'000
Remuneration of the highest paid director	<u>133</u>	<u>422</u>

Pensions

No directors were members of the defined benefit pension schemes (2000 : Nil).

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £'000	2000 £'000
United Kingdom corporation tax at 30% (2000 : 30%)		
Based on the loss for the year	-	-
Deferred taxation	-	(19)
ACT written off	-	13
Adjustment in respect of prior years:		
Deferred tax	-	(138)
ACT written off	-	92
	<u>-</u>	<u>(52)</u>

No tax credit arises in respect of the trading losses incurred during the year. The unprovided deferred tax asset has been increased to reflect the additional losses. At 31 December 2001 the company had tax losses available amounting to approximately £52 million (2000 : £46 million) subject to agreement with the Inland Revenue.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

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CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

9. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Plant and Machinery £'000	Total £'000
Cost			
At 1 January 2001	11,723	46,044	57,767
Additions	50	1,320	1,370
Disposals	(385)	(2,598)	(2,983)
	<u>11,388</u>	<u>44,766</u>	<u>56,154</u>
Accumulated depreciation			
At 1 January 2001	2,274	33,520	35,794
Charge for the year	220	2,734	2,954
Impairment	-	614	614
Disposals	-	(2,263)	(2,263)
	<u>2,494</u>	<u>34,605</u>	<u>37,099</u>
Net book value			
At 31 December 2001	<u>8,894</u>	<u>10,161</u>	<u>19,055</u>
At 31 December 2000	<u>9,449</u>	<u>12,524</u>	<u>21,973</u>
Leased assets included in the above:			
Net book value			
At 31 December 2001	<u>-</u>	<u>68</u>	<u>68</u>
At 31 December 2000	<u>-</u>	<u>792</u>	<u>792</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

	2001 £'000	2000 £'000
Raw materials and consumables	6,714	9,941
Work in progress	1,274	1,436
Finished goods and goods for resale	13,113	12,971
	<u>21,101</u>	<u>24,348</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 2001

12. DEBTORS

	2001 £'000	2000 £'000
Trade debtors	14,128	16,266
Amounts due from parent company	1,637	1,670
Prepayments and accrued income	1,724	1,634
	<u>17,489</u>	<u>19,570</u>

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000	2000 £'000
Bank loan (see note 14)	2,500	1,804
Obligations under finance leases and hire purchase contracts (see note 14)	40	275
Trade creditors	11,159	7,705
Bills of exchange payable	142	131
Amounts owed to subsidiary undertaking	674	674
Amounts owed to other group companies	2,624	2,624
VAT	2,829	2,997
Taxation and social security	709	874
Other creditors	1,383	1,300
Accruals and deferred income	9,908	8,832
	<u>31,968</u>	<u>27,216</u>

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

	2001 £'000	2000 £'000
Bank loan	24,579	22,404
Obligations under finance leases and hire purchase contracts	53	138
Other creditors	-	1,023
Accruals and deferred income	-	5
	<u>24,632</u>	<u>23,570</u>

Amounts due under the bank loan at 31 December 2001 are payable as follows:

	2001 £'000	2000 £'000
Amounts payable		
- on demand or within one year	2,500	1,804
- between one and two years	24,579	2,300
- between two and five years	-	20,104
	<u>27,079</u>	<u>24,208</u>

The bank loan is stated net of unallocated issue costs of £nil (2000: £65,000). 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.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

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

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

	2001 £'000	2000 £'000
Within one year	40	275
Within one to two years	28	60
Within two to five years	25	78
	<u>93</u>	<u>413</u>

Other creditors are repayable as follows:

	2001 £'000	2000 £'000
Within one year	1,383	1,300
Within one to two years	-	1,023
	<u>1,383</u>	<u>2,323</u>

15. PROVISIONS FOR LIABILITIES AND CHARGES

Provisions for liabilities and charges comprise:

	Pension Obligations £'000	Deferred Taxation £'000	Property £'000	Reorganisation £'000	Total £'000
Balance at 1 January 2001	994	-	150	-	1,144
Provided/(utilised) during the year	68	-	(106)	2,162	2,124
Balance at 31 December 2001	<u>1,062</u>	<u>-</u>	<u>44</u>	<u>2,162</u>	<u>3,268</u>

Property provision

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

Reorganisation provision

This provision represents expected costs directly attributable to the reorganisation of the company's production facilities.

Deferred taxation

The amounts of provided deferred tax are as follows:

	2001 £'000	2000 £'000
At 1 January	-	52
(Credit) for the year	-	(19)
ACT written off	-	13
Adjustment in respect of prior years:		
Deferred tax	-	(138)
ACT written off	-	92
At 31 December	<u>-</u>	<u>-</u>

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

15. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The amounts of unprovided deferred taxation are as follows:

	2001 £'000	2000 £'000
Tax effect of rolled over capital gains	250	250
Tax effect of losses carried forward	(15,892)	(13,975)
Excess future tax allowances over book value of fixed assets	(3,491)	(2,666)
Other timing differences	(592)	(600)
Total asset	<u>(19,725)</u>	<u>(16,991)</u>

16. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised		
15,000,000 ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
Called up, allotted and fully paid		
12,655,000 ordinary shares of £1 each	<u>12,655</u>	<u>12,655</u>

17. 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 2001	160	260	4,431	57,454	(60,198)	2,107
Loss for the year	-	-	-	-	(9,664)	(9,664)
At 31 December 2001	<u>160</u>	<u>260</u>	<u>4,431</u>	<u>57,454</u>	<u>(69,862)</u>	<u>(7,557)</u>

18. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2001 £'000	2000 £'000
Opening equity shareholders' funds	14,762	22,141
Loss for the financial year	(9,664)	(7,379)
Closing equity shareholders' funds	<u>5,098</u>	<u>14,762</u>

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

19. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

Capital commitments

At the end of the year contracted capital commitments were approximately £82,000 (2000 : £50,000).

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 leases certain land and buildings on short and long-term operating leases. The annual rental on these leases was £1,592,000 (2000 : £1,113,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The company pays all the insurance, maintenance and repairs of these properties.

In addition, the company has entered into non-cancellable operating leases in respect of certain plant, machinery and vehicles, the payments for which extend over a period of up to five years. The total rental, including interest, for the year ended 31 December 2001 was £2,446,000 (2000 : £2,531,000). The lease agreements provide that the company will pay all insurance, maintenance and repairs.

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

	Land & buildings £'000	Others £'000
31 December 2001		
Operating leases which expire:		
- within 1 year	-	174
- within 2-5 years	616	942
- after 5 years	1,329	56
	<u>1,945</u>	<u>1,172</u>
31 December 2000		
Operating leases which expire:		
- within 1 year	-	134
- within 2-5 years	235	1,418
- after 5 years	1,527	56
	<u>1,762</u>	<u>1,608</u>

20. PENSIONS

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. Following the actuarial valuation it was agreed that the Company would pay an average contribution rate of 11.125% of annual salaries, subject to review at future valuations. There has been no change to the average contribution rate since the 1999 actuarial valuation.

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

20. PENSIONS (continued)

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 was sufficient to support a reduced level of company contributions until April 2000. Following the actuarial valuation it was agreed that the Company would pay an average contribution rate of 11.7% of annual salaries, subject to review at future valuations. There has been no change to the average contribution rate since the 1999 actuarial valuation.

The company pension charge for the year in total for both schemes was £1,751,000 (2000 : £1,975,000).

The next actuarial valuations of the two schemes will be as at 6 April 2002.

FRS 17

In November 2000 the Accounting Standards Board issued FRS 17 'Retirement Benefits' replacing SSAP 24 'Accounting for Pensions Costs'. FRS 17 is fully effective for periods ending on or after 22 June 2003, though certain disclosures are required in the transition period, for periods ending on or after 22 June 2001. These further disclosures are included below.

The actuarial valuations of the Carpets International Pension Scheme and the Abingdon Carpets Pension Fund were updated to 31 December 2001. The values of assets and liabilities in other schemes operated by the Group were also estimated in preparing the disclosures required under FRS 17. The principal actuarial assumptions used as at 31 December 2001 are shown below.

Rate of increase in salaries	2.5%
Rate of increase of pensions in payment and deferment:	
Statutory revaluation of deferred pensions (in excess of GMP)	2.5%
Pension increases (LPI, minimum 3% p.a.)	3.5%
Pension increases (for post 88 GMP)	1.9%
Increases to deferred pensions	2.5%
Discount rate	5.8%
Inflation assumption	2.5%

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

20. PENSIONS (continued)

The assets and liabilities of the Carpets International Pension Scheme and the Abingdon Carpets Pension Fund along with the expected rates of return on Scheme assets are shown below:

	Expected Rate of Return	31 December 2001 (in £'s million)	
		Carpets International Pension Scheme	Abingdon Carpets Plc Pension Fund
Equities	8.4%	28.0	10.6
Bonds	4.9%	13.8	3.8
Cash and other assets	4.0%	1.0	1.4
		42.8	15.8
Actuarial value of liabilities		(49.3)	(18.1)
Deficit in the Scheme		(6.5)	(2.3)
Related deferred tax liability		-	-
		(6.5)	(2.3)

Had the company adopted FRS 17 early, company profit and loss reserves would have been stated as follows:

	31 December 2001 (in £'s millions)
Profit and loss reserve in the financial statements as at year end	(69.9)
Deficit in relation to the Carpets International Pension Scheme	(6.5)
Deficit in relation to the Abingdon Carpets Pension Fund	(2.3)
SSAP 24 provision for the Carpets International Pension Scheme	1.1
Additional net pension liability	(7.7)
Profit and loss reserve as adjusted	(77.6)

	31 December 2001 (in £'s millions)
Analysis of the Profit and loss reserve:	
Profit and loss reserve excluding pension liability	(68.8)
Pension liability	(8.8)
Profit and loss reserve	(77.6)

CARPETS INTERNATIONAL (UK) LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

21. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption contained in FRS 8 not to disclose details of related party transactions with other group companies.

During the period the company paid £174,722 (2000 : £147,830) 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 £700,258 (2000: £824,489), and these expenses have been recharged by CGW Southeast Partners III LLP to Carpets International (UK) Limited. At 31 December 2001 £56,362 (2000 : £91,885) was due to CGW Southeast Partners III LLP.

In December 2001 CGW Southeast Partners III LLP issued the company with £4.5million of unsecured loan notes due for repayment on 30 April 2003. Interest is payable on this amount at a rate of 6% p.a.

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.