

Independent Auditors' report to the members of Airsprung Furniture Group PLC continued

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the Group at 31 March 2004 and of the loss and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report that would be required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared as if Part 3 of Schedule 7A to the Companies Act 1985 applied to the company.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors

Bristol
28 May 2004

Consolidated profit and loss account

for the year ended 31 March 2004

	Note	Before exceptional items £000	Exceptional items (Note 2) £000	2003/4 Total £000	2002/3 Total £000
Turnover					
Continuing operations	1	49,048	–	49,048	66,453
Cost of sales					
Before exceptional items		36,574	–	36,574	48,060
Exceptional items	2	–	3,450	3,450	1,582
Cost of sales		36,574	3,450	40,024	49,642
Gross profit					
Before exceptional items		12,474	–	12,474	18,393
Exceptional items		–	(3,450)	(3,450)	(1,582)
Gross profit		12,474	(3,450)	9,024	16,811
Net operating expenses					
Before exceptional items		14,387	–	14,387	18,171
Exceptional items	2	–	586	586	353
Net operating expenses	3	14,387	586	14,973	18,524
Total operating loss	4	(1,913)	(4,036)	(5,949)	(1,713)
Profit on sale of operation	5			1,435	–
Profit on sale of fixed assets	6			315	1,299
Loss on ordinary activities before interest				(4,199)	(414)
Net interest receivable/(payable)	8			54	(57)
Loss on ordinary activities before taxation				(4,145)	(471)
Tax on ordinary activities	9			617	281
(Loss)/profit for the financial year (including the company £6,707,000 loss; 2003 £1,245,000 profit)				(3,528)	(190)
Equity dividends	10			(836)	(1,910)
Non-equity dividends	10			(66)	(66)
Loss for the financial year				(4,430)	(2,166)
Loss per ordinary share	24			(15.0p)	(1.1p)

The Group has no recognised gains and losses, other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

Reconciliation of movements in shareholders' funds

for the year ended 31 March 2004

	2003/4 £000	2002/3 £000
Loss for the financial year	(3,528)	(190)
Dividends and appropriations	(902)	(1,976)
	(4,430)	(2,166)
Goodwill reinstated on sale of operation	1,023	–
Net movement in shareholders' funds	(3,407)	(2,166)
Opening shareholders' funds	19,977	22,143
Closing shareholders' funds	16,570	19,977

Note of group historical cost profits and losses

for the year ended 31 March 2004

	2003/4 £000	2002/3 £000
Loss on ordinary activities before taxation	(4,145)	(471)
Realisation of property revaluation gains of previous years	8	–
Historical cost losses on ordinary activities before taxation	(4,137)	(471)
Historical cost loss for the year after taxation and dividends	(4,422)	(2,166)

Balance sheets at 31 March 2004

		Group		Company	
	Note	2004 £000	2003 £000	2004 £000	2003 £000
Assets employed					
Fixed assets					
Intangible assets	11	–	904	–	–
Tangible assets	12	10,311	14,303	39	58
Investments	13	–	–	15,207	1,070
		10,311	15,207	15,246	1,128
Current assets					
Stocks	14	3,327	4,677	–	–
Debtors	15	6,719	13,069	161	25,467
Short term bank deposits		2,000	–	2,000	–
Cash at bank and in hand		2,159	1,343	–	–
		14,205	19,089	2,161	25,467
Creditors: amounts falling due within one year	16	7,384	13,127	1,399	2,978
Net current assets		6,821	5,962	762	22,489
Total assets less current liabilities		17,132	21,169	16,008	23,617
Financed by					
Provisions for liabilities and charges	17	562	1,192	–	–
		562	1,192	–	–
Capital and reserves					
Called up share capital	18	3,044	3,044	3,044	3,044
Share premium account	19	2,348	2,348	2,348	2,348
Capital redemption reserve	19	2,345	2,345	2,345	2,345
Revaluation reserve	19	1,609	1,617	–	–
Profit and loss account	19	7,224	10,623	8,271	15,880
		16,570	19,977	16,008	23,617
Equity shareholders' funds		15,915	19,322	15,353	22,962
Non-equity shareholders' funds		655	655	655	655
Total shareholders' funds		16,570	19,977	16,008	23,617
		17,132	21,169	16,008	23,617

Approved by the board on 28 May 2004 and signed on its behalf by:

P G Bradshaw } Directors
A Lisanti



The accounting policies on pages 22-23 and the notes on pages 24-37 form part of these accounts. The independent auditors' report on the financial statements is on pages 16-17.

Consolidated cash flow statement

for the year ended 31 March 2004

	Note	2003/4		2002/3	
		£000	£000	£000	£000
Net cash (outflow)/inflow from operating activities	20		(2,594)		659
Returns on investments and servicing of finance					
Interest received		54		8	
Interest paid		–		(64)	
Interest paid on finance leases and similar hire purchase contracts		–		(1)	
Non-equity dividends and appropriations paid		(66)		(66)	
Net cash outflow from returns on investments and servicing of finance			(12)		(123)
Taxation					
UK corporation tax receivable/(payable)			178		(308)
Capital expenditure and financial investment					
Receipts from sales of assets		3,381		1,203	
Tangible fixed assets purchased		(501)		(977)	
			2,880		226
Acquisitions and disposals					
Disposal of subsidiary operation			4,395		–
Management of liquid resources					
Increase in short term deposits with bank			(2,000)		–
Equity dividends paid			(2,029)		(716)
Net cash Inflow/(outflow) before financing			818		(262)
Financing					
Capital element of finance lease rental payments		(2)		(6)	
Net cash outflow from financing			(2)		(6)
Increase/(decrease) in cash			816		(268)
Analysis of cash balances					
			2004	2003	Change in year
			£000	£000	£000
Cash at bank and in hand	22		2,159	1,343	816

Principal accounting policies

Accounting convention

The accounts have been prepared in accordance with accounting standards applicable in the United Kingdom under the historical cost convention as modified by the revaluation of land and buildings. The principal accounting policies, which have been consistently applied are set out below.

Basis of consolidation

The consolidated accounts include the accounts of Airsprung Furniture Group PLC and all its subsidiaries made up to the end of the financial year. Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only. The results of newly acquired companies are consolidated from the date that control passed and businesses sold are included up to date of disposal. The holding company is exempt from publishing its own profit and loss account by virtue of Section 230 Companies Act 1985.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries is capitalised and amortised over the shorter of the directors' assessment of its estimated useful life and 20 years. Goodwill which arose prior to 1 April 1998 has been eliminated against reserves, and is charged in the profit and loss account on disposal of the business to which it relates.

Turnover

Turnover represents the invoiced value of sales of goods, after deducting trade discounts, allowances and value added tax.

Stocks and work-in-progress

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost on a first-in first-out basis includes all direct expenditure and, where appropriate, related production overheads. Net realisable value allows for the costs of realisation.

Tangible fixed assets and depreciation

Tangible fixed assets are carried at cost, with the exception of some land and buildings, which are carried at valuation. Following the introduction of FRS15 "Tangible fixed assets", the Group opted not to update the valuation of land and buildings going forward. Depreciation is calculated to write off the cost or amount of the valuation of fixed assets less the estimated residual value by equal instalments over the estimated useful lives of the assets at the following principal annual rates:

Freehold land	Nil
Freehold buildings	2½%
Plant and equipment	10 - 20%
Computer equipment	33⅓%

Impairment of fixed assets

Fixed assets including goodwill are reviewed to determine whether their value appears to have been impaired. Where a fixed asset has been impaired, the impairment is charged to the profit and loss account, and the asset is carried at its recoverable amount.

Principal accounting policies continued

Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included within creditors. Instalments paid are apportioned between finance charges, charged to the profit and loss account as interest, and capital deducted from obligations.

All other leases are treated as operating leases and are charged to the profit and loss account.

Foreign currency

Normal trading activities denominated in foreign currencies are recorded in sterling at the exchange rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any foreign exchange differences are taken to the profit and loss account in the period in which they arise.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and/or from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The Group operates a number of pension schemes. Contributions to these schemes are charged to the profit and loss account by spreading the cost of the benefits over the expected remaining working lives of the members.



Cavendish Upholstery – Aristocrat

Notes to the accounts

31 March 2004

Note

1 Segmental analysis

Total turnover includes turnover generated in the United Kingdom of £47.8 million (2003 £65.0 million) and export sales of £1.2 million (2003 £1.5 million). All profit/(loss) is generated from activities located in the United Kingdom.

2 Exceptional expenses

Exceptional costs of sale of £3,450,000 before tax (£2,415,000 after tax) are expenses relating to the write down of a woodmill facility and closure of Bymacks. Exceptional operating expenses of £586,000 relate to the write down of goodwill in Peter Guild. Exceptional items of £1,935,000 incurred in the previous year relate to redundancies and the closure of Airsprung Scotland and the cost of relocating an upholstery facility to new premises.

3 Net operating expenses

Net operating expenses are made up as follows:

	2003/4 £000	2002/3 £000
Distribution expenses	8,770	10,341
Administration expenses	5,674	8,207
Other income	(57)	(24)
Goodwill write down	586	–

14,973	18,524
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4 Operating loss

Operating loss is stated after charging/(crediting):

Auditors' remuneration for:

Audit (company £14,000; 2003 £17,000)	55	70
Other services to the company and its subsidiaries	49	68
Depreciation of owned assets	2,837	1,266
Depreciation of leased assets	12	36
Goodwill amortisation	631	52
Profit on disposal of fixed assets (this profit excludes profit on sales of properties - see note 6)	(10)	(2)
Rental income	(42)	(21)
Directors' emoluments excluding pension contributions	807	725
Operating lease rentals:		
Land and buildings	76	158
Vehicles	727	1,113

5 Disposal

On 3 October 2003 the Group sold Sprung Slumber, a trading division of Airsprung Furniture Ltd for £5,430,000 in cash.

	£000
Intangible fixed assets	273
Tangible fixed assets	1,370
Stocks	614
Debtors	1,623
Creditors	(1,243)
Goodwill previously written off to reserves restated as a result of disposal	1,023
	3,660
Expenses relating to disposal	335
Total profit on disposal	1,435
Total cash consideration	5,430
Less: expenses relating to disposal	(335)
consideration for property	(700)
Net cash inflow on disposal of operation	4,395

Notes to the accounts

31 March 2004 continued

Note

6 Profit on sale of fixed assets

The profit on sale of fixed assets of £315,000 before tax (£178,000 after tax) has arisen from the sale of two surplus properties located in Okehampton, Devon and Glasgow. The profit on sale of fixed assets of £1,299,000 before tax in the previous year arose on the sale of surplus properties in Dursley, Gloucestershire and Trowbridge, Wiltshire.

7 Employee information

a) The average number of employees, including executive directors, was:

	Number	Number
Production	727	962
Distribution	124	176
Administration	140	135
	991	1,273

b) Employment costs, including executive directors:

Gross wages and salaries	18,588	22,391
Social security costs	1,530	1,579
Other pension costs	734	871
	20,852	24,841

c) The emoluments of directors disclosed in accordance with Schedule 7A of the Companies Act 1985 are shown in the report of the remuneration committee on pages 12-15.

8 Net interest

Payable:

Bank overdrafts and loans	–	(64)
Finance charges on leases	–	(1)

Receivable:

Short-term deposits	40	8
Other	14	–

Net interest receivable/(payable)	54	(57)
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Notes to the accounts

31 March 2004 continued

Note

2003/4
£000

2002/3
£000

9 Tax

a) Analysis of credit in the year:

The credit is made up as follows:

Current tax

UK corporation tax at 30% (2003 30%)

Adjustments in respect of previous periods

–	–
13	(32)
13	(32)

Total current tax charge/(credit)

Deferred tax

Current year

Prior year

Total deferred tax credit

(630)	(225)
–	(24)
(630)	(249)

Tax credit on profit on ordinary activities

(617)	(281)
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b) Factors affecting tax charge/(credit) for the year:

The rate of current tax charge/(credit) on loss on ordinary activities varied from the standard rate of corporation tax in the UK due to the following factors:

	%	%
UK corporation tax rate	30	30
	£000	£000
Loss before taxation	(4,145)	(471)
Tax at 30%	(1,244)	(141)
Adjustment to tax charge in respect of previous periods	13	(32)
Expenses not deductible for tax purposes	582	125
Capital allowances in excess of depreciation	–	(27)
Depreciation for period in excess of capital allowances	675	–
Carry forward of tax losses	794	284
Other timing differences	3	(33)
Corporation tax rate differences	–	–
Capital gains relief on property disposals	(810)	(208)
Total current tax charge/(credit)	13	(32)

Notes to the accounts

31 March 2004 continued

Note

9 Tax continued

c) Factors that may affect future tax charges:

The Group expects the reversal of short term timing differences and the utilisation of tax losses to further reduce the current tax charge, at least for 2004/5.

	2003/4 £000	2002/3 £000
10 Dividends and appropriations		
Preference: dividend	66	66
Ordinary: interim paid 1.5p per share (2003 1.0p)	358	239
final proposed 2.0p per share (2003 7.0p)	478	1,671
	<u>902</u>	<u>1,976</u>

	Goodwill £000
11 Intangible fixed assets	
Cost	
at 1 April 2003	1,023
disposals	(350)
at 31 March 2004	<u>673</u>
Aggregate amortisation	
at 1 April 2003	119
disposals	(77)
charge for the year	631
at 31 March 2004	<u>673</u>
Net book value	
at 31 March 2004	<u>-</u>
at 31 March 2003	<u>904</u>

The charge for the year includes the write down of the goodwill in Peter Guild of £586,000.

Notes to the accounts

31 March 2004 continued

Note

12 Tangible fixed assets

Cost or valuation (note (a))

at 1 April 2003

additions

disposals

at 31 March 2004

Depreciation

at 1 April 2003

provision for year (note (b))

relating to disposals

at 31 March 2004

Net book value

at 31 March 2004

at 31 March 2003

	Group			Company
	Freehold land and buildings £000	Plant and equipment £000	Total £000	Plant and equipment £000
at 1 April 2003	9,319	14,632	23,951	162
additions	–	501	501	8
disposals	(908)	(1,422)	(2,330)	–
at 31 March 2004	8,411	13,711	22,122	170
Depreciation				
at 1 April 2003	851	8,797	9,648	104
provision for year (note (b))	162	2,687	2,849	27
relating to disposals	(90)	(596)	(686)	–
at 31 March 2004	923	10,888	11,811	131
Net book value				
at 31 March 2004	7,488	2,823	10,311	39
at 31 March 2003	8,468	5,835	14,303	58

- (a) At 31 March 2004 the net book value of plant and equipment includes £60,000 (2003 £140,000) in respect of assets held under finance leases and similar hire purchase contracts. Cost or valuation of freehold land and buildings includes £4,945,000 in respect of properties which were professionally valued on an open market existing use basis as at 1 April 1997. The valuation was undertaken in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors by Alder King.

Had freehold property not been revalued, the total historic cost would have been £8,019,000 (2003 £9,042,000) and aggregate depreciation based on historic cost would have been £2,140,000 (2003 £2,191,000). Additions since 1 April 1997 are included at cost. Freehold land at a valuation of £2,255,000 is not depreciated.

	2004 £000	2003 £000
Analysis of land and buildings at cost and valuation		
at cost	3,466	3,894
at valuation	4,945	5,425
	8,411	9,319

The Group has adopted the transitional provisions of FRS15; accordingly the results of the 1 April 1997 valuation have not been updated.

- (b) Includes accelerated depreciation charge on a woodmill facility of £1,769,000. The charge writes the assets down to their current realisable value.

Notes to the accounts

31 March 2004 continued

Note

	2004 £000	2003 £000
13 Investment		
Shares in Group companies at 1 April	1,043	1,043
Write off	(65)	–
	<hr/>	<hr/>
Loans to Group companies	978	1,043
Intercompany balances transferred in group companies	27	27
	14,202	–
	<hr/>	<hr/>
	15,207	1,070
	<hr/>	<hr/>

£14,202,000 of intercompany balances were transferred to Investments in Group companies during the year. The amounts are interest free

	Percentage of issued ordinary shares held
During the year the company had the following principal trading subsidiaries:	
Name	
1 Airsprung Furniture Ltd	100
2 Peter Guild Ltd	100
3 Airsprung Property Ltd	100

All of the above companies are incorporated in Great Britain. Companies numbered 1 and 2 are engaged in the manufacture and sale of furniture. Airsprung Property Ltd manages the company's property portfolio.

	2004 £000	2003 £000
14 Stocks		
Raw materials	2,131	3,122
Work-in-progress	535	695
Finished goods	661	860
	<hr/>	<hr/>
	3,327	4,677
	<hr/>	<hr/>

Notes to the accounts

31 March 2004 continued

Note

15 Debtors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Trade debtors	5,133	9,144	8	5
Amounts due from Group companies	–	–	–	25,351
Corporation tax recoverable	–	191	–	–
Other debtors	330	2,412	–	–
Prepayments and accrued income	1,256	1,322	153	108
Deferred tax asset	–	–	–	3
	6,719	13,069	161	25,467

Other debtors at 31 March 2004 comprise the outstanding consideration arising from the sale of the fillings production facility. £89,000 (2003 £317,000) of other debtors is due after more than one year. Other debt at 31 March 2003 also included land and buildings sold subject to completion of contract.

16 Creditors: amounts falling due within one year

Bank loans and overdraft	–	–	469	581
Obligations under finance leases	–	2	–	–
Trade creditors	4,364	7,326	–	–
Other tax and social security	872	1,749	114	71
Accruals and deferred income	1,654	2,363	323	639
Dividends	494	1,687	493	1,687
	7,384	13,127	1,399	2,978

Group

2004
£000

2003
£000

17 Provisions for liabilities and charges – deferred tax

Fixed asset timing differences	742	1,545
Other	(180)	(353)
	562	1,192

Group

2003/4
£000

2002/3
£000

Company

2003/4
£000

2002/3
£000

at 1 April	1,192	1,441	(3)	(17)
transfer to profit and loss account	(630)	(249)	3	14
at 31 March	562	1,192	–	(3)

Notes to the accounts

31 March 2004 continued

Note

	Authorised Number	£000	Allotted and fully paid Number	£000
18 Called up share capital				
Ordinary shares of 10p each at 1 April 2003 and 31 March 2004	30,000,000	3,000	23,888,698	2,389
10% preference shares of £1 each (redeemable at par in 2008) at 1 April 2003 and 31 March 2004	654,599	655	654,599	655

The holders of the preference shares are entitled to receive notice of and to attend all general meetings of the company but they carry no voting rights unless the company has not paid the preference dividend on a due date for payment or has failed to make payment of the redemption monies due on redemption of the preference shares. In the event of the winding up of the company, preference shares rank ahead of the ordinary shares and preference shareholders will be entitled to the amounts paid up thereon and any dividend arrears.

	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit & loss account £000
19 Share premium account and reserves				
Group				
at 1 April 2003	2,348	2,345	1,617	10,623
transfer from revaluation reserve to profit & loss account	–	–	(8)	8
loss for the year	–	–	–	(3,407)
at 31 March 2004	2,348	2,345	1,609	7,224
Company				
at 1 April 2003	2,348	2,345	–	15,880
loss for the year	–	–	–	(7,609)
at 31 March 2004	2,348	2,345	–	8,271

The cumulative amount of goodwill written off to the profit and loss account is £4,114,000 (2003 £5,137,000).

	2003/4 £000	2002/3 £000
20 Reconciliation of operating loss to net cash inflow from operating activities		
Continuing activities		
Operating loss	(5,949)	(1,713)
Depreciation of tangible fixed assets	2,849	1,302
Profit on sales of tangible fixed assets	(10)	(2)
Decrease in stocks	736	1,000
Decrease in debtors	2,474	813
Decrease in creditors	(3,325)	(793)
Goodwill amortisation	631	52
Net cash (outflow)/inflow from operating activities	(2,594)	659

Notes to the accounts

31 March 2004 continued

Note	2003/4 £000	2002/3 £000
20 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities <i>continued</i>		
Cash flow from operating activities		
Net cash (outflow)/inflow before exceptional items	(1,288)	1,610
Outflow related to exceptional items	(1,306)	(951)
	(2,594)	659
21 Reconciliation of net cash flow to movement in net funds		
Increase/(decrease) in cash in the year	816	(268)
Cash outflow from decrease in debt	2	6
Movements in short-term deposits	2,000	–
Movement in net funds in year	2,818	(262)
Net funds at 1 April	1,341	1,603
Net funds at 31 March	4,159	1,341

	At 1 April 2003 £000	Cash flow £000	At 31 March 2004 £000
22 Analysis of net funds			
Cash	1,343	816	2,159
Finance leases	(2)	2	–
Liquid resources	–	2,000	2,000
	1,341	2,818	4,159

Notes to the accounts

31 March 2004 continued

Note	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
23 Commitments under operating leases				
The Group had annual commitments under operating leases as follows:				
property:				
expiring within 1 year	–	20	–	–
expiring in years 2 to 5	93	63	–	–
expiring after 5 years	75	75	–	–
	168	158	–	–
vehicles:				
expiring within 1 year	32	70	7	–
expiring in years 2 to 5	527	865	16	25
expiring after 5 years	14	–	–	–
	573	935	23	25

2003/4
£000

2002/3
£000

24 Loss per share

Loss per ordinary share has been calculated on the following basis:

Loss for the financial year	(3,528)	(190)
Preference dividends	(66)	(66)
	(3,594)	(256)

Weighted average of ordinary shares in issue during the year

Number 000's	Number 000's
23,889	23,889

Dilution of earnings per share to take account of the outstanding exercisable share options has not been calculated as none of the options over the shares of the company had a dilutive effect on earnings per share for either of the years above.

Notes to the accounts

31 March 2004 continued

Note	2004 £000	2003 £000
25 Capital commitments		
Expenditure contracted but not provided for	—	—

26 Financial instruments

The Group's financial instruments comprise borrowings, cash and various items such as trade debtors and trade creditors that arise directly from its operations. The Group's operations are funded by cash generated from operating activities. There is no gearing at the year end. The risks arising from the Group's financial instruments are interest rate risk and foreign currency risk.

The interest rate on all borrowings is fixed. As the Group predominantly trades in sterling, exposure to foreign currency risk is minimal. Foreign currency transactions are settled at the daily spot rate.

Short-term debtors and creditors have been excluded from the following disclosures.

	2004 £000	2003 £000
a) Cash at bank and in hand		
Cash at bank and in hand	2,159	1,343
Cash at bank and in hand is held in sterling and earns interest at 0.5% below the bank base rate.		
Money held on short term deposit with bank	2,000	—
Money held on short term deposit earns interest at 0.3% below the bank base rate.		

b) Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals at 31 March was as follows:

	Debt £000	Finance leases £000	2004 Total £000	Debt £000	Finance leases £000	2003 Total £000
Within one year, or on demand	—	—	—	—	2	2
Between 1 and 5 years	655	—	655	—	—	—
Over 5 years	—	—	—	655	—	655
	655	—	655	655	2	657

Debt due between 1 and 5 years represents £655,000 (2003 Nil) in respect of the company's preference shares. Debt due after 5 years in the previous year represents £655,000 in respect of the company's preference shares. The Group has an undrawn uncommitted overdraft facility available at 31 March 2004 of £5.0 million which is reviewed annually in January.

Notes to the accounts

31 March 2004 continued

Note

26 Financial instruments continued

b) Maturity of financial liabilities continued

The interest profile is given below:

	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total £000
Fixed rate liabilities			
Preference shares	10.0	4.4	655
At 31 March 2004		<u>4.4</u>	<u>655</u>
Financial liabilities	12.7	0.3	2
Preference shares	10.0	5.4	655
At 31 March 2003		<u>5.4</u>	<u>657</u>

c) Fair values

The fair values of cash at bank and in hand and borrowings at 31 March 2004 are approximate to the book value at that date. The fair value of the preference shares at 31 March 2004 is £811,000 (2003 £865,000). The book value of the preference shares is £655,000. The preference shares fair value has been calculated by discounting expected cash flows at the prevailing interest rate.

27 Pensions

The Group operates a funded group pension scheme, established under trust, providing defined benefits based on final salary, which is open to most employees. The assets of the scheme are held separately from those of the Group. Merrill Lynch Investment Managers Limited acts as investment manager to the Trustees of the scheme. The latest actuarial valuation of the scheme was carried out as at 1 April 2002. The scheme Actuary valued the scheme using the projected unit method. A market-consistent approach for valuing assets and liabilities was adopted for the first time. The principal assumptions used in the valuation were:

	%
Investment returns	6.7
Average salary growth	3.6
Pension increases	2.7

The value of the liabilities of £14.3 million exceeds the market value of the assets of £12.8 million, which on an ongoing basis means that the funding level is 90%. A valuation performed on the Minimum Funding Requirement basis prescribed in the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 shows a funding level of 99%.

Following the valuation the company decided to reduce the future accrual rate for salaried staff to 80ths.

The pension charge for the year to 31 March 2004 was £698,000 (2003 £809,000). Employer contribution rates varied from 7.9% to 11.2%.

The next actuarial valuation is due as at 1 April 2005.

Notes to the accounts

31 March 2004 continued

Note

27 Pensions continued

The transitional arrangements of the new accounting standard FRS17 require disclosure of assets and liabilities of the pension scheme as at the company's year end and the items that would appear in the Statement of Financial Activities if the full requirements of FRS17 were in place. To produce these statements, the full valuation of the Airsprung Retirement Benefits Plan as at 1 April 2002 was updated to 31 March 2004 by the Actuary.

The major assumptions used by the Actuary were:

		At 31 March 2004 %	At 31 March 2003 %	At 31 March 2002 %
Rate of increase in pensionable salaries	(Salaried staff members)	3.60	3.60	3.80
	(Hourly paid members)	3.10	3.10	3.30
Rate of increase in pensions in payment		2.80	2.50	2.70
Discount rate		5.50	5.50	6.00
Inflation		2.90	2.60	2.80

The assets of the scheme and the expected rate of return were:

	Long term rate of return expected at 31.03.04 %	Value at 31.03.04 £m	Long term rate of return expected at 31.03.03 %	Value at 31.03.03 £m	Long term rate of return expected at 31.03.02 %	Value at 31.03.02 £m
Equities	7.7	11.2	7.5	8.1	7.5	10.8
Gilts	4.7	1.5	4.5	1.4	6.0	1.4
Cash	4.0	0.3	3.5	0.6	3.5	0.4
	7.3	13.0	6.9	10.1	7.4	12.6

The following amounts were measured in accordance with the requirements of FRS17:

	At 31 March 2004 £000	At 31 March 2003 £000	At 31 March 2002 £000
Total market value of assets	13,000	10,076	12,590
Present value of scheme liabilities	(21,100)	(19,984)	(14,871)
Deficit in scheme	(8,100)	(9,908)	(2,281)

If the amount were recognised in the financial statements, Airsprung Furniture Group PLC's total funds would be:

	2004 £000	2003 £000	2002 £000
Net assets			
Total funds excluding pension deficit	16,570	19,977	22,143
Pension deficit	(8,100)	(9,908)	(2,281)
Related deferred tax asset	2,430	2,972	684
Total funds including pension deficit	10,900	13,041	20,546
Reserves			
Profit and loss reserve excluding pension deficit	7,224	10,623	12,789
Pension deficit	(8,100)	(9,908)	(2,281)
Related deferred tax asset	2,430	2,972	684
Profit and loss reserve including pension deficit	1,554	3,687	11,192

Notes to the accounts

31 March 2004 continued

Note	2004 £000	2003 £000
27 Pensions continued		
Illustrative charge to the Statement of Financial Activities over the financial year:		
Operating charge:		
Current service cost	(992)	(929)
Past service cost	–	–
Previously unrecognised surplus deducted from the past service cost	–	–
Gains and losses on any settlements or curtailments	–	223
Previously unrecognised surplus deducted from the settlement of curtailment losses	–	–
	(992)	(706)
Pension finance costs:		
Expected return on pension scheme assets	700	932
Interest on pension scheme liabilities	(1,100)	(918)
Total charge to incoming resources:	(400)	14
Illustrative gains and losses for the year ended 31 March 2004		
Difference between the the expected and actual return on scheme assets		
Amount	1,600	(4,212)
Percentage of scheme assets	12.4%	(41.8%)
Experience gains and losses on scheme liabilities		
Amount	1,700	(1,950)
Percentage of the present value of the scheme liabilities	8.1%	(9.8%)
Effect of change in assumptions underlying the present value of scheme liabilities		
Amount	(900)	(1,582)
Percentage of the present value of the scheme liabilities	(4.3%)	(7.9%)
Total amount recognised in the statement of total recognised gains and losses	2,400	(7,744)
Percentage of scheme assets	11.4%	(76.9%)
Movements in the actuarial deficit during the year		
Deficit in the scheme at the beginning of the year	(9,908)	(2,281)
Movements in the year		
Current service costs	(992)	(706)
Contributions	800	809
Other financial costs	(400)	14
Actuarial gain/(loss)	2,400	(7,744)
	(8,100)	(9,908)

The Group also operates two defined contribution pension schemes. The assets of these schemes are held separately from those of the Group in independently managed funds. The pension charge represents contributions payable by the Group to the funds for the year, amounting to £36,000 (2003 £62,000).

28 Related party transactions

In accordance with the exemptions available under FRS8 "Related party transactions", there is no disclosure in these financial statements of transactions between entities that are part of the Group.

Five year summary

	2004 £000	2003 £000	2002 £000	2001 £000 (As restated)	2000 £000 (As restated)
Consolidated profit and loss account					
Turnover	49,048	66,453	74,007	71,362	80,170
Profit before exceptionals and taxation	(1,859)	165	1,199	2,236	5,852
Exceptional items	(2,286)	(636)	(694)	(2,443)	–
(Loss)/profit before taxation	(4,145)	(471)	505	(207)	5,852
Taxation credit/(charge)	617	281	103	(661)	(1,841)
Dividends	(902)	(1,976)	(782)	(1,977)	(2,040)
Premium paid on redemption of preference shares	–	–	–	–	(511)
	(4,430)	(2,166)	(174)	(2,845)	1,460
EBITDA*	(788)	1,576	2,738	3,866	6,880
(Loss)/earnings per ordinary share	(15.0p)	(1.1p)	2.3p	(3.9p)	14.1p
Dividend per ordinary share	3.5p	8.0p	3.0p	8.0p	8.0p
	2004 £000	2003 £000	2002 £000	2001 £000 (As restated)	2000 £000 (As restated)
Group balance sheets					
Fixed assets	10,311	15,207	17,898	17,826	20,673
Net current assets	6,821	5,962	5,688	6,094	5,860
Long term liabilities	–	–	(2)	–	(36)
Deferred tax provision	(562)	(1,192)	(1,441)	(1,603)	(1,631)
Capital and reserves	16,570	19,977	22,143	22,317	24,866
Net assets per ordinary share	67p	81p	90p	91p	101p

*Earnings before interest, tax, depreciation, amortisation, exceptionals and profit/(loss) on sale of discontinued operations