

309779

**Interface Europe Ltd.**

Report and Financial Statements

Year Ended

1 January 2006



**BDO Stoy Hayward**  
Chartered Accountants

**Interface Europe Ltd.**

**Annual report and financial statements for the year ended 1 January 2006**

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Directors

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**Directors**

J Hasselman  
D T Hendrix  
R S Willoch  
L K Parnell

**Secretary and registered office**

S. Carlton, Shelf Mills, Halifax, West Yorkshire, HX3 7PA.

**Company number**

00309779

**Auditors**

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

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## **Interface Europe Ltd.**

### **Report of the directors for the year ended 1 January 2006**

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The directors present their report together with the audited financial statements for the year ended 1 January 2006.

#### **Results and dividends**

The profit and loss account is set out on page 6 and shows the result for the year.

The directors do not recommend the payment of an ordinary dividend for the year ended 1 January 2006, (2005 - Nil).

#### **Principal activities, trading review and future developments**

The group's principal activity in the year continues to be the manufacture and distribution of interior floor coverings and interior fabrics. The directors consider the state of the group's affairs to be satisfactory.

Subsequent to the balance sheet date the directors accepted an offer for the purchase of the company's shares in Camborne Holdings Limited (interior fabrics business). The sale of the shares was completed on the 21 April 2006 for a consideration of £5.4M. This resulted in a loss of approximately £7.2M which will be reflected in 2006 accounts.

#### **Research and development**

The company continues to invest in research and development. The directors regard investment in this area as a pre-requisite for success in the medium to long term.

#### **Employees**

It is group policy to offer appropriate employment, training and promotion opportunities to disabled people. Should it become necessary every effort would be made in accordance with this policy to continue the employment of anyone becoming disabled whilst in the service of the group.

Information to employees regarding the group and factors affecting its performance are provided through normal management channels and regular consultation.

#### **Charitable and political contributions**

During the year the group made charitable contributions of £11,920 (2 January 2005 - £11,600).

#### **Directors**

The directors of the company during the year were:

J Hasselman  
D T Hendrix  
D G Thomas (Resigned 19 April 2006)  
R S Willoch  
L K Parnell

No director holds any interest in the share capital of the company or any other group company incorporated in Great Britain at any time during the period, or holds any options to acquire shares in the future.

## **Interface Europe Ltd.**

### **Report of the directors for the year ended 1 January 2006 (*Continued*)**

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#### **Directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company 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, 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 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 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.

#### **Financial instruments**

The main financial risks arising from the group and company's activities are credit risk, interest rate risk and liquidity risk. These are monitored by the board of directors and were not considered to be significant at the balance sheet date.

The group and company's policy in respect of credit risk, is to require appropriate credit checks on potential customers before sales are made and to factor certain debts.

The group and company's policy in respect of interest rate risk and liquidity risk is to maintain a mixture of long term and short term debt finance and readily accessible bank deposit accounts to ensure the company has sufficient funds for operations. The cash deposits are held in a mixture of short term deposits and current accounts which earn interest at a floating rate. Debt is maintained at fixed interest rates.

#### **Auditors**

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

#### **By order of the Board**



S Carlton

#### **Secretary**

Date **30 October 2006**

## **Interface Europe Ltd.**

### **Report of the independent auditors**

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#### **To the shareholders of Interface Europe Ltd.**

We have audited the group and parent company financial statements of Interface Europe Limited for the year ended 1 January 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. 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 group's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 group 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 other transactions 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### *Basis of audit opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

**Interface Europe Ltd.**

**Report of the independent auditors (Continued)**

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*Opinion*

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 1 January 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 1 January 2006; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

*BDO Stoy Hayward LLP*

**BDO STOY HAYWARD LLP**

*Chartered Accountants*

*and Registered Auditors*

London

Date *31 October 2006*

**Interface Europe Ltd.****Consolidated profit and loss account for the year ended 1 January 2006**

	Note	Year ended 1 January 2006 £'000	Year ended 2 January 2005 (restated) £'000
<b>Turnover</b>	2	115,577	106,918
Cost of sales		83,783	81,584
<b>Gross profit</b>		31,794	25,334
Selling and distribution expenses		14,590	14,328
Administrative expenses		10,954	5,956
<b>Profit on ordinary activities before interest</b>		6,250	5,050
Interest receivable	4	306	504
Interest payable and similar charges	4	(1,144)	(1,402)
Other finance expenses	24	(522)	(795)
<b>Profit on ordinary activities before taxation</b>		4,890	3,357
Taxation on profit from ordinary activities	7	1,898	1,502
<b>Profit on ordinary activities after taxation and retained profit for the year</b>	18	2,992	1,855

All amounts relate to continuing activities.

The notes on pages 13 to 34 form part of these financial statements.

**Interface Europe Ltd.**

**Statement of total recognised gains and losses and reconciliation of movements in shareholders' funds for the year ended 1 January 2006**

	Note	Year ended 1 January 2006 £'000	Year ended 2 January 2005 (restated) £'000
<b>Statement of total recognised gains and losses</b>			
Profit for the financial year		2,992	1,855
Currency translation differences on foreign currency net investments	18	(59)	37
FRS 17 actuarial gains and losses	24	1,251	1,851
Deferred tax effect of actuarial gains and losses	16	(375)	(555)
		<hr/>	<hr/>
Total recognised gains and losses		3,809	3,188
Prior year adjustment – adoption of FRS 17		(10,487)	<hr/>
		<hr/>	
Total recognised gains and losses since last financial statements		(6,678)	<hr/>
<b>Reconciliation of movements in shareholders' funds</b>			
Total recognised gains and losses		3,809	3,188
Opening shareholders' funds (as adjusted)		27,059	23,871
		<hr/>	<hr/>
Closing shareholders' funds		30,868	27,059
		<hr/>	<hr/>

The notes on pages 13 to 34 form part of these financial statements.



**Interface Europe Ltd.**

**Consolidated balance sheet at 1 January 2006**

	Note	1 January 2006 £'000	1 January 2006 £'000	2 January 2005 (restated) £'000	2 January 2005 (restated) £'000
<b>Fixed assets</b>					
Intangible assets	9		12,262		13,609
Tangible assets	10		21,560		21,663
Investments	11		175		175
			<hr/>		<hr/>
			33,997		35,447
<b>Current assets</b>					
Stocks	12	13,070		12,600	
Debtors - due within one year	13	27,457		28,084	
- due after more than one year	13	1,867		2,635	
Cash at bank and in hand		5,310		4,842	
		<hr/>		<hr/>	
		47,704		48,161	
<b>Creditors: amounts falling due within one year</b>	14	36,929		32,482	
		<hr/>		<hr/>	
<b>Net current assets</b>			10,775		15,679
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			44,772		51,126
<b>Creditors: amounts falling due after more than one year</b>	15		1,742		7,958
<b>Provision for liabilities and charges</b>	16		1,155		1,680
			<hr/>		<hr/>
<b>Net assets excluding pension liability</b>			41,875		41,488
<b>Pension liability</b>	24		(11,007)		(14,429)
			<hr/>		<hr/>
<b>Net assets including pension liability</b>			30,868		27,059
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital - equity	17		34,166		34,166
Share premium account	18		5,276		5,276
Profit and loss account	18		(8,574)		(12,383)
			<hr/>		<hr/>
<b>Shareholders' funds</b>			30,868		27,059
			<hr/>		<hr/>

The financial statements were approved and authorised for issue by the Board on 30 October 2006

L K Parnell

Director

The notes on pages 13 to 34 form part of these financial statements.

**Interface Europe Ltd.**

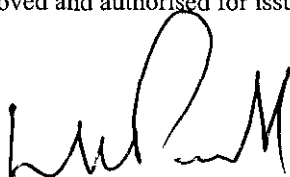
**Company balance sheet at 1 January 2006**

	Note	1 January 2006 £'000	1 January 2006 £'000	2 January 2005 (restated) £'000	2 January 2005 (restated) £'000
<b>Fixed assets</b>					
Intangible assets	9	-	-	-	-
Tangible assets	10	16,214	16,214	16,817	16,817
Investments	11	28,248	28,248	28,248	28,248
			<b>44,462</b>		<b>45,065</b>
<b>Current assets</b>					
Stocks	12	7,153		6,756	
Debtors - due within one year	13	25,682		25,415	
- due after more than one year	13	1,198		2,003	
Cash at bank and in hand		2,686		3,122	
		<b>36,719</b>		<b>37,296</b>	
<b>Creditors: amounts falling due within one year</b>	14	<b>31,759</b>		<b>32,602</b>	
<b>Net current assets</b>			<b>4,960</b>		<b>4,694</b>
<b>Total assets less current liabilities</b>			<b>49,422</b>		<b>49,759</b>
<b>Creditors: amounts falling due after more than one year</b>	15		<b>24,535</b>		<b>24,656</b>
<b>Provision for liabilities</b>	16		<b>1,155</b>		<b>1,680</b>
<b>Net assets excluding pension liability</b>			<b>23,732</b>		<b>23,423</b>
<b>Pension liability</b>	24		<b>(11,007)</b>		<b>(14,429)</b>
<b>Net assets including pension liability</b>			<b>12,725</b>		<b>8,994</b>
<b>Capital and reserves</b>					
Called up share capital	17	34,166	34,166	34,166	34,166
Share premium account	18	5,276	5,276	5,276	5,276
Profit and loss account	18	(26,717)	(26,717)	(30,448)	(30,448)
<b>Shareholders' funds</b>			<b>12,725</b>		<b>8,994</b>

The financial statements were approved and authorised for issue by the Board on **30 October 2006**

L K Parnell

Director



The notes on pages 13 to 34 form part of these financial statements.

**Interface Europe Ltd.**

**Consolidated cash flow statement for the year ended 1 January 2006**

	<b>Note</b>	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
<b>Net cash inflow from operating activities</b>	19	7,530	5,727
<b>Returns on investments and servicing of finance</b>	20	(838)	(1,115)
<b>Taxation</b>		(39)	(58)
<b>Capital expenditure and financial investment</b>	20	(2,091)	(1,028)
<b>Cash outflow before use of liquid resources and financing</b>		4,562	3,526
<b>Financing</b>	20	(6,097)	(2,297)
<b>Increase/(Decrease) in cash</b>	21	(1,535)	1,229

The notes on pages 13 to 34 form part of these financial statements.

## **1 Accounting policies**

The financial statements are prepared under the historical cost convention and are in accordance with applicable accounting standards.

In preparing these financial statements, the group has adopted for the first time FRS21 "Events after the balance sheet date", the presentation requirements of FRS25 "Financial Instruments: Disclosures and presentation" and FRS28 "Corresponding amounts". There has been no effect on the current or prior year figures arising from these adoptions.

The group has also adopted FRS17 - Retirement benefits in its entirety for the first time, which has given rise to a prior year adjustment to the group and company accounts.

### *Basis of consolidation*

The group financial statements consolidate the financial statements of Interface Europe Ltd. and all its subsidiary undertakings up to the balance sheet date, using the acquisition method of accounting.

No profit and loss account for Interface Europe Ltd. has been presented as permitted by Section 230 of the Companies Act 1985.

### *Goodwill*

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition; and
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

The profit or loss on disposal of a business includes any goodwill arising on acquisitions which was previously eliminated directly against reserves under the former group policy.

### *Turnover*

Turnover represents sales to external customers at invoiced amounts less value added tax. Turnover is recognised when the risks and rewards of owning the goods have passed to the customer, which is generally on delivery.

### *Investments*

Investments are stated at cost less provision for permanent diminution in value or at valuation.

**1 Accounting policies (*Continued*)**

*Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets, other than freehold land, 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, at the following rates:-

Freehold buildings	-	2% - 10%
Plant and machinery	-	8⅓% - 33⅓%
Fixtures and fittings	-	10% - 50%

*Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased out-right. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balances of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

*Government grants*

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets.

*Research and development*

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding five years commencing in the year when the group begins to benefit from the expenditure.

*Intangible assets*

Goodwill, patents and trade marks are amortised on a straight line basis for a period not exceeding twenty years which the directors consider to be their useful economic lives.

**1 Accounting policies (*Continued*)**

*Stocks and work in progress*

Stocks are stated at the lower of cost and net realisable value. Cost is arrived at as follows:-

Raw materials	-	purchase cost on a first in, first out basis
Work in progress and finished goods	-	cost of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

*Foreign currency translation*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the retranslation of the opening net investment in overseas subsidiary undertakings at the year end rate are taken directly to reserves. All other differences are taken to the profit and loss account

*Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on industrial buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

**1 Accounting policies (*Continued*)**

*Pensions*

The pension costs for defined contribution schemes are the contributions payable in the year.

For defined benefit schemes, pensions scheme assets are measured using market values, and 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 pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items, and, in the statement of total recognised gains and losses, actuarial gains and losses.

Previously the group accounted for pensions in accordance with SSAP 24 - Accounting for pension costs under which, for defined benefit schemes, the costs were the amounts which, based on actuarial assumption, would provide for the expected pension costs over the service lives of members at a level percentage of the pensionable payroll.

The effect of the accounting policy change on the comparatives is that net assets have been reduced by £10,487,000, and operating profit has increased by £2,739,000. Had SSAP 24 continued to be applied to the defined benefit pension scheme then current year net assets would have been £35,464,400 and operating profit would have been £3,527,000 lower.

*Onerous leases*

Where the unavoidable costs of a lease exceed the economic benefit expected to be received from it, a provision is made for the present value of the obligations under the lease.

**Interface Europe Ltd.****Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)****2 Turnover, profit and net assets, and corresponding figures**

Turnover is derived from two main classes of business carried out in the UK, that of the manufacture and distribution of interior floor covering and interior fabrics. Turnover, profit and net assets can be analysed as follows:

	Year ended 1 January 2006 £'000	Year ended 2 January 2005 (restated) £'000
Turnover		
Interior floor covering	80,978	74,716
Interior fabrics	34,599	32,202
	<u>115,577</u>	<u>106,918</u>
Pre tax profit/ (loss) on ordinary activities		
Interior floor covering	3,106	1,944
Interior fabrics	1,784	1,390
	<u>4,890</u>	<u>3,357</u>
Net assets		
Interior floor covering	24,354	21,706
Interior fabrics	6,514	5,353
	<u>30,868</u>	<u>27,059</u>
Turnover by destination:		
Europe, including United Kingdom	106,414	99,548
The Americas	427	853
Asia/Pacific	5,219	3,132
Other	3,517	3,385
	<u>115,577</u>	<u>106,918</u>

Substantially all of the groups turnover, profits and net assets arise from the UK operations.



**Interface Europe Ltd.****Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)****3 Operating profit is stated after charging/(crediting):**

	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
Research and development expenditure	506	269
Depreciation - owned fixed assets	2,292	2,472
Amortisation - intangible fixed assets	1,347	1,615
Operating lease rentals - plant and machinery	1,391	1,104
- other	1,004	1,146
Auditors' remuneration - audit (company £83,000)	146	161
- non audit (company £238,000)	395	132
(Profit)/loss on sale of fixed assets	(98)	249
Government grants released	(119)	(122)
	<hr/>	<hr/>

**4 Interest**

	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
Interest receivable		
From fellow subsidiary undertakings	222	477
From others	84	27
	<hr/>	<hr/>
	306	504
	<hr/>	<hr/>
Interest payable and similar charges		
To fellow subsidiary undertakings	1,075	1,193
To others	69	209
	<hr/>	<hr/>
	1,144	1,402
	<hr/>	<hr/>

**5 Employees**

**Number of employees**

The average weekly number of persons (including directors) employed by the group during the period was:

	<b>Year ended 1 January 2006 Number</b>	<b>Year ended 2 January 2005 Number</b>
Direct labour	344	353
Office and supervision	281	276
Management	34	34
	<hr/>	<hr/>
	659	663
	<hr/>	<hr/>
Employment costs (including directors)	<b>£'000</b>	<b>£'000</b>
Wages and salaries	18,320	16,681
Social security costs	1,875	1,747
Pension and other costs	1,060	1,679
	<hr/>	<hr/>
	21,255	20,107
	<hr/>	<hr/>

**6 Information regarding directors**

**Emoluments**

	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
Directors' emoluments consist of:		
Fees and remuneration	403	316
Payments to defined benefit pension scheme	32	19
	<hr/>	<hr/>
	435	335
	<hr/>	<hr/>

**6 Information regarding directors (Continued)**

**Emoluments (Continued)**

The number of directors in the defined benefit pension scheme was 1 (2 January 2005 - 1).

Emoluments (including pension contributions) of the highest paid director were:

	Year ended 1 January 2006 £'000	Year ended 2 January 2005 £'000
Highest paid director	373	263

The highest paid director's accrued pension entitlement was £16,280 (2005 - £14,025) as at 1 January 2006.

**7 Taxation on profit from ordinary activities**

	Year ended 1 January 2006 £'000	Year ended 1 January 2006 £'000	Year ended 2 January 2005 (restated) £'000	Year ended 2 January 2005 (restated) £'000
<i>Current tax</i>				
UK corporation tax on profits of the year	-		-	
Adjustment in respect of previous years	-		22	
Overseas tax	39		32	
Total current tax		39		54
<i>Deferred tax</i>				
Origination and reversal of timing differences	1,859		1,448	
Movement in deferred tax provision (note 16)		1,859		1,448
Taxation on profit on ordinary activities		1,898		1,502

**7 Taxation on profit from ordinary activities (Continued)**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 1 January 2006 £'000	Year ended 2 January 2005 (restated) £'000
Profit on ordinary activities before tax	4,890	3,357
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	1,467	1,007
Effects of:		
Expenses and goodwill amortisation not deductible for tax purposes	496	605
Depreciation for year in excess of capital allowances	553	(92)
Adjustment to tax charge in respect of previous years	-	22
Losses for year carried forward	-	(73)
Short term timing differences	(1,756)	(1,364)
Difference in overseas tax rates	(40)	(51)
Use of losses not previously recognised	(681)	-
Current tax charge for year	39	54

**8 Company result for the year**

The profit attributable to the company which has been dealt with in its own accounts is £3,731,000 (2 January 2005 – £1,590,000). The company has taken advantage of the exemption in the Companies Act 1985 not to present its own profit and loss account.

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**9 Intangible fixed assets**

<b>Group</b>	<b>Intellectual property rights £'000</b>	<b>Patents and Trademarks £'000</b>	<b>Goodwill £'000</b>	<b>Total £'000</b>
<i>Cost</i>				
At 3 January 2005 and at 1 January 2006	357	6	30,381	30,744
<i>Provisions</i>				
At 3 January 2005	357	6	16,772	17,135
Amortisation for the year	-	-	1,347	1,347
At 1 January 2006	357	6	18,119	18,482
<i>Net book value</i>				
At 1 January 2006	-	-	12,262	12,262
At 2 January 2005	-	-	13,609	13,609
<b>Company</b>				
<i>Cost</i>				
At 3 January 2005 and at 1 January 2006	357	6	2,887	3,250
<i>Provisions</i>				
At 3 January 2005	357	6	2,887	3,250
Amortisation for the year	-	-	-	-
At 1 January 2006	357	6	2,887	3,250
<i>Net book value</i>				
At 1 January 2006	-	-	-	-
At 2 January 2005	-	-	-	-

**Interface Europe Ltd.****Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)****10 Tangible fixed assets**

<b>Group</b>	<b>Freehold land and buildings £'000</b>	<b>Fixtures, fittings, plant and machinery £'000</b>	<b>Total £'000</b>
<i>Cost</i>			
At 3 January 2005	11,218	35,253	46,471
Additions	660	1,680	2,340
Disposals	(5)	(514)	(519)
	<hr/>	<hr/>	<hr/>
At 1 January 2006	<b>11,873</b>	<b>36,419</b>	<b>48,292</b>
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 3 January 2005	2,241	22,567	24,808
Charge for the year	333	1,959	2,292
Disposals	(3)	(365)	(368)
	<hr/>	<hr/>	<hr/>
At 1 January 2006	<b>2,571</b>	<b>24,161</b>	<b>26,732</b>
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 1 January 2006	<b>9,302</b>	<b>12,258</b>	<b>21,560</b>
	<hr/>	<hr/>	<hr/>
At 2 January 2005	<b>8,977</b>	<b>12,686</b>	<b>21,663</b>
	<hr/>	<hr/>	<hr/>

The net book value of fixed assets for the group includes an amount of £Nil (2 January 2005 - £Nil) in respect of assets held under finance leases. The depreciation charge for the period relating to those assets is £Nil (2 January 2005 - £31,000).

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**10 Tangible fixed assets (Continued)**

<b>Company</b>	<b>Freehold land and buildings £'000</b>	<b>Fixtures, fittings, plant and machinery £'000</b>	<b>Total £'000</b>
<i>Cost</i>			
At 3 January 2005	9,685	23,565	33,250
Additions	39	1,053	1,092
Disposals	(5)	(437)	(442)
	<hr/>	<hr/>	<hr/>
At 1 January 2006	<b>9,719</b>	<b>24,181</b>	<b>33,900</b>
	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>			
At 3 January 2005	1,480	14,953	16,433
Charge for the year	258	1,285	1,543
Disposals	(3)	(287)	(290)
	<hr/>	<hr/>	<hr/>
At 1 January 2006	<b>1,735</b>	<b>15,951</b>	<b>17,686</b>
	<hr/>	<hr/>	<hr/>
<i>Net book value</i>			
At 1 January 2006	<b>7,984</b>	<b>8,230</b>	<b>16,214</b>
	<hr/>	<hr/>	<hr/>
At 2 January 2005	8,205	8,612	16,817
	<hr/>	<hr/>	<hr/>

**11 Fixed asset investments - unlisted**

<b>Group</b>	<b>Shares in unlisted company £'000</b>
<i>Cost</i>	
At 3 January 2005 and at 1 January 2006	<b>206</b>
	<hr/>
<i>Provisions</i>	
At 3 January 2005 and at 1 January 2006	<b>31</b>
	<hr/>
<i>Net book value</i>	
At 1 January 2006 and at 2 January 2005	<b>175</b>
	<hr/>

## 11 Fixed asset investments - unlisted (Continued)

Company	Share in unlisted company £'000	Shares in subsidiary undertakings £'000	Total £'000
<i>Cost</i>			
At 3 January 2005 and 1 January 2006	31	28,248	28,279
<i>Provisions</i>			
At 3 January 2005 and at 1 January 2006	31	-	31
<i>Net book value</i>			
At 1 January 2006 and at 2 January 2005	-	28,248	28,248

## Subsidiary undertakings

The following were the principal subsidiary undertakings of the company during the year and have all been included in the consolidated financial statements:

Company	Country of registration or incorporation	Nature of business	Shares held class	%
Interface Ireland Limited	Ireland	Distribution of interior floor covering	Ordinary	100
Camborne Holdings Limited	England	Intermediate holding company	Ordinary	100
Interface Fabrics Limited*	England	Supply of office interior fabric	Ordinary	100
Interface Fabrics International Limited*	England	Exporters of fabric	Ordinary	100

\* Indirect subsidiaries of Interface Europe Ltd.



**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**12 Stocks**

	<b>Group</b> <b>1 January</b> <b>2006</b> <b>£'000</b>	<b>Group</b> <b>2 January</b> <b>2005</b> <b>£'000</b>	<b>Company</b> <b>1 January</b> <b>2006</b> <b>£'000</b>	<b>Company</b> <b>2 January</b> <b>2005</b> <b>£'000</b>
Raw materials and consumables	4,262	4,093	1,985	1,702
Work in progress	1,512	1,172	434	327
Finished goods and goods for resale	7,296	7,335	4,734	4,727
	<u>13,070</u>	<u>12,600</u>	<u>7,153</u>	<u>6,756</u>

**13 Debtors**

	<b>Group</b> <b>1 January</b> <b>2006</b> <b>£'000</b>	<b>Group</b> <b>2 January</b> <b>2005</b> <b>(restated)</b> <b>£'000</b>	<b>Company</b> <b>1 January</b> <b>2006</b> <b>£'000</b>	<b>Company</b> <b>2 January</b> <b>2005</b> <b>(restated)</b> <b>£'000</b>
<i>Amounts due within one year:</i>				
Trade debtors	14,942	15,127	8,479	8,557
Amounts owed by subsidiary undertakings	-	-	4,394	4,068
Amounts owed by parent undertaking and fellow subsidiary undertakings	10,650	10,229	10,650	10,005
Other debtors	73	70	72	69
Corporation tax	-	-	647	313
Prepayments and accrued income	1,792	2,658	1,440	2,403
	<u>27,457</u>	<u>28,084</u>	<u>25,682</u>	<u>25,415</u>
<i>Amounts due after more than one year:</i>				
Deferred tax (see note 16)	1,867	2,635	1,198	2,003
	<u>29,324</u>	<u>30,719</u>	<u>26,880</u>	<u>27,418</u>

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**14 Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 January</b>	<b>2 January</b>	<b>1 January</b>	<b>2 January</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bank overdrafts	2,854	851	2,030	-
Bank and other loans	-	-	-	-
Trade creditors	5,315	5,502	3,392	3,938
Amounts owed to parent undertaking and fellow subsidiary undertakings	21,539	21,142	15,656	19,278
Amounts owed to subsidiary undertakings	-	-	5,164	5,981
Other taxes and social security costs	2,137	1,338	1,530	688
Corporation tax	9	33	-	-
Accruals and deferred income	5,075	3,616	3,987	2,717
	<u>36,929</u>	<u>32,482</u>	<u>31,759</u>	<u>32,602</u>

Bank overdraft and loans bear interest at commercial margins above LIBOR.

**15 Creditors: amounts falling due after more than one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>1 January</b>	<b>2 January</b>	<b>1 January</b>	<b>2 January</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts owed to fellow subsidiaries	1,623	7,720	-	-
Amounts owed to subsidiary undertakings	-	-	24,416	24,416
Accruals and deferred income	119	238	119	240
	<u>1,742</u>	<u>7,958</u>	<u>24,535</u>	<u>24,656</u>

Bank loans and overdrafts are secured by cross guarantees between the group companies.

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**16 Provisions for liabilities and charges**

<b>Group</b>	<b>£'000</b>
<i>(a) Deferred tax</i>	
At 3 January 2005 as previously stated	(4,324)
Prior year adjustment	(4,494)
	<hr/>
At 3 January 2005 as restated	(8,818)
Transfer to profit and loss account	1,859
Transfer to statement of recognised gains and losses	375
	<hr/>
Balance at 1 January 2006	<b>(6,584)</b>
	<hr/>

	<b>1 January 2006 £'000</b>	<b>2 January 2005 £'000</b>
Recognised as:		
Deferred tax asset (note 13)	1,867	2,635
Netted off pension liability (note 24)	4,717	6,183
	<hr/>	<hr/>
	<b>6,584</b>	<b>8,818</b>
	<hr/>	<hr/>

Deferred tax provided in the financial statements is as follows:

	<b>Provided 1 January 2006 £'000</b>	<b>Provided 2 January 2005 £'000</b>
Accelerated capital allowances	(1,158)	(428)
Other timing differences	(623)	(2,132)
Losses	(86)	(75)
Pension timing difference	(4,717)	(6,183)
	<hr/>	<hr/>
	<b>(6,584)</b>	<b>(8,818)</b>
	<hr/>	<hr/>

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**16 Provisions for liabilities and charges (Continued)**

<b>Company</b>	<b>£'000</b>
At 3 January 2005 as previously stated	(3,692)
Prior year adjustment	(4,494)
	<hr/>
At 3 January 2005 as restated	(8,186)
Transfer to profit and loss account	1,896
Transfer to statement of recognised gains and losses	375
	<hr/>
At 1 January 2006	<b>(5,915)</b>
	<hr/>

Deferred tax provided in the financial statements is as follows:

	<b>Provided 1 January 2006 £'000</b>	<b>Provided 2 January 2005 £'000</b>
Accelerated capital allowances	(578)	(115)
Other timing differences	(620)	(1,888)
Losses	-	-
Pension timing differences	(4,717)	(6,183)
	<hr/>	<hr/>
	<b>(5,915)</b>	<b>(8,186)</b>
	<hr/>	<hr/>

The group and company at 1 January 2006 have unprovided deferred tax assets of £4,200,000 comprising accelerated capital allowances and losses.

	<b>Onerous lease provision £'000</b>
<b>(b) Other provisions</b>	
<b>Group and company</b>	
At 3 January 2005	1,680
Transfer from profit and loss account	8
Paid in the year	(533)
	<hr/>
At 1 January 2006	<b>1,155</b>
	<hr/>

**Interface Europe Ltd.****Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)****16 Provisions for liabilities and charges (Continued)****Group and company (Continued)**

The onerous lease provision relates to leases held on two properties by Interface Europe Ltd. The first property was vacated by the company during 2005 and only a small part of it has been sublet. The provision provides for the total annual cost of leasing the property for the remaining six and a half years left on the lease. The second property was also vacated during 2005 and the provision provides against the annual cost of leasing the property for the one and a half years left until a break option in the lease. The lease on this property was surrendered during July 2006. Both provisions have been discounted at a pre-tax rate of 6%.

**17 Called up share capital**

	<b>Authorised</b>			
	<b>1 January 2006 Number</b>	<b>2 January 2005 Number</b>	<b>1 January 2006 £'000</b>	<b>2 January 2005 £'000</b>
Ordinary shares of 50p each	70,679,407	70,679,407	35,340	35,340
'A' Ordinary shares of 10p each	26,602,965	26,602,965	2,660	2,660
5% preference shares of Can\$1 each	2,100,000	2,100,000	1,918	1,918
	<b>99,382,372</b>	<b>99,382,372</b>	<b>39,918</b>	<b>39,918</b>
<b>Allotted, called up and fully paid</b>				
	<b>1 January 2006 Number</b>	<b>2 January 2005 Number</b>	<b>1 January 2006 £'000</b>	<b>2 January 2005 £'000</b>
Ordinary shares of 50p each	63,579,407	63,579,407	31,790	31,790
'A' ordinary shares of 10p each	23,766,677	23,766,677	2,376	2,376
	<b>87,346,084</b>	<b>87,346,084</b>	<b>34,166</b>	<b>34,166</b>

The ordinary shares and the 'A' ordinary shares each carry equal voting rights.

The priority and amounts receivable in the event of the winding up of the company are as follows:

'A' ordinary shares	10p per share
Ordinary shares	50p per share

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**18 Reserves**

<b>Group</b>	<b>Share premium £'000</b>	<b>Profit and loss account £'000</b>
At 3 January 2005 as previously stated	5,276	(1,896)
Prior year adjustment	-	(10,487)
At 3 January 2005 as restated	5,276	(12,383)
Profit for the year	-	2,992
Exchange differences	-	(59)
Actuarial gains net of tax	-	876
At 1 January 2006	<b>5,276</b>	<b>(8,574)</b>
<b>Company</b>		
At 3 January 2005 as previously stated	5,276	(19,961)
Prior year adjustment	-	(10,487)
At 3 January 2005 as restated	-	(30,448)
Profit for the year	-	2,855
Actuarial gains net of tax	-	876
At 1 January 2006	<b>5,276</b>	<b>(26,717)</b>

The effect on the profit and loss reserves of the pension scheme liability incorporated into the financial statements is as follows:

	<b>Group 1 January 2006 £'000</b>	<b>Group 2 January 2005 £'000</b>	<b>Company 1 January 2006 £'000</b>	<b>Company 2 January 2005 £'000</b>
Profit and loss reserve excluding pension liability	2,433	2,046	(15,710)	(16,019)
Pension Liability	(11,007)	(14,429)	(11,007)	(14,429)
Profit and loss reserve	<b>(8,574)</b>	<b>(12,383)</b>	<b>(26,717)</b>	<b>(30,448)</b>

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

<b>19 Reconciliation of operating profit to net cash inflow from operating activities</b>	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
Profit on ordinary activities before interest	6,250	5,050
Depreciation	2,292	2,472
Amortisation of intangible assets	1,347	1,615
Increase in stocks	(470)	(1,056)
Decrease in debtors	627	4,195
Increase in creditors and provision	(2,359)	(6,835)
Foreign exchange gain/(loss)	(59)	37
(Profit)/Loss on sale of fixed assets	(98)	249
	<hr/>	<hr/>
Net cash inflow from operating activities	7,530	5,727
	<hr/>	<hr/>

**20 Analysis of cash flows for headings netted in the cash flow statement**

	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
Returns on investments and servicing of finance				
Interest received	306		504	
Interest paid	(1,144)		(1,619)	
	<hr/>		<hr/>	
Net cash outflow for returns on investments and servicing of finance		(838)		(1,115)
		<hr/>		<hr/>
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(2,340)		(1,050)	
Sale of tangible fixed assets	249		22	
	<hr/>		<hr/>	
Net cash inflow for capital expenditure and financial investments		(2,091)		(1,028)
		<hr/>		<hr/>
Financing				
Bank loans drawn down	-		(1,931)	
Capital element of finance				
lease rental payments	-		(32)	
Inter company loans repaid	(6,097)		(334)	
	<hr/>		<hr/>	
Net cash outflow from financing		(6,097)		(2,297)
		<hr/>		<hr/>

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**21 Reconciliation of net cash inflow to movement in net debt**

	Year ended 1 January 2006 £'000	Year ended 1 January 2006 £'000	Year ended 2 January 2005 £'000	Year ended 2 January 2005 £'000
Increase/(Decrease) in cash in the year	(1,535)		1,229	
Cash inflow from increase in debt and lease financing	6,097		2,297	
Change in net debt resulting from cash flows		4,562		3,526
Opening net debt		(3,729)		(7,255)
Closing net debt		833		(3,729)

**22 Analysis of net debt**

	At 28 December 2005 £'000	Cash flow £'000	At 1 January 2006 £'000
Cash at bank and in hand	4,842	468	5,310
Overdrafts	(851)	(2,003)	(2,854)
	3,991	(1,535)	2,456
Inter company loans owed to fellow subsidiaries	(7,720)	6,097	(1,623)
Total	(3,729)	4,562	833



**23 Financial commitments - operating leases**

At 1 January 2006, the group and company had annual commitments under non-cancellable operating leases as follows:

	At 1 January 2006 Land and buildings £'000	At 1 January 2006 Other £'000	At 2 January 2005 Land and buildings £'000	At 2 January 2005 Other £'000
<b>Group</b>				
Expiry date:				
Within one year	-	158	6	112
Between two and five years	40	497	145	611
In over five years	622	8	508	-
	<u>662</u>	<u>663</u>	<u>659</u>	<u>723</u>
<b>Company</b>				
Expiry date:				
Within one year	-	155	-	61
Between two and five years	40	481	138	456
In over five years	582	8	185	-
	<u>622</u>	<u>644</u>	<u>323</u>	<u>517</u>

**24 Pension costs**

The company operates a funded defined benefit pension scheme. The assets of the scheme are held separately from those of the company. The pension cost is assessed in accordance with the advice of a professionally qualified actuary.

A full actuarial valuation of the defined benefit scheme was carried out at 5 April 2005 and updated to 1 January 2006 by a qualified independent actuary on a FRS17 basis. The major assumptions at 1 January 2006 used by the actuary were:

	1 January 2006	2 January 2005	28 December 2003
Rate of increase in salaries	3.50%	3.50%	3.50%
Rate of increase for pensions in payment	2.50%	2.50%	2.50%
Discount rate	4.75%	5.25%	5.25%
Inflation assumption	2.50%	2.50%	2.50%

**Interface Europe Ltd.**

**Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)**

**24 Pension costs (Continued)**

The fair value of the assets in the scheme and the expected rate of return at 1 January 2006 were:

	Long-term rate of return expected at 1 January 2006 %	Value at 1 January 2006 £'000	Long-term rate of return expected at 2 January 2005 %	Value at 2 January 2005 £'000	Long-term rate of return expected at 28 December 2003 %	Value at 28 December 2003 £'000
Equities	6.00%	49,191	6.50	44,584	6.50	33,047
Gilts	4.00%	22,905	4.25	13,116	4.25	9,318
Other	4.50%	-	5.00	-	5.00	7,913
Total market value of assets		72,096		57,700		50,278
Present value of scheme liabilities		(87,820)		(78,312)		(76,283)
Deficit in the scheme		(15,724)		(20,612)		(26,005)
Related deferred tax asset		4,717		6,183		7,802
Net pension liability on a FRS17 basis		(11,007)		(14,429)		(18,203)

**Interface Europe Ltd.****Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)****24 Pension costs (Continued)**

Contributions of £4,989,000 were made in the period to 1 January 2006 (2 January 2005 - £5,125,000). It has been agreed with the trustees that contributions for the next two years will be between 14.1% and 16.3% of pensionable pay, depending on the category of members.

	<b>Year ended 1 January 2006 £'000</b>	<b>Year ended 2 January 2005 £'000</b>
<b>Movement in deficit during the year:</b>		
Deficit in scheme at 31 December 2004	(20,612)	(26,005)
Movement in year:		
Current service cost	(830)	(788)
Contributions	4,989	5,125
Past service costs	-	-
Net return on assets/(interest cost)	(522)	(795)
Actuarial gain/(loss)	1,251	1,851
	<hr/>	<hr/>
Deficit in scheme at 1 January 2006	(15,724)	(20,612)
	<hr/>	<hr/>
<b>Analysis of the amount charged to operating profit:</b>		
Service cost	(830)	(788)
	<hr/>	<hr/>
<b>Analysis of net return on pension scheme:</b>		
Expected return on pension scheme assets	3,530	3,167
Interest on pension liabilities	(4,052)	(3,962)
	<hr/>	<hr/>
Other finance expenses	(522)	(795)
	<hr/>	<hr/>
<b>Analysis of amount recognised in statement of total recognised gains and losses ("STRGL"):</b>		
Actual return less expected return on assets	7,842	2,155
Experience gains and losses on liabilities	657	(304)
Changes in assumptions	(7,248)	-
	<hr/>	<hr/>
Actuarial gain recognised in STRGL	1,251	1,851
	<hr/>	<hr/>

## Interface Europe Ltd.

### Notes forming part of the financial statements for the year ended 1 January 2006 (Continued)

#### 24 Pension costs (Continued)

	1 January 2006	2 January 2005	28 December 2004	29 December 2003
<b>History of experience gains and losses</b>				
Difference between expected and actual return on scheme assets:				
Amount (£'000)	7,842	2,155	4,138	(8,636)
Percentage of scheme assets	11%	4%	8%	20%
 Experience gains and losses on scheme liabilities:				
Amount (£'000)	657	(304)	(3,413)	(637)
Percentage of scheme assets	1%	-%	4%	1%
 Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000)	1,251	1,851	(2,592)	(12,971)
Percentage of scheme assets	1%	2%	3%	19%

A defined contribution pension scheme is operated for certain directors of Camborne Holdings Limited. The assets of the scheme are held separately from those of the company in an independent administered fund. In addition contributions are made based on present levels of salaries to individual pension policies of certain directors and employees. The pension cost charge represents contributions payable under the above arrangements and amounted to £152,000 (2 January 2005 - £162,000).

#### 25 Post balance sheet event

Subsequent to the balance sheet date the directors accepted an offer for the purchase of the company's shares in Camborne Holdings Limited (interior fabrics business). The sale of the shares was completed on the 21 April 2006 for a consideration of £5.4M. This resulted in a loss of approximately £7.2M which will be reflected in 2006 accounts.

#### 26 Related party transactions

The group has taken advantage of the exemption allowed by Financial Reporting Standard 8, "Related Party Transactions", not to disclose any transactions with entities that are included in the consolidated financial statements of Interface Inc.

#### 27 Ultimate parent company

The directors regard Interface Inc., a company incorporated in the United States of America, as the company's ultimate parent undertaking.

Interface Inc. is the parent undertaking of the largest group of which Interface Europe Ltd. is a member and for which group accounts are drawn up. Copies of those group accounts are available from 2859 Paces Ferry Road, Suite 2005, Atlanta, GA 30339, USA.