

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

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, and the related notes which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in the statement of accounting policies.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Statement, the Chief Executive's Report, the Financial Review, the Directors' Report and the Report of the Remuneration Committee.

## 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. 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.

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

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

## 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 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors

Bristol  
1 July 2005

# Consolidated profit and loss account

for the year ended 31 March 2005

		2004/5 Total	2003/4 Total
	Note	£000	£000
Turnover	1	<b>39,707</b>	49,048
Cost of sales			
Before exceptional items		<b>30,230</b>	36,574
Exceptional items	2	–	3,450
Cost of sales		<b>30,230</b>	40,024
Gross profit			
Before exceptional items		<b>9,477</b>	12,474
Exceptional items		–	(3,450)
Gross profit		<b>9,477</b>	9,024
Net operating expenses			
Before exceptional items		<b>12,540</b>	14,387
Exceptional items	2	–	586
Net operating expenses	3	<b>12,540</b>	14,973
Total operating loss	4	<b>(3,063)</b>	(5,949)
Profit on sale of operation	5	–	1,435
Profit on sale of fixed assets	6	–	315
Loss on ordinary activities before interest		<b>(3,063)</b>	(4,199)
Net interest receivable	8	<b>69</b>	54
Loss on ordinary activities before taxation		<b>(2,994)</b>	(4,145)
Tax on ordinary activities	9	<b>562</b>	617
Loss for the financial year (including the company £2,289,000 loss; 2004 £6,707,000 loss)		<b>(2,432)</b>	(3,528)
Equity dividends	10	–	(836)
Non-equity dividends	10	<b>(66)</b>	(66)
Loss for the financial year		<b>(2,498)</b>	(4,430)
Loss per ordinary share	24	<b>(10.5p)</b>	(15.0p)

All operations are defined as continuing. 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 2005

	2004/5 £000	2003/4 £000
Loss for the financial year	<b>(2,432)</b>	(3,528)
Dividends and appropriations	<b>(66)</b>	(902)
	<b>(2,498)</b>	(4,430)
Goodwill reinstated on sale of operation	–	1,023
Net movement in shareholders' funds	<b>(2,498)</b>	(3,407)
Opening shareholders' funds	<b>16,570</b>	19,977
Closing shareholders' funds	<b>14,072</b>	16,570

## Note of group historical cost profits and losses

for the year ended 31 March 2005

	2004/5 £000	2003/4 £000
Loss on ordinary activities before taxation	<b>(2,994)</b>	(4,145)
Realisation of property revaluation gains of previous years	–	8
Historical cost losses on ordinary activities before taxation	<b>(2,994)</b>	(4,137)
Historical cost loss for the year after taxation and dividends	<b>(2,498)</b>	(4,422)

## Balance sheets at 31 March 2005

	Note	Group		Company	
		2005 £000	2004 £000	2005 £000	2004 £000
<b>Assets employed</b>					
Fixed assets					
Intangible assets	11	–	–	–	–
Tangible assets	12	<b>9,825</b>	10,311	<b>28</b>	39
Investments	13	–	–	<b>12,137</b>	15,207
		<b>9,825</b>	10,311	<b>12,165</b>	15,246
Current assets					
Stocks	14	<b>4,583</b>	3,327	–	–
Debtors	15	<b>6,029</b>	6,719	<b>2,050</b>	161
Short term bank deposits		–	2,000	–	2,000
Cash at bank and in hand		<b>1,506</b>	2,159	–	–
		<b>12,118</b>	14,205	<b>2,050</b>	2,161
Creditors: amounts falling due within one year	16	<b>7,753</b>	7,384	<b>562</b>	1,399
Net current assets		<b>4,365</b>	6,821	<b>1,488</b>	762
Total assets less current liabilities		<b>14,190</b>	17,132	<b>13,653</b>	16,008
<b>Financed by</b>					
Creditors: amounts falling due after one year	17	<b>118</b>	–	–	–
Provisions for liabilities and charges	18	–	562	–	–
		<b>118</b>	562	–	–
Capital and reserves					
Called up share capital	19	<b>3,044</b>	3,044	<b>3,044</b>	3,044
Share premium account	20	<b>2,348</b>	2,348	<b>2,348</b>	2,348
Capital redemption reserve	20	<b>2,345</b>	2,345	<b>2,345</b>	2,345
Revaluation reserve	20	<b>1,609</b>	1,609	–	–
Profit and loss account	20	<b>4,726</b>	7,224	<b>5,916</b>	8,271
		<b>14,072</b>	16,570	<b>13,653</b>	16,008
Equity shareholders' funds		<b>13,417</b>	15,915	<b>12,998</b>	15,353
Non-equity shareholders' funds		<b>655</b>	655	<b>655</b>	655
Total shareholders' funds		<b>14,072</b>	16,570	<b>13,653</b>	16,008
		<b>14,190</b>	17,132	<b>13,653</b>	16,008

Approved by the board on 17 June 2005 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 2005

	Note	2004/5		2003/4	
		£000	£000	£000	£000
<b>Net cash outflow from operating activities</b>	21		<b>(2,155)</b>		(2,594)
<b>Returns on investments and servicing of finance</b>					
Interest received		72		54	
Interest paid on finance leases and similar hire purchase contracts		(3)		–	
Non-equity dividends and appropriations paid		(66)		(66)	
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>			<b>3</b>		(12)
<b>Taxation</b>					
UK corporation tax receivable			–		178
<b>Capital expenditure and financial investment</b>					
Receipts from sales of assets		158		3,381	
Tangible fixed assets purchased		(384)		(501)	
			<b>(226)</b>		2,880
<b>Acquisitions and disposals</b>					
Disposal of subsidiary operation			–		4,395
<b>Management of liquid resources</b>					
Decrease/(increase) in short term deposits with bank			<b>2,000</b>		(2,000)
<b>Equity dividends paid</b>			<b>(479)</b>		(2,029)
<b>Net cash (outflow)/inflow before financing</b>			<b>(857)</b>		818
<b>Financing</b>					
Capital element of finance lease rental payments		(41)		(2)	
Increase in borrowings		245		–	
<b>Net cash inflow/(outflow) from financing</b>			<b>204</b>		(2)
<b>(Decrease)/increase in cash</b>			<b>(653)</b>		816
<b>Analysis of cash balances</b>					
		<b>2005</b>	<b>2004</b>	<b>Change</b>	
		<b>£000</b>	<b>£000</b>	<b>in year</b>	
				<b>£000</b>	
Cash at bank and in hand	23	<b>1,506</b>	2,159	(653)	

# 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 is the amount derived from the sale of goods falling within the Group's ordinary activities, after deduction of trade discounts, allowances and value added taxes. Turnover is recognised when the risks and rewards of ownership pass to the customer and when collectibility of the related receivables is reasonably assured.

## 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 installments 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 are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the present value of the future cash flows relating to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (income generating units).

## 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 installments under such leases, net of finance charges, are included within creditors. Installments 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 on a straight line basis.

### 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 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 the defined benefit scheme are charged to the profit and loss account by spreading the cost of the benefits over the expected remaining working lives of the members. The pension charge for the defined contribution scheme represents the contributions paid by the company during the accounting period.



# Notes to the accounts

31 March 2005

Note

## 1 Segmental analysis

Total turnover includes turnover generated in the United Kingdom of £39.1 million (2004 £47.8 million) and export sales of £0.6 million (2004 £1.2 million). All profit/(loss) is generated from activities located in the United Kingdom.

## 2 Exceptional expenses

In 2004 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.

## 3 Net operating expenses

Net operating expenses are made up as follows:

	2004/5 £000	2003/4 £000
Distribution expenses	7,602	8,770
Administration expenses	5,060	5,674
Other income	(122)	(57)
Goodwill write down	–	586
	<b>12,540</b>	<b>14,973</b>

## 4 Operating loss

Operating loss is stated after charging/(crediting):

Auditors' remuneration for:

Audit (company £26,000; 2004 £14,000)	65	55
Other services to the company and its subsidiaries	42	49
Depreciation of owned assets	761	2,837
Depreciation of leased assets	30	12
Goodwill amortisation	–	631
Profit on disposal of fixed assets (this profit excludes profit on sales of properties - see note 6)	(79)	(10)
Rental income	(42)	(42)
Directors' emoluments excluding pension contributions	587	807
Operating lease rentals:		
Land and buildings	168	76
Vehicles	611	727

## 5 Disposal

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

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

# Notes to the accounts

31 March 2005 continued

Note

## 6 Profit on sale of fixed assets

The profit on sale of fixed assets in 2004 of £315,000 before tax (£178,000 after tax) arose from the sale of two surplus properties located in Okehampton, Devon and Glasgow.

## 7 Employee information

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

	2004/5 Number	2003/4 Number
Production	540	727
Distribution	88	124
Administration	108	140
	<u>736</u>	<u>991</u>

b) Employment costs, including executive directors:

Gross wages and salaries	13,708	18,588
Social security costs	1,128	1,530
Other pension costs	573	734
	<u>15,409</u>	<u>20,852</u>

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:

Finance charges on leases

(3) –

Receivable:

Short-term deposits

72 40

Other

– 14

Net interest receivable

69 54

# Notes to the accounts

31 March 2005 continued

Note

2004/5  
£000

2003/4  
£000

## 9 Tax

### a) Analysis of credit in the year:

The credit is made up as follows:

#### Current tax

UK corporation tax at 30% (2004 30%)

Adjustments in respect of previous periods

-	-
-	13
-	13

Total current tax charge/(credit)

#### Deferred tax

Current year

Prior year

Total deferred tax credit

(562)	(630)
-	-
(562)	(630)

#### Tax credit on profit on ordinary activities

(562)	(617)
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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
Loss before taxation	£000 (2,994)	£000 (4,145)
Tax at 30%	(898)	(1,244)
Adjustment to tax charge in respect of previous periods	-	13
Expenses not deductible for tax purposes	54	582
Depreciation for period in excess of capital allowances	(3)	675
Carry forward of tax losses	826	794
Other timing differences	21	3
Capital gains relief on property disposals	-	(810)
	-	13

# Notes to the accounts

31 March 2005 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 reduce the tax charge, at least for 2005/6.

	2004/5 £000	2003/4 £000
<b>10 Dividends and appropriations</b>		
Preference: dividend	66	66
Ordinary: interim paid Nil per share (2004 1.5p)	-	358
final proposed Nil per share (2004 2.0p)	-	478
	<b>66</b>	<b>902</b>

	Goodwill £000
<b>11 Intangible fixed assets</b>	
Cost	
at 1 April 2004	673
disposals	-
<b>at 31 March 2005</b>	<b>673</b>
Aggregate amortisation	
at 1 April 2004	673
disposals	-
charge for the year	-
<b>at 31 March 2005</b>	<b>673</b>
Net book value	
<b>at 31 March 2005</b>	-
at 31 March 2004	-

# Notes to the accounts

31 March 2005 continued

Note

## 12 Tangible fixed assets

Cost or valuation (note (a))

at 1 April 2004

additions

disposals

**at 31 March 2005**

Depreciation

at 1 April 2004

provision for year

relating to disposals

**at 31 March 2005**

Net book value

**at 31 March 2005**

at 31 March 2004

	Group			Company
	Freehold land and buildings £000	Plant and equipment £000	Total £000	Plant and equipment £000
at 1 April 2004	8,411	13,711	22,122	170
additions	–	384	384	20
disposals	–	(2,219)	(2,219)	–
<b>at 31 March 2005</b>	<b>8,411</b>	<b>11,876</b>	<b>20,287</b>	<b>190</b>
at 1 April 2004	923	10,888	11,811	131
provision for year relating to disposals	158	633	791	31
	–	(2,140)	(2,140)	–
<b>at 31 March 2005</b>	<b>1,081</b>	<b>9,381</b>	<b>10,462</b>	<b>162</b>
at 31 March 2004	7,488	2,823	10,311	39

- (a) At 31 March 2005 the net book value of plant and equipment includes £287,000 (2004 £60,000) 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 (2004 £8,019,000) and aggregate depreciation based on historic cost would have been £2,298,000 (2004 £2,140,000). Additions since 1 April 1997 are included at cost. Freehold land at a valuation of £2,255,000 is not depreciated.

	2005 £000	2004 £000
Analysis of land and buildings at cost and valuation at cost	<b>3,466</b>	3,466
at valuation	<b>4,945</b>	4,945
	<b>8,411</b>	8,411

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

# Notes to the accounts

31 March 2005 continued

Note

2005  
£000

2004  
£000

## 13 Investment

Shares in Group companies at 1 April	<b>1,043</b>	1,043
Write off	<b>(65)</b>	(65)
	<b>978</b>	978
Loans to Group companies	<b>27</b>	27
Intercompany balances transferred in Group companies	<b>15,519</b>	14,202
Provision	<b>(4,387)</b>	–
	<b>12,137</b>	15,207

£1,317,000 of inter company balances were transferred to investments in Group companies during the year. The amounts are interest free.

During the year the company had the following principal trading subsidiaries:	Percentage of issued ordinary shares held
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.

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>14 Stocks</b>		
Raw materials	<b>2,943</b>	2,131
Work-in-progress	<b>380</b>	535
Finished goods	<b>1,260</b>	661
	<b>4,583</b>	3,327

# Notes to the accounts

31 March 2005 continued

Note	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
<b>15 Debtors</b>				
Trade debtors	<b>4,810</b>	5,133	<b>21</b>	8
Amounts due from Group companies	–	–	<b>1,970</b>	–
Other debtors	<b>182</b>	330	<b>7</b>	–
Prepayments and accrued income	<b>1,037</b>	1,256	<b>52</b>	153
	<b>6,029</b>	6,719	<b>2,050</b>	161
<b>16 Creditors: amounts falling due within one year</b>				
Bank loans and overdraft	–	–	<b>144</b>	469
Obligations under finance leases	<b>86</b>	–	–	–
Trade creditors	<b>5,431</b>	4,364	–	–
Other tax and social security	<b>672</b>	872	<b>67</b>	114
Accruals and deferred income	<b>1,549</b>	1,654	<b>336</b>	323
Dividends	<b>15</b>	494	<b>15</b>	493
	<b>7,753</b>	7,384	<b>562</b>	1,399
<b>17 Creditors: amounts falling due after one year</b>				
Obligations under finance leases due: between 1 and 2 years	<b>89</b>	–	–	–
between 2 and 5 years	<b>29</b>	–	–	–
	<b>118</b>	–	–	–

	Group	
	2005 £000	2004 £000
<b>18 Provisions for liabilities and charges – deferred tax</b>		
Fixed asset timing differences	<b>769</b>	742
Other	<b>(769)</b>	(180)
	–	562

	Group		Company	
	2004/5 £000	2003/4 £000	2004/5 £000	2003/4 £000
at 1 April	<b>562</b>	1,192	–	(3)
transfer to profit and loss account	<b>(562)</b>	(630)	–	3
at 31 March	–	562	–	–

There is an additional unrecognised deferred tax asset in respect of trading losses of £1,340,000 (2004: £699,000)

# Notes to the accounts

## 31 March 2005 continued

Note

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
<b>19 Called up share capital</b>				
Ordinary shares of 10p each at 1 April 2004 and 31 March 2005	<b>30,000,000</b>	<b>3,000</b>	<b>23,888,698</b>	<b>2,389</b>
10% preference shares of £1 each (redeemable at par in 2008) at 1 April 2004 and 31 March 2005	<b>654,599</b>	<b>655</b>	<b>654,599</b>	<b>655</b>

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
<b>20 Share premium account and reserves</b>				
<b>Group</b>				
at 1 April 2004	2,348	2,345	1,609	7,224
loss for the year	–	–	–	(2,498)
<b>at 31 March 2005</b>	<b>2,348</b>	<b>2,345</b>	<b>1,609</b>	<b>4,726</b>
<b>Company</b>				
at 1 April 2004	2,348	2,345	–	8,271
loss for the year	–	–	–	(2,355)
<b>at 31 March 2005</b>	<b>2,348</b>	<b>2,345</b>	<b>–</b>	<b>5,916</b>

The cumulative amount of goodwill written off to the profit and loss account is £4,114,000 (2004 £4,114,000).

	2004/5 £000	2003/4 £000
<b>21 Reconciliation of operating loss to net cash outflow from operating activities</b>		
<b>Continuing activities</b>		
Operating loss	<b>(3,063)</b>	(5,949)
Depreciation of tangible fixed assets	<b>791</b>	2,849
Profit on sales of tangible fixed assets	<b>(79)</b>	(10)
(Increase)/decrease in stocks	<b>(1,256)</b>	736
Decrease in debtors	<b>690</b>	2,474
Increase/(decrease) in creditors	<b>762</b>	(3,325)
Goodwill amortisation	–	631
<b>Net cash outflow from operating activities</b>	<b>(2,155)</b>	(2,594)

# Notes to the accounts

31 March 2005 continued

Note	2004/5 £000	2003/4 £000
<b>21 Reconciliation of operating loss to net cash outflow from operating activities</b> <i>continued</i>		
<b>Cash flow from operating activities</b>		
Net cash outflow before exceptional items	<b>(2,155)</b>	(1,288)
Outflow related to exceptional items	–	(1,306)
	<b>(2,155)</b>	(2,594)
<b>22 Reconciliation of net cash flow to movement in net funds</b>		
(Decrease)/increase in cash in the year	<b>(653)</b>	816
Cash (inflow)/outflow from (increase)/decrease in debt	<b>(204)</b>	2
Movements in short-term deposits	<b>(2,000)</b>	2,000
Movement in net funds in year	<b>(2,857)</b>	2,818
Net funds at 1 April	<b>4,159</b>	1,341
Net funds at 31 March	<b>1,302</b>	4,159

	At 1 April 2004 £000	Cash flow £000	At 31 March 2005 £000
<b>23 Analysis of net funds</b>			
Cash	2,159	(653)	<b>1,506</b>
Finance leases	–	(204)	<b>(204)</b>
Liquid resources	2,000	(2,000)	–
	<b>4,159</b>	<b>(2,857)</b>	<b>1,302</b>

# Notes to the accounts

31 March 2005 continued

Note	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
<b>24 Commitments under operating leases</b>				
The Group had annual commitments under operating leases as follows:				
property:				
expiring within 1 year	75	–	–	–
expiring in years 2 to 5	–	93	–	–
expiring after 5 years	75	75	–	–
	<b>150</b>	168	–	–
vehicles:				
expiring within 1 year	54	32	1	7
expiring in years 2 to 5	450	527	8	16
expiring after 5 years	–	14	–	–
	<b>504</b>	573	9	23
			<b>2004/5 £000</b>	2003/4 £000

## 25 Loss per share

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

Loss for the financial year	<b>(2,432)</b>	(3,528)
Preference dividends	<b>(66)</b>	(66)
	<b>(2,498)</b>	(3,594)

	<b>Number 000's</b>	Number 000's
Weighted average of ordinary shares in issue during the year	<b>23,889</b>	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 2005 continued

Note	2005 £000	2004 £000
<b>26 Capital commitments</b>		
Expenditure contracted but not provided for	<b>68</b>	–

## 27 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.

	2005 £000	2004 £000
<b>a) Cash at bank and in hand</b>		
Cash at bank and in hand	<b>1,506</b>	2,159
Cash at bank and in hand is held in sterling and earns interest at 0.75% (2004: 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	2005 Total £000	Debt £000	Finance leases £000	2004 Total £000
Within one year, or on demand	–	86	86	–	–	–
Between 1 and 5 years	655	118	773	655	–	655
	<b>655</b>	<b>204</b>	<b>859</b>	655	–	655

Debt due between 1 and 5 years represents £655,000 (2004 £655,000) in respect of the company's preference shares. The Group has an undrawn overdraft facility available at 31 March 2005 of £2.0 million secured on the Group's property which is reviewed annually in November. The security is of a floating nature on the Group's property. The banking facilities of the company and its subsidiaries are cross guaranteed.

# Notes to the accounts

31 March 2005 continued

Note

## 27 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
<b>Fixed rate liabilities</b>			
Financial liabilities	3.3	2.3	204
Preference shares	10.0	3.4	655
At 31 March 2005		3.1	859
Preference shares	10.0	4.4	655
At 31 March 2004		4.4	655

### c) Fair values

The fair values of cash at bank and in hand and borrowings at 31 March 2005 are approximate to the book value at that date. The fair value of the preference shares at 31 March 2005 is £747,000 (2004 £811,000). 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.

## 28 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 2005 was £557,000 (2004 £698,000). 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 2005 continued

Note

## 28 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 Financial Statement 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 2005 by the Actuary.

The major assumptions used by the Actuary were:

		At 31 March 2005 %	At 31 March 2004 %	At 31 March 2003 %
Rate of increase in pensionable salaries	(Salaried staff members)	<b>3.80</b>	3.60	3.60
	(Hourly paid members)	<b>3.30</b>	3.10	3.10
Rate of increase in pensions in payment		<b>2.80</b>	2.80	2.50
Discount rate		<b>5.30</b>	5.50	5.50
Inflation		<b>2.90</b>	2.90	2.60

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

	Long term rate of return expected at 31.03.05 %	Value at 31.03.05 £m	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
Equities	<b>7.7</b>	<b>12.9</b>	7.7	11.2	7.5	8.1
Gilts	<b>4.7</b>	<b>1.2</b>	4.7	1.5	4.5	1.4
Annuity policy	<b>5.3</b>	<b>0.4</b>	–	–	–	–
Cash	<b>4.0</b>	<b>0.7</b>	4.0	0.3	3.5	0.6
	<b>7.3</b>	<b>15.2</b>	<b>7.3</b>	<b>13.0</b>	<b>6.9</b>	<b>10.1</b>

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

	At 31 March 2005 £000	At 31 March 2004 £000	At 31 March 2003 £000	At 31 March 2002 £000
Total market value of assets	<b>15,200</b>	13,000	10,076	12,590
Present value of scheme liabilities	<b>(23,300)</b>	(21,100)	(19,984)	(14,871)
Deficit in scheme	<b>(8,100)</b>	(8,100)	(9,908)	(2,281)

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

	2005 £000	2004 £000	2003 £000	2002 £000
<b>Net assets</b>				
Total funds excluding pension deficit	<b>14,072</b>	16,570	19,977	22,143
Pension deficit	<b>(8,100)</b>	(8,100)	(9,908)	(2,281)
Related deferred tax asset	–	2,430	2,972	684
Total funds including pension deficit	<b>5,972</b>	10,900	13,041	20,546
<b>Reserves</b>				
Profit and loss reserve excluding pension deficit	<b>4,726</b>	7,224	10,623	12,789
Pension deficit	<b>(8,100)</b>	(8,100)	(9,908)	(2,281)
Related deferred tax asset	–	2,430	2,972	684
Profit and loss reserve including pension deficit	<b>(3,374)</b>	1,554	3,687	11,192

The deferred tax asset of £2,430,000 in respect of the FRS17 pension deficit is unrecognised.

# Notes to the accounts

31 March 2005 continued

Note	2005 £000	2004 £000	2003 £000
28 <b>Pensions</b> continued			
<b>Illustrative charge to the Financial Statements:</b>			
<b>Operating charge:</b>			
Current service cost	(800)	(992)	(929)
Gains and losses on any settlements or curtailments	–	–	223
	<b>(800)</b>	<b>(992)</b>	<b>(706)</b>
<b>Pension finance costs:</b>			
Expected return on pension scheme assets	900	700	932
Interest on pension scheme liabilities	(1,200)	(1,100)	(918)
<b>Total charge:</b>	<b>(300)</b>	<b>(400)</b>	<b>14</b>

## Illustrative gains and losses for the year ended 31 March 2005

<b>Difference between the expected and actual return on scheme assets</b>			
Amount	900	1,600	(4,212)
Percentage of scheme assets	5.9%	12.4%	(41.8%)
<b>Experience gains and losses on scheme liabilities</b>			
Amount	500	1,700	(1,950)
Percentage of the present value of the scheme liabilities	2.1%	8.1%	(9.8%)
<b>Effect of change in assumptions underlying the present value of scheme liabilities</b>			
Amount	(900)	(900)	(1,582)
Percentage of the present value of the scheme liabilities	(3.9%)	(4.3%)	(7.9%)
<b>Total amount recognised in the statement of total recognised gains and losses</b>	<b>500</b>	<b>2,400</b>	<b>(7,744)</b>
Percentage of scheme liabilities	<b>2.2%</b>	<b>11.4%</b>	<b>(38.89%)</b>
<b>Movements in the actuarial deficit during the year</b>			
Deficit in the scheme at the beginning of the year	(8,100)	(9,908)	(2,281)
Movements in the year			
Current service costs	(800)	(992)	(706)
Contributions	600	800	809
Other financial costs	(300)	(400)	14
Actuarial gain	500	2,400	(7,744)
	<b>(8,100)</b>	<b>(8,100)</b>	<b>(9,908)</b>

The Group also operates a defined contribution pension scheme. The assets of this scheme 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 £16,000 (2004 £36,000).

## 29 Related party transactions

In accordance with the exemptions available under FRS 8 "Related party transactions", there is no disclosure in these financial statements of transactions between entities that are part of the Group.

## Five year summary

	2005 £000	2004 £000	2003 £000	2002 £000	2001 £000 (As restated)
<b>Consolidated profit and loss account</b>					
Turnover	<b>39,707</b>	49,048	66,453	74,007	71,362
Profit before exceptionals and taxation	<b>(2,994)</b>	(1,859)	165	1,199	2,236
Exceptional items	–	(2,286)	(636)	(694)	(2,443)
(Loss)/profit before taxation	<b>(2,994)</b>	(4,145)	(471)	505	(207)
Taxation credit/(charge)	<b>562</b>	617	281	103	(661)
Dividends	<b>(66)</b>	(902)	(1,976)	(782)	(1,977)
	<b>(2,498)</b>	(4,430)	(2,166)	(174)	(2,845)
EBITDA*	<b>(2,272)</b>	(788)	1,576	2,738	3,866
(Loss)/earnings per ordinary share	<b>(10.5p)</b>	(15.0p)	(1.1p)	2.3p	(3.9p)
Dividend per ordinary share	–	3.5p	8.0p	3.0p	8.0p
	<b>2005 £000</b>	2004 £000	2003 £000	2002 £000	2001 £000 (As restated)
<b>Group balance sheets</b>					
Fixed assets	<b>9,825</b>	10,311	15,207	17,898	17,826
Net current assets	<b>4,365</b>	6,821	5,962	5,688	6,094
Long term liabilities	<b>(118)</b>	–	–	(2)	–
Deferred tax provision	–	(562)	(1,192)	(1,441)	(1,603)
Capital and reserves	<b>14,072</b>	16,570	19,977	22,143	22,317
Net assets per ordinary share	<b>56p</b>	67p	81p	90p	91p

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

# Trading divisions

## Trading divisions

Division	Operation	Location
<b>Beds</b>	Airsprung Beds Gainsborough Hush Sleep Collection The Windsor Bed Company	Trowbridge Trowbridge Trowbridge Trowbridge
<b>Upholstery</b>	Bymacks Cavendish Upholstery Gimson Slater Peter Guild	Chorley Chorley Chorley Bedford
<b>Fillings</b>	Airofreem	Trowbridge
<b>Design</b>	Arena Design Associates	Trowbridge



# Corporate Information

<b>Secretary and Registered Office</b>	Tean E Dallaway ACA Canal Road, Trowbridge, Wiltshire BA14 8RQ
<b>Registrars</b>	Capital Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA.
<b>Registered Auditors</b>	PricewaterhouseCoopers LLP, 31 Great George Street, Bristol BS1 5QD
<b>Bankers</b>	Barclays Bank PLC, PO Box 119, Pak House, Newbrick Road, Stoke Gifford, Bristol BS34 8TN
<b>Solicitors</b>	Osborne Clarke, 2 Temple Back East, Temple Quay, Bristol BS1 6EG Burgess Salmon, Narrow Quay House, Narrow Quay, Bristol BS1 4AH
<b>Stockbrokers</b>	Rowan Dartington & Co Ltd, Colston Tower, Colston Street, Bristol BS1 4RD

## Financial calendar

<b>Annual General Meeting</b>	7 September 2005
<b>Half year results announced</b>	December 2005