

Interfloor Group Limited

**Directors' report and financial
statements**

Registered number 05516829

30 May 2009

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Directors' report

The Directors present their Directors' report and audited financial statements for the period ended 30 May 2009.

Principal Activities

The principal activity of the Group during the period was the manufacture of underlay and related products and compounds.

Key Risks and Uncertainties

The Group's results are primarily affected by changes in consumer spending. During the period demand weakened considerably following the recessionary conditions in the UK as a whole. In addition, price increases of key commodity raw materials and energy have a significant impact on the Group's performance. During the period these costs reached unprecedented levels following very significant increases in the price of oil. In the second half of the year commodity prices weakened but a substantial weakening of sterling resulted in the costs remaining at historically high levels.

Business Review

Given the lower levels of demand, significant cost and capacity reductions were implemented in the year including the relocation of the Stikatak operations from Ruislip to Haslingden and Dumfries. These actions gave rise to reorganisation costs of £3.5m in the period (2008: £0.7m). As a result of the weaker demand and increased raw material costs operating profit before exceptional items and goodwill was £5.3m (2008: £10.1m).

During the period a new polyurethane underlay line was installed at Dumfries offering increased capacity in this growing market segment.

Since the period end trading has remained subdued and commodity costs are again rising, although significant full year benefits will be derived from the restructuring program and the investment in the new polyurethane underlay line.

The Directors utilise various KPI's in order to assess the performance of the business. These include:-

KPI	2009	2008
Operating profit before exceptional items and goodwill as a % of turnover	6.5%	10.5%
Operating profit before exceptional items and goodwill per employee (£000)	10.5	18.0
Distribution costs as a % of turnover	16.0%	14.9%

Environment

The Regenerative Thermal Oxidisers installed at the Haslingden and Dumfries factories have significantly reduced the emissions from both of these sites.

Proposed dividend

The Directors do not recommend the payment of a dividend (2008: £nil).

Directors' report *(continued)*

Directors

The Directors who held office during the period were as follows:

M Collins (resigned 29 September 2008)
S Downey (resigned 16 October 2008)
D Oppenheim (appointed 29 September 2008)
P Reeder
E Rinner
M Taylor

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 Group continues and that appropriate training is arranged. It is the policy of the Group 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 Group 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 Group. 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.

Political and charitable contributions

The Group made no political or charitable donations during the period (2008: *nil*).

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



M Taylor
Director

Broadway
Haslingden
Rossendale
Lancashire
BB4 4LS

23 September 2009

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditors' report to the members of Interfloor Group Limited

We have audited the financial statements of Interfloor Group Limited for the period ended 30 May 2009 set out on pages 6 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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 auditor's 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 explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and Parent company's affairs as at 30 May 2009 and of the Group's loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

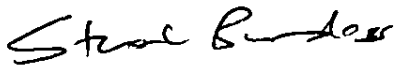
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Interfloor Group Limited *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



S Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

27/08/2009

Consolidated profit and loss account
for the 52 weeks ended 30 May 2009

	<i>Note</i>	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Group Turnover	2	80,918	96,645
Cost of sales		(58,056)	(67,086)
Gross profit		22,862	29,559
Distribution costs		(12,964)	(14,434)
Administrative expenses (<i>including exceptional charges and goodwill amortisation</i>)		(10,323)	(7,900)
Operating profit before goodwill and exceptional items		5,296	10,144
Exceptional charges	3	(3,453)	(721)
Goodwill amortisation		(2,268)	(2,198)
Operating (loss)/profit	3 - 5	(425)	7,225
(Loss)/profit on disposal of fixed assets		(2)	82
(Loss)/profit before interest and tax		(427)	7,307
Interest receivable and similar income	6	89	364
Interest payable and similar charges	7	(4,636)	(4,871)
Other finance costs	8	(605)	(287)
(Loss)/profit on ordinary activities before taxation		(5,579)	2,513
Tax on (loss)/profit on ordinary activities	9	20	(279)
Retained (loss)/profit on ordinary activities after taxation and retained for the period		(5,559)	2,234

Consolidated balance sheet

at 30 May 2009

	Note	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Intangible assets	10		36,874		39,142
Tangible assets	11		14,451		14,089
			<u>51,325</u>		<u>53,231</u>
Current assets					
Stocks	13	5,996		9,699	
Debtors	14	10,384		14,574	
Cash at bank and in hand		3,366		1,520	
		<u>19,746</u>		<u>25,793</u>	
Creditors: amounts falling due within one year	15	<u>(17,412)</u>		<u>(20,883)</u>	
Net current assets			<u>2,334</u>		<u>4,910</u>
Total assets less current liabilities			<u>53,659</u>		<u>58,141</u>
Creditors: amounts falling due after more than one year	16		<u>(51,379)</u>		<u>(51,499)</u>
Provision for liabilities and charges	17		<u>(1,269)</u>		<u>(11)</u>
Net assets excluding net pension liability			<u>1,011</u>		<u>6,631</u>
Net pension liability	23		<u>(3,916)</u>		<u>(1,657)</u>
Net (liabilities)/assets			<u><u>(2,905)</u></u>		<u><u>4,974</u></u>
Capital and reserves					
Called up share capital	20		1,382		1,382
Share premium account	21		198		198
Profit and loss account	21		<u>(4,485)</u>		<u>3,394</u>
Equity shareholders' funds			<u><u>(2,905)</u></u>		<u><u>4,974</u></u>

These financial statements were approved by the Board of Directors on 23 SEPTEMBER 2009 and were signed on its behalf by:



M Taylor
Director

Company balance sheet

at 30 May 2009

	<i>Note</i>	2009 £000	2008 £000
Fixed assets			
Investments	<i>12</i>	1,180	1,180
Current assets			
Debtors	<i>14</i>	394	378
Creditors: amounts falling due within one year	<i>15</i>	(5)	(5)
Net current assets		389	373
Total assets less current liabilities		1,569	1,553
Net assets		1,569	1,553
Capital and reserves			
Called up share capital	<i>20</i>	1,382	1,382
Share premium account	<i>21</i>	198	198
Profit and loss account	<i>21</i>	(11)	(27)
Equity shareholders' funds		1,569	1,553

These financial statements were approved by the Board of Directors on 23 September 2009 and were signed on its behalf by:



M Taylor
Director

Consolidated cash flow statement
for the 52 weeks ended 30 May 2009

	<i>Note</i>	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Cash flow from operating activities	24	6,340	10,246
Returns on investments and servicing of finance	25	(4,357)	(6,695)
Taxation	25	(413)	(9)
Capital expenditure and financial investment	25	(2,075)	(3,267)
Acquisitions and disposals	25	-	(3,645)
		<hr/>	<hr/>
Cash outflow before management of liquid resources and financing		(505)	(3,370)
Financing	25	2,351	(1,688)
		<hr/>	<hr/>
Increase/(decrease) in cash in the period		1,846	(5,058)
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt

Increase/(decrease) in cash in the period	26	1,846	(5,058)
Cash (inflow)/outflow from increase in debt and lease financing		(2,351)	1,688
		<hr/>	<hr/>
Change in net debt resulting from cash flows		(505)	(3,370)
Non-cash movements		(434)	(640)
		<hr/>	<hr/>
Movement in net debt in the period		(939)	(4,010)
Net debt at start of the period	26	(52,388)	(48,378)
		<hr/>	<hr/>
Net debt at the end of the period	26	(53,327)	(52,388)
		<hr/>	<hr/>

Group statement of total recognised gains and losses
for the 52 weeks ended 30 May 2009

	52 weeks Ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
(Loss)/profit for the financial period	(5,559)	2,234
Actuarial loss recognised in the pension schemes	(3,221)	(3,413)
Deferred tax arising on losses in the pension schemes	901	959
Total recognised losses relating to the financial period	(7,879)	(220)

Reconciliation of movement in shareholders' funds
for the 52 weeks ended 30 May 2009

	Group		Company	
	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
(Loss)/profit for the financial period	(5,559)	2,234	16	(16)
Other recognised gains and losses relating to the period (net)	(2,320)	(2,454)	-	-
Net (reduction in)/addition to shareholders' funds	(7,879)	(220)	16	(16)
Shareholders' funds at the start of the period	4,974	5,194	1,553	1,569
Shareholders funds at the end of the period	(2,905)	4,974	1,569	1,553

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 May 2009. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition and up to the date of disposal.

Under section s408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. It is reviewed for impairment at the end of the first full financial period following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

Tangible fixed assets are shown at original historical cost or subsequent valuation. Assets in the course of construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date.

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 equipment	-	3 to 15 years
Motor vehicles	-	3 to 4 years

Investments

Fixed asset investments are shown at cost less provision for permanent diminution in value.

Research and development

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

Interest bearing borrowings

Immediately after issue debt is stated at the fair value of the consideration received on the issue of the capital instrument after deduction of issue costs. The finance cost of the debt is allocated to periods over the term of the debt at a constant rate on the carrying amount.

Notes (continued)

1 Accounting policies (continued)

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 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.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Pension costs

The Group operates two pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The surplus (to the extent that they are recoverable) or deficit of the pension scheme's are recognised in full. The movement in the surplus / deficit of the scheme's are split between operating charges, finance items and, in the statement of total recognised gain and losses.

The Group also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges.

Notes (continued)

1 Accounting policies (continued)

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the Group, and hire purchase contracts are capitalised in the balance sheet and depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included in liabilities in the balance sheet.

The interest element of the rental obligations are charged to the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Financial Guarantees

The Group and Company has not adopted amendments to FRS 26 in relation to financial guarantee contracts.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 31 May 2009.

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market. Liquid resources comprise cash deposits.

Turnover

Turnover comprises the value of sales (excluding VAT, similar taxes and trade discounts) or goods and services provided in the normal course of business.

The Group's turnover is derived from the manufacture and sale of carpet underlay and related products and compounds.

2 Turnover

Geographical analysis of turnover by target market:

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
United Kingdom and Eire	69,331	84,124
Continental Europe	7,831	9,519
Other	3,756	3,002
	<u>80,918</u>	<u>96,645</u>

Notes (continued)

3 Operating profit

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
<i>Operating profit is stated after charging</i>		
Depreciation of owned fixed assets	1,602	1,457
Depreciation of assets held under finance leases	25	116
Amortisation of goodwill	2,268	2,198
Operating lease rentals - land and buildings	847	573
- plant and machinery	1,033	1,196
Exceptional reorganisation expenses	3,453	721
	<hr/>	<hr/>

Exceptional items

Included within administrative expenses are exceptional reorganisation costs of £3,453,000 (2008 - £721,000) arising from a restructuring of the operations of the Group.

Auditors' remuneration:

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Audit of these financial statements	1	1
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	49	55
Other services relating to taxation	39	24
	<hr/>	<hr/>

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Notes (continued)

4 Remuneration of Directors

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Directors' emoluments	447	548
Company contributions to pension schemes	47	61
	<u>494</u>	<u>609</u>

The amounts in respect of the highest paid director are as follows:

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Emoluments	244	243
Company contributions paid to defined contribution scheme	20	20
	<u>264</u>	<u>263</u>

	52 weeks ended 30 May 2009 Number	52 weeks ended 31 May 2008 Number
Retirement benefits are accruing to the following number of directors under: Money purchase schemes	<u>3</u>	<u>3</u>

5 Staff numbers and costs

The average number of persons employed by the Group and Company (including directors) during the period, analysed by category, was as follows:

	52 weeks ended 30 May 2009 Number	52 weeks ended 31 May 2008 Number
Production	336	410
Management	9	9
Other	158	145
	<u>503</u>	<u>564</u>

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Wages and salaries	13,115	14,685
Social security costs	1,287	1,427
Other pension costs	654	788
	<u>15,056</u>	<u>16,900</u>

Notes (continued)

6 Interest receivable and similar income

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Bank Interest	89	364
	<u>89</u>	<u>364</u>

7 Interest payable and similar charges

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
On bank loans and overdrafts	2,005	2,419
Loan note interest	2,614	2,440
Finance lease interest	13	12
Other	4	-
	<u>4,636</u>	<u>4,871</u>

8 Other finance costs

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Expected return on pension scheme assets	(1,026)	(1,346)
Interest on pension scheme liabilities	1,197	993
	<u>171</u>	<u>(353)</u>
Amortisation of finance costs	434	640
	<u>605</u>	<u>287</u>

Notes (continued)

9 Taxation

Tax on (loss)/profit on ordinary activities

The tax charge is made up as follows:

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
<i>Current taxation</i>		
UK corporation tax at 28% (2008 – 29.67%)	(32)	-
Overseas tax paid	-	9
Jersey tax exempt fee	-	1
	<hr/>	<hr/>
	(32)	10
<i>Deferred taxation</i>		
Movement in FRS17 deferred tax (liability)/asset	23	269
Movement on ACA deferred tax liability	(11)	-
	<hr/>	<hr/>
Total deferred tax charge	12	269
	<hr/>	<hr/>
Total tax (credit)/charge	(20)	279
	<hr/>	<hr/>

Notes (continued)

9 Taxation (continued)

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2008: lower) than the standard rate of corporation tax in the UK (28%, 2008: 29.67%). The differences are explained below.

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
(Loss)/profit on ordinary activities before tax	(5,579)	2,513
Tax on (loss)/profit at 28% (2008 - 29.67%)	(1,562)	746
Depreciation in excess of/(lower than) capital allowances	90	(625)
Short term timing differences	833	(533)
Overseas tax paid	-	9
Jersey tax exempt fee	-	1
Expenses not deductible for tax purposes	784	847
Difference between accounting profit and chargeable gain	(4)	-
Pension contributions	(141)	(435)
Adjustments in respect of prior periods	(32)	-
Current tax (credit)/charge for the period	(32)	10

Factors that may affect future current and total tax charges

The following deferred tax assets have not been recognised as there is not enough evidence to suggest that sufficient taxable profits will arise in the future to enable the assets to reverse.

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Depreciation in excess of capital allowances	1,282	911
Short term timing differences	949	220
Unutilised tax losses	2,915	3,528
Deferred tax asset not recognised	5,146	4,659

There is no present binding agreement to sell the land and buildings held by the Group. No deferred tax in respect of the revaluations has been recognised. If the assets were to be sold at these valuations, a taxable gain may arise.

Notes (continued)

10 Intangible fixed assets

Group	Goodwill £000
<i>Cost</i>	
At beginning and end of period	45,258
<i>Amortisation</i>	
At beginning of period	6,116
Charged in period	2,268
At end of period	8,384
<i>Net book value</i>	
At 30 May 2009	36,874
At 31 May 2008	39,142

The Directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. Goodwill arising on the acquisition of Interfloor Group Limited is being amortised over 20 periods which, in the opinion of the Directors, is the period over which the goodwill will be recovered.

11 Tangible fixed assets

Group	Freehold land and buildings £000	Plant equipment and vehicles £000	Assets in course of construction £000	Total £000
<i>Cost</i>				
At 31 May 2008	7,771	21,530	156	29,457
Additions	-	2,034	46	2,080
Transfers	-	155	(155)	-
Disposals	(73)	(335)	-	(408)
At 30 May 2009	7,698	23,384	47	31,129
<i>Depreciation</i>				
At 31 May 2008	3,111	12,257	-	15,368
Charge for the period	186	1,441	-	1,627
Disposals	(23)	(294)	-	(317)
At 30 May 2009	3,274	13,404	-	16,678
Net book value:				
At 30 May 2009	4,424	9,980	47	14,451
At 31 May 2008	4,660	9,273	156	14,089

Freehold land amounting to £1,825,000 (2008 - £1,825,000) has not been depreciated. The net book value of plant equipment and vehicles above includes an amount of £599,000 (2008 - £641,000) in respect of assets held under finance leases and hire purchase contracts.

Notes (continued)

12 Fixed asset investments

Company	Subsidiary Undertakings £000
<i>Cost</i>	
At beginning and end of period	1,180

Shares in group undertakings comprise entirely of shares held in subsidiary undertakings.

The Company holds 100% of the share capital and voting rights of the following companies, all of which are incorporated in England and Wales.

Name of subsidiary undertaking	Class of shares held	Principal activity
<i>Direct subsidiary undertakings</i>		
Interfloor Operations Limited	Ordinary shares £1 each	Intermediate Holding company
<i>Indirect subsidiary undertakings</i>		
Interfloor Group Limited	A Ordinary shares of £1 each B Ordinary shares of £1 each	Intermediate Holding company
Interfloor Holdings Limited	Ordinary shares of £0.10 each	Intermediate Holding company
Duralay International Holdings Limited	A Ordinary shares of £0.10 each	Intermediate Holding company
Interfloor Limited	Ordinary shares of \$1 each Deferred shares of £0.25 each	Manufacture of carpet underlay
Stikatak Limited	Ordinary shares of £1 each	Non trading company
Interfloor Investments Limited	Ordinary shares of £1 each	Dormant
Presbury Properties Limited	Ordinary shares of £1 each	Property Investments
Interfloor Trustees Limited	Ordinary shares of £1 each	Dormant
Tacktrim Limited	Ordinary shares of £1 each	Dormant

In the opinion of the Directors the investments in and amounts due from the Company's subsidiary undertakings are worth at least the amounts at which they are stated in the balance sheet.

13 Stocks

	2009 £000	Group 2008 £000
Raw materials and consumables	2,816	4,107
Work-in-progress	144	126
Finished goods and goods for resale	3,036	5,466
	<u>5,996</u>	<u>9,699</u>

Notes (continued)

14 Debtors

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade debtors	8,943	13,532	-	-
Amounts owed by subsidiary undertakings	-	-	367	378
Other debtors	9	33	27	-
Prepayments and accrued income	1,432	1,009	-	-
	<u>10,384</u>	<u>14,574</u>	<u>394</u>	<u>378</u>

15 Creditors: amounts falling due within one year

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Bank loans and overdrafts (See note 18)	5,167	2,392	-	-
Obligations under finance leases (See note 19)	147	17	-	-
Trade creditors	6,705	12,284	-	-
Other taxes and social security costs	661	909	-	-
Corporation tax	82	527	-	-
Other creditors	3,643	3,184	5	5
Accruals and deferred income	1,007	1,570	-	-
	<u>17,412</u>	<u>20,883</u>	<u>5</u>	<u>5</u>

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Bank loans (See note 18)	25,575	28,615	-	-
Other loans (See note 18)	25,360	22,861	-	-
Obligations under finance lease (See note 19)	444	23	-	-
	<u>51,379</u>	<u>51,499</u>	<u>-</u>	<u>-</u>

17 Provisions for liabilities and charges

	2009 £000	2008 £000
Provision for onerous leases	1,269	-
Deferred tax	-	11
	<u>1,269</u>	<u>11</u>

Notes (continued)

17 Provisions for liabilities and charges (continued)

Provision for onerous leases

Group	Onerous leases £000
At beginning of the period	-
Charged in the period	1,269
	<hr/>
At end of the period	1,269
	<hr/>

The onerous lease provision arose as a result of the Group's decision to exit the Ruislip site and a warehouse in Dumfries. The year end provision relates to the costs of lease commitments in respect of the properties as provided for in the leases.

Deferred Tax

Group	Deferred Tax £000
<i>Deferred tax provision movement in year:</i>	
At beginning of the period	11
Credit to profit & loss account	(11)
	<hr/>
At end of the period	-
	<hr/>

Notes (continued)

18 Loans

	2009 £000	2008 £000
Debt can be analysed as falling due:		
In one year or less, or on demand (classified in creditors < 1 year)	5,575	2,800
Between one and two years	4,025	3,325
Between two and five years	21,963	25,987
In five years or more	26,092	23,716
	<u>57,655</u>	<u>55,828</u>
Less unamortised finance costs	(1,553)	(1,960)
	<u>56,102</u>	<u>53,868</u>

	Bank Loans £000	Mezzanine £000	Loan Notes £000	Total £000
Within one year or less or on demand	5,575	-	-	5,575
Between one and two years	4,025	-	-	4,025
Between two and five years	21,963	-	-	21,963
In more than 5 years	-	5,181	20,911	26,092
	<u>31,563</u>	<u>5,181</u>	<u>20,911</u>	<u>57,655</u>
Less: unamortised finance costs	(821)	(166)	(566)	(1,553)
	<u>30,742</u>	<u>5,015</u>	<u>20,345</u>	<u>56,102</u>

The Bank loan, Mezzanine loan and loan notes are repayable as follows:

- the Bank loan is divided into loan A, loan B and loan C. Loan A is repayable in six monthly instalments to August 2011 varying between £1,575,000 - £3,462,500 with a final payment of £1,000,000 due in November 2011. Loan B is repayable in 2 instalments of £8,750,000 in February and August 2012. Loan C is repayable in one instalment in November 2011. Interest is charged monthly based on LIBOR plus a margin of 3.75% on loan A, 4.25% on loan B and 3.00% on loan C. Both loans are secured by way of a cross guarantee with certain other group companies as described in Note 22.
- the Mezzanine loan notes are repayable in one instalment in August 2014. Interest is accrued monthly at a rate of 10.0% per annum which rolls up into capital on a six monthly basis and becomes subject to interest charge. The loan notes are secured by a cross guarantee with certain other group companies as described in Note 22.
- the loan notes are repayable in August 2015. Interest is accrued monthly at a rate of 10.0% per annum which rolls up into capital on an annual basis and becomes subject to interest charge. These notes are unsecured.

19 Obligations under finance leases

	2009 £000	Group 2008 £000
Amounts payable:		
Within 1 year	147	17
In two to five years	444	23
	<u>591</u>	<u>40</u>

Notes (continued)

20 Called up share capital

	2009 £000	2008 £000
<i>Authorised, allotted, called up and fully paid</i>		
400,000 A Ordinary shares of £1.00 each	400	400
978,030 B Ordinary shares of £1.00 each	978	978
399,748 C Ordinary shares of £0.01 each	4	4
	<hr/> 1,382 <hr/>	<hr/> 1,382 <hr/>

The rights of each class of share are as follows:

Return of capital rights

On a return of capital on liquidation, the surplus assets of the Company remaining after the payment of its liabilities shall be applied in the following order of priority:

- First in paying the holders of the B Ordinary Shares and C Ordinary Shares the issue price in respect of each fully paid B Ordinary Share and C Ordinary Share held;
- Second in paying to the holders of the A Ordinary Shares the issue price in respect of each paid A Ordinary Share held to the extent that it is paid up;
- Third, in paying to the holders of the B Ordinary Shares and C Ordinary Shares in respect of each B Ordinary Share and C Ordinary Share held, a sum equal to any arrears, deficiency or accruals of any dividend declared but unpaid in respect of the B Ordinary Shares and C Ordinary Shares as at the date of the return of capital;
- Fourth, in paying to the holders of the A Ordinary Shares in respect of each A Ordinary Share held, a sum equal to any arrears, deficiency or accruals of any dividend declared but unpaid in respect of the A Ordinary Shares as at the date of the return of capital;
- Fifth, in distributing the balance of assets pro rata to the holders of all the shares.

Voting rights

Every member holding one or more B Ordinary Shares or C Ordinary Shares shall have one vote and on a poll shall have one vote for each B Ordinary Share or C Ordinary Share held. The holders of the A Ordinary Shares shall be entitled to receive notice of and to attend and speak at any general meeting of the Company but shall not be entitled to vote on any business at a general meeting, save on any resolution which has the effect of varying the rights and restrictions attached to the B Ordinary Shares and C Ordinary Shares respectively.

Rights to dividends

Any profits which the Directors may lawfully determine to distribute in respect of any financial period shall be distributed amongst the holders of the Shares pro rata according to the number of shares held.

Notes (continued)

21 Reserves

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
Group				
At 31 May 2008	1,382	198	3,394	4,974
Actuarial loss (net of deferred tax)	-	-	(2,320)	(2,320)
Retained loss for the period	-	-	(5,559)	(5,559)
	<u>1,382</u>	<u>198</u>	<u>(4,485)</u>	<u>(2,905)</u>
At 30 May 2009	1,382	198	(4,485)	(2,905)
Company				
At 31 May 2008	1,382	198	(27)	1,553
Profit for the financial period	-	-	16	16
	<u>1,382</u>	<u>198</u>	<u>(11)</u>	<u>1,569</u>
At 30 May 2009	1,382	198	(11)	1,569

22 Guarantees and other financial commitments

The Company has a composite guarantee and debenture with other group companies Interfloor Operations Limited, Interfloor Industries Limited, Interfloor Holdings Limited, Interfloor Limited, Duralay International Holdings Limited and Stikatak Limited in favour of Kaupthing Bank HF, for all monies due, and Hutton Collins Mezzanine Partners LP, for all monies due under the Mezzanine Loan Note Instrument. Security was provided through a fixed and floating charge over all assets of each company. This financial assistance was in connection with the acquisition of the entire shareholding in Interfloor Industries Limited. At the year end £37,312,000 (2008 - £38,882,000) was outstanding under this agreement.

Capital commitments

	2009 £000	2008 £000
Group		
Contracted for but not provided for	282	1,292

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 £1,033,000 (2008: £1,196,000). For property leases the lease agreements provide that the Group will pay all insurance, maintenance and repairs of these properties.

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

	2009 Property £000	2009 Plant and machinery £000	2008 Property £000	2008 Plant and machinery £000
<i>Operating leases which expire:</i>				
Within one year	-	250	-	134
Within 2-5 years	22	484	-	919
After 5 years	108	-	581	-
	<u>130</u>	<u>734</u>	<u>581</u>	<u>1,053</u>

Notes (continued)

23 Pension scheme

The Group operates both a defined contribution and defined benefit pension scheme.

Defined contribution pension scheme

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in independently administered funds. The unpaid contributions outstanding at the year end, included in other creditors are £46,000 (2008: £55,000). The charge for the year in relation to the scheme was £407,000 (2008: £360,000).

Defined benefit pension schemes

The Group sponsors the Interfloor Limited Final Salary Scheme ("the Main Scheme") and the Interfloor Limited Executive Scheme ("the Executive Scheme") which are both defined benefit arrangements. The last full actuarial valuations of these schemes were carried out by a qualified independent actuary as at 1 August 2006 and updated on an approximate basis to 30 May 2009.

The contributions made by the employer over the financial year were £502,000 in respect of the Main Scheme and £nil in respect of the Executive Scheme.

Contributions to the Executive and Main Schemes have been made in accordance with the Schedule of Contributions. Contributions are inclusive of premiums for death in service benefits and the expenses associated with running the Schemes. Future contributions are expected to be an annual premium ranging from £367,639 to £735,277 in respect of the Main Scheme and no contributions payable to the Executive Scheme. These payments are in line with the certified Schedules of Contributions until they are reviewed on completion of the triennial valuations of the schemes as at 1 August 2009.

As both schemes are closed to future accrual there will be no current service cost in future years.

Notes (continued)

23 Pension schemes (continued)

	30 May 2009 £000	31 May 2008 £000
Present value of funded defined benefit obligations	(18,725)	(19,051)
Fair value of plan assets	13,286	16,749
	<hr/>	<hr/>
Present value of unfunded defined benefit obligations	(5,439)	(2,302)
	<hr/>	<hr/>
Deficit in scheme	(5,439)	(2,302)
Related deferred tax asset	1,523	645
	<hr/>	<hr/>
Net liability	(3,916)	(1,657)
	<hr/>	<hr/>
<i>Movements in present value of defined benefit obligation</i>		
	30 May 2009 £000	31 May 2008 £000
At start of period	19,051	18,832
Current service cost	247	427
Interest cost	1,197	993
Contributions by scheme participants	119	170
Actuarial gains	(1,040)	(953)
Benefits paid, death in service insurance premiums and expenses	(849)	(418)
	<hr/>	<hr/>
At end of period	18,725	19,051
	<hr/>	<hr/>

Notes (continued)

23 Pension schemes (continued)

Movements in fair value of plan assets

	30 May 2009 £000	31 May 2008 £000
At start of period	16,749	18,984
Expected return on plan assets	1,026	1,346
Actuarial losses	(4,261)	(4,366)
Contributions by employer	502	1,033
Contributions by members	119	170
Benefits paid, death in service insurance premiums and expenses	(849)	(418)
	<hr/>	<hr/>
At end of period	13,286	16,749
	<hr/>	<hr/>

Expense recognised in the profit and loss account

	30 May 2009 £000	31 May 2008 £000
Current service cost	247	427
Interest on defined benefit pension plan obligation	1,197	993
Expected return on defined benefit pension plan assets	(1,026)	(1,346)
	<hr/>	<hr/>
Total	418	74
	<hr/>	<hr/>

The expense is recognised in the following line items in the profit and loss account:

	30 May 2009 £000	31 May 2008 £000
Administrative expenses	247	427
Other finance costs	171	(353)
	<hr/>	<hr/>
	418	74
	<hr/>	<hr/>

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is a loss of £3,221,000 (2008: £3,413,000).

Notes (continued)

23 Pension schemes (continued)

The fair value of the plan assets and the return on those assets were as follows:

	30 May 2009 Fair value £000	31 May 2008 Fair value £000
Equities	10,304	11,741
Corporate bonds & cash	2,982	5,008
	<u>13,286</u>	<u>16,749</u>
Actual return on plan assets	<u>(3,235)</u>	<u>(3,020)</u>

The expected rates of return on plan assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the plan's investment portfolio.

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	30 May 2009 %	31 May 2008 %
Discount rate	6.60	6.30
Expected rate of return on plan assets	7.53	6.96
Future salary increases	-	3.75
Revaluation rate of deferred pensioners	3.60	3.75
Pension in payment increases	3.60	3.75
Inflation	<u>3.60</u>	<u>3.75</u>

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 20 years (male), 23 years (female).
- Future retiree (aged 40) upon reaching 65: 21 years (male), 24 years (female).

Notes (continued)

23 Pension schemes (continued)

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	30 May 2009 £000	31 May 2008 £000	3 June 2007 £000	31 May 2006 £000	31 May 2005 £000
Present value of scheme liabilities	(18,725)	(19,051)	(18,832)	(19,602)	(17,307)
Fair value of scheme assets	13,286	16,749	18,984	13,945	9,876
(Deficit)/surplus	(5,439)	(2,302)	152	(5,657)	(7,431)

Experience adjustments

	30 May 2009	31 May 2008	3 June 2007	31 May 2006	31 May 2005
Experience adjustments on scheme liabilities as a percentage of scheme liabilities					
- amount	(2,174)	1,460	714	-	(636)
- percentage	(11.6%)	(7.7)%	(3.8)%	nil%	3.7%
Experience adjustments on scheme assets as a percentage of scheme assets					
- amount	(4,261)	(4,366)	2,406	1,365	598
- percentage	(32.1)%	(26.1)%	12.7%	9.8%	6.1%

24 Reconciliation of operating (loss)/profit to operating cash flows

	52 weeks ended 30 May 2009 £000	52 weeks ended 31 May 2008 £000
Operating (loss)/profit	(425)	7,225
Depreciation	1,627	1,573
Amortisation of goodwill	2,268	2,198
Decrease/(increase) in stocks	3,703	(1,364)
Decrease in debtors	4,191	2,848
Decrease in creditors	(6,038)	(1,544)
Increase/(decrease) in provisions	1,269	(81)
Difference between FRS17 pension charge and contributions paid	(255)	(609)
Net cash inflow from operating activities	6,340	10,246

Notes (continued)

25 Analysis of cash flows

	30 May 2009 £000	30 May 2009 £000	31 May 2008 £000	31 May 2008 £000
Returns on investment and servicing of finance				
Interest received	89		364	
Interest paid	(4,433)		(7,047)	
Interest element of finance lease rental payments	(13)		(12)	
		(4,357)		(6,695)
Taxation				
UK tax paid	(413)		-	
Overseas tax paid	-		(9)	
		(413)		(9)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(2,080)		(3,349)	
Proceeds from sale of tangible fixed assets	5		82	
		(2,075)		(3,267)
Acquisitions and disposals				
Purchase of subsidiary undertaking	-		(5,804)	
Cash acquired with subsidiary	-		2,159	
		-		(3,645)
Financing				
Debt due in less than one year				
Repayment in short term borrowing	(2,800)		(1,138)	
Debt due after more than one year:				
Repayment in long term borrowing	-		(4,053)	
New loans	4,627		3,765	
Finance costs paid in relation to debt	(27)		(25)	
Finance lease receipt	592		-	
Capital element of finance lease rental payments	(41)		(237)	
		2,351		(1,688)

Notes (continued)

26 Analysis of net debt

	At 31 May 2008 £000	Cash flow £000	Non-cash Movements £000	At 30 May 2009 £000
Cash at bank and in hand	1,520	1,846	-	3,366
Debt due within one year	(2,392)	(2,775)	-	(5,167)
Debt due after one year	(51,476)	975	(434)	(50,935)
Finance leases	(40)	(551)	-	(591)
	(53,908)	(2,351)	(434)	(56,693)
	(52,388)	(505)	(434)	(53,327)

27 Related party transactions

During the period ended 30 May 2009, the Group issued loan notes totalling £1,259,375 (2008 - £2,000,712) to EAC (Scotland) (GP3) Limited and £257,209 (2008 - £408,616) to Hutton Collins Luxembourg SARL as payment in kind for interest accrued between 2 June 2007 and 31 May 2008 on loan notes outstanding during that period. At the period end loan notes totalling £16,549,433 and £3,379,978 (2008 - £15,290,058 and £3,122,769) remained outstanding to EAC (Scotland) (GP3) Limited and Hutton Collins Luxembourg SARL respectively.

The Group also issued Mezzanine loan notes of £479,937 (2008 - £754,584) as payment for interest accrued between the period 2 June 2007 and 31 May 2008 to Hutton Collins Luxembourg SARL for Mezzanine loan funding outstanding during that period. Mezzanine loan notes of £5,181,074 provided by Hutton Collins Luxembourg SARL remains outstanding at the year end (2008 - £4,701,137).

The Group has accrued interest charges during the year of £1,679,864 and £871,766 (2008 - £1,567,754 and £872,621), payable to EAC (Scotland) (GP3) Limited and Hutton Collins Luxembourg SARL respectively, of which £1,679,864 and £871,766 (2008 - £1,574,493 and £801,504) remained outstanding at the period end.

28 Ultimate parent undertaking and controlling party

55.0% of the issued share capital of Interfloor Group Limited is held by EAC (Scotland) GP3 Limited on behalf of investors in EAC Fund 111 Limited Partnership and EAC Fund 111 GmbH & Co. Beteiligungs KG. These funds are managed by Milestone Capital Partners LLP. 22.5% of the issued share capital of Interfloor Group Limited is owned by Hutton Collins Mezzanine Partners LP with the remaining shares owned by Management. The ultimate controlling party is therefore considered to be Milestone Capital Partners LLP.

After the period end 33.1% of the issued share capital was transferred from EAC (Scotland) GP3 Limited to Milestone GP Limited on behalf of investors in Milestone Link Fund LP. These funds are also managed by Milestone Capital Partners LLP who remain the ultimate controlling party.

Copies of the financial statements are available from the registered office: Broadway, Haslingden, Rossendale, Lancashire, BB4 4LS.