441789

Interfloor Group Limited

Report and Financial Statements

31 May 2003

ERNST & YOUNG

Registered No: 4417189

Directors

Huntsmoor Limited	(appointed 15 April 2002, resigned 15 May 2002)
Huntsmoor Nominees Limited	(appointed 15 April 2002, resigned 15 May 2002)
L J Dunn (USA)	(appointed 15 May 2002)
N Jervis	(appointed 15 May 2002)
J Mitchell (USA)	(appointed 15 May 2002)
D J Carter	(appointed 15 May 2002)
B Mrozek	(appointed 15 May 2002)
P Jackson	(appointed 15 May 2002, resigned 30 April 2004)
K Robb	(appointed 15 May 2002)
N Morrill	(appointed 15 May 2002)
J R Brooks	(appointed 15 May 2002)

Secretary

D J Carter

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Bankers

Bank of Scotland
9th Floor
1 Marsden Street
Manchester
M2 1HW

Solicitors

Ashurst Morris Crisp
Broadwalk House
5 Appold Street
London
EC2A 2HA

Registered Office

Broadway
Haslingden
Rossendale
Lancashire
BB4 4LS

Directors' Report

The directors present their report for the fifty eight week period ended 31 May 2003.

Results and dividends

The loss for the fifty eight week period, after taxation, amounted to £3,978,000. The directors do not propose a dividend.

Principal activities and review of the business

The principal activities of the group are the manufacture of carpet underlay, adhesives and compounds. The company was incorporated on 15 April 2002. On 15 May 2002 it acquired Interfloor Holdings Limited, and Duralay International Holdings Limited and its subsidiary undertakings.

The group experienced a satisfactory first trading year, achieving sales of £140m and an operating profit of £3.6m.

In the UK, a merger programme commenced to consolidate the flooring operations of Duralay Limited and Interfloor Limited. The achievements of this programme include the relocation of manufacturing operations from Cannock to Dumfries, range rationalisation, the implementation of a new IT system and the centralisation of administration and management support to Haslingden.

In the USA, Sponge Cushion Inc. had a good financial year with growth in many areas.

The Board continues to review the group's operations for performance and efficiency improvements.

Directors and their interests

The directors at the period end and their interests in the shares of the company are as follows:

	At 31 May 2003 *Number of B ordinary shares*
L J Dunn	50,000
N Jervis	-
J Mitchell	15,000
D J Carter	15,000
B Mrozek	15,000
P Jackson	15,000
K Robb	15,000
N Morrill	-
J R Brooks	-

Events since the balance sheet date

On 21 January 2004, the group disposed of the trade and assets of its remaining footwear and diving suit manufacturing activities. On 26 August 2003, the group disposed of one of its properties resulting in a profit on disposal of £224,000.

Disabled employees

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

Directors' Report

Employee consultation

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors

During the period, Ernst & Young LLP were appointed as auditors and the directors will place a resolution before the annual general meeting to reappoint them as auditors for the coming year.

By order of the board on 5th July 2004

D J Carter
Secretary

Statement of Directors' Responsibilities in respect of the Financial Statements

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 and the group and of the profit or loss of the group 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Independent Auditors' Report

To the members of Interfloor Group Limited

We have audited the group's financial statements for the period ended 31 May 2003 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Group Cash Flow Statement, Reconciliation of Group Shareholders' Funds and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 legal and regulatory requirements and United Kingdom 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 to you 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 group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit 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 group'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.

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Independent Auditors' Report

To the members of Interfloor Group Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 May 2003 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Manchester

29/7/04

Group Profit and Loss Account

For the period ended 31 May 2003

	Notes	*58 Week period ended 31 May 2003 £000*
Turnover	2	139,962
Cost of sales		(99,457)
Gross profit		40,505
Distribution costs		(18,794)
Administrative expenses		(18,105)
Operating profit	3	3,606
Operating profit		
Pre exceptional items		5,270
Reorganisation costs		(1,664)
Interest receivable		140
Interest payable	6	(7,223)
Loss on ordinary activities before taxation		(3,477)
Tax on loss on ordinary activities	7	(501)
Retained loss for the financial period	19	(3,978)

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Group Statement of total recognised gains and losses

For the period ended 31 May 2003

	Total 2003 £000
Loss attributable to the members of the parent company	(3,978)
Exchange difference on retranslation of net assets of subsidiary undertaking	(145)
	(4,123)

Group Balance Sheet

At 31 May 2003

	Notes	2003 £000
Fixed assets		
Intangible assets	9	31,312
Tangible assets	10	19,296
		50,608
Current assets		
Stocks	12	10,556
Debtors	13	21,184
Cash		6,455
		38,195
Creditors: *amounts falling due within one year*	14	(30,573)
Net current assets		7,622
Total assets less current liabilities		58,230
Creditors: after more than one year	15	(61,363)
Net liabilities		(3,133)
Capital and reserves		
Called up share capital	18	990
Profit and loss account	19	(4,123)
Equity shareholders funds	19	(3,133)

Signed on behalf of the Board on 5th July 2004

D J Carter - Director

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Company Balance Sheet

At 31 May 2003

	Notes	2003 £000
Fixed assets		
Investments	11	1
Current assets		
Debtors	13	687
Cash		302
		989
Creditors: amounts falling due within one year		-
Net current assets		989
Total assets less current liabilities		990
Capital and reserves		
Called up share capital	18	990
Equity shareholders funds	19	990

Signed on behalf of the Board on 5th July 2004

D J Carter – Director

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Consolidated Cash Flow Statement

For the period ended 31 May 2003

	Notes	2003 £'000
Net cash outflow from operating activities	20 (a)	(20,148)
Returns on investments and servicing of finance	20 (b)	(3,258)
Taxation	20 (b)	(267)
Capital investment and financial investment	20 (b)	(2,030)
Acquisitions and disposals	20 (b)	(29,985)
Financing	20 (b)	62,143
Increase in cash		6,455

Reconciliation of net cash flow to movement in net debt

		2003 £'000
Increase in cash in the period		6,455
Cash inflow from increase in long term loans		(61,153)
Change in net debt resulting from cash flows	20 (c)	(54,698)
Amortised finance costs		(210)
Net debt at 15 April 2002		-
Net debt at 31 May 2003	20 (c)	(54,908)

Notes to the Financial Statements

At 31 May 2003

1. Accounting policies

Basis of accounting

The financial statements are prepared under the historical cost convention. The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

Basis of consolidation

The group accounts consolidate the accounts of Interfloor Group Limited and all its subsidiary undertakings drawn up to 31 May 2003. No profit and loss is presented for Interfloor Group Limited as permitted by Section 230 of the Companies Act 1985.

Presbury Properties Limited and Interfloor Investments Limited have been included in the group financial statements using the acquisition method of accounting. Accordingly, the group profit and loss account and statement of cash flows include the results for the period from its acquisition on 15 May 2002. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

Goodwill

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary is subsequently sold or closed, any goodwill arising on acquisition that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Tangible fixed assets

Tangible fixed assets are shown at original historical cost or subsequent valuation.

FRS 15 Tangible Fixed Assets has been adopted and the group took advantage of the transitional rules relating to previously revalued assets. As such the freehold land and buildings have been retained at their book amount arising from the 1988 revaluation.

The carrying value of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Depreciation

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

Freehold buildings	-	40 years
Plant and machinery	-	5 to 15 years
Motor vehicles	-	3 to 4 years

Stocks

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

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

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

Notes to the Financial Statements

At 31 May 2003

1. Accounting policies (continued)

Stocks (continued)

Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Research and development

Research and development expenditure is written off in the year of expenditure.

Pension costs

The group operates a defined benefit pension scheme. Contributions are charged to the profit and loss account so as to spread the cost of pension over employees' working lives within the company. The contribution levels are determined by valuations undertaken by independent qualified actuaries. The group also operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

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 transaction is included as an exchange gain or loss in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Investments

Investments in subsidiary undertakings are shown at original historical cost, less any provision for diminution in value.

Deferred taxation

In general, deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are not recognised on gains made on disposals of fixed assets where an election has been made to roll over the gain into a replacement asset, unless, at the balance sheet date, there is a commitment to dispose of the replacement assets. Deferred tax assets are only recognised to the extent that the Directors consider that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying differences can be deducted.

Notes to the Financial Statements

At 31 May 2003

2. Turnover

The group's turnover is derived from the manufacture and sale of carpet underlay and allied products.

	Period ended 31 May 2003 £000
Geographical analysis of turnover	
United Kingdom	102,429
Continental Europe	15,458
North America	17,924
Other	4,151
	139,962

3. Operating profit

	Period ended 31 May 2003 £000
This is stated after charging:	
Depreciation of fixed assets	2,667
Amortisation of goodwill	1,720
Operating lease rentals - land and buildings	233
- plant and machinery	701
Auditors remuneration - audit services	59
- non audit services	65
Research and development expenditure	-

4. Staff costs

	Period ended 31 May 2003 £000
Wages and salaries	22,419
Social security costs	1,754
Other pension costs	1,417
	25,590

The average monthly number of employees during the period was as follows:

Production	659
Administration	9
Other	236
	904

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Notes to the Financial Statements

At 31 May 2003

5. Directors emoluments

	Period ended 31 May 2003 £000
Emoluments	1,037
Contributions to defined contribution pension schemes	164
Amounts in respect of the highest paid director are as follows:	
Emoluments	209
Contributions to defined contribution pension schemes	-
Number of directors accruing benefits under defined benefit schemes	3

6. Interest payable and similar charges

	Period ended 31 May 2003 £000
Bank loans and overdraft	3,807
Other loans	3,206
Amortisation of finance costs	210
	7,223

7. Tax

(a) Tax on loss on ordinary activities

The tax charge is made up as follows:

	Period ended 31 May 2003 £000
Current tax:	
Corporation tax at 30%	1,306
Group relief payable	-
Adjustments in respect of previous period	(92)
Total current tax (note 7b)	1,214
Deferred tax:	
Originating and reversal of timing differences	(713)
Tax on loss on ordinary activities	501

Notes to the Financial Statements

At 31 May 2003

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is different to the standard rate of corporation tax of 30%. The differences reconciled are below:

	Period ended 31 May 2003 £000
Loss on ordinary activities before tax	(3,477)
Loss on ordinary activities multiplied by standard rate of corporation tax of 30%	(1,043)
Expenses not deductible for tax purposes	768
Depreciation in excess of capital allowances	661
Adjustments in respect of prior periods	(92)
Other timing differences	(9)
Unrealised tax losses	586
Difference in tax rates	343
	1,214

(c) Deferred tax

The deferred tax asset not recognised in the accounts is as follows:

	2003 £000
Capital allowances in advance of depreciation	(644)
Tax losses available	(586)
Other timing differences	(84)
	(1,314)

8. Profit attributable to the members of the parent company

The profit dealt with in the accounts of the parent company for the period ended 31 May 2003 was £nil.

Notes to the Financial Statements

At 31 May 2003

9. Intangible fixed assets

	Group 2003 £000 Goodwill
Cost:	
On acquisition	33,032
At 31 May 2003	33,032
Amortisation:	
Provided during the period	1,720
At 31 May 2003	1,720
Net book value at 31 May 2003	31,312

On 15 May 2002, the group acquired the trade and assets of the Underlay and Accessories Division, the Industrial Products Division and the Footwear and Fabricated Products Division of Gates (UK) Limited. Also on 15 May 2002 the group acquired Presbury Properties Limited. Goodwill is being amortised over a period of 20 years.

An analysis of this acquisition is shown below:

Net assets at date of acquisition:

	Book Value £000	*Adjustments £000*		*Fair value £000*
Tangible fixed assets	13,652	(2,145)	(a)	11,507
Stock	6,864	(403)	(b)	6,461
Trade debtors	11,897	-		11,897
Other debtors	868	-		868
Cash	7	-		7
Trade creditors	(8,691)	-		(8,691)
Other creditors	(5,741)	-		(5,741)
Net assets	18,856	(2,548)		16,308
Goodwill arising on acquisition				5,441
				21,749

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Notes to the Financial Statements

At 31 May 2003

9. Intangible fixed assets (continued)

Discharged by:

Balance due to parent undertakings	19,361
Costs associated with the acquisition	2,388
	21,749

Adjustments:

(a) Decrease in value of leasehold improvements and plant and equipment to market value.

(b) Decrease in value of stock following reassessment of provisions to bring in line with group accounting policies.

On 15 May 2002, the Interfloor Group Limited acquired fellow subsidiaries, Interfloor Limited and Duralay International Holdings Limited, as part of a group reconstruction.

Analysis of the acquisition is shown below:

	Book and fair value £000
Tangible fixed assets	8,536
Stock	4,103
Debtors	9,273
Group debtors	1,512
Cash	279
Provisions	(713)
Creditors	(40,185)
Other creditors	(1,874)
Net liabilities	(19,069)
Goodwill arising on acquisition	27,591
Discharged by:	8,522
Balance due to parent undertaking	7,220
Acquisition costs	1,302
	8,522

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Notes to the Financial Statements

At 31 May 2003

10. Tangible fixed assets

Group

	Freehold Land & Buildings £000	*Plant equipment and vehicles £000*	*Total £000*
Cost or valuation:			
On acquisition	10,829	9,214	20,043
Additions	16	2,216	2,232
Disposals	-	(260)	(260)
Retranslation	(62)	(247)	(309)
At 31 May 2003	10,783	10,923	21,706
Depreciation:			
Charge for the period	539	2,128	2,667
Disposals	-	(53)	(53)
Retranslation	(38)	(166)	(204)
At 31 May 2003	501	1,909	2,410
Net book value			
At 31 May 2003	10,282	9,014	19,296

Freehold land amounting to £1,825,000 has not been depreciated.

11. Investments

	Company £000
Cost of shares in subsidiary undertaking	
Additions	1
At 31 May 2003	1

The company owns 100% of the issued £1 ordinary share capital in Interfloor Holdings Limited, a holding company.

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Notes to the Financial Statements

At 31 May 2003

11. Investments (continued)

Details of subsidiary undertakings are as follows:

Name of company	Country of registration	Holding	Proportion held	Nature of business
Interfloor Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Duralay International Holdings Limited	England and Wales	Ordinary shares	100%	Intermediate Holding Company
Interfloor Limited (formerly Duralay Limited)	England and Wales	Ordinary shares	100%	Manufacture of carpet underlay
Interfloor Investments Limited (formerly the Hunter Rubber Company Limited)	England and Wales	Ordinary shares	100%	Manufacture of footwear and diving suits
Presbury Properties Limited	Jersey	Ordinary shares	100%	Property investments
Interfloor Trustees Limited (formerly Duralay Trustees Limited)	England and Wales	Ordinary shares	100%	Employee trust
Sponge Cushion Inc	USA	Ordinary shares	100%	Manufacture of carpet underlay
Duralay USA Inc	USA	Ordinary shares	100%	Intermediate Holding Company
Tacktrim	Scotland	Ordinary shares	100%	Dormant

12. Stocks

	Group 2003 £000
Raw material and consumables	2,474
Work in progress	1,444
Finished goods	6,638
	10,556

The difference between the purchase price or production cost and their replacement value is not material.

The company does not hold any stocks.

Notes to the Financial Statements

At 31 May 2003

13. Debtors

	Group 2003 £000	Company 2003 £000
Trade debtors	19,491	-
Amounts owed by subsidiary undertakings	-	687
Other debtors	732	-
Prepayments and accrued income	961	-
	21,184	687

14. Creditors: amounts falling due within one year

	Group 2003 £000	Company 2003 £000
Trade creditors	23,513	-
Amounts owed to subsidiary undertakings	-	-
Corporation tax	234	-
Other tax and social security	845	-
Other creditors	1,494	-
Proposed dividends	-	-
Accruals and deferred income	4,487	-
	30,573	-

15. Creditors: amounts falling due in after one year

	Note	Group 2003 £000
Bank loan	16	41,167
Other loans	16	20,196
		61,363

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Notes to the Financial Statements

At 31 May 2003

16. Loans

	Group 2003 £000
Not wholly repayable within five years:	
£42 million bank loan repayable £1,250,000 quarterly from August 2004 plus £12,000,000 in May 2010 (note 12)	41,167
£20,302,000 loan note repayable in full in June 2011	19,849
£347,000 loan note repayable in full in June 2011	347
	61,363

	Bank loans £'000	Loan notes £'000	Total £'000
Amounts repayable			
In more than one year but less than two years	5,000	-	5,000
In more than two years but less than five years	20,000	-	20,000
	25,000	-	25,000
In more than five years	17,000	20,649	37,649
	42,000	20,649	62,649
Less amortised issue expenses	(833)	(453)	(1,286)
	41,167	20,196	61,363

The company has a £42 million bank loan secured by a charge over the assets of the group. £36 million of this loan carries interest at rates of between 5.9% and 6.8%. £6 million of this loan carries interest of LIBOR and 3.5% with a further repayment premium to take the total interest rate to 17%, payable at the end of the term of the loan.

The loan notes are repayable on 30 June 2011 or earlier at the option of the group. The £20,302,000 loan note carries interest at 15% and the £347,000 loan note carries interest at 7.5%.

Notes to the Financial Statements

At 31 May 2003

17. Provisions for liabilities and charges

	Deferred taxation
	£000
Group	
On acquisition	713
Deferred tax charge in profit and loss account	(713)
At 31 May 2003	-

	Unprovided
Accelerated capital allowances	(644)
Other timing differences	(84)
Tax losses	(585)
	(1,313)

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18. Called up share capital

	2003
	£000
Authorised:	
850,000 A ordinary shares of £1 each	850
150,000 A ordinary shares of £1 each	150
	1,000
Allotted, called up and paid	
850,000 A ordinary shares of £1 each	850
140,000 B ordinary shares of £1 each	140
	990

During the period 850,000 A and 140,000 B ordinary shares were issued at par.

The A and B ordinary shares are separate classes of shares but carry the same rights to income, capital and voting, ranking pari passu in all respects, until a listing, sale or winding up of the company takes place.

On the occasion of a listing, sale or winding up of the company a number of A ordinary shares will be converted into deferred shares. The number of shares to be converted is calculated based on the internal rate of return for A shareholders.

Deferred shareholders are not entitled to any distributions, or vote or to attend any general meeting of the company.

On the winding up of the company, holders of deferred shares are entitled to repayment of amounts paid up on such shares after payment in respect of each A and B ordinary share.

Notes to the Financial Statements

At 31 May 2003

19. Reconciliation of shareholders' funds and movement on reserves

Group

	Share capital £000	*Profit and loss reserve £000*	*Total share holders funds £000*
Foreign exchange movement	-	(145)	(145)
Share issue	990	-	990
Loss for the period	-	(3,978)	(3,978)
At 31 May 2003	990	(4,123)	(3,133)

Company

	Share capital £000	*Profit and loss reserve £000*	*Total share holders funds £000*
Share issue	990	-	990
At 31 May 2003	990	-	990

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Notes to the Financial Statements

At 31 May 2003

20. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash outflow from operating activities

	2003 £'000
Operating profit	3,606
Depreciation	2,667
Amortisation of goodwill	1,720
Loss on sale of fixed assets	5
Decrease in debtors	2,366
Decrease in stocks	8
(Decrease) in creditors	(29,977)
Decrease in other provisions	(713)
Exchange differences	170
Net cash outflow from operating activities	(20,148)

(b) Analysis of cash flows for headings netted in the statement of cash flows

	2003 £'000
Returns on investments and servicing of finance	
Interest received	140
Interest paid	(3,398)
	(3,258)

	2003 £'000
Taxation	
Corporation tax paid	(267)

	2003 £'000
Capital expenditure and financial investment	
Payment to acquire tangible fixed assets	(2,232)
Receipts from sales of tangible fixed assets	202
	(2,030)

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Notes to the Financial Statements

At 31 May 2003

20. Notes to the statement of cash flows (continued)

	2003 £'000
Acquisitions and disposals	
Purchase of subsidiary undertaking	(30,271)
Net cash acquired with subsidiary undertaking	286
	(29,985)

	2003 £'000
Financing	
Issue of ordinary shares	990
Net movement in long term borrowings	61,153
	62,143

(c) Analysis of changes in net debt

	Cash flow £000	Other changes £000	At 31 May 2003 £000
Cash at bank and in hand	6,455	-	6,455
Debt due after one year	(61,153)	(210)	(61,363)
	(54,698)	(210)	(54,908)

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Notes to the Financial Statements

At 31 May 2003

21. Guarantees and other financial commitments

On 15 May 2002 the group agreed a composite guarantee and debenture with other group companies; namely Interfloor Holdings Limited, Interfloor Limited, Interfloor Investments Limited, Duralay International Holdings Limited, and Presbury Properties Limited; for all monies due to Bank of Scotland. A fixed and floating charge is held over all assets of each company. This financial assistance was in connection with the acquisition of entire shareholding in a subsidiary company, Duralay International Holdings Limited.

a) Capital commitments

	31 May 2003 £000
Contracted for but not provided for	1,330

(b) Lease commitments

The group has entered into non-cancellable operating leases in respect of plant and machinery, the payments for which extend over a period of up to 5 years. The total rental for the period was £817,000. The lease agreements provide that the company will pay all insurance, maintenance and repairs.

In addition, the group leases certain land and buildings on short and long-term operating leases. The rental on these leases was £232,000. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The group pays all insurance maintenance and repairs of these properties.

Notes to the Financial Statements

at 31 May 2003

22. Pensions

The group sponsors the Duralay Limited Pension and Life Assurance Scheme ("the Main Scheme") and the Duralay Limited Directors and Senior Executives Pension and Life Assurance Scheme ("the Executives Scheme") which are both defined benefit arrangements. The last full actuarial valuation of these schemes were carried out by a qualified independent actuary as at 1 August 2001 and updated on an approximate basis to 31 May 2003.

The principal pension arrangements operated by the Employer are two funded schemes providing benefits on a defined basis. The assets of those schemes are held separately from those of the group. Valuations of the schemes are undertaken by an independent qualified actuary at least every three years and contributions are paid in accordance with his recommendations. The last formal valuations of the schemes for funding purposes were undertaken as at 1 August 2001 and used the projected unit method for one scheme and the aggregate method for the other.

In both valuations the assumption which has the most significant effect on the results of the valuation is the difference between the yield on the fund' s assets over the rate of salary increases. For one of the schemes that difference was 2% per annum, and for the other was 2.5% per annum.

The assets of the schemes had a combined market value at 1 August 2001 of £8,198,000. The value of the assets was sufficient to cover 87% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings. The shortfall is being debited to the profit and loss account over the expected remaining working lives of current employees.

In addition, the group also operates a money purchase scheme called 'The Interfloor Group Retirement Benefit Plan' ('the plan'); which became operative in December 2002.

The pension charge for the year was £855,000.

At 31 May 2003 the prepayment of pension contributions was £nil. At 31 May 2003, unpaid contributions included within other creditors amounted to £104,000.

The contributions made by the employer over the period have been £811,000, in respect of the Main Scheme, and £65,000, in respect of the Execs Scheme. The contribution rates payable by the employer increased to 16% of pensionable salaries from 1 June 2002 (the Main Scheme) and reduced to 21% (the Executives Scheme) and these rates are to continue until reviewed following the triennial valuation of the schemes due as at 1 August 2004. Both schemes closed to new entrants with effect from 1 March 2002 and therefore the current service cost as a percentage of pensionable payroll is likely to increase as the membership ages, although it will be applied to a decreasing pensionable payroll.

The transitional arrangements of the new Financial Reporting Standard No. 17 (FRS 17). "Retirement benefits" require disclosure of assets and liabilities as at 31 May 2003 calculated in accordance with the requirements of FRS 17. They also require disclosure of items which would appear in the profit and loss account and in the statement of total recognised gains and losses were the full requirements of FRS 17 in place. For the purposes of these financial statements, all of these figures are illustrative only and do not impact on the actual 31 May 2003 balance sheet or on this years performance statements. The group is required to disclose the following information about the pension scheme and the figures that would have been shown under FRS 17 in the current balance sheet.

Notes to the Financial Statements

at 31 May 2003

22. Pensions (continued)

The major assumptions used by the actuary were as follows:

	At 31 May 2003 (p.a)
Rate of increase in salaries	3.0%
Rate of increase in deferred pensions	2.5%
Rate of increase in pensions in payment	2.5%
Discount rate	5.25%
Inflation assumption	2.5%

The scheme's net pension asset and expected rate of return on its investments were analysed as follows:

	31 May 2003	
	Long term Expected rate of Return (p.a)	*Market value £000*
Equities	7.0%	5,945
Bonds	5.0%	1,486
Total market value of scheme assets		7,431
Present value of scheme liabilities		(12,015)
Deficit in the scheme		(4,584)
Less: deferred tax asset		1,375
Net deficit in the scheme		(3,209)

If the above pension liability was recognised in the accounts, the group's net assets and profit and loss reserve at 31 May 2003 would be as follows:

	Net assets £000	*Profit and loss account reserve £000*
Excluding pension liability	(3,133)	(4,123)
Net pension liability	(3,209)	(3,209)
Including pension liability	(6,342)	(7,332)

The following disclosures relate to figures that would have been shown in the performance statements under FRS 17. The amounts have not been recognised in these financial statements.

Notes to the Financial Statements

At 31 May 2003

22. Pensions (continued)

The amounts charged to operating profit would be as follows:

	31 May 2003 £000
Service cost	715
Past service cost	-
Total operating charge	715

The net return on the pension scheme would be as follows:

	31 May 2003 £000
Expected return on pension scheme assets	632
Interest on pension liabilities	(638)
	(6)

The amount recognised in the statement of total recognised gains and losses (STRGL) would be as follows:

	31 May 2003 £000
Actual loss less expected return on assets	(2,083)
Experience gains and losses arising on the scheme liabilities	181
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities	(575)
Actuarial loss recognised in STRGL	(2,477)

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Notes to the Financial Statements

At 31 May 2003

22. Pensions (continued)

The movement in the deficit in the year would be as follows:

	31 May 2003 £000
Deficit in scheme at beginning of year:	(2,346)
Movement in year:	
Current service cost	(715)
Net interest/return on assets	(6)
Employee contributions	960
Past service costs	-
Actuarial loss	(2,477)
Deficit in scheme at end of year	(4,584)

The history of experience gains and losses would be as follows:

	31 May 2003 £000
Difference between expected and actual return on scheme assets:	
Amount (£'000)	(2,083)
Percentage of scheme assets	(28%)
Experience gains and losses on scheme liabilities:	
Amount (£'000)	181
Percentage of scheme liabilities	1.5%
Effect of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:	
Amount £'000)	(575)
Percentage of scheme liabilities	(4.8%)
Total amount recognised in the statement of total recognised gains and losses:	
Amount (£000)	(2,477)
Percentage of scheme liabilities	(20.6%)

23. Controlling party

The ultimate controlling party is Rutland Fund Management Limited.