THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities. The whole of the text of this document should be read. You should be aware that an investment in the Company involves a high degree of risk and prospective investors should also carefully read the section entitled "Risk Factors" in Part II of this document before taking any action.

A copy of this document, which comprises a prospectus and which has been drawn up in accordance with the requirements of the Public Offers of Securities Regulations 1995, as amended, (the "POS Regulations") and the AIM Rules of the London Stock Exchange Plc (the "AIM Rules") has been delivered for registration to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of the POS Regulations.

Application has been made for the entire issued and to be issued ordinary share capital of United Carpets Group plc ("the Company" or "United Carpets") to be admitted to trading on the AIM market of the London Stock Exchange ("AIM"). It is expected that Admission will become effective and that dealings in the Ordinary Shares and the Placing Shares will commence on AIM on 17 February 2005. No application has been made, or is contemplated, for the Ordinary Shares or the Placing Shares to be listed on any other recognised investment exchange.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange plc has not itself examined or approved the contents of this document.

United Carpets Group plc

(Registered in England and Wales, No. 5301665)

Placing of 30,000,000 Placing Shares at 25p per share
Admission to trading on AIM

Nominated Adviser and Broker

SEYMOUR PIERCE LIMITED

The Directors of United Carpets, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules published by the London Stock Exchange. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Copies of this document will be available to the public free of charge at the offices of Seymour Pierce Limited at Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL, during normal business hours on any week day (excluding Saturdays, Sundays and public holidays) from the date of this document until one month from Admission.

Neither the Existing Ordinary Shares nor the Placing Shares have been, nor will they be, registered under the United States Securities Act of 1933 (as amended) or under the securities laws of any state or other jurisdiction of the United States, nor have the relevant clearances been, nor will they be, obtained from the Securities Exchange Commission or similar authority of any province or territory of Canada and no prospectus has been or will be filed or registration made under any securities laws of any province or territory of Canada, nor has a prospectus in relation to the Existing Ordinary Shares or the Placing Shares been lodged, nor will one be lodged, with or registered by the Australian Securities and Investments Commission, nor have any steps been taken nor will any steps be taken to enable the Existing Ordinary Shares or the Placing Shares to be offered in compliance with applicable securities laws of the Republic of Ireland or Japan. Accordingly, unless an exemption under the relevant securities laws is available, the Existing Ordinary Shares and the Placing Shares may not be offered, sold, re-sold, renounced, taken up or delivered, directly or indirectly, in, into or from the United States, the Republic of Ireland, Canada, Australia or Japan or any other jurisdiction in which the offer of the Existing Ordinary Shares or the Placing Shares would constitute a violation of the relevant laws or require registration thereof, or to or for the account or benefit of any US persons or residents of the Republic of Ireland, Canada, Australia or Japan. Any person (including without limitation, nominees, trustees or custodians) who would or otherwise intend to forward this document to any jurisdiction outside the United Kingdom or to overseas persons should seek appropriate advice before taking any action.

Seymour Pierce Limited, which is regulated in the United Kingdom by the Financial Services Authority and is a member of the London Stock Exchange, is acting as nominated adviser and broker to United Carpets in connection with the proposed Placing and Admission and for no one else, and will not be responsible to anyone other than United Carpets for providing the protections afforded to customers of Seymour Pierce Limited or for providing advice in relation to the proposed Placing and Admission.

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors	Peter Alan Cowgill, *Non-executive Chairman* Paul Robert Eyre, *Chief Executive* Deborah Grayson, *Commercial Director* Ian Francis Bowness, FCA, *Finance Director* Kenneth Stanton Piggott, *Non-executive Director* All of: Waterside House Station Road Mexborough S64 9AQ
Company Secretary	Ian Francis Bowness
Registered office	Waterside House Station Road Mexborough S64 9AQ
Nominated Adviser and Broker	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC4N 8EL
Solicitors to the Company	Eversheds LLP 1 Royal Standard Place Nottingham NG1 6FZ
Solicitors to the Placing	Nabarro Nathanson Lacon House 84 Theobald's Road London WC1X 8RW
Reporting Accountants	Tenon Corporate Finance plc Charnwood House Gregory Boulevard Nottingham NG7 6NX
Auditors	Blueprint Audit Limited Charnwood House Gregory Boulevard Nottingham NG7 6NX
Registrars	Neville Registrars Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA
Financial public relations	Cardew Chancery 12 Suffolk Street London SW1Y 4HG

DEFINITIONS

"Act"	the Companies Act 1985, as amended
"Admission"	the admission of the entire ordinary share capital of the Company, issued and to be issued pursuant to the Placing, to trading on AIM becoming effective in accordance with the AIM Rules
"Associated Companies"	Debrik Investments Limited, United Carpets (Central) Limited, Nottingham Carpet Warehouse Limited, United Carpets (Northern) Limited, Weavers Carpets Limited
"AIM"	the AIM market of the London Stock Exchange
"AIM Rules"	the rules published by the London Stock Exchange governing admission to and the operation of AIM
"Board" or "Directors"	the board of directors of the Company whose names are set out on page 3 of this document
"Business"	the business trading as "United Carpets" carried on by companies in the Group
"Central"	United Carpets (Central) Limited
"Combined Code"	the revised combined code on the principles of good governance and code of best practice published in July 2003 by the Financial Reporting Council
"certificated" or "in certificated form"	not in uncertificated form (that is, not in CREST)
"Company" or "United Carpets"	United Carpets Group plc
"Consolidated Financial Statements"	the aggregate of financial statements of the companies comprising the Group on the assumption that the Group was in existence from 1 April 2001
"CREST"	the computerised settlement system operated by CRESTCo which facilitates the transfer of title to shares in uncertificated form
"CRESTCo"	CRESTCo Limited
"Debrik"	Debrik Investments Limited, a subsidiary of the Company
"EIS"	Enterprise Investment Scheme
"Enlarged Share Capital"	the Existing Ordinary Shares and the New Ordinary Shares
"EU"	European Union
"Existing Ordinary Shares"	the 71,400,000 Ordinary Shares in issue at the date of this document
"Financial Promotions Order"	Financial Services and Markets Act 2000 (Financial Promotion) Order 2001

"Franchisor"	United Carpets (Franchisor) Limited, a subsidiary of the Company
"FSA"	the Financial Services Authority
"FSMA"	Financial Services and Markets Act 2000
"Group"	the Company and its subsidiaries
"Issue Price"	25p per Ordinary Share
"Listing Rules"	the rules and regulations of the UK Listing Authority made under Part VI of the Financial Services and Markets Act 2000 as amended from time to time
"London Stock Exchange"	London Stock Exchange plc
"NCW"	Nottingham Carpet Warehouse Limited, a subsidiary of the Company
"New Ordinary Shares"	the 10,000,000 new Ordinary Shares to be issued by the Company and subscribed for pursuant to the Placing
"Northern"	United Carpets (Northern) Limited, a subsidiary of the Company
"Official List"	the Official List of the UK Listing Authority
"Ordinary Shares"	ordinary shares of 5p each in the capital of the Company
"Paul Eyre Trust"	The PR Eyre 2004 Discretionary Settlement
"PAYE"	Pay-as-you-earn, a system operated by an employer for the purpose of collecting income tax at source on behalf of the UK Inland Revenue
"PEH"	Paul Eyre Holdings Limited, a Company owned by Paul Eyre and the Paul Eyre Trust
"Placing"	the conditional placing by Seymour Pierce, on behalf of the Company, of the Placing Shares at the Issue Price as described in this document
"Placing Agreement"	the conditional agreement dated 11 February 2005 between (1) the Company, (2) the Directors, (3) the Selling Shareholders and (4) Seymour Pierce relating to the Placing, details of which are set out in paragraph 8.1 of Part VI of this document
"Placing Shares"	the New Ordinary Shares and the Sale Shares
"POS Regulations"	the Public Offers of Securities Regulations 1995, as amended
"Reorganisation"	the reorganisation of the Group further details of which are set out in paragraph 3.5 of Part VI of this document
"Regulations"	the Uncertificated Securities Regulations 2001
"Sale Shares"	the 20,000,000 Existing Ordinary Shares to be sold on behalf of the Selling Shareholders under the Placing pursuant to the Placing Agreement
"Selling Shareholders"	Paul Eyre and Deborah Grayson
"Seymour Pierce"	Seymour Pierce Limited
"Shareholders"	holders of Ordinary Shares

"Share Option Scheme"	the United Carpets Group plc Share Option Scheme, further details of which are set out in paragraph 9 of Part VI of this document
"UCH"	United Carpets Holdings Limited, a subsidiary of PEH
"UK"	the United Kingdom of Great Britain and Northern Ireland
"UK Listing Authority" or "UKLA"	the FSA acting in its capacity as the competent authority for the purposes of FSMA
"uncertificated" or "in uncertificated form"	recorded in the register of members of the Company as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
"VAT"	Value Added Tax
"VCT"	Venture Capital Trust
"Weavers"	Weavers Carpets Limited

PLACING STATISTICS

Number of New Ordinary Shares being placed on behalf of the Company	10,000,000
Number of Sale Shares being placed on behalf of the Selling Shareholders	20,000,000
Total number of Ordinary Shares being placed	30,000,000
Issue Price	25p
Number of Ordinary Shares in issue immediately following Admission	81,400,000
Percentage of the Enlarged Share Capital being placed	36.86
Estimated net proceeds of the Placing Shares receivable by the Company (taking into account the total costs of the Placing and Admission, including VAT)	£1.6 million
Market capitalisation at the Issue Price	£20.35 million

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Admission and commencement of dealings in the issued share capital on AIM	8.00 a.m. on 17 February 2005
Placing Shares credited to CREST accounts, where applicable	8.00 a.m. on 17 February 2005
Despatch of definitive share certificates, where applicable, by	24 February 2005

PART I

Information on the Group

History and background

United Carpets runs, by number of stores, the third largest chain of specialist retail carpet and floor covering stores in the UK. Unlike many of its competitors the business is based on a franchise model which has led to significant historic returns on capital and a stable and profitable business.

In order to enhance the Group's position in the UK carpet retail market the Directors wish to accelerate a roll out of new stores across the UK over the next few years, initially focusing on northern and central England. The net proceeds of the Placing will be employed to facilitate this roll out and the further development of the Group.

The Business commenced trading in 1997 as a traditional carpet retailer. However, one of the Group's founders and Chief Executive, Paul Eyre, formulated the concept of a franchise business model for the Group in the late 1990's and, in 1998, the first store was converted into a franchised store.

The Group was established by way of the Reorganisation carried out since December 2004 of the existing entities which operated the Business. Further details of the Reorganisation are set out in paragraph 3 of Part VI of this document.

The Group currently has a total of 51 stores, of which 40 are operated by independent franchisees. Of the remaining 11 stores, 5 are long term corporate stores and the balance are currently operated by the Group with a view to franchising them out.

The Group carries out significant advertising, particularly in the Group's heartland of northern and central England. In particular, the Group has embraced television advertising. Advertisement of the Group's stores on regional television commenced in October 2000 and this marked the beginning of a significant growth period for the Business, both in terms of like-for-like sales growth and the number of stores trading in the Yorkshire television region. As a result the Group has adopted a strategy whereby its new store opening programme will be by region to continue to reap synergies of regional advertising.

The Business Model

Floor coverings business

Store locations are predominately secondary sales sites of approximately 5,000 to 8,000 square feet, close to major retail developments where the franchisee can benefit from competitive rent and rates. The stores stock a comprehensive selection of competitively priced carpets and each store also has a traditional sample area that contains largely higher priced, better quality carpets. In addition to carpets, the stores also sell vinyl and wood laminate floor coverings.

The Business' expansion has been achieved through a process of matching new locations with franchisees. On a short term basis, to facilitate growth, the Group is prepared to open and run stores itself until a new franchisee has been identified and secured for the store. The Group is constantly evaluating potentially desirable locations and it actively seeks potential franchisees with the requisite business skills and experience to run a retail store.

In order to maintain control over the store site, the Group enters into a head lease for the store and allows the franchisee to trade from the store under a sub-lease. Prior to the commencement of trading, all new stores are refurbished to give them a similar look and layout to other United Carpets stores. If a franchisee renews their franchise, it is their responsibility to refurbish the store to the current Group corporate standards.

The franchisee pays an initial upfront fee for the franchise which includes an amount set aside for an initial advertising campaign. The initial franchise term is usually for a period of five years and may be renewed by the franchisee for a further period, which varies between five and ten years. The Group introduces the new franchisee to its approved supplier network and opening stock is provided by the supplier network on credit terms. Individual franchisees are not restricted to the Group's supplier network but all of the advertising and point of sale material is based on the Group's approved product range.

Recurring franchise fees are paid to the Group on a weekly basis from the franchisees. The current standard franchise fee is generally 9.5 per cent. of the gross takings of the franchisee although a reduced franchise fee of 8 per cent. is generally payable for the first year of trading where the store location has not previously been used as a carpet retail site.

In return for the franchise fees, the Group provides franchisees with head office support services including:

- monthly management accounts;
- payroll services;
- the preparation of PAYE and VAT returns;
- training;
- ad-hoc financial analysis;
- product range selection; and
- operational and marketing support.

The franchisee is responsible for organising its own advertising and for the cost of advertising. However, in practice, advertising is co-ordinated by the Group and the cost is re-charged to the relevant franchisee.

The franchisee is responsible for providing customer estimates and for procuring the delivery and fitting of floor coverings.

Bed business

The whole of the floor space in each store is not always required for the sale of floor coverings and, accordingly, the majority of the stores also have allocated selling space for a range of beds and associated products which are traded under the name of "United Beds".

Unlike the floor covering business, the bed operation is run by the Group on a sales commission basis with the Group providing stock to each store. The bed business accounted for approximately 26 per cent. of Group turnover in the year ended 31 March 2004 and it provides a significant additional contribution to franchisee profit.

A small number of the largest stores have third party furniture concessions.

Market

Based on independent market research published in July 2004, it is estimated that the floorcoverings market in the UK was worth approximately £2.35 billion in 2003 and the beds and bedroom furniture market in the UK was worth in excess of £3 billion in 2003.

The target customers for all the business activities contained within the Group are consumers in socio-economic groups C1, C2, D and E and sales are focussed on fashion-driven buying rather than buying associated with house moves.

Competition

In terms of specialist carpet retailers, the franchise network is the third largest retailer in the UK behind Carpetright and Allied Carpets. Department stores also represent a sizeable force in the marketplace. However, the Directors believe that independent stores which operate from lower cost bases and have a high level of customer loyalty represent the most serious and strongest competition to the Group. The Directors further believe that the franchise business model is positioned to deliver the benefits of a large retailer whilst maintaining the flexibility and motivation of an independent retailer.

The Directors believe that the fragmented nature of the market presents opportunities to expand the franchise network.

Suppliers

The Group negotiates advantageous purchase prices and credit terms with leading European carpet and floor covering manufacturers for the benefit of the franchisee network. However, the responsibility for ordering and paying for flooring stock remains with the individual franchisees.

The Group's relationship with its supplier network is important for two key reasons. Firstly, the close relationship enables new franchisees to obtain stock on beneficial credit terms, which reduces the initial cash outlay by franchisees. Second, the large amount of product bought from the network enables the Group to arrange keen pricing discounts which assists the franchisees in being able to achieve healthy gross margins.

Premises

The Group holds the head leases to all but two of United Carpets' stores. Fourteen stores are leased directly from Paul Eyre, or from companies controlled by Paul Eyre or his family, and Debbie Grayson and her family.

Strategy

The Group is now seeking to develop approximately 50 new stores over the next three years. The store-opening programme over this period is expected to focus around the Group's current areas of operation in the Midlands, Yorkshire, Lincolnshire and the North-West of England where the Group can obtain the benefit from targeted regional advertising. Movement into other regions may be accompanied by the acquisition of regional competitors in order to establish an economically viable regional group to benefit from such advertising.

Over time, as the franchise network grows, it will be necessary to expand the number of people employed by the Group in order to support properly an enlarged franchise network. Most of this expansion will be in the area of operational supervision.

Financial Information

The audited financial results of the Group for the three years ended 31 March 2004 and the unaudited results for the six months ended 30 September 2004 are summarised as follows:

	Year ended 31 March			*Six months ended 30 September*
	2002	*2003*	*2004*	*2004*
	£'000	*£'000*	*£'000*	*£'000*
Turnover	6,930	12,192	12,440	6,579
Cost of sales	(3,143)	(4,651)	(4,576)	(2,318)
Gross profit	3,787	7,541	7,864	4,261
Distribution costs	(1,483)	(2,029)	(1,921)	(668)
Administrative expenses	(1,696)	(4,792)	(5,928)	(2,375)
Other operating income	36	108	141	41
Operating profit before directors' emoluments	854	1,157	1,768	1,374
Directors' emoluments	210	329	1,612	115
Operating profit	644	828	156	1,259
(Loss)/profit on disposal of fixed assets	(1)	182	10	—
Interest receivable	9	22	37	13
Interest payable	(67)	(65)	(54)	(39)
Profit on ordinary activities before taxation	585	967	149	1,233
Tax on profit on ordinary activities	(172)	(302)	(81)	(370)
Retained profit for the year	413	665	68	863

Further details of the Group's financial performance is set out in Parts III, IV and V of this document.

Note: Aggregated financial information has been prepared based on the financial statements of the companies comprising the Group on the assumption that the Group was in existence throughout the period 1 April 2001 to 30 September 2004.

Current Trading and Prospects

Since 30 September 2004, the Group has continued to trade broadly in line with the Directors' expectations. In particular, 5 new stores have opened and the Board have identified and are in negotiations regarding a further 14 possible stores. The Company is in discussions with 10 potential new franchisees for these stores.

The Directors believe that the Group's strategy, as outlined in this document, will enable it to sustain the store opening programme planned for the next three years.

The Directors

Peter Cowgill, aged 51, Non-executive Chairman

Peter trained as a chartered accountant and was the finance director of The John David Group plc from 1996 until 2001. Peter is currently the Executive Chairman of The John David Group plc, a partner in Cowgill Holloway Chartered Accountants and he is also a non-executive director of a number of private companies.

Paul Eyre, aged 46, Chief Executive

Paul, a founder of the Business, has over 30 years experience within the carpet sector and came into the industry through the carpet retailing interests of his family. His extensive experience covers suppliers, competitors and background knowledge on store locations throughout the UK.

Deborah Grayson, aged 43, Commercial Director

Deborah, a founder of the Business, has over 25 years experience within the carpet sector and also came into the industry through the carpet retailing interests of her family. Deborah has primary responsibility for buying, has strong links with the franchise supplier network and supports Paul Eyre in the management of the business. Deborah has also had responsibility for developing the beds retailing side of the business since its commencement in March 1999.

Ian Bowness, FCA, aged 47, Finance Director

Ian trained as a chartered accountant and spent 10 years working at Sears plc, latterly as group financial controller. Ian was the finance director of DFS Furniture Company plc from March 1995 until November 2003.

Kenneth Piggott, aged 56, Non-executive Director

Ken was an executive director of the Boots Group Plc and the managing director of Boots Retail Operations. Ken has held a number of director level or senior level appointments at Boots which include merchandise controller and then general manager for the beauty and fashion department and managing director of Childrens World Limited, Do It All Limited, Halfords Limited and Boots The Chemists Limited.

Ken is the non-executive chairman of Warmways Healthcare plc and Optical Partners plc.

Key Management

Paul Cooper, aged 45, ACMA, Business Development Manager

Paul Cooper joined the business in June 2003 and assumed responsibilities for financial matters before specialising in franchisee recruitment from November 2004. Paul is a qualified accountant and holds a BA(Hons) in Business Studies as well as an MBA in Business Studies. His previous experience has been within the manufacturing and construction sectors, holding posts within subsidiaries of major organisations such as BOC Group plc, Tarmac, RTZ and Meggitt plc.

John Dobinson, aged 52, Sales and Buying Manager (Beds)

John has more than 35 years of diverse general retail management experience, including approximately 17 years as an area manager for Allied Carpets in Northern England. John has been working with Paul Eyre since 1991 and assumed responsibility for United Carpet's bed business in 1999.

Sarah Fretwell, aged 39, Marketing Manager

Sarah Fretwell joined the Business in March 2004. Sarah holds a BA(Hons) degree in Economics. Prior to joining the business, Sarah had over 15 years of marketing experience in the retail sector including roles at DFS, Netto Food Stores and Manheim Europe (a motor retailer).

Paul Grayson, aged 47, General Manager (Beds)

Paul has over 20 years of experience within the carpet sector and entered the industry through the carpet retailing interests of his family. Paul has general management experience in all aspects of carpet retailing and wholesaling and he assisted with the creation of the United Carpets bed business in 1999. Paul is Deborah Grayson's spouse.

David Norman, aged 36, Property Manager

David Norman was already working for Paul Eyre when they launched the franchise business model in 1998. David has a BA (Hons) degree in Accountancy and Finance, and worked for two separate subsidiaries of Hillsdown Holdings plc in a finance role before he started working with Paul Eyre in 1995. David initially had responsibility for finance, but now specialises in property development for the Group.

Michael Packwood, aged 59, Sales Manager

Michael holds a diploma in sales and marketing and has more than 40 years of experience in the retail carpet trade in a variety of roles including sales, buying and general management. Michael joined the Business in 1999 and assists with floor covering buying by United Carpets.

Share Options

Options intended to qualify under Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 as Enterprise Management Incentive options were granted on 10 February 2005 under the Share Option Scheme over a total of 2,050,000 Ordinary Shares to Ian Bowness and managers of the Company with an exercise price of 22.5p per Ordinary Share. In addition, Ian Bowness has unapproved share options over 400,000 Ordinary Shares at 25p per share.

Further details of the Share Option Scheme are set out in paragraph 9 of Part VI of this document.

Reasons for Admission to AIM and use of Proceeds of the Placing

The net proceeds of the Placing of the New Ordinary Shares, expected to amount to approximately £1.6 million, will be used by the Company primarily to fund the expansion of the Group's store franchise network, to fund enhancements to the Group's operational and financial systems and the remaining proceeds will be used as working capital for the Group.

The Directors believe that an AIM listing will significantly enhance the Group's profile within its target markets and within the floor coverings sector.

Additionally, the Selling Shareholders will realise a partial return on their investment by way of the Placing of the Sale Shares.

Details of the Placing

The Company is proposing to raise approximately £1.6 million (net of expenses) through a conditional placing by Seymour Pierce of 10,000,000 Ordinary Shares at 25p per share.

Pursuant to the Placing Agreement, Seymour Pierce has conditionally agreed with the Company, on and subject to the terms set out therein, to use its reasonable endeavours to procure institutional and other investors to subscribe for (or failing which itself to subscribe for) the New Ordinary Shares at the Issue Price.

In addition, pursuant to the Placing Agreement, Seymour Pierce has conditionally agreed with the Selling Shareholders to use its reasonable endeavours to procure institutional and other investors to purchase (or failing which itself to purchase) the Sale Shares. The placing of the Sale Shares at the Issue Price will raise approximately £4.8 million (net of expenses) for the Selling Shareholders.

Further details of the Placing Agreement are set out in paragraph 8 of Part VI of this document.

The Placing is conditional, *inter alia*, on:

(a) the Placing Agreement becoming unconditional and not having been terminated in accordance with its terms prior to Admission; and

(b) Admission being effective no later than 17 February 2005 or such later date as Seymour Pierce and the Company may agree (not being later than 28 February 2005).

The New Ordinary Shares and the Sale Shares will represent approximately 36.86 per cent. of the Enlarged Share Capital. The New Ordinary Shares will be issued credited as fully paid and will rank *pari passu* with the Existing Ordinary Shares, including the right to receive all dividends and other distributions declared, made or paid after Admission.

On Admission, at the Issue Price, the Company will have a market capitalisation of approximately £20.35 million.

Admission, settlement and dealings

Application has been made for admission of the Enlarged Share Capital to trading on AIM. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the Ordinary Shares will commence on 17 February 2005.

Application has been made for all of the issued and to be issued Ordinary Shares to be eligible for admission to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place in CREST.

It is expected that, subject to the satisfaction of the conditions of the Placing, the Placing Shares will be registered in the names of the placees subscribing for or acquiring them and issued or transferred either:

(a) in certificated form, where the placee so elects, with the relevant share certificate expected to be despatched by post, at the placee's risk, by 24 February 2005; or

(b) in CREST, where the placee so elects, and only if the placee is a "system member" (as defined in the CREST Regulations) in relation to CREST, with delivery (to the designated CREST account) of the Placing Shares subscribed for or purchased expected to take place on 17 February 2005.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at their risk.

Pending the despatch of definitive share certificates (as applicable), instruments of transfer will be certified against the register.

CREST

CREST is a paperless settlement system which allows for the transfer of shares electronically in uncertificated form. The Company's articles of association permit the Company to issue shares in uncertificated form in accordance with the Regulations. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

Lock-In Undertakings and Significant Shareholders

Immediately following Admission, the Selling Shareholders will be interested, in aggregate, in 51,310,000 Ordinary Shares, representing approximately 63.03 per cent. of the Enlarged Share Capital. The Selling Shareholders have undertaken that, subject to certain exceptions, they will not sell or otherwise dispose of, or agree to dispose of, any of their respective interests in the Ordinary Shares held on Admission for a minimum period of 12 months following Admission. In addition, the Selling Shareholders have also undertaken to be bound by certain orderly market provisions for a further twelve months after the expiry of the first twelve month lock-in period.

Further details of the Placing Agreement are set out in paragraph 8 of Part VI of this document.

The Takeover Code

Under Rule 9 of the City Code on Takeovers and Mergers (the "City Code"), any person (or group of persons acting in concert) who acquires 30 per cent. or more of the voting rights of a public company is normally required to make a general offer to all shareholders of that company. Immediately after Admission, more than 30 per cent. of the Ordinary Shares in issue will be owned by or on behalf of Paul Eyre, the Company's Chief Executive. Without obtaining a waiver from the Takeover Panel, Paul Eyre will not be permitted to acquire any additional Ordinary Shares without incurring an obligation under Rule 9 to make a general offer to all the holders of Ordinary Shares.

Enterprise Investment Scheme and Venture Capital Trusts

The Directors have received advanced assurance from the Inland Revenue that the Company will rank as a qualifying investment for the purposes of the Enterprise Investment Scheme and will be a "qualifying company" for the purposes of investment by Venture Capital Trusts.

The continuing availability of EIS relief and the status of the Placing Shares as a qualifying holding for VCT purposes will be conditional, inter alia, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making his investment (under EIS), and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding".

The EIS allows the following tax reliefs for individual investors provided investments are held for five years:

- initial income tax relief of 20 per cent.; and
- exemption from capital gains tax ("CGT").

The EIS also allows CGT payable on chargeable gains realised by individuals and certain trustees to be deferred. To qualify for CGT deferral, a sum up to the amount of the chargeable gain must be subscribed (usually not more than one year before nor more than three years after the date on which the chargeable gain arises) in new ordinary shares of a qualifying trading company or an unquoted company which is the parent of a qualifying trading group. For this purpose, shares quoted on AIM are regarded as unquoted.

A claim for CGT deferral relief is made by the individual investors and/or trustees claiming the relief.

Investors considering taking advantage of any of the reliefs under the EIS or available to VCTs should seek their own professional advice in order that they may fully understand how the rules apply in their individual circumstances.

Taxation

Information regarding taxation in relation to the Placing and Admission is set out in paragraph 11 of Part VI of this document. **If you are in any doubt as to your taxation position you should consult your own independent adviser immediately.**

Dividend Policy

The Directors' intention is that the Company will apply a progressive dividend policy in forthcoming years while continuing to retain a significant proportion of the Group's earnings to facilitate the Directors' plans for the continued growth of the Group. It is intended that the first dividend to be paid by the Company following Admission will be the interim dividend for the six months ending 30 September 2005.

Corporate Governance

The Directors intend, in so far as is practicable given the Company's size and the constitution of the Board, to comply with the main provisions of the Combined Code.

The Directors have established an audit committee and a remuneration committee. The remuneration committee, consisting of Ken Piggott as chairman and Peter Cowgill, will determine the terms and conditions of service of the executive Directors, including their remuneration and grant of options under the Share Option Scheme established by the Company. The audit committee, consisting of Ken Piggott as chairman and Peter Cowgill, has primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Company is properly measured and reported on and for reviewing reports from the Company's auditors relating to the Company's accounting and internal controls, in all cases having due regard to the interests of Shareholders.

The Directors intend to comply with Rule 19 of the AIM Rules relating to directors' dealings as applicable to AIM companies and will also take all reasonable steps to ensure compliance by the Company's applicable employees.

Further Information

Your attention is drawn to Parts II to VI of this document which provide additional information.

PART II

Risk Factors

The Directors consider the following risks and other factors to be the most significant for potential investors, but the risks listed do not necessarily comprise all those associated with an investment in the Company:

- The value of the Ordinary Shares may go down as well as up. Investors may therefore realise less than their original investment.
- Whilst the Directors have no current plans for raising additional capital after completion of the Placing and are satisfied that the working capital available to the Company will, from Admission, be sufficient for its present requirements, that is for at least the next twelve months, it is possible that the Company will need to raise extra capital in the future to develop its business.
- The Group has a significant number of competitors and there can be no guarantee that its competitors will not bring superior or more competitively priced products to market. Such competitors may have greater financial, marketing and technological resources than the Group.
- The future success of the Group depends largely on the expertise of the executive Directors and key employees. Whilst the Group has entered into contractual arrangements with the Directors and key employees, the retention of their services is not guaranteed. The loss of key personnel could have a material adverse effect on the Group's future by impairing its ability to expand and develop its business.
- The Group's future growth will depend largely on the identification and procurement of both suitable additional stores and persons to act as franchisees.
- The Group is dependent on the continuation of its franchise agreements and there can be no guarantee that an individual franchisee will renew their franchise agreement with the Group. Furthermore, in the event that a franchisee defaults on or fails to renew their franchise agreement with the Group, then certain liabilities relating to the store lease or trading arrangements may revert to the Group.
- It may be difficult for an investor to sell his or her Ordinary Shares and he or she may receive less than the amount paid by him or her for them. The Ordinary Shares may not be suitable for short-term investment. The Ordinary Shares will not be quoted on the Official List and investments in shares traded on AIM may be considered to carry a higher degree of risk than investments in shares quoted on the Official List.
- Following Admission, Paul Eyre and Deborah Grayson and their respective connected interests will own 47.28 per cent. and 15.76 per cent. respectively and will accordingly be controlling shareholders of the Company. In addition, the Group has a number of leases of stores where Paul Eyre or Deborah Grayson or their respective connected interests are the landlords. As a result of these shareholdings and lease arrangements, the Group is subject to a significant level of control and influence by these individuals.
- The Group has previously adopted remuneration policies in respect of its directors which, to the extent they could lead to additional tax liabilities for the Company, Paul Eyre and Deborah Grayson have provided an indemnity to the Company.
- The franchise agreements previously used by the Group contain certain provisions which potentially do not comply in all respects with applicable legislation but the Group has amended its agreements to reflect current regulation and market practice.
- The Group has not strictly complied with the provisions of certain of its leases and, accordingly, these leases could potentially be subject to challenge by the relevant landlords. However, the Directors do not consider that this represents a significant risk given the previous operational experience of the Group.

The investment described in this document may not be suitable for all those who receive it. Before making a final decision, investors in any doubt are advised to consult their stockbroker, bank manager, solicitor, accountant or other professional adviser authorised under FSMA.

PART III

Accountants' Report on the Company

The Directors
United Carpets Group plc
Waterside House
Station Road
Mexborough
S64 9AQ

Seymour Pierce Limited
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8EL

11 February 2005

Dear Sirs

UNITED CARPETS GROUP PLC ('the Company')

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 11 February 2005.

Basis of preparation

United Carpets Group plc ('the Company') was incorporated and registered in England and Wales on 1 December 2004 with the registered number 5301665 as a public limited company.

The Company has not traded, prepared any accounts for presentation to members, incurred either a profit or loss, and neither declared nor paid dividends or made any other distributions since the date of incorporation. There have been no transactions other than the allotment of shares described below.

Responsibility

The directors of the Company are responsible for the contents of the prospectus dated 11 February 2005 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included the assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 11 February 2005, a true and fair view of the state of affairs of the Company at 31 December 2004.

Consent

We consent to the inclusion in the prospectus dated 11 February 2005 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

Financial information

Balance sheet
as at 31 December 2004

	£
Current assets	
Called up share capital not paid	50,000
Capital and reserves	
Called up share capital	50,000

The Company was incorporated with an authorised share capital of £10 million divided into 100,000,000 ordinary shares of 10p each, of which 500,000 shares were issued.

Post balance sheet transactions

On 7 February 2005 United Carpets Group plc acquired the entire issued share capital of the associated companies by way of a series of share for share exchanges whereby the shareholders of each respective company disposed of their shares to United Carpets Group plc in return for the allotment of shares in identical proportions.

Yours faithfully

Blueprint Audit Limited
Chartered Accountants

PART IV

Accountants' Report on the Group

The Directors
United Carpets Group plc
Waterside House
Station Road
Mexborough
S64 9AQ

Seymour Pierce Limited
Bucklersbury House
3 Queen Victoria Street
London
EC4N 8EL

11 February 2005

Dear Sirs

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 11 February 2005.

Basis of preparation

United Carpets Group plc ('the Company') was incorporated and registered in England and Wales on 1 December 2004 with the registered number 5301665 as a public limited company.

On 7 February 2005 United Carpets Group plc acquired the entire issued share capital of the associated companies by way of a series of share for share exchanges whereby the shareholders of each respective company disposed of their shares to United Carpets Group plc in return for the allotment of shares in identical proportions.

Consolidated financial statements for the years ended 31 March 2002, 31 March 2003 and 31 March 2004 have been prepared based on the aggregation of the financial statements of the associated companies comprising the Group on the assumption that the Group was in existence throughout the period under review.

Adjustments have been made to the statutory financial statements where the period end dates of the Group companies are non-conterminous with the year end of the Group. The adjustments have been made to apportion results to fall in line with the year end of the Group in order to present a true and fair view in the financial information for the years ended 31 March 2002, 31 March 2003 and 31 March 2004.

The financial statements of Debrik Investments Limited for the nine month period ended 31 March 2004 and the two years ended 30 June 2003 have been subject to audit. Debrik Investments Limited was incorporated on 26 May 2000.

The financial statements of United Carpets (Central) Limited for the fourteen month period ended 31 March 2004 have been audited. United Carpets (Central) Limited was incorporated on 21 January 2003.

The financial statements of Nottingham Carpet Warehouse Limited for the year ended 29 February 2004, eleven month period ended 28 February 2003 and the year ended 31 March 2002 have been audited. Nottingham Carpet Warehouse Limited was incorporated on 19 May 1983.

The financial statements of United Carpets (Northern) Limited for the three years ended 31 March 2004 have been audited. United Carpets (Northern) Limited was incorporated on 4 September 1996.

The financial statements of Weavers Carpets Limited for the eight month period ended 31 March 2004 and the two years ended 31 July 2003 were not required to be audited. Weavers Carpets Limited was incorporated on 1 September 1988.

Blueprint Audit Limited, Chartered Accountants and Registered Auditor, of Charnwood House, Gregory Boulevard, Nottingham, NG7 6NX, were the registered auditors of Debrik Investments Limited for the three accounting periods ended 31 March 2004, United Carpets (Central) Limited for the accounting period ended 31 March 2004 and Nottingham Carpet Warehouse Limited for the three accounting periods ended 29 February 2004.

Johnson Walker, Chartered Accountants and Registered Auditor, of The Master's House, 92a Arundel Street, Sheffield, S1 4RE, were the registered auditors of United Carpets (Northern) Limited for the three accounting periods ended 31 March 2004.

Adjustments

Subsequent to the aggregation of the results of the group companies, adjustments are required to match the periods of the individual financial statements to the accounting periods of the Group.

Adjustments required to pro-rata the results reduce retained profits in each of the years ended 31 March 2002, 31 March 2003 and 31 March 2004 by £29,000, £11,000 and £19,000 respectively.

Adjustments have also been processed to eliminate intercompany transactions in the three years ended 31 March 2004. The adjustments made in each of the years ended 31 March 2002, 31 March 2003 and 31 March 2004 were £640,000, £692,000 and £1,197,000 respectively.

Responsibility

Such financial statements are the responsibility of the directors of the relevant companies who approved the issue of the individual financial statements.

The Directors of United Carpets Group plc are responsible for the contents of the prospectus dated 11 February 2005 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included the assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the prospectus dated 11 February 2005, a true and fair view of the state of affairs of the Group at the dates stated and of its results for the periods then ended.

Consent

We consent to the inclusion in the prospectus dated 11 February 2005 of this report and accept responsibility for this report for the purposes of paragraph 45(1)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

PROFIT AND LOSS ACCOUNTS

	Note	*Year ended 31 March* 2002 £'000	2003 £'000	2004 £'000
Turnover	2	6,930	12,192	12,440
Cost of sales		(3,143)	(4,651)	(4,576)
Gross profit		3,787	7,541	7,864
Distribution costs		(1,483)	(2,029)	(1,921)
Administrative expenses		(1,696)	(4,792)	(5,928)
Other operating income		36	108	141
Operating profit	5	644	828	156
(Loss)/profit on disposal of fixed assets		(1)	182	10
Interest receivable		9	22	37
Interest payable and similar charges	6	(67)	(65)	(54)
Profit on ordinary activities before taxation		585	967	149
Tax on profit on ordinary activities	7	(172)	(302)	(81)
Retained profit for the year	17	413	665	68

All results derive from continuing operations and no other gains and losses have been realised other than those listed in the profit and loss account above.

BALANCE SHEETS

			At 31 March	
		2002	*2003*	*2004*
	Note	*£'000*	*£'000*	*£'000*
Fixed assets				
Intangible assets	8	284	217	391
Tangible assets	9	1,206	1,249	1,705
		1,490	1,466	2,096
Current assets				
Stocks	10	1,062	1,182	1,025
Debtors	11	1,488	2,055	2,027
Cash at bank and in hand		902	1,989	1,564
		3,452	5,226	4,616
Creditors: amounts falling due within one year	12	(3,264)	(4,375)	(4,391)
Net current assets		188	851	225
Total assets less current liabilities		1,678	2,317	2,321
Creditors: amounts falling due after more than one year	13	(341)	(309)	(259)
Provisions for liabilities and charges	14	(8)	(14)	—
Net assets		1,329	1,994	2,062
Capital and reserves				
Called up share capital	15	410	410	410
Profit and loss account	16	919	1,584	1,652
Shareholders' funds	17	1,329	1,994	2,062

CASH FLOW STATEMENTS

	Note	2002 £'000	2003 £'000	2004 £'000
		Year ended 31 March		
Net cash inflow from operating activities	18	1,248	1,312	434
Returns on investments and servicing of finance				
Interest received		9	22	37
Interest paid		(67)	(65)	(54)
Net cash outflow from returns on investments and servicing of finance		(58)	(43)	(17)
Taxation		(111)	(208)	(120)
Capital expenditure				
Purchase of fixed assets		(402)	(553)	(971)
Sale of fixed assets		51	503	23
Net cash outflow from capital expenditure		(351)	(50)	(948)
Net cash inflow/(outflow) before financing		728	1,011	(651)
Financing				
(Loan repayments)/receipts from new loans issued		(122)	131	30
(Hire purchase payments)/new hire purchase		(47)	(43)	198
Net cash (outflow)/inflow from financing		(169)	88	228
Increase/(decrease) in cash	19	559	1,099	(423)

NOTES TO THE FINANCIAL INFORMATION

1. Principal accounting policies

Accounting convention

The financial information has been prepared under the historical cost convention and is in accordance with applicable accounting standards.

Basis of consolidation

The financial information is aggregated from the financial statements of Debrik Investments Limited, United Carpets (Central) Limited, Nottingham Carpet Warehouse Limited, United Carpets (Northern) Limited and Weavers Carpets Limited.

The following principal accounting policies have been applied:

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax and trade discounts.

Intangible fixed assets

Goodwill arising on an acquisition of a trade is the difference between the fair value of the consideration paid and the fair value of assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life.

The useful economic life of goodwill has been assessed as 5 – 20 years.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	–	2 per cent. straight line
Leasehold properties/improvements	–	10 per cent. straight line
Fixtures, fittings and office equipment	–	10 per cent. – 25 per cent. straight line/reducing balance
Plant, machinery and motor vehicles	–	25 per cent. straight line/reducing balance

Stocks

Stocks are valued at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

Deferred taxation

The payment of taxation is deferred or accelerated because of the timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS19 'Deferred Taxation'.

Leased assets

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods.

The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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.

Pension costs

Contributions to the Group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. These contributions are invested separately from the Group's assets.

Employee benefit trust

The Group has established trusts for the benefit of employees and certain of their dependants. Monies held in these trusts are held by independent trustees and managed at their discretion.

Where the Group retains future economic benefit from, and has *de facto* control of the assets and liabilities of the trust, they are accounted for as assets and liabilities of the Group until the earlier of the date that an allocation of trust funds to employees in respect of past services is declared and the date that assets of the trust vest in identified individuals.

Where monies held in a trust are determined by the Group on the basis of employees' past services to the business and the Group can obtain no future economic benefit from those monies, such monies, whether in the trust or accrued for by the Group, are charged to the profit and loss account in the period to which they relate.

2. Turnover

All turnover of the Group is attributable to the principal activities of the Group carried out in the United Kingdom.

3. Directors' remuneration

The emoluments of the directors were as follows:

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Emoluments	198	325	1,608
Pension	12	4	4
	210	329	1,612

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2003: 2; 2002: 2)

4. Staff costs

Staff costs consist of:

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Wages and salaries	1,185	1,647	2,838
Social security costs	115	179	154
Other pension costs	25	11	14
	1,325	1,837	3,006

Average number of persons including executive directors employed:

	2002	*2003*	*2004*
	Number	*Number*	*Number*
	82	77	79

5. Operating profit

This has been arrived at after charging:

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Depreciation of owned assets	162	190	232
Depreciation of assets held under hire purchase contracts	52	41	73
Amortisation of intangible fixed assets	20	24	24
Operating lease rentals – land and buildings	600	1,975	2,741
Auditors' remuneration – audit	8	7	25

6. Interest payable and similar charges

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Bank loans and overdrafts	48	40	39
Finance leases	10	11	13
Other similar charges	9	14	2
	67	65	54

7. Taxation on profit on ordinary activities

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
UK corporation tax – current year	181	293	123
Prior year (credit)/charge	(10)	3	–
Deferred taxation charge/(credit)	1	6	(42)
	172	302	81

8. Intangible assets

	Goodwill *£'000*
Cost	
At 1 April 2001	288
Additions	55
At 31 March 2002	343
Additions	45
Disposals	(92)
At 31 March 2003	296
Additions	198
Disposals	–
At 31 March 2004	494
Amortisation	
At 1 April 2001	39
Provided for the year	20
At 31 March 2002	59
Provided for the year	24
Disposals	(4)
At 31 March 2003	79
Provided for the year	24
Disposals	–
At 31 March 2004	103
Net book value	
At 31 March 2002	284
At 31 March 2003	217
At 31 March 2004	391

On 17 July 2003 United Carpets (Northern) Limited acquired the entire issued share capital of Carpet Kingdom (Northern) Limited for a consideration of £316,000. The fair value of assets acquired was £158,000 which related mainly to stock. Other goodwill relates to the acquisition of individual sites.

9. Tangible assets

	Freehold and leasehold property £'000	Fixtures, fittings and office equipment £'000	Plant, machinery and motor vehicles £'000	Total £'000
Cost				
At 1 April 2001	590	652	263	1,505
Additions	130	80	137	347
Disposals	(18)	(24)	(59)	(101)
At 31 March 2002	702	708	341	1,751
Additions	352	150	6	508
Disposals	(51)	(245)	(63)	(359)
At 31 March 2003	1,003	613	284	1,900
Additions	404	76	295	775
Disposals	(12)	(7)	(179)	(198)
At 31 March 2004	1,395	682	400	2,477
Depreciation				
At 1 April 2001	123	186	71	380
Provided for the year	69	79	66	214
Disposals	(18)	–	(31)	(49)
At 31 March 2002	174	265	106	545
Provided for the year	83	80	68	231
Disposals	(21)	(104)	–	(125)
At 31 March 2003	236	241	174	651
Provided for the year	148	70	87	305
Disposals	(12)	(63)	(109)	(184)
At 31 March 2004	372	248	152	772
Net book value				
At 31 March 2002	528	443	235	1,206
At 31 March 2003	767	372	110	1,249
At 31 March 2004	1,023	434	248	1,705

The net book value of tangible fixed assets includes an amount of £256,000 (2003: £86,000; 2002: £199,000) in respect of assets held under hire purchase contracts. The depreciation charged in the year in respect of such assets amounted to £73,000 (2003: £41,000; 2002: £52,000).

10. Stocks

	At 31 March		
	2002 £'000	2003 £'000	2004 £'000
Finished goods	1,062	1,182	1,025

11. Debtors

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Trade debtors	453	470	502
Other debtors	1,035	1,585	1,497
Net deferred tax assets	–	–	28
	1,488	2,055	2,027

All amounts shown under debtors fall due for payment within one year.

12. Creditors: amounts falling due within one year

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Bank loans and overdrafts	214	351	583
Trade creditors	1,884	2,318	1,572
Corporation tax	60	148	113
Taxation and social security	454	514	437
Obligations under hire purchase contracts	61	32	76
Other creditors	591	1,012	1,610
	3,264	4,375	4,391

Bank loans are secured by fixed and floating charges over the current and future assets of Debrik Investments Limited, United Carpets (Northern) Limited and Nottingham Carpet Warehouse Limited.

13. Creditors: amounts falling due after more than one year

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Obligations under hire purchase contracts – due within five years	36	22	176
Bank loans	305	287	83
	341	309	259

Bank loans are secured by fixed and floating charges over the current and future assets of Debrik Investments Limited, United Carpets (Northern) Limited and Nottingham Carpet Warehouse Limited.

Maturity of bank loans is as follows:

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Within one year	214	351	583
Within one and two years	144	204	44
Between two and five years	161	83	39
	519	638	666

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

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Within one year	61	32	76
Between two and five years	36	22	176
	97	54	252

14. Provisions for liabilities and charges

	At 31 March 2002 £'000	2003 £'000	2004 £'000
Deferred taxation	8	14	–

	At 31 March 2002 £'000	2003 £'000	2004 £'000
Deferred taxation:			
At the beginning of the year	7	8	14
Transferred to profit and loss account	1	6	(42)
At the end of the year	8	14	(28)
Deferred tax (liability)/asset	(8)	(14)	28

The deferred tax provision/asset relates to the difference between tax allowances over depreciation on fixed assets. Net deferred tax assets are included within debtors (see note 11).

15. Share capital

	At 31 March 2002 £'000	2003 £'000	2004 £'000
Authorised share capital			
Ordinary shares of £1 each	2,001	2,251	2,251
Ordinary class B shares of £1 each	–	250	250
Redeemable preference shares of £1 each	500	500	500
	2,501	3,001	3,001
Allotted, called-up and fully paid			
Ordinary shares of £1 each	210	210	210
Ordinary class B shares of £1 each	–	–	–
Redeemable preference shares of £1 each	200	200	200
	410	410	410

The share capital above represents the accumulated share capital of the five companies comprising the Group.

16. Reserves

	Profit and loss account £'000
At 1 April 2001	506
Profit for the year	413
At 31 March 2002	919
Profit for the year	665
At 31 March 2003	1,584
Profit for the year	68
At 31 March 2004	1,652

17. Reconciliation of movements in shareholders' funds

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Profit for the year	413	665	68
Opening shareholders' funds	916	1,329	1,994
Closing shareholders' funds	1,329	1,994	2,062

18. Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Operating profit	644	828	156
Exceptional item: (loss)/profit on disposal of fixed assets	(1)	182	10
Depreciation and amortisation	234	255	329
(Loss)/profit on disposal of fixed assets	1	(182)	(10)
(Increase)/decrease in stock	(231)	(120)	157
(Increase)/decrease in debtors	(259)	(504)	28
Increase/(decrease) in creditors	860	853	(236)
Net cash inflow from operating activities	1,248	1,312	434

19. Reconciliation of net cash flow to movement in net funds

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Increase/(decrease) in cash in the year	559	1,099	(423)
Cash inflow/(outflow) from increase in net debt	169	(88)	(228)
Increase/(decrease) in net funds from cash flows	728	1,011	(651)
Movement in net funds/(debt) in the year	728	1,011	(651)
Net (debt)/funds at beginning of the year	(442)	286	1,297
Net funds at the end of the year	286	1,297	646

20. Analysis of changes in net funds

	At 1 April 2001 £'000	Cashflow £'000	At 31 March 2002 £'000
Debt due within one year			
Cash at bank and in hand	351	551	902
Bank overdraft	(22)	8	(14)
	329	559	888
Bank loans	(132)	(68)	(200)
Obligations under hire purchase contracts	(70)	9	(61)
	127	500	627
Debt due after one year			
Bank loans	(495)	190	(305)
Obligations under hire purchase contracts	(74)	38	(36)
	(442)	728	286

	At 1 April 2002 £'000	Cashflow £'000	At 31 March 2003 £'000
Debt due within one year			
Cash at bank and in hand	902	1,087	1,989
Bank overdraft	(14)	12	(2)
	888	1,099	1,987
Bank loans	(200)	(149)	(349)
Obligations under hire purchase contracts	(61)	29	(32)
	627	979	1,606
Debt due after one year			
Bank loans	(305)	18	(287)
Obligations under hire purchase contracts	(36)	14	(22)
	286	1,011	1,297

	At 1 April 2003 £'000	Cashflow £'000	At 31 March 2004 £'000
Debt due within one year			
Cash at bank and in hand	1,989	(425)	1,564
Bank overdraft	(2)	2	–
	1,987	(423)	1,564
Bank loans	(349)	(234)	(583)
Obligations under hire purchase contracts	(32)	(44)	(76)
	1,606	(701)	905
Debt due after one year			
Bank loans	(287)	204	(83)
Obligations under hire purchase contracts	(22)	(154)	(176)
	1,297	(651)	646

21. Commitments under operating leases

Annual commitments under non-cancellable operating leases were as follows:

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Land and buildings			
Operating leases which expire:			
Within one year	253	719	936
Within two to five years	286	338	556
After five years	833	701	983
	1,372	1,758	2,475

22. Pensions

The Group operates various defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost represents contributions payable by the Group to the funds and amounted to £14,000 (2003: £11,000; 2002: £25,000).

23. Related party transactions

	At 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Amounts due from/(to) related parties:			
Mrs D Grayson	(7)	4	14
Mr P Grayson	–	6	17
Mr T Worrad	6	6	–
The Carpet Trader Limited	35	–	–
United Carpets (Holdings) Limited	220	584	422

	Year ended 31 March		
	2002	*2003*	*2004*
	£'000	*£'000*	*£'000*
Sales/(purchases) to/(from) related parties:			
The Carpet Trader Limited	179	–	–
United Carpets (Holdings) Limited – rent	(85)	(210)	(260)

Mr P Eyre and Mrs D Grayson had joint and severable guarantees of £120,000, including a legal mortgage over their personal properties, in favour of the Group. These arrangements were discharged during the period.

24. Nature of financial information

The financial information presented above in respect of the years ended 31 March 2002, 2003 and 2004 does not constitute statutory accounts for the periods. Statutory accounts for the individual companies comprising the Group, for their respective period ends, have been delivered to the Registrar of Companies.

25. Post balance sheet

On 7 February 2005 United Carpets Group plc acquired the entire issued share capital of the associated companies by way of a series of share for share exchanges whereby the shareholders of each respective company disposed of their shares to United Carpets Group plc in return for the allotment of shares in identical proportions.

Yours faithfully

Blueprint Audit Limited
Chartered Accountants

PART V

Unaudited Interim Results for the Group

Set out below are the Unaudited Interim Results for the Group for the 6 months ended 30 September 2004. The interim results have been prepared based on the aggregation of the results of the companies comprising the Group on the assumption that the Group was in existence throughout the period under review and are the responsibility of the Directors of United Carpets Group plc who approve their issue. The directors of United Carpets Group plc consent to the inclusion of the Interim Results in the Prospectus.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	*6 months ended 30 September 2004 £'000*	*12 months ended 31 March 2004 £'000*
Turnover	2	6,579	12,440
Cost of sales		(2,318)	(4,576)
Gross profit		4,261	7,864
Distribution costs		(668)	(1,921)
Administrative expenses		(2,375)	(5,928)
Other operating income		41	141
Operating profit	5	1,259	156
Profit on disposal of fixed assets		—	10
Interest receivable		13	37
Interest payable and similar charges	6	(39)	(54)
Profit on ordinary activities before taxation		1,233	149
Tax on profit on ordinary activities	7	(370)	(81)
Retained profit for the period	17	863	68

All results derive from continuing operations and no other gains and losses have been realised other than those listed in the profit and loss account above.

CONSOLIDATED BALANCE SHEET

	Note	*At 30 September 2004 £'000*	*At 31 March 2004 £'000*
Fixed assets			
Intangible assets	8	360	391
Tangible assets	9	2,139	1,705
		2,499	2,096
Current assets			
Stocks	10	1,265	1,025
Debtors	11	2,939	2,027
Cash at bank and in hand		788	1,564
		4,992	4,616
Creditors: amounts falling due within one year	12	(4,325)	(4,391)
Net current assets		667	225
Total assets less current liabilities		3,166	2,321
Creditors: amounts falling due after more than one year	13	(241)	(259)
Net assets		2,925	2,062
Capital and reserves			
Called up share capital	15	410	410
Profit and loss account	16	2,515	1,652
Shareholders' funds	17	2,925	2,062

CASH FLOW STATEMENTS

	Note	*6 months ended 30 September 2004 £'000*	*12 months ended 31 March 2004 £'000*
Net cash (outflow)/inflow from operating activities	18	(366)	434
Returns on investments and servicing of finance			
Interest received		13	37
Interest paid		(39)	(54)
Net cash outflow from returns on investments and servicing of finance		(26)	(17)
Taxation		(18)	(120)
Capital expenditure			
Purchase of fixed assets		(574)	(971)
Sale of fixed assets		26	23
Net cash outflow from capital expenditure		(548)	(948)
Net cash outflow before financing		(958)	(651)
Financing			
(Loan repayments)/receipts from new loans issued		(490)	30
(Hire purchase payments)/new hire purchase		(19)	198
Net cash (outflow)/inflow from financing		(509)	228
Decrease in cash	19	(1,467)	(423)

NOTES TO THE INTERIM RESULTS

1. Principal accounting policies

Accounting convention

The financial information has been prepared under the historical cost convention and is in accordance with applicable accounting standards.

Basis of consolidation

The financial information is aggregated from the financial statements of Debrik Investments Limited, United Carpets (Central) Limited, Nottingham Carpet Warehouse Limited, United Carpets (Northern) Limited and Weavers Carpets Limited.

The following principal accounting policies have been applied:

Turnover

Turnover represents sales to outside customers at invoiced amounts less value added tax and trade discounts.

Intangible fixed assets

Goodwill arising on an acquisition of a trade is the difference between the fair value of the consideration paid and the fair value of assets and liabilities acquired. Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life.

The useful economic life of goodwill has been assessed as 5-20 years.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful lives. It is calculated at the following rates:

Freehold buildings	–2 per cent. straight line
Leasehold properties/improvements	–10 per cent. straight line
Fixtures, fittings and office equipment	–10 per cent. to 25 per cent. straight line/reducing balance
Plant, machinery and motor vehicles	–25 per cent. straight line/reducing balance

Stocks

Stocks are valued at the lower of cost and net realisable value after making allowance for obsolete and slow moving items.

Deferred taxation

The payment of taxation is deferred or accelerated because of the timing differences between the treatment of certain items for accounting and taxation purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS19 'Deferred Taxation'.

Leased assets

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets and depreciated over the shorter of the lease term and their useful economic lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods.

The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

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.

Pension costs

Contributions to the Group's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable. These contributions are invested separately from the Group's assets.

Employee benefit trust

The Group has established trusts for the benefit of employees and certain of their dependants. Monies held in these trusts are held by independent trustees and managed at their discretion.

Where the Group retains future economic benefit from, and has *de facto* control of the assets and liabilities of the trust, they are accounted for as assets and liabilities of the Group until the earlier of the date that an allocation of trust funds to employees in respect of past services is declared and the date that assets of the trust vest in identified individuals.

Where monies held in a trust are determined by the Group on the basis of employees' past services to the business and the Group can obtain no future economic benefit from those monies, such monies, whether in the trust or accrued for by the Group, are charged to the profit and loss account in the period to which they relate.

2. Turnover

All turnover of the Group is attributable to the principal activities of the Group carried out in the United Kingdom.

3. Directors' remuneration

The emoluments of the directors were as follows:

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Emoluments	110	1,608
Amounts paid to money purchase pension schemes	5	4
	115	1,612

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (March 2004: 2).

4. Staff costs

Staff costs consist of:

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Wages and salaries	819	2,838
Social security costs	72	154
Other pension costs	13	14
	904	3,006

Average number of persons including executive directors employed:

	6 months ended 30 September 2004 Number	*12 months ended 31 March 2004 Number*
	77	79

5. Operating profit

This has been arrived at after charging:

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Depreciation of owned assets	121	232
Depreciation of assets held under hire purchase contracts	45	73
Amortisation of intangible fixed assets	31	24
Operating lease rentals – land and buildings	1,221	2,741
Auditors' remuneration – audit	24	25

6. Interest payable and similar charges

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Bank loans and overdrafts	35	39
Finance leases	4	13
Other similar charges	—	2
	39	54

7. Taxation on profit on ordinary activities

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
UK corporation tax – current year	370	123
Deferred taxation credit	—	(42)
	370	81

8. Intangible assets

	Goodwill *£'000*
Cost	
At 1 April 2003	296
Additions	198
At 31 March 2004 and 30 September 2004	494
Amortisation	
At 1 April 2003	79
Provided for the year	24
At 31 March 2004	103
Provided for the period	31
At 30 September 2004	134
Net book value	
At 31 March 2004	391
At 30 September 2004	360

On 17 July 2003 United Carpets (Northern) Limited acquired the entire issued share capital of Carpet Kingdom (Northern) Limited for a consideration of £316,000. The fair value of assets acquired was £158,000 which related mainly to stock. Other goodwill relates to the acquisition of individual sites.

9. Tangible assets

	Freehold and leasehold property *£'000*	*Fixtures, fittings and office equipment* *£'000*	*Plant, machinery and motor vehicles* *£'000*	*Total* *£'000*
Cost				
At 1 April 2003	1,003	613	284	1,900
Additions	404	76	295	775
Disposals	(12)	(7)	(179)	(198)
At 31 March 2004	1,395	682	400	2,477
Additions	285	231	101	617
Disposals	—	—	(38)	(38)
At 30 September 2004	1,680	913	463	3,056
Depreciation				
At 1 April 2003	236	241	174	651
Provided for the year	148	70	87	305
Disposals	(12)	(63)	(109)	(184)
At 31 March 2004	372	248	152	772
Provided for the period	76	40	50	166
Disposals	—	—	(21)	(21)
At 30 September 2004	448	288	181	917
Net book value				
At 31 March 2004	1,023	434	248	1,705
At 30 September 2004	1,232	625	282	2,139

The net book value of tangible fixed assets includes an amount of £289,000 (March 2004: £256,000) in respect of assets held under hire purchase contracts. The charge in the period in respect of such assets amounted to £45,000 (Year ended March 2004: £73,000).

10. Stocks

	At 30 September 2004 £'000	At 31 March 2004 £'000
Finished goods	1,265	1,025

11. Debtors

	At 30 September 2004 £'000	At 31 March 2004 £'000
Trade debtors	683	502
Other debtors and prepayments	2,228	1,497
Net deferred tax assets	28	28
	2,939	2,027

All amounts shown under debtors fall due for payment within one year.

12. Creditors: amounts falling due within one year

	At 30 September 2004 £'000	At 31 March 2004 £'000
Bank loans and overdrafts	823	583
Trade creditors	1,597	1,572
Corporation tax	476	113
Taxation and social security	220	437
Obligations under hire purchase contracts	79	76
Other creditors	1,130	1,610
	4,325	4,391

Bank loans are secured by fixed and floating charges over the current and future assets of Debrik Investments Limited, United Carpets (Northern) Limited and Nottingham Carpet Warehouse Limited.

13. Creditors: amounts falling due after more than one year

	At 30 September 2004 £'000	At 31 March 2004 £'000
Obligations under hire purchase contracts – due within five years	197	176
Bank loans	44	83
	241	259

Bank loans are secured by fixed and floating charges over the current and future assets of Debrik Investments Limited, United Carpets (Northern) Limited and Nottingham Carpet Warehouse Limited.

Maturity of bank loans is as follows:

	At 30 September 2004 £'000	*At 31 March 2004 £'000*
Within one year	823	583
Between two and five years	44	83
	867	666

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

	At 30 September 2004 £'000	*At 31 March 2004 £'000*
Within one year	79	76
Between two and five years	197	176
	276	252

14. Provisions for liabilities and charges

	At 30 September 2004 £'000	*At 31 March 2004 £'000*
At the beginning of the period	(28)	14
Transferred to profit and loss account	—	(42)
At the end of the period	(28)	(28)
Deferred tax asset	28	28

The deferred tax provision/asset relates to the difference between tax allowances over depreciation on fixed assets. Net deferred tax assets are included within debtors (see note 11).

15. Share capital

As at 31 March 2004 and 30 September 2004:

	£'000
Authorised share capital	
Ordinary shares of £1 each	2,251
Ordinary class B shares of £1 each	250
Redeemable preference shares of £1 each	500
	3,001
Allotted, called-up and fully paid	
Ordinary shares of £1 each	210
Ordinary class B shares of £1 each	—
Redeemable preference shares of £1 each	200
	410

The share capital above represents the aggregated share capital of the associated companies.

16. Reserves

	Profit and loss account £'000
At 1 April 2003	1,584
Profit for the year	68
At 31 March 2004	1,652
Profit for the 6 months to 30 September 2004	863
At 30 September 2004	2,515

17. Reconciliation of movements in shareholders' funds

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Profit for the period	863	68
Opening shareholders' funds	2,062	1,994
Closing shareholders' funds	2,925	2,062

18. Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Operating profit	1,259	156
Depreciation and amortisation	197	329
Profit on disposal of fixed assets	(9)	—
(Increase)/decrease in stock	(240)	157
(Increase)/decrease in debtors	(912)	28
Decrease in creditors	(661)	(236)
Net cash (outflow)/inflow from operating activities	(366)	434

19. Reconciliation of net cash flow to movement in net funds

	6 months ended 30 September 2004 £'000	*12 months ended 31 March 2004 £'000*
Decrease in cash in the period	(1,467)	(423)
Cash inflow/(outflow) from increase in debt	466	(228)
Decrease in net funds from cash flows	(1,001)	(651)
Movement in net funds in the period	(1,001)	(651)
Net funds at beginning of the period	646	1,297
Net (debt)/funds at the end of the period	(355)	646

20. Analysis of changes in net funds

	At 31 March 2004 £'000	*Cashflow £'000*	*Non-Cashflow Items £'000*	*At 30 September 2004 £'000*
Debt due within one year				
Cash at bank and in hand	1,564	(776)	—	788
Bank overdraft	—	(691)	—	(691)
	1,564	(1,467)	—	97
Bank loans	(583)	451	—	(132)
Obligations under hire purchase contracts	(76)	40	(43)	(79)
	905	(976)	(43)	(114)
Debt due after one year				
Bank loans	(83)	39	—	(44)
Obligations under hire purchase contracts	(176)	(21)	—	(197)
	646	(958)	(43)	(355)

21. Commitments under operating leases

Annual commitments under non-cancellable operating leases were as follows:

	At 30 September 2004 £'000	*At 31 March 2004 £'000*
Land and buildings		
Operating leases which expire:		
Within one year	102	936
Within two to five years	453	556
After five years	1,726	983
	2,281	2,475

22. Pensions

The Group operates various defined contribution pension schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The pension cost represents contributions payable by the Group to the funds and amounted to £13,000 (March 2004: £14,000).

23. Related party transactions

	At 30 September 2004 £'000	*At 31 March 2004 £'000*
Amounts due from related parties:		
Mr P Eyre	100	—
Mrs D Grayson	80	14
Mr P Grayson	91	17
United Carpets (Holdings) Limited	565	422

	6 months ended 30 September 2004 £'000	12 months ended 31 March 2004 £'000
Purchases from related parties:		
United Carpets (Holdings) Limited – rent	(145)	(260)

24. Post Balance Sheet transactions

On 7 February 2005 United Carpets Group plc acquired the entire issued share capital of the associated companies by way of a series of share for share exchanges whereby the shareholders of each respective company disposed of their shares to United Carpets Group plc in return for the allotment of shares in identical proportions.

PART VI

Additional Information

1. The Company

1.1 The Company was incorporated and registered in England and Wales on 1 December 2004 under the Companies Act 1985 as a public company limited by shares with the name United Carpets Group plc and with registration number 5301665. On 8 December 2004 the Company obtained a trading certificate pursuant to section 117 of the Act.

1.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.

1.3 The Company's registered office and principal place of business is at Waterside House, Station Road, Mexborough S64 9AQ.

1.4 The principal activities of the Company are franchising of carpet retail outlets, carpet retail and resale agents and bed retail. Save as disclosed in Part I, there are no exceptional factors that have influenced the Group's activities.

2. Subsidiaries

2.1 The Company has five wholly owned subsidiaries, all of which are registered in England and Wales further details of which are as follows:

Company	*Date of Incorporation*	*Registered Office*	*Principal Activities*	*Issued share capital (fully paid)*
United Carpets (Franchisor) Limited	20 October 2004	Waterside House Station Road Mexborough S64 9AQ	Franchising of carpet retail outlets	£180 divided into 180 ordinary shares of £1 each
Debrik Investments Limited	26 May 2000	Waterside House Station Road Mexborough S64 9AQ	Carpet retailer	£80,000 divided into 80,000 ordinary shares of £1 each
United Carpets (Central) Limited	21 January 2003	Waterside House Station Road Mexborough S64 9AQ	Franchising of carpet retail outlets	£2 being 1 "A" ordinary share of £1 and 1 "B" ordinary share of £1
Nottingham Carpet Warehouse Limited	19 May 1983	Lowmoor Road Kirkby-in-Ashfield Nottingham NG17 7LH	Retailer of beds	£100 divided into 100 ordinary shares of £1 each
Weavers Carpets Limited	1 September 1988	Lowmoor Road, Kirkby-in-Ashfield, Nottingham NG17 7LH	Carpet resale agents	£2 being 2 ordinary shares of £1 each

2.2 The Company is the ultimate parent company of the following companies, both of which are registered in England and Wales, further details of which are as follows:

Company	*Parent Company*	*Date of incorporation*	*Registered office*	*Principal activities*	*Issued share capital (fully paid)*
United Carpets (Northern) Limited	United Carpets (Franchisor) Limited	4 September 1996	Waterside House, Station Road, Mexborough S64 9AQ	Franchising of carpet retail outlets	£330,002 divided into 330,002 ordinary shares of £1 each
Carpetmania Limited	Nottingham Carpet Warehouse Limited	16 February 2001	Lowmoor Road, Kirkby-in-Ashfield, Notts NG17 7LH	Dormant	1 ordinary share of £1

3. Share Capital

3.1 Since incorporation, the authorised share capital of the Company has been £10,000,000 divided into 100,000,000 ordinary shares of 10p each, 500,000 of which were issued credited as fully paid in total to Paul Eyre and Deborah Grayson as the subscribers to the Company's memorandum of association. The ordinary shares of 10p each were sub-divided into 200,000,000 Ordinary Shares of 5p each on 3 February 2005. Pursuant to the share reorganisation described in paragraph 3.5 below, 70,400,000 Ordinary Shares were issued credited as fully paid to Paul Eyre and Deborah Grayson. Following the share reorganisation, the Paul Eyre Trust, Paul Grayson, Philip Grayson and Stephanie Grayson also hold Ordinary Shares, further details of which are set out in paragraph 5.1 below. Paul Eyre and Deborah Grayson also gifted in aggregate 90,000 Ordinary Shares to a number of employees of the Company prior to Admission.

3.2 On 7 February 2005 by or pursuant to resolutions of the Company passed on that date:

3.2.1 the Directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all and any powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount equal to £4,020,000. The authority expires (unless previously renewed, varied, or revoked by the Company in general meeting) at 5 p.m. on the date thirty days from the date on which the Company is admitted to AIM and following the expiry of such authority the directors were generally and unconditionally authorised pursuant to section 80 of the Act to exercise all and any powers of the Company to allot relevant securities (as defined in section 80 of the Act) up to an aggregate nominal amount of £1,930,000 such authority to expire on the earlier of the conclusion of the annual general meeting of the Company next following the passing of the resolution and 15 months from the date of the resolution. The Company may, at any time prior to the expiry of the authority, make an offer or agreement which would or might require relevant securities to be allotted after expiry of the authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority had not expired; and

3.2.2 the Directors were given power pursuant to section 95 of the Act (with such power expiring at the same time as the authority referred to in paragraph 3.2.1 above (the "Section 80 Authority") to allot equity securities (as defined in section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply to any such allotment save that the power was limited to:

(a) the allotment of equity securities up to an aggregate nominal amount of £4,020,000 pursuant to the authority granted in paragraph 3.2.1;

(b) the allotment of equity securities pursuant to a rights issue or similar offer to shareholders of the Company where the interests of all shareholders of the Company were proportionate or as nearly as practical to the numbers of Ordinary Shares held by them; and

(c) the allotment (otherwise than pursuant to paragraph 3.2.2(a) above) for cash of equity securities up to an aggregate nominal amount of the lesser of £814,000 or 10 per cent. of the issued share capital of the Company.

3.3 The Company's authorised and issued share capital at the date of this document is and immediately following Admission will be as follows:

	At the date of this document		*Immediately following Admission*	
	Amount £	*Number of Ordinary Shares*	*Amount £*	*Number of Ordinary Shares*
Authorised	10,000,000	200,000,000	10,000,000	200,000,000
Issued and fully paid	3,570,000	71,400,000	4,070,000	81,400,000

3.4 The provisions of section 89(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employee's share scheme as defined in section 743 of the Act) will apply to the authorised but unissued share capital of the Company to the extent not disapplied as described in paragraph 3.2.2 above.

3.5 *Reorganisation*

Prior to 7 February 2005 the Business was operated through a number of distinct companies which did not constitute a formal corporate group. The majority shareholders of each of these companies were Paul Eyre and Debbie Grayson and with the Paul Eyre Trust owning 27.8 per cent. of the share capital of UCH.

For the purposes of creating a group suitable for flotation it was decided by the shareholders to bring Northern, Central, Debrik, Weavers and NCW within a group under the Company.

As part of a scheme of re-organisation under section 110 of the Insolvency Act 1986, Paul Eyre and the Paul Eyre Trust formed PEH, Franchisor and Ever 2286 Limited with a share split of 72.2 per cent. held by Paul Eyre and 27.8 per cent. held by the Paul Eyre Trust.

Ever 2286 Limited acquired 100 per cent. of UCH by way of a share for share exchange, whereby Paul Eyre and the Paul Eyre Trust respectively became 72.2 per cent. and 27.8 per cent. shareholders in Ever 2286 Limited. Following this, UCH transferred its 100 per cent. shareholding in Northern at market value to Ever 2286 Limited. The consideration for the latter transfer was left outstanding as an inter-company loan.

On 5 January 2005 Ever 2286 Limited was placed into voluntary liquidation and the liquidator entered into a reconstruction agreement whereby:

(i) the shares of UCH and the balance outstanding under the loan due to UCH were transferred to PEH. In return PEH issued shares to each of Paul Eyre and the Paul Eyre Trust in the respective proportions of 72.2 per cent. and 27.8 per cent.; and

(ii) the shares of Northern were transferred to Franchisor. In return Franchisor issued shares to each of Paul Eyre and the Paul Eyre Trust in the respective proportions of 72.2 per cent. and 27.8 per cent.

On 7 February 2005 the Company acquired the entire issued share capital of Franchisor, Central, Debrik, Weavers and NCW by way of a series of share for share exchanges whereby the shareholders of each respective company disposed of their shares to the Company in return for the allotment by the Company of shares in identical proportions in itself.

4. Memorandum and Articles of Association

The principal objects of the Company, which are set out in clause 4 of its memorandum of association, are to act as a general commercial company and to purchase, acquire and take options over any property whatever and any rights or privileges over or in respect of any property.

The articles of association of the Company contain, *inter alia*, provisions to the following effect:

(a) *Voting rights*

Subject to paragraph (f) below, and to any special terms as to voting upon which any shares may for the time being, be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

(b) *Variation of rights*

If at any time the capital of the Company is divided into different classes of shares all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

(c) *Alteration of capital*

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value and cancel any shares not taken, or agreed to be taken, by any person.

The Company may, subject to the Act, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by an extraordinary resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

(d) *Transfer of shares*

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through CREST in accordance with and subject to the CREST Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis. Subject to paragraph (f) below, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

(e) *Dividends*

(i) The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.

(ii) Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph (f) below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

(iii) All dividends unclaimed for a period of twelve years after having been declared shall if the Directors so resolve be forfeited and shall revert to the Company.

(iv) There is no fixed date on which an entitlement to dividend arises.

(f) *Suspension of rights*

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 212 of the Companies Act and is in default in supplying to the Company within 14 days (or such other period as may be specified in such notice) the information thereby, required, then (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

(g) *Return of capital*

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of ordinary shares are entitled to share in any surplus assets pro rata to the amount paid up on their ordinary shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Companies Acts, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

(h) *Pre-emption rights*

There are no rights of pre-emption under the articles of association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

(i) *Borrowing powers*

The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets both present and future (including uncalled capital) and, subject to section 80 of the Companies Act, to issue debenture stock or any other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of the shareholders in general meeting exceed the lower of £50 million or a sum equivalent to 2.5 times the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

5. Directors' and other interests

5.1 The interests of the Directors (all of which are beneficial) in the issued share capital of the Company as at 10 February 2005 (being the latest practicable business day prior to the date of this document), such interests being those which are required to be notified by each Director to the Company under the provisions of section 324 or 328 of the Act or which are required to be entered in the register of interests required to be maintained pursuant to section 325 of the Act or which are interests of persons connected with the Director within the meaning of section 346 of the Act, the existence of which is known or which could, with reasonable diligence, be ascertained by a Director are as follows:

	At the date of this document		*Immediately following Admission*	
Director	*Number of Ordinary Shares*	*Percentage of existing issued share capital*	*Number of Ordinary Shares*	*Percentage of issued share capital*
Peter Cowgill	Nil	Nil	80,000	0.10
Paul Eyre	53,482,500	74.91	38,482,500*	47.28
Deborah Grayson	17,827,500	24.97	12,827,500**	15.76
Ian Bowness	Nil	Nil	80,000	0.10
Total	71,310,000	99.88	51,470,000	63.24

Note:

* the Ordinary Shares shown against Paul Eyre include 12,701,870 Ordinary Shares held by the Paul Eyre Trust.

** the Ordinary Shares shown against Deborah Grayson include 1,437,016 Ordinary Shares held by Paul Grayson, 143,054 Ordinary Shares held by Stephanie Grayson and 143,054 Ordinary Shares held by Philip Grayson.

5.2 In addition on 10 February 2005 Ian Bowness was granted options under the Share Option Scheme intended to qualify as Enterprise Management Incentive options under Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 over 400,000 Ordinary Shares at an exercise price of 22.5 pence per Ordinary Share and further unapproved options over 400,000 Ordinary Shares, exercisable at 25p per share. Further details of the Share Option Scheme are set out in paragraph 9 of this Part VI.

5.3 Save as disclosed in this paragraph 5, no Shareholders are interested, directly or indirectly, in 3 per cent. or more of the issued share capital of the Company:

5.4 Save as disclosed in this paragraph 5 and paragraph 7.1(e) below none of the Directors has any interest in the share capital or loan capital of the Company, nor does any person connected with the Directors (within the meaning of Section 346 of the Act) have any such interest, whether beneficial or non-beneficial.

6. Additional Information on the Directors

6.1 In addition to directorships in the Company, the Directors hold or have held the following directorships or are or have been partners in the following partnerships within the five years prior to the date of this document:

Director	*Current Directorships*	*Past Directorships*
Peter Cowgill	Actionstrength Limited	Titan Wood Limited
	Berkeley Square Capital Limited	Repair Finance Limited
	Quality Recruitment Limited	
	Vital Resources Limited	
	Vital T&D Limited	
	Masiline Limited	
	Highbank Management Company Limited	
	Britannia Network Services Limited	
	Britannia Business Communications Limited	
	Britannia Telecom Group Limited	
	Commtel (UK) Limited	
	Trackrail (UK) Limited	
	Vital Resources EBT Limited	
	The John David Group plc	
	Vital Services Group Limited	
	Vital Rail Limited	
	Vital Skills Training Limited	
	Britannia Communications Maintenance Limited	
	Cheshire Polythene Film Company Limited	
	Mayfair Artist Limited	
	First Sport Limited	
	RD Scott Limited	
	Vital Overhead Electrification Services Limited	
	Current Partnership	
	Cowgill Holloway, Chartered Accountants	
Paul Eyre	United Carpets (Central) Limited	Barclay-Ward Investments Limited
	United Carpets Holdings Limited	Best For Carpets Limited
	United Carpets (Northern) Limited	Carpetmania Limited
	UC Developments Limited	Consolidated Carpet Mills Limited

Director	*Current Directorships*	*Past Directorships*
Paul Eyre *(continued)*	Paul Eyre Holdings Limited United Carpets (Franchisor) Limited	CPS Leisure Limited Eurolink (UK) Limited Ever 2286 Limited Trent Carpets Limited Paul Eyre Carpets Limited Paul Eyre Group Limited
Deborah Grayson	Carpetmania Limited Debrik Investments Limited Nottingham Carpet Warehouse Limited UC Developments Limited United Carpets (Central) Limited Weavers Carpets Limited The Carpet Trader Limited	Debrick Limited Ever 2286 Limited Trent Carpets Limited Weavers Carpets Agencies Limited
Ian Bowness	Kingston Hall Management Limited	DFS Trading Limited DFS Furniture Company plc
Kenneth Piggott	Warmways Healthcare plc Disabled Living Foundation Dyslexia Institute Limited HSA Limited Lingarden Limited Optical Partners plc	Halfords Limited Underwoods plc Boots Pensions Limited Boots Health & Beauty Limited Boots Insurance Services Limited Boots Optical (Holdings) Limited Boots Opticians Limited Boots Stores Limited Boots The Chemists Limited Boots Photo.com Limited Clement Clarke Limited Miller & Santhouse Limited The Boots Company plc

6.2 Save as disclosed in this document, none of the Directors has:

6.2.1 any unspent convictions in relation to indictable offences;

6.2.2 had any bankruptcy order made against him or entered into any voluntary arrangements;

6.2.3 been a director of a company which has been placed in receivership, compulsory liquidation, administration, been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;

6.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

6.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;

6.2.6 been publicly criticised by any statutory or regulatory authority (including recognised professional bodies);

6.2.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

6.3 Paul Eyre was formerly a director of Best For Carpets Limited. On 16 January 1996 a petition was made for the compulsory liquidation of the company and the company was dissolved on 21 January 2000 with a shortfall to external creditors of approximately £4.36 million.

6.4 Paul Eyre and Deborah Grayson were formerly directors of Trent Carpets Limited, which was the subject of a creditors voluntary liquidation. The order to wind up the company was made on 9 January 2001 and the company was dissolved on 15 March 2004 with a shortfall to external creditors of approximately £0.23 million.

6.5 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.

6.6 No loans made or guarantees granted or provided by the Group to or for the benefit of any Director are outstanding.

7. Directors' Service Contracts and Remuneration

7.1 *Directors' Service Agreements*

(a) The services of Mr P Cowgill as Non-Executive Chairman are provided under the terms of a letter of appointment from the Company to Mr Cowgill dated 10 February 2005. Mr Cowgill's appointment is for an initial period of 12 months, continuing thereafter subject to termination upon at least 3 months' written notice, at an initial fee of £30,000 per annum.

(b) The services of Mr K Piggott as Non-Executive Director (Chairman of the Audit and Remuneration Committee) are provided under the terms of a letter of appointment from the Company to Mr Piggott dated 10 February 2005. Mr Piggott's appointment is for an initial period of 12 months, continuing thereafter subject to a termination upon at least 3 months' written notice at an initial fee of £22,500 per annum.

(c) Mr P Eyre has entered into a Service Agreement with the Company dated 10 February 2005 which may be terminated upon 12 months' notice by either party. The agreement provides for an annual salary of £125,000, the provision of a Company car, membership of a private medical scheme, permanent health insurance, life assurance cover and pension contributions of 15 per cent. of his salary. In addition, Mr Eyre is entitled to a cash bonus of up to 150 per cent. of his annual salary for the year ended 31 March 2005, based on the achievement of certain operating profits by the Group during that year. The annual cash bonus to be paid to Mr Eyre for periods after 31 March 2005 will be determined by the Company's remuneration committee.

(d) Mrs D Grayson has entered into a Service Agreement with the Company dated 10 February 2005 which may be terminated upon 12 months' notice by either party. The agreement provides for an annual salary of £75,000, the provision of a Company car, membership of a private medical scheme, permanent health insurance, life assurance cover and pension contributions of 15 per cent. of her salary. In addition, Mrs Grayson is entitled to a cash bonus of up to 150 per cent. of her annual salary for the year ended 31 March 2005, based on the achievement of certain operating profits by the Group during that year. The annual cash bonus to be paid to Mrs Grayson for periods after 31 March 2005 will be determined by the Company's remuneration committee.

(e) Mr I Bowness has entered into a Service Agreement with the Company dated 10 February 2005 which may be terminated upon 12 months' notice by either party. The agreement provides for an annual salary of £100,000. Mr Bowness is entitled to a bonus scheme providing for an allocation of shares in the Company to a maximum value of £300,000 subject to the share price performance of the Company, provision of a Company car, membership of a private medical scheme, permanent health insurance, life assurance cover and pension contributions of 15 per cent. of his salary. In addition, Mr Bowness is entitled to a cash bonus of up to 150 per cent. of his annual salary for the year ended 31 March 2005, based on the achievement of certain operating profits by the Group during that year and pro-rated for the period of his employment. The annual cash bonus to be paid to Mr Bowness for periods after 31 March 2005 will be determined by the Company's remuneration committee.

(f) The letters of appointment briefly described in paragraphs (a) and (b) above have been entered into conditional upon Admission.

(g) Save as set out in paragraphs (a) to (f) above, there are no Service Agreements or letters of appointment in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing Company without paying compensation (other than statutory compensation) within one year.

7.2 There is no arrangement under which any Director has waived or agreed to waive future emoluments.

7.3 Save as disclosed in this paragraph 7 there are no existing or proposed service or consultancy agreements between any Director and the Group.

7.4 In the year ended 31 March 2004 the total aggregate remuneration paid and benefits-in-kind granted to the Directors was £1.612 million. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ending 31 March 2005 are estimated to be £0.3 million (excluding any discretionary or bonus payments which may be made under these arrangements).

8. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group within the two years immediately preceding the date of this document and are, or may be, material:

8.1 The Placing Agreement pursuant to which and conditional upon, *inter alia*, Admission taking place on or before 8.00 a.m. on 17 February 2005 Seymour Pierce has agreed to use reasonable endeavours to procure subscribers for the New Ordinary Shares proposed to be issued by the Company and purchasers for the Sale Shares at the Issue Price, failing which it will itself subscribe for or purchase such shares.

The Placing Agreement contains indemnities and warranties from the Company and warranties from the Directors and the Selling Shareholders in favour of Seymour Pierce and a tax indemnity from the Selling Shareholders in favour of the Company together with provisions which enable Seymour Pierce to terminate the Placing Agreement in certain circumstances prior to Admission including circumstances where any warranties are not found to be true or accurate in any material respect. The liability of the Directors for breach of warranty is limited. Under the Placing Agreement (and engagement letter dated 1 February 2005 from Seymour Pierce to the Company) the Company has agreed to pay to Seymour Pierce a corporate finance fee of £125,000 and a commission of 3 per cent. of the value of the New Ordinary Shares at the Issue Price and the Selling Shareholders have agreed to pay to Seymour Pierce a commission of 3 per cent. of the value of the Sale Shares at the Issue Price;

8.2 a nominated adviser agreement dated 11 February 2005 made between (1) the Company, (2) the Directors and (3) Seymour Pierce pursuant to which the Company has appointed Seymour Pierce to act as nominated adviser to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce an annual fee of £20,000 plus VAT for its services as nominated adviser. The agreement contains certain undertakings given by (1) the Company and (2) the Directors and certain indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement is for a fixed term of 12 months and shall continue thereafter subject to termination on 3 months written notice by either party;

8.3 a broker agreement dated 11 February 2005 made between (1) the Company, (2) the Directors and (3) Seymour Pierce pursuant to which the Company has appointed Seymour Pierce to act as broker to the Company for the purposes of the AIM Rules. The Company has agreed to pay Seymour Pierce an annual fee of £15,000 plus VAT for its services as broker. The agreement contains certain undertakings given by (1) the Company and (2) the Directors and certain indemnities given by the Company in respect of, *inter alia*, compliance with applicable laws and regulations. The agreement is for a fixed term of 12 months and shall continue thereafter subject to termination on 3 months written notice by either party;

8.4 a liquidation agreement dated 5 January 2005 made between (1) Ever 2286 Limited (2) Paul Eyre (3) Paul Eyre Trust (4) PEH (5) Franchisor and (6) the liquidators pursuant to which Franchisor acquired the entire issued share capital of Northern in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in Franchisor to Paul Eyre and Paul Eyre Trust;

8.5 a deed of indemnity dated 5 January 2005 made between PEH and Franchisor (2) Paul Robert Eyre and (3) the liquidators pursuant to which PEH, Franchisor and Paul Eyre agreed to indemnify the Liquidator in respect of all fees, costs, claims and expenses arising out of or in connection with the liquidation of Ever 2286 Limited;

8.6 a share for share exchange agreement dated 7 February 2005 made between (1) the Company and (2) Paul Eyre and Paul Eyre Trust pursuant to which the Company acquired the entire issued share capital of Franchisor in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in the Company to Paul Eyre and Paul Eyre Trust;

8.7 a share for share exchange agreement dated 7 February 2005 made between (1) the Company and (2) Deborah Grayson and Paul Eyre pursuant to which the Company acquired the entire issued share capital of Debrik in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in the Company to Deborah Grayson and Paul Eyre;

8.8 a share for share exchange agreement dated 7 February 2005 made between (1) the Company and (2) Deborah Grayson and Paul Eyre pursuant to which the Company acquired the entire issued share capital of Central in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in the Company to Deborah Grayson and Paul Eyre;

8.9 a share for share exchange agreement dated 7 February 2005 made between (1) the Company and (2) Deborah Grayson and Paul Grayson pursuant to which the Company acquired the entire issued share capital of Weavers in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in the Company to Deborah Grayson and Paul Grayson;

8.10 a share for share exchange agreement dated 7 February 2005 made between (1) the Company and (2) Deborah Grayson, Philip Grayson and Stephanie Grayson pursuant to which the Company acquired the entire issued share capital of NCW in exchange for consideration in the form of an allotment of shares (equal in value to those shares acquired) in the Company to Deborah Grayson, Philip Grayson and Stephanie Grayson;

8.11 an agreement evidenced by a stock transfer form dated 31 December 2003 made between (1) Steven Lancaster and (2) Northern pursuant to which Northern acquired the entire issued share capital of LRS Carpets Limited for a consideration of £30,000;

8.12 a share purchase agreement dated 17 July 2003 made between (1) Mr and Mrs E G Blissitt and (2) Carpet Mill Factory Shops Limited (now Northern) pursuant to which Northern acquired the entire issued share capital of Carpet Kingdom (Northern) Limited for a consideration of £316,000;

8.13 a business sale agreement dated 4 August 2003 made between (1) Carpet Kingdom (Northern) Limited and (2) Northern pursuant to which Northern acquired the business of Carpet Kingdom (Northern) Limited as a going concern for a consideration of £157,926 together with the satisfaction and discharge of customer contracts, supply agreements and all debts, liabilities, contracts and engagements of Carpet Kingdom (Northern) Limited;

8.14 an agreement evidenced by a stock transfer form dated 30 March 2004 made between (1) Northern and (2) Robert Paul Cooper pursuant to which Robert Paul Cooper acquired the entire issued share capital of Carpet Kingdom (Northern) Limited for a consideration of £10;

8.15 A lease dated 3 December 2004 made between (1) UCH and (2) Northern in respect of property at Barnby Dun Road, Wheatley Hills, Doncaster for a term of 10 years (subject to rent review at year 5) and for an initial rent of £67,000 per annum;

8.16 A lease dated 3 December 2004 made between (1) UCH and (2) Northern in respect of property at 97 Deacon Road, Lincoln for a term of 10 years (subject to rent review at year 5) and for an initial rent of £71,000 per annum;

8.17 A lease dated 23 December 2004 made between (1) UC Developments Limited and (2) Central in respect of property at Hartley Road, Radford, Nottingham for a term of 10 years from 1 November 2004 (subject to rent review at year 5) and for an initial rent of £20,000 per annum;

8.18 A lease dated 23 December 2004 made between (1) UC Developments Limited and (2) Central in respect of property at Victoria Road, Fenton, Stoke on Trent for a term of 10 years from 23 April 2004 (subject to rent review at year 5) and for an initial rent of £55,000 per annum;

8.19 A lease dated 3 December 2004 made between (1) UCH and (2) Northern in respect of property at Main Ridge East, Boston for a term of 10 years (subject to rent review at year 5) and for an initial rent of £61,600 per annum;

8.20 A lease dated 3 December 2004 made between (1) UCH and (2) Northern in respect of property at Station Road, Mexborough for a term of 10 years (subject to rent review at year 5) for an initial rent of £134,650 per annum.

9. Summary of Principal Features of the Share Option Scheme

The Share Option Scheme was adopted by the Board on 10 February 2005 and options intended to qualify under Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 as Enterprise Management Incentive options under the Share Option Scheme were granted on 10 February 2005 over a total of 2,050,000 Ordinary Shares at an exercise price of 22.5 pence per Ordinary Share. In addition, unapproved options over a total of 400,000 Ordinary Shares at an exercise price of 25p per share have been granted. The Ordinary Shares subject to these options will not be counted for the purposes of the limits on the numbers of Ordinary Shares under which options may be granted under the Share Option Scheme set out below.

Details of the options granted to Directors are given in paragraph 5.2 of Part VI of this document.

All full time directors and employees of the Group who are required to devote substantially the whole of their working hours to the business of the Group will be eligible to be nominated for participation in the Share Option Scheme.

After Admission, the Share Option Scheme will be administered by the remuneration committee of the Board of Directors ("the Committee"). The Committee will have absolute discretion in selecting the persons to whom options under the Share Option Scheme are to be granted and (subject to the limits set out below) in determining the number and terms of options to be so granted. No person is entitled as of right to be granted an option.

The holder of an option under the Share Option Scheme will be entitled to acquire Ordinary Shares at a price to be determined by the Committee at the time when the option is granted. The option may relate to the acquisition of new Ordinary Shares or existing issued Ordinary Shares or treasury shares. For options granted after Admission, the option price may not be less than the greater of (i) the market value of an Ordinary Share on the day on which the option is granted and, in the case of an option to subscribe for Ordinary Shares, (ii) the nominal value of an Ordinary Share. Market value will, subject to the agreement of Inland Revenue Shares Valuation, be taken to be the middle market quotation of an Ordinary Share for the dealing day immediately preceding the date of grant of the option in question.

The exercise of options under the Share Option Scheme will in normal circumstances be conditional upon the achievement of an objective performance target to be determined by the Committee when options are granted. The performance target that has been applied to the options granted on 10 February 2005 is that an option may only be exercised if, over the period of three consecutive financial years of the Company commencing with financial year ending 31 March 2005, the percentage growth in earnings per share of the Company equals or exceeds the percentage growth in the Retail Prices Index over the same period by at least 3 per cent per annum. If the performance condition is not satisfied in such period, it can be re-tested in respect of the three-year period ending on 31 March 2008 and if not satisfied then, may be re-tested in respect of the three-year period ending on 31 March 2009.

Each individual's participation will be limited so that the aggregate option price payable on the exercise of options then subsisting to subscribe for Ordinary Shares granted to him in any period of 12 months under the Share Option Scheme and any other discretionary share option Share Option Scheme operated by the Company will not exceed his basic salary. Options granted prior to Admission can be left out of account for the purposes of this limit.

Benefits under the Share Option Scheme will not be pensionable.

Options may be granted within 42 days following the announcement of the annual or half year results of the Company in any year. If the grant of any option is prevented by any statute, order, governmental directive or any code established by the Company similar in purpose and effect to the provisions relating to dealing in shares by directors and applicable employees contained in the AIM Rules then an option may be granted within 42 days after the lifting of such restrictions. Options may also be granted at any other time when in the opinion of the Committee circumstances are considered to be exceptional so as to justify the grant of an option.

No consideration is payable for the grant of an option.

No options may be granted more than ten years after the date of adoption of the Share Option Scheme.

Options will not be transferable and may normally only be exercised between the third and tenth anniversaries of the date of grant by a person who remains a director or employee. Options may, however, be exercised for a limited period after the option holder ceases to be employed within the Group in certain special circumstances, including the death, retirement, redundancy, ill-health, injury or disability of the option holder or where the option holder's employing company or business is disposed of outside the Group or, at the discretion of the Committee, in any other circumstances. The performance target imposed on the grant of options and referred to above will still normally apply where an option holder exercises his option or releases his rights under options in these circumstances although the Committee has discretion, taking into account all the circumstances, to waive the performance condition in whole or in part.

Exercise is also possible in the event of an amalgamation, reconstruction or take-over of the Company. In such circumstances an option holder may be allowed to release his rights under options in consideration of the grant to him of equivalent rights over shares in the acquiring company. Options may also be exercised in the event of a voluntary winding-up of the Company and in certain circumstances options may be exercised in the event of a demerger. The performance target imposed on the grant of options and referred to above will not apply where an option holder exercises his option or releases his rights in respect of an option in the special circumstances described in this paragraph.

Options will normally lapse on the expiry of any of the periods allowed for exercise.

Ordinary Shares will be allotted and issued or transferred within 30 days of the exercise of an option. Ordinary Shares allotted will rank in full for all dividends or other distributions payable by reference to a record date occurring on or after the date of allotment of such shares. In all other respects the Ordinary Shares so issued shall be identical and rank *pari passu* with the fully paid registered Ordinary Shares in issue on the date of such exercise. The

Company will ensure that arrangements are made for such shares to be admitted to AIM. Ordinary Shares will be transferred without the benefit of any rights attaching to these shares by reference to a record date preceding the date of exercise.

No option may be granted if immediately following the grant of such option the aggregate nominal value of Ordinary Shares issued or then capable of being issued pursuant to options granted under the Share Option Scheme within the immediately preceding period of ten years and issued or then capable of being issued pursuant to options granted or rights obtained in such ten year period under any other share option or share incentive scheme approved by the Company would exceed 10 per cent. of the nominal value of the ordinary share capital of the Company at that time in issue. The options granted prior to Admission are left out of account for the purposes of this limit.

In the event of any variation of or increase in the share capital of the Company, the number of shares subject to options and/or the option price may be adjusted by the Board of Directors in such manner as they think fit.

An option holder must indemnify the company or any member of the Group for any liability to income tax for which the relevant company is obliged to account and any employee's National Insurance contributions arising as a result of the exercise of his option.

10. Working Capital

The Directors are of the opinion having made due and careful enquiry that, taking into account the net proceeds of the Placing and the existing facilities available to the Group, the Group has sufficient working capital for its present requirements, that is at least 12 months from the date of Admission.

11. Taxation

11.1 *Introduction*

The following paragraphs which are intended as a general guide only, are based on current United Kingdom legislation and United Kingdom Inland Revenue Published practice as at the date of this document both of which are subject to change possibly with retroactive effect. They summarise certain limited aspects of the United Kingdom tax consequences of receipt of dividends and disposal of shares. These paragraphs relate only to Shareholders who are absolute beneficial owners of their Shares, who are resident or ordinarily resident in the United Kingdom for tax purposes and who dispose of their shares as an investment. This section is not intended to be, and shall not be construed to be legal or taxation advice to any particular shareholder. Shareholders who are in any doubt as to their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own independent professional advisers immediately.

On issue, the Ordinary Shares will not be treated as either "listed" or "quoted" securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM), the Ordinary Shares should continue to be treated as unquoted securities.

11.2 *Capital Gains Tax ("CGT")*

11.2.1 *Disposals*

Liability to United Kingdom capital gains tax ("CGT") will depend on the particular circumstances of each individual shareholder.

11.2.2 *Taper Relief*

On 5 April 1998, "taper relief" was introduced which applies to individual investors and trustees (but not to corporate investors). Taper relief reduces the chargeable gain assessable to CGT in relation to the period the investment is held and the scales of relief depend upon whether the investment is a "business" or "non-business" asset. The scale of relief is enhanced for those assets that qualify as "business" assets. Business assets include shares in qualifying unquoted trading companies. For these purposes, companies admitted to trading on AIM are regarded as unquoted.

During the period for which the shares are held the classification may change so that for part of the holding period, shares in the Company will be deemed to be non-business assets with the associated reduced scales of taper relief applicable. If this is the case, the taper relief would be calculated by apportioning any gain assessed on shares in the Company between the non-business and business periods with each part of the gain then attracting taper relief at the appropriate rate.

11.2.3 *CGT Gift Relief*

If shares in an AIM company, which is a trading company, or the parent company of a trading group, are transferred to a third party, other than at arm's length, the deemed capital gain can be "held over", i.e. the CGT liability is postponed until a subsequent arm's length disposal by the transferee, who effectively inherits the transferor's base cost.

11.3 *Inheritance Tax ("IHT")*

Shares in qualifying AIM trading companies may attract 100 per cent. business property relief from IHT provided that the shares are held for at least two years before a chargeable transfer for IHT purposes takes place.

11.4 *Income Tax*

11.4.1 *Dividends*

11.4.1.1 The Company will not be required to withhold tax at source from dividend payments it makes.

11.4.1.2 Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or 10 per cent. of the aggregate cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the basic rate on dividend income of 10 per cent., or the higher rate on dividend income of 32.5 per cent.

The effect will be that taxpayers who are otherwise liable to pay tax at only the lower or basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate tax payers will have an additional liability of 25 per cent. of the net cash dividend.

Individual shareholders whose income is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

11.4.1.3 A UK resident corporate shareholder will not normally be liable to corporation tax in respect of any dividend received.

11.4.2 *Qualifying Investment Relief*

A gift to a charity of a "qualifying investment" will qualify for income tax relief under section 587B of the Income and Corporation Taxes Act 1988 ("ICTA"). Shares in an AIM company are currently treated as "qualifying investments". Therefore, if an individual disposes of shares in a company on AIM to a charity (of which an individual may be the settlor or a trustee), the gift qualifies for income tax relief. The amount of relief is calculated based on the market value of the "qualifying investment" at the date of the gift and the incidental costs of making the disposal.

11.5 *Stamp duty and stamp duty reserve tax*

Transfers or sales of Ordinary Shares will be subject to *ad valorem* stamp duty (payable by the purchaser and generally at the rate of 50p per £100 or part thereof rounded up to the nearest £5 and an unconditional agreement to transfer such shares, if not completed by a duly stamped stock transfer form within two months of the day on which such agreement is made or becomes unconditional, will be subject to SDRT (payable by the purchaser and generally at that rate). However, if within 6 years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid.

11.6 *Enterprise Investment Scheme ("EIS")*

Assurance that the Placing Shares are qualifying shares for the purposes of the EIS has been obtained from the Inland Revenue.

The above is a summary of certain aspects of current law and practice in the UK. A shareholder who is in any doubt as to his tax position, or who is subject to tax in a jurisdiction other than the UK, should consult his or her professional adviser.

12. Litigation

12.1 Save as set out in paragraph 12.2 below, there are no legal or arbitration proceedings in which any Group company is involved or of which any Group company is aware are pending or threatened by or against any Group company which may have or have had in the twelve months preceding the date of this document a significant effect on the Group's financial position.

12.2 On 25 October 2004, the Company received a letter indicating possible claims in respect of a commercial dispute with three former franchisees. The legal basis for any claims has not yet been established. However, it presently seems unlikely that their claims will be pursued. The value of the claims totals approximately £150,000. Should the claims be pursued the Company intends to proceed with a counterclaim against the three ex-franchisees in the sum of £100,000.

13. General

13.1 Other than as described in this document, there has been no significant change in the trading or financial position of the Group since 30 September 2004.

13.2 It is estimated that the total expenses payable by the Company in connection with the Placing and Admission will amount to approximately £0.9 million (including VAT).

13.3 Tenon Corporate Finance plc and Blueprint Audit Limited have given and not withdrawn their written consent to the inclusion of the reports set out in Parts III and IV of this document and the references to the reports and to themselves in this document in the form and context in which they appear.

13.4 With reference to and for the purposes of paragraph 45 (1) (b) (iii) of Part VII of Schedule 1 to the POS Regulations, Blueprint Audit Limited accept responsibility in relation to this document for the reports set out in Parts III and IV of this document.

13.5 Seymour Pierce has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.

13.6 Save as set out in this document, there are no patents or intellectual property rights, licences or particular contracts which are of fundamental importance to the Group's business.

13.7 There have been no interruptions in the business of the Group which may have or have had in the 12 months preceding publication of this document a significant effect on the financial position of the Group.

13.8 The accounting reference date of the Company is 31 March.

13.9 The Issue Price represents a premium of 20p over the nominal value of 5p per Ordinary Share. The premium arising on the Placing Shares amounts to £2,000,000 in aggregate.

13.10 The Ordinary Shares are in registered form. No temporary documents of title will be issued.

13.11 There is no minimum amount which, in the opinion of the Directors must be raised by the Company under the Placing to provide the sums required in respect of the matters specified in paragraph 21 of Schedule 1 to the POS Regulations.

13.12 Save as disclosed in this document no person (excluding professional advisers and trade suppliers or as otherwise disclosed in this document) has:

(i) received, directly or indirectly from the Group within the 12 months preceding the date of this document; or

(ii) entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Group on or after Admission; any of the following:

(a) fees totalling £10,000 or more;

(b) securities of the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or

(c) any other benefit with the value of £10,000 or more at the date of this document.

13.13 All monies received from applicants will be held by Seymour Pierce prior to delivery of the Ordinary Shares. Definitive share certificates (where appropriate) for the Placing Shares are expected to be despatched to placees by 24 February 2005 and CREST members' accounts are expected to be credited by 17 February 2005.

14. Availability of Prospectus

Copies of this document will be available free of charge during normal business hours on any week day (Saturdays, Sundays and public holidays excepted) until the date following one month after the date of Admission at the registered office of the Company and at the offices of Seymour Pierce, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL.

Dated 11 February 2005