

Group profile

Airsprung Furniture Group has its roots in the manufacture of mattresses dating back to the late 1800s. Today the Group has interests in the manufacture and supply of beds, mattresses, upholstery and sofa beds. The Group uses specific brands to supply these products to clearly defined market sectors.

Airsprung Beds supplies the market for value-for-money bed frames, mattresses, divans and some complementary furniture. Hush Sleep Collection operates in the middle market bed sector, while The Windsor Bed Company, which operates as part of the Gainsborough business, is at the upper end. Cavendish Upholstery operates in the mid and upper markets of the upholstered furniture market, using both fabric and leather coverings, while its associate brand Benchmark offers entry level products.

Over recent years, in-house manufacture has been supplemented by a significant import programme using supply partners in central Europe, southern Europe and the Far East. This brand and product strategy is intended to enable the Group to supply beds, mattresses and upholstery into all market sectors.

The Group has interests in a foam conversion business, Airofreem, that produces foam and fibre products for furniture, pharmaceutical, stadium seating and other industrial uses.

The Group has extended its in-house graphics facility Arena Design Associates, so that it now undertakes design and marketing services for non-Group businesses.

The Group's businesses are located in Trowbridge and Chorley.

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Chairman's statement

Results

During the year, the Group continued to make progress towards restoring profitability. The loss on ordinary activities of continuing businesses before exceptional charges was reduced to £246,000, an improvement of £2.6 million on last year's restated figure. However, the sale of the loss-making Peter Guild subsidiary, announced last October, resulted in exceptional non-recurring costs of approximately £679,000 in addition to its loss on trading. These have been identified separately in the consolidated profit and loss account. After these exceptional charges and interest payable, the loss on ordinary activities was £1.4 million.

Group turnover increased to £41.2 million despite the disposal of Peter Guild, indicating a like-for-like sales improvement of 7.2%. Gross margins widened by four percentage points, and operating and overhead expenses were reduced. The cash position was £1.48 million worse than at the previous year end but in the second half of the year there was a net cash inflow of £101,000. Stock came down by £1.1 million and creditors also fell, but trade debtors increased as a result of market pressures. After the loss for the first half year of £866,000 reported in December 2005, the Group moved into modest operating profit before exceptional non-recurring costs during the second six months.

Pension scheme

Following an actuarial valuation of the Airsprung Retirement and Death Benefits Plan as at 1 April 2005, the company informed the Trustees of its intention, subject to consultation, of closing the Plan to new entrants and ceasing future accruals. A revised contributions schedule was subsequently agreed with the Trustees and certified by the Plan Actuary. The cost of the Group's contribution for 2006-07, together with the National Insurance payments resulting from Plan members being contracted back into the State scheme, will be approximately £500,000. The Group is committed to taking all appropriate steps to restore the finances of the Plan in the interests of all members.

In addition to the charges taken through the profit and loss account, the Group has adopted Financial Reporting Standard FRS17 *Retirement Benefits*. The loss under FRS17 of £1,439,000 is £31,000 greater than if the new reporting standard had not been in place. As noted at the half year, shareholders' funds now include the Plan's actuarial deficit, which at the year end was £6.9 million, and "Other finance costs" reflect further actuarial adjustments of £129,000.

The performance of the Plan's investments is of material importance to the Group because of its impact on the Group's financial statements under FRS17. During the year, the value of the fund increased by 29% to £19.6 million. No recovery of deferred tax has been assumed in the £6.9 million gross deficit.

Dividends

The Group continues to be unable to declare a dividend. The directors will keep this position under review in the light of the Group's improving profitability, the level of distributable reserves and the pace at which the pension deficit is reduced.

The Group has adopted FRS25 *Financial Instruments: Disclosure and Presentation* which requires the company's preference shares to be classified as liabilities rather than equity and for preference dividends to be shown as interest payable, and the comparative figures have been restated.

Peter Guild disposal

As reported at the interim stage the Group sold its loss-making Peter Guild subsidiary for £400,000 payable in performance-related instalments, plus the repayment over one year of a new £275,000 loan. Prior to the sale, Peter Guild reported an operating loss of £276,00 over a six month period. After the year end the purchaser of Peter Guild repaid the first three instalments of the loan, totalling £69,000, in accordance with the sale and purchase agreement.

Chairman's statement continued

Operating review

Following the sale of Peter Guild, the Group's businesses now consist of approximately 80% mattresses, beds and sofa beds, and 20% upholstered furniture, foam products and marketing services. Airsprung Beds, mainly supplying mass-market retailers accounts for about 80% of the mattress and bed activity, while the Gainsborough brands, including The Windsor Bed Company, supply the remainder, mainly to chain stores and independent retailers. A new venture, the Hush Sleep Collection, was launched in mid-2005.

Airsprung Beds posted a 5% sales increase in difficult market conditions. This division now outsources most of its materials and components from external suppliers, and the Trowbridge factory operates as a just-in-time assembly plant. Continued focus on manufacturing and supply efficiencies enabled the business to widen gross margins by nearly seven percentage points and reduce overheads by £0.8 million. The result was a reduction in operating losses by £2.8 million.

The other bed businesses had a sales increase of 3%, in spite of the severe contraction in the independent sector. A particular success was Gainsborough's winning of significant new listings of sofa beds through a major national department store group. However, this came too late in the year to have much impact on the financial performance. The subsidiary suffered a fall in gross margins due to market pressures in the medium-price bed sector and there was a reduction in the sale of top-end products. Gainsborough made a modest profit for the year, but fell short of the 2005 result.

Group results were held back by high start-up costs and overheads at Hush. This new collection was launched at a time when the smaller retailers and chain stores were suffering a severe downturn in trade with several business closures. Hush's sales performance was disappointing and it returned a trading loss for the year. The starting overheads have now been cut back, and sales and production operations have been integrated within other Group businesses. Management now plan to broaden the sales distribution from a tighter cost base.

Cavendish Upholstery, based in Chorley, recovered from a difficult start as it absorbed the run-down costs of the discontinued Bymacks operation in tough market conditions, but finished the year with profits comfortably ahead, due to the success of its product introductions and greater focus on outsourcing and cost control.

The foam business Airofreem and the marketing support operation Arena Design had satisfactory years. Both these operations have done well in winning external contracts in addition to the work they do for Group subsidiaries.

Excluding the discontinued Peter Guild business, the Group had an average number of employees for the year of 609 compared with 698 for the previous year, giving rise to an increase in sales per employee of over 20% to £66,000.

Strategy

As foreshadowed at the half year, the Directors have carried out a strategic review of the Group and its subsidiaries, and have identified areas where performance can be improved and additional shareholder value created. The review has revealed opportunities for reshaping the Group's brands, businesses and operations, and for making more effective use of properties and other assets. The board undertook to make a more comprehensive statement in this Report and Accounts, and the results of the strategy review now follow under the headings property, profitability and brand management.

Chairman's statement continued

Property

The Group's bed and mattress operations are centred on a freehold site at the Canal Road Industrial Estate in Trowbridge, Wiltshire, which covers approximately 9.5 hectares (23.5 acres). This includes a main factory site of 5.8 hectares, the Gainsborough factory covering 0.8 hectares, and a support services area to the west of the main site of 2.9 hectares. The board commissioned an independent firm of industrial real estate specialists to work with management and has now approved Phase 1 of what is expected to be a three-year programme. In this phase, the intention is that some of the land and buildings away from the main factory site should be vacated and prepared for sale or let. Given the Group's improving operational efficiencies and greater reliance on outsourcing, the board believes that in the long term the core part of the site will be sufficient to accommodate all or most of the Trowbridge operations and that the surplus areas should be released to generate revenues for the future. It will be open to the Group, as these revenue streams open up, either to retain them as extra profitable income or to convert them into capital for future investment in the site, with a view to delivering higher future returns.

Profitability

During the past few years, the Group has disposed of a number of loss-making activities and surplus assets. These have provided the necessary cash to remodel the continuing businesses during a time of exceptionally difficult market conditions. For the future, the board has set targets which envisage the business activities themselves delivering the cash flow for their ongoing development.

The most significant driver of shareholder value in the Airsprung Furniture Group is the operating gross margin. This margin is influenced by labour efficiency, raw material costs and the price of outsourced products and materials. Further significant drivers are the costs of warehousing, transport and distribution, since beds and mattresses are bulky items with relatively low unit prices, and the negotiation of prices and terms of trading with customers.

The widening of gross margins at Airsprung Beds during the year has shown that management efforts have begun to bite, but further improvements are necessary. Continuous and systematic programmes are being put in place under focussed management supervision to ensure greater efficiency in the supply and distribution chains, factory loading and purchasing.

Brand management

The Group has in the past tended to see itself as a group of manufacturing businesses, each of which has had its own trading name and brands, and each of whose products were made in its own factory. A more flexible approach has now been introduced. The Group's businesses are being configured to respond profitably to the dynamics of their various distribution channels, ranging from mass-market internet distributors to small independent retailers, and the Group's brands will be used to increase market penetration by reflecting more closely the requirements of the marketplace and the perceptions of retailers and consumers. Airsprung Beds is now introducing two sub-brands, one for the entry level market and one for the middle-price market, with clear differentiation between them. Cavendish recently launched a Benchmark range of imported, modern and well-priced furniture. A new division has been formed with a view to offering all the Group's brands to hotel and contract customers. All these and similar efforts are intended to give greater clarity to the product offering and provide opportunities for increased sales and improved margins.

Flexibility of brand management is being supported by greater flexibility in manufacturing and supply. Products may now be entirely outsourced, components may be outsourced for assembly in Trowbridge or Chorley, or they may be made largely in house. The board's intention is that products should be assembled by whichever method provides the most efficient supply and market solution for the Group's businesses and brands.

Chairman's statement continued

Directors, staff and advisers

I would like to thank my predecessor Philip Bradshaw, who retired immediately following last year's AGM, for his long service and commitment to the Group. I also thank Tony Chambers, a non-executive director since 1999, who will be stepping down at the AGM, for the high quality of his counsel during my first year as Chairman.

I am grateful to all the management and employees in the Group for their loyalty and support during a period of significant challenge. Finally, I thank Tony Lisanti our Chief Executive, who has led the Group through an extremely difficult period of change.

Following the sale by a major shareholder of 22.6% of the ordinary equity of Airsprung last autumn, certain directors acquired shareholdings in the Company through the market, and these are recorded in the Directors' report. They underline the belief of these individuals in the Group's potential and their commitment to bringing the Group back to a satisfactory level of profitability.

The board has appointed new auditors, solicitors and property consultants with a view to securing appropriate professional support as we seek to take the Group forward.

Outlook

The programme of essential business and asset disposals is now complete, and the Group can look forward to concentrating on rebuilding its businesses in the marketplace. The benefits of improved gross margins and cost control, together with stronger brand management, are beginning to become evident, and Group performance is now running above break even. Over the next three years, profits on trading should be supplemented by growing revenues from surplus properties in Trowbridge.

Although trading conditions remain difficult and competition fierce, the directors believe that, barring unforeseen circumstances, the Group has reasonable prospects of returning to profit in the year ahead.



Stuart Lyons CBE
Chairman

Directors and Advisers

DIRECTORS

Stuart Lyons CBE	- Chairman
Tony Lisanti	- Chief Executive
Tean Dallaway	- Finance Director
Stephen Yates	- Marketing Director
Antony Chambers	- Non-executive Director
John Newman	- Non-executive Director

CORPORATE INFORMATION

Secretary and Registered Office	Tean E Dallaway ACA Canal Road, Trowbridge, Wiltshire BA14 8RQ
Registrars	Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0LA
Registered Auditors	Grant Thornton UK LLP, 43 Queen Square, Bristol BS1 4QR
Bankers	Barclays Bank PLC, PO Box 119, Park House, Newbrick Road, Stoke Gifford, Bristol BS34 8TN
Solicitors	Osborne Clarke, 2 Temple Back East, Temple Quay, Bristol BS1 6EG Burgess Salmon, Narrow Quay House, Narrow Quay, Bristol BS1 4AH
Stockbrokers	Rowan Dartington & Co Ltd, Colston Tower, Colston Street, Bristol BS1 4RD

FINANCIAL CALENDAR

Annual General Meeting	14 September 2006
Half year results announced	December 2006

Directors' report

The directors submit their report together with the audited accounts for the year ended 31 March 2006.

Profits and dividends

The consolidated profit and loss account on page 14 shows a loss before taxation of £1,439,000 (2005: £3,560,000 loss). The directors do not recommend the payment of a dividend (2005: Nil). A loss of £272,000 (2005: £2,498,000) has been deducted from reserves (see page 15).

Activities

The principal activity of the Group is the supply to retailers of manufactured and imported furniture. The directors do not foresee any major change in the level or nature of the Group's business.

Business review

A review of the business of the Group during the year is included within the Chairman's statement.

Directors and their interests

The directors of the company at 31 March 2006, all of whom served throughout the year or from the date of their appointment were:

	Ordinary shares of 10p each	
	31 March 2006	1 April 2005
S R Lyons CBE – appointed 7 September 2005	1,110,000	–
A Lisanti	3,500,000	–
T E Dallaway	100,700	700
S G W Yates	1,977,658	1,977,658
A C Chambers	200,000	100,000
J D Newman	100,000	–

P R Lamb and J P Yates who were directors as at 1 April 2005 resigned on 7 July 2005. P G Bradshaw who was a director as at 1 April 2005 retired on 7 September 2005.

Apart from the interests disclosed above, no directors had interests at any time in the year in the share capital or loan stock of the company or of other Group companies.

There has been no change in the interests set out above between 31 March 2006 and 26 July 2006.

There were no commitments or contracts during or at the end of the year in which a director of the company is, or was, materially interested and which are, or were, significant in relation to the company's business.

In accordance with the Articles of Association, A C Chambers will retire at the Annual General Meeting and is not offering himself for re-election.

S R Lyons having been appointed a director in the year offers himself for election.

Directors' report continued

Corporate governance

Directors' responsibilities statement

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that the most suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2006. The directors also confirm that applicable United Kingdom accounting standards have been followed and that it is appropriate for the financial statements to be prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the directors are aware there is no relevant audit information of which the company's auditors are unaware, and the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The company intends to make a copy of this document available on its corporate website (www.airsprung-furniture.co.uk). In respect of any copy which appears on this website the following should be noted:

- a) The maintenance and integrity of the Airsprung Furniture Group PLC website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website; and
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Board responsibilities

The board of directors meets regularly throughout the year. S R Lyons (Chairman), A C Chambers (non-executive director) and J D Newman (non-executive director) are considered by the board to be independent. The board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. There is a formal schedule of matters specifically reserved to the board's jurisdiction. This sets out the strategic direction of individual trading divisions, their annual budgets, their progress towards achievement of those budgets, their forecasts and their capital expenditure programmes. In furtherance of their duties, there are agreed procedures for the directors to take independent advice, if necessary, at the company's expense.

Each new non-executive director is appointed for a fixed term, being an initial period to the next Annual General Meeting after appointment and subject to re-appointment at the meeting for a further three years. Subsequent re-appointment will be subject to the approval of shareholders.

The board considers the Chairman to be the main point of contact to whom significant concerns of whatever nature may be conveyed. In the event that an individual does not wish to raise a concern with him, the board has identified J D Newman a non-executive director, as an independent member of the board to whom such concerns may be addressed.

Directors' report continued

Corporate governance

The board has appointed the following committees to deal with specific aspects of the Group's affairs:

the remuneration committee reviews the terms and conditions of employment of the Group's executive directors and meets at least once a year. It consists of three non-executive directors, A C Chambers, S R Lyons and J D Newman. No director takes part in any discussion about his own remuneration;

the audit committee, consisting of A C Chambers, S R Lyons and J D Newman (non-executive directors), meets at least three times a year. It considers the effectiveness of the Group's internal controls, accounting policies and financial reporting, and provides a forum through which the external auditors report to the directors;

the nomination committee considers all new board appointments. It consists of three non-executive directors and one executive director: A C Chambers, S R Lyons, J D Newman and A Lisanti.

Internal controls – risk management

The board of directors has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, while management are required to implement board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure of business objectives. In pursuing these objectives, internal controls can provide only reasonable and not absolute assurance against material misstatement or loss.

The Group has an established control framework which aims to:

- safeguard Group assets;
- ensure proper accounting records are maintained;
- provide reliable financial information for internal and external use.

During the year the board undertook a formal re-assessment of risk management and control arrangements in order to form a view on the overall effectiveness of the system of internal control. The key elements of this system are:

- the audit committee whose activities are described above;
- a comprehensive budgeting system, with annual budgets approved by the Group board;
- detailed monthly reporting, including forecasting to the Group board and comparison of results against budget, with performance monitoring and explanations provided for significant variances;
- a defined procedure for seeking and obtaining approval for major transactions;
- certification on internal control from operational boards.

Going concern

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Shareholder communications

The company communicates regularly with its major institutional shareholders.

Directors' report continued

Fixed assets

The Group's freehold land and buildings were professionally valued as at 1 April 1997 and this valuation has been incorporated into the consolidated balance sheet. Additions since 1 April 1997 are included at cost. The directors consider the market value of freehold property at 31 March 2006 to be in excess of that shown in the balance sheet.

Employee involvement

The directors recognise the need to keep employees informed about the Group's performance and progress, provide information on matters of concern to them, and consult as appropriate. Bonus schemes and other incentives have been developed to enable employees to benefit more directly from their performance.

Share option scheme

The following options to subscribe for ordinary shares of the company under the executive share option schemes were outstanding:

	Number of options						
	At 1 April 2005	Granted in the year	Cancelled in the year	At 31 March 2006	Exercise price	Date from which exercisable	Date options expire
T E Dallaway	10,000	–	(10,000)	–	–	–	–
	–	50,000	–	50,000	26p	29.07.08	29.07.12
	–	10,000	–	10,000	15.5p	06.07.08	06.07.12
A Lisanti	200,000	–	(200,000)	–	–	–	–
	200,000	–	(200,000)	–	–	–	–
	–	600,000	–	600,000	26p	29.07.08	29.07.12
	–	400,000	–	400,000	15.5p	06.07.08	06.07.12

No other directors have been granted share options in the shares of the company or of other Group companies.

No director exercised share options during the year.

Certain subsidiary directors were granted options over the ordinary share capital of Airsprung Furniture Group PLC in the year ended 31 March 2006.

The market price of the company's ordinary shares at the end of the financial year was 26.5p and the range of market prices during the year was between 13.5p and 33.0p.

Creditor payment policy

The Group's current policy concerning the payment of its creditors is to:

agree the terms of payment with its suppliers;

ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts;

pay in accordance with its established contractual and other legal obligations once satisfactory performance of services or receipt of goods is achieved.

The Group's average creditor days figure for the year as calculated in accordance with the Companies Act 1985 is 71 days (2005: 78 days).

Directors' report continued

Disabled employees

The Group's employment policy takes account of the special care necessary to identify aptitudes, abilities and training needs of disabled employees and applicants so they may be effectively utilised to mutual benefit within the Group.

Health, safety and the environment

The directors take seriously their responsibilities for the health, safety and environmental aspects of the business and have developed policies and procedures in order to ensure as far as is reasonably practicable compliance with best practice.

Donations

Donations to UK charities during the year amounted to £400 (2005: £1,220). The Group made no political donations.

Substantial interests

In addition to those of the directors, the company has been notified of the following interests in 3% or more of its allotted ordinary share capital at 26 July 2006:

	Number of ordinary shares	%
Redbird Holdings SA	7,156,000	29.9
Schroder Investment Management Limited	2,330,917	9.8
J P Yates	1,993,262	8.3

Pensions

The assets of the pension schemes established for the benefit of the Group's employees are held, separately from those of the Group, by Trustees.

Financial risk management objectives and policies

The Group's financial risk management objectives are detailed in note 27 of the financial statements. This includes details of the Group's exposure to interest rate and currency risk.

Transition to International Financial Reporting Standards

The Group is in the process of preparing to convert to IFRS in time for application to the year ending 31 March 2008. A project team will begin identifying the effects of the differences between UK and IFRS GAAP during 2006. This process is currently ongoing and will continue as new standards and amendments to existing standards evolve.

Stock market

The company's ordinary shares are listed on the Alternative Investment Market.

Auditors

A resolution to appoint Grant Thornton UK LLP as auditors to the company will be proposed at the Annual General Meeting.

Trowbridge
26 July 2006


By order of the Board
T E Dallaway, Financial Director and Secretary

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

We have audited the consolidated and parent company financial statements (the "financial statements") of Airsprung Furniture Group PLC for the year ended 31 March 2006 which comprise the consolidated profit and loss account, the group and company balance sheets, the group cash flow statement, the group reconciliation of movements in shareholders' funds, the group statement of total recognised gains and losses and notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether they are properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report and the chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 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.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements for the year ended 31 March 2006.

Grant Thornton UK LLP
Registered Auditors
Chartered Accountants

Bristol
26 July 2006

Consolidated profit and loss account

for the year ended 31 March 2006

	Note	2005/6 Continuing £000	2005/6 Discontinued £000	2005/6 Total £000	2004/5 Continuing £000	2004/5 Discontinued £000	2004/5 Total £000 <small>As restated</small>
Turnover	1	40,264	955	41,219	37,551	2,156	39,707
Cost of sales		28,900	813	29,713	28,479	1,751	30,230
Gross profit		11,364	142	11,506	9,072	405	9,477
Net operating expenses							
Distribution expenses		7,194	228	7,422	7,135	467	7,602
Administration expenses		4,506	190	4,696	4,886	374	5,260
Other income		(90)	–	(90)	(122)	–	(122)
	2	11,610	418	12,028	11,899	841	12,740
Loss on ordinary activities	3	(246)	(276)	(522)	(2,827)	(436)	(3,263)
Exceptional item	4	–	(679)	(679)	–	–	–
Loss on ordinary activities before interest		(246)	(955)	(1,201)	(2,827)	(436)	(3,263)
Net interest (payable)/receivable	8			(109)			3
Other finance costs	17			(129)			(300)
Loss on ordinary activities before taxation				(1,439)			(3,560)
Tax on ordinary activities	9			–			562
Loss for the financial year				(1,439)			(2,998)
Basic and diluted loss per ordinary share	25			(6.0p)			(12.5p)

Consolidated reconciliation of movements in shareholders' funds for the year ended 31 March 2006

	2005/6 Total £000	2004/5 Total £000 <small>As restated</small>
Loss for the financial year	(1,439)	(2,998)
Actuarial gain on pension scheme	1,167	500
Net movement in shareholders' funds	(272)	(2,498)
Opening shareholders' funds	5,317	7,815
Closing shareholders' funds	5,045	5,317

* Restated following the adoption of FRS17 "Retirement Benefits" and FRS25 "Financial Instruments: Disclosure and Presentation". Originally shareholders' funds were £14,072,000 at 31 March 2005 before deducting prior year adjustments of £8,755,000 (1 April 2004: £16,570,000 before deducting prior year adjustments of £8,755,000).

Consolidated statement of total recognised gains and losses for the year ended 31 March 2006

	2005/6 Total £000	2004/5 Total £000 <small>As restated</small>
Loss for the period	(1,439)	(2,998)
Actuarial gain on pension scheme	1,167	500
Total recognised gains and losses relating to the period	(272)	(2,498)
Prior year adjustment	(8,100)	–
Total gains and losses recognised since last annual report	(8,372)	(2,498)

Balance sheets

at 31 March 2006

	Note	Group		Company	
		2006 £000	2005 £000 <small>As restated</small>	2006 £000	2005 £000 <small>As restated</small>
Assets employed					
Fixed assets					
Intangible assets	10	–	–	–	–
Tangible assets	11	9,162	9,825	14	28
Investments	12	–	–	11,901	12,137
		9,162	9,825	11,915	12,165
Current assets					
Stocks	13	3,505	4,583	–	–
Debtors	14	7,162	6,029	422	2,050
Cash at bank and in hand		26	1,506	519	–
		10,693	12,118	941	2,050
Creditors: amounts falling due within one year	15	7,191	7,753	529	562
Net current assets		3,502	4,365	412	1,488
Total assets less current liabilities		12,664	14,190	12,327	13,653
Financed by					
Creditors: amounts falling due after one year	16	717	773	655	655
Pension liability	17	6,902	8,100	6,902	8,100
Provisions for liabilities and charges	18	–	–	–	–
		7,619	8,873	7,557	8,755
Capital and reserves					
Called up share capital	19	2,389	2,389	2,389	2,389
Share premium account	20	2,348	2,348	2,348	2,348
Capital redemption reserve	20	2,345	2,345	2,345	2,345
Revaluation reserve	20	1,609	1,609	–	–
Profit and loss account	20	(3,646)	(3,374)	(2,312)	(2,184)
Total shareholders' funds		5,045	5,317	4,770	4,898
		12,664	14,190	12,327	13,653

Approved by the board on 26 July 2006 and signed on its behalf by:

S R Lyons CBE }
A Lisanti } Directors




The accounting policies on pages 18-19 and the notes on pages 20-34 form part of these accounts. The independent auditors' report on the financial statements is on pages 12-13.

Consolidated cash flow statement

for the year ended 31 March 2006

	Note	2005/6		2004/5	
		£000	£000	£000	£000
Net cash outflow from operating activities	21		(931)		(2,155)
Returns on investments and servicing of finance					
Interest (paid)/received		(18)		72	
Interest paid on finance leases and similar hire purchase contracts		(25)		(3)	
Finance charge		–		(66)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			(43)		3
Capital expenditure and financial investment					
Receipts from sales of assets		42		158	
Tangible fixed assets purchased		(182)		(384)	
			(140)		(226)
Acquisitions and disposals					
Disposal of subsidiary operation			(331)		–
Management of liquid resources					
Decrease in short term deposits with bank			–		2,000
Equity dividends paid					(479)
Net cash outflow before financing			(1,445)		(857)
Financing					
Capital element of finance lease rental payments		(101)		(41)	
Increase in borrowings		66		245	
Net cash (outflow)/inflow from financing			(35)		204
Decrease in cash			(1,480)		(653)
Analysis of cash balances					
Cash at bank and in hand	23		26	1,506	(1,480)

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 are set out below and have been consistently applied except in relation to the Group's defined benefit scheme for which the accounting requirements of FRS17 "Retirement benefits" has been applied for the first time this year. The group has also changed its accounting for preference share capital to adopt the presentation aspects of FRS25 "Financial instruments: Disclosure and Presentation".

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 on delivery when the risks and rewards of ownership pass to the customer.

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 certain 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. 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 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 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 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:

Defined Benefit Scheme

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Defined Contribution Pension Scheme

The pension costs charged against profits represent the amount of contributions payable to the scheme in respect of the accounting period.

Notes to the accounts

31 March 2006

Note

1 Segmental analysis

Continuing turnover includes turnover generated in the United Kingdom of £39.2 million (2005: £36.9 million) and export sales of £1.0 million (2005: £0.6 million). Discontinued turnover of £1.0 million (2005: £2.2 million) was generated in the United Kingdom. All profit/(loss) is generated from activities located in the United Kingdom.

2 Net operating expenses

Net operating expenses are made up as follows:

	2005/6 £000	2004/5 £000 As restated
Distribution expenses	7,422	7,602
Administration expenses	4,696	5,260
Other income	(90)	(122)
	12,028	12,740

3 Operating loss

Operating loss is stated after charging/(crediting):

Auditors' remuneration for

Audit (company £18,000; 2005: £26,000)

Tax advisory services

Other non-audit services

Depreciation of owned assets

Depreciation of leased assets

Profit on disposal of fixed assets

Rental income

Directors' emoluments excluding pension contributions

Operating lease rentals:

Land and buildings

Vehicles

37	65
32	23
5	19
695	761
12	30
(3)	(79)
(42)	(42)
454	587
41	168
592	611

4 Exceptional expenses

In 2006 exceptional operating expenses of £679,000 before tax (£679,000 after tax) are expenses relating to the write down of Peter Guild Ltd's assets on disposal.

5 Loss attributable to members of the parent company

The loss attributable to members of the parent company is £1,295,000 (2005: £2,855,000).

Notes to the accounts

31 March 2006 continued

Note

6 Disposal

On 17 October 2005 the Group sold Peter Guild Ltd for £400,000 payable in performance related instalments. The total loss on disposal does not include the performance related instalments.

	£000
Tangible fixed assets	99
Stocks	419
Debtors	303
Creditors	(198)
	623
Expenses relating to disposal	56
Total loss on disposal	(679)
Total cash consideration	–
Less: expenses relating to disposal	(56)
loan to purchaser of Peter Guild Ltd	(275)
	(331)

7 Employee information

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

	2005/6 Number	2004/5 Number
Production	473	540
Distribution	69	88
Administration	88	108
	630	736

b) Employment costs, including executive directors:

	£000	£000
Gross wages and salaries	12,073	13,708
Social security costs	1,010	1,128
Other pension costs	543	573

13,626 15,409

c) Directors' remuneration consists of:

Aggregate emoluments	454	587
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During the year retirement benefits were accruing to five directors (2005: 5) in respect of a final salary pension scheme. The highest paid director received remuneration (including salary and benefits in kind) of £182,000 (2005: £173,000). A pension of £8,000 (2005: £8,000) is paid by the company to a past director.

Included in the above are 16 employees (2005: 17) employed by Airsprung Furniture Group and the operating division Arena Design Associates.

Notes to the accounts

31 March 2006 continued

Note	2005/6 £000	2004/5 £000 As restated
8 Net interest		
Payable:		
Bank overdraft and loans	(18)	–
Finance charges on leases	(25)	(3)
Finance charge on shares classed as financial liabilities	(66)	(66)
Receivable:		
Short-term deposits	–	72
Net interest (payable)/receivable	<u>(109)</u>	<u>3</u>
9 Tax		
a) Analysis of credit in the year:		
The credit is made up as follows:		
Current tax		
UK corporation tax at 30% (2005: 30%)	–	–
Adjustments in respect of previous periods	–	–
Total current tax charge/(credit)	<u>–</u>	<u>–</u>
Deferred tax		
Current year	–	(562)
Prior year	–	–
Total deferred tax credit	<u>–</u>	<u>(562)</u>
Tax credit on profit on ordinary activities	<u>–</u>	<u>(562)</u>
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 As restated	£000 As restated
Loss before taxation	<u>(1,439)</u>	<u>(3,560)</u>
Tax at 30%	<u>(432)</u>	<u>(1,068)</u>
Expenses not deductible for tax purposes	274	224
Depreciation for period in excess of capital allowances	12	(3)
Carry forward of tax losses	146	826
Other timing differences	–	21
	<u>–</u>	<u>–</u>

Notes to the accounts

31 March 2006 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 2006/7.

10 Intangible fixed assets

Cost

at 1 April 2005
disposals

Goodwill
£000

673
(673)

at 31 March 2006

—
—
—

Aggregate amortisation

at 1 April 2005
disposals

673
(673)

at 31 March 2006

—
—
—

Net book value

at 31 March 2006

—
—
—

at 31 March 2005

—
—
—

Notes to the accounts

31 March 2006 continued

Note	Group			Company
	Freehold land and buildings £000	Plant and equipment £000	Total £000	Plant and equipment £000
11 Tangible fixed assets				
Cost or valuation (note (a))				
at 1 April 2005	8,411	11,876	20,287	190
additions	–	182	182	1
disposals	–	(718)	(718)	–
at 31 March 2006	8,411	11,340	19,751	191
Depreciation				
at 1 April 2005	1,081	9,381	10,462	162
provision for year	158	549	707	15
relating to disposals	–	(580)	(580)	–
at 31 March 2006	1,239	9,350	10,589	177
Net book value				
at 31 March 2006	7,172	1,990	9,162	14
at 31 March 2005	7,330	2,495	9,825	28

a) At 31 March 2006 the net book value of plant and equipment includes £294,000 (2005: £287,000) 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 by Alder King in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors.

Had freehold property not been revalued, the total historic cost would have been £8,019,000 (2005: £8,019,000) and aggregate depreciation based on historic cost would have been £2,456,000 (2005: £2,298,000). Additions since 1 April 1997 are included at cost. Freehold land at a valuation of £2,255,000 is not depreciated.

	2006 £000	2005 £000
Analysis of land and buildings at cost and valuation		
at cost	3,466	3,466
at valuation	4,945	4,945
	8,411	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 2006 continued

Note	2006 £000	2005 £000
12 Investments		
Shares in Group companies at 1 April	978	1,043
Write off	–	(65)
	978	978
Loans to Group companies	27	27
Intercompany balances transferred in Group companies	14,782	15,519
Provision	(3,886)	(4,387)
	11,901	12,137

During the year the company had the following principal trading subsidiaries:

Name

Name	Percentage of issued ordinary shares held
1 Airsprung Furniture Ltd	100
2 Peter Guild Ltd - sold 17 October 2005	100
3 Airsprung Property Ltd	100

All of the above companies are incorporated in Great Britain. Airsprung Furniture Ltd is engaged in the manufacture and sale of furniture. Airsprung Property Ltd managed the company's property portfolio.

	2006 £000	2005 £000
13 Stocks		
Raw materials	1,970	2,943
Work-in-progress	399	380
Finished goods	1,136	1,260
	3,505	4,583

Notes to the accounts

31 March 2006 continued

Note	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
14 Debtors				
Trade debtors	5,958	4,810	10	21
Amounts due from Group companies	–	–	–	1,970
Other debtors	275	182	275	7
Prepayments and accrued income	929	1,037	137	52
	7,162	6,029	422	2,050
15 Creditors: amounts falling due within one year				
Bank loans and overdraft	–	–	–	144
Obligations under finance leases	107	86	–	–
Trade creditors	4,537	5,431	–	–
Other tax and social security	995	672	21	67
Accruals and deferred income	1,552	1,564	508	351
	7,191	7,753	529	562
16 Creditors: amounts falling due after one year				
Obligations under finance leases		As restated		As restated
due: between 1 and 2 years	51	89	–	–
between 2 and 5 years	11	29	–	–
Shares classed as financial liabilities.	655	655	655	655
	717	773	655	655

The holders of the preference shares are entitled to receive notice of and to attend all general meetings of the company. The preference shares 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.

Notes to the accounts

31 March 2006 continued

Note

17 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 act as investment manager to the Trustees of the scheme. The latest actuarial valuation of the scheme was carried out as at 1 April 2005. 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:

Pre-retirement discount rate	6.7%
Post-retirement discount rate	5.7%
Average salary growth	3.6%
Pension increases	2.9%

The value of the liabilities of £20.4 million exceeds the market value of the assets of £14.8 million, which on an ongoing basis means that the funding level is 72.5%. 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 94.5%.

The pension charge for the year to 31 March 2006 was £543,000 (2005: £557,000). Employer contribution rates varied from 7.9% to 11.2%.

The next actuarial valuation is due as at 1 April 2008.

To produce these statements, the full valuation of the Airsprung Retirement and Death Benefits Plan as at 1 April 2005 was updated to 31 March 2006 by the Actuary.

The major assumptions used by the Actuary were:

	At 31 March 2006 %	At 31 March 2005 %	At 31 March 2004 %
Rate of increase in pensionable salaries (Salaried staff members)	3.00	3.80	3.60
(Hourly paid members)	3.00	3.30	3.20
Rate of increase in pensions in payment	2.80	2.80	2.80
Discount rate	5.15	5.30	5.50
Inflation	3.00	2.90	2.90

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

	Long term rate of return expected at 31.03.06 %	Value at 31.03.06 £m	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
Equities	6.8	16.9	7.7	12.9	7.7	11.2
Gilts	5.0	1.1	4.7	1.2	4.7	1.5
Annuity policy	5.0	0.4	5.3	0.4	–	–
Cash	4.0	1.2	4.0	0.7	4.0	0.3
	6.5	19.6	7.3	15.2	7.3	13.0

Notes to the accounts

31 March 2006 continued

Note	At 31 March 2006 £000	At 31 March 2005 £000	At 31 March 2004 £000	At 31 March 2003 £000
17 Pensions continued				
The following amounts were measured in accordance with the requirements of FRS17:				
Total market value of assets	19,598	15,200	13,000	10,076
Present value of scheme liabilities	(26,500)	(23,300)	(21,100)	(19,984)
Deficit in scheme	(6,902)	(8,100)	(8,100)	(9,908)
Total funds as a result of recognition in the financial statements are:				
Net assets				
Total funds excluding pension deficit	11,947	13,417	15,915	19,322
Pension deficit	(6,902)	(8,100)	(8,100)	(9,908)
Related deferred tax asset	–	–	2,430	2,972
Total funds including pension deficit	5,045	5,317	10,245	12,386
Reserves				
Profit and loss reserve excluding pension deficit	3,256	4,726	7,224	10,623
Pension deficit	(6,902)	(8,100)	(8,100)	(9,908)
Related deferred tax asset	–	–	2,430	2,972
Profit and loss reserve including pension deficit	(3,646)	(3,374)	1,554	3,687

The deferred tax asset of £2,071,000 in respect of the FRS17 pension deficit is unrecognised.

Charge to the financial statements:

	2006 £000	2005 £000	2004 £000
Operating charge:			
Current service cost	(383)	(800)	(992)
Gains and losses on any settlements or curtailments	–	–	–
	(383)	(800)	(992)
Pension finance costs:			
Expected return on pension scheme assets	1,107	900	700
Interest on pension scheme liabilities	(1,236)	(1,200)	(1,100)
Total charge:	(129)	(300)	(400)

Notes to the accounts

31 March 2006 continued

Note	2006 £000	2005 £000	2004 £000
17 Pensions continued			
Gains and losses for the year ended 31 March 2006			
Difference between the expected and actual return on scheme assets			
Amount	3,077	900	1,600
Percentage of scheme assets	15.7%	5.9%	12.4%
Experience gains and losses on scheme liabilities			
Amount	499	500	1,700
Percentage of the present value of the scheme liabilities	1.9%	2.1%	8.1%
Effect of change in assumptions underlying the present value of scheme liabilities			
Amount	(2,409)	(900)	(900)
Percentage of the present value of the scheme liabilities	(9.1%)	(3.9%)	(4.3%)
Total amount recognised in the statement of total recognised gains and losses	1,167	500	2,400
Percentage of scheme liabilities	4.4%	2.2%	11.4%
Movements in the actuarial deficit during the year			
Deficit in the scheme at the beginning of the year	(8,100)	(8,100)	(9,908)
Movements in the year			
Current service costs	(383)	(800)	(992)
Contributions	543	600	800
Other financial costs	(129)	(300)	(400)
Actuarial gain	1,167	500	2,400
	(6,902)	(8,100)	(8,100)

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 £12,000 (2005: £16,000).

Notes to the accounts

31 March 2006 continued

Note	Group			
	2005/6 £000		2004/5 £000	
18 Provisions for liabilities and charges – deferred tax				
Fixed asset timing differences	745		769	
Other	(745)		(769)	
	–		–	
	Group		Company	
	2005/6 £000	2004/5 £000	2005/6 £000	2004/5 £000
at 1 April	–	562	–	–
transfer to profit and loss account	–	(562)	–	–
at 31 March	–	–	–	–

There is an additional unrecognised deferred tax asset in respect of trading losses of £1,442,000 (2005: £1,340,000)

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
19 Called up share capital				
Ordinary shares of 10p each				
at 1 April 2005 and 31 March 2006	30,000,000	3,000	23,888,698	2,389
Cumulative 10% preference shares of £1 each (redeemable at par in 2008)				
at 1 April 2005 and 31 March 2006 (see note 16)	654,499	655	654,599	655
20 Share premium account and reserves	Share premium account £000	Capital redemption reserve £000	Revaluation reserve £000	Profit & Loss account £000 <small>As restated</small>
Group				
at 1 April 2005	2,348	2,345	1,609	4,726
Prior year adjustment	–	–	–	(8,100)
1 April 2005 restated	2,348	2,345	1,609	(3,374)
Loss for the year	–	–	–	(272)
at 31 March 2006	2,348	2,345	1,609	(3,646)
Company				
at 1 April 2005	2,348	2,345	–	5,916
Prior year adjustment	–	–	–	(8,100)
1 April 2005 restated	2,348	2,345	–	(2,184)
Loss for the year	–	–	–	(128)
at 31 March 2006	2,348	2,345	–	(2,312)

The cumulative amount of goodwill written off to the profit and loss account is £4,114,000 (2005: £4,114,000).

Notes to the accounts

31 March 2006 continued

Note	2005/6 Total £000	2004/5 Total £000
21 Reconciliation of operating loss to net cash outflow from operating activities		
Continuing activities		
Operating loss	(246)	(2,827)
Depreciation of tangible fixed assets	695	764
Profit on sales of tangible fixed assets	(3)	(79)
Decrease/(increase) in stocks	677	(1,271)
(Increase)/decrease in debtors	(1,270)	660
(Decrease)/increase in creditors	(244)	797
Difference between pension charge and cash contributions	(160)	200
Net cash outflow from operating activities	(551)	(1,756)
Discontinued activities		
Operating loss	(276)	(436)
Depreciation of tangible fixed assets	12	27
(Increase)/decrease in stocks	(18)	15
Decrease in debtors	109	30
Decrease in creditors	(207)	(35)
Net cash outflow from discontinued activities	(380)	(399)
Net cash outflow from operating activities	(931)	(2,155)

22 Reconciliation of net cash flow to movement in net funds

Decrease in cash in the year	(1,480)	(653)
Cash outflow from decrease/(increase) in debt	35	(204)
Movement in short term deposits	–	(2,000)
Movement in net funds in year	(1,445)	(2,857)
Net funds at 1 April	1,302	4,159
Net funds at 31 March	(143)	1,302

23 Analysis of net funds

	At 1 April 2005 £000	Cash flow £000	At 31 March 2006 £000
Cash	1,506	(1,480)	26
Finance lease	(204)	35	(169)
	1,302	(1,445)	(143)

Notes to the accounts

31 March 2006 continued

Note	Group		Company	
	2006 £000	2005 £000	2006 £000	2005 £000
24 Commitments under operating leases				
The Group had annual commitments under operating leases as follows:				
property:				
expiring within 1 year	–	75	–	–
expiring in years 2 to 5	–	–	–	–
expiring after 5 years	–	75	–	–
	<u>–</u>	<u>150</u>	<u>–</u>	<u>–</u>
vehicles:				
expiring within 1 year	136	54	1	1
expiring in years 2 to 5	314	450	15	8
	<u>450</u>	<u>504</u>	<u>16</u>	<u>9</u>
			2005/6 £000	2004/5 £000 As restated

25 Loss per share

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

Loss for the financial year

(1,439) (2,998)

Weighted average of ordinary shares in issue during the year

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 2006 continued

Note	2006 Total £000	2005 Total £000
26 Capital commitments		
Expenditure contracted but not provided for	–	68

27 Financial instruments

The Group's financial instruments comprise borrowings, cash and various items 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, foreign currency risk and credit 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. In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references. Credit limits are reviewed by the credit controller on a regular basis in conjunction with debt ageing and collection history.

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

a) Cash at bank and in hand

	2006 £000	2005 £000
Cash at bank and in hand	26	1,506
Cash at bank and in hand is held in sterling and earns interest at 0.75% (2005: 0.75%) 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	2006 Total £000	Debt £000	Finance leases £000	2005 Total £000
Within one year, or on demand	–	107	107	–	86	86
Between 1 and 5 years	655	62	717	655	118	773
	655	169	824	655	204	859

Debt due between 1 and 5 years represents £655,000 (2005: £655,000) in respect of the company's preference shares. The Group has an undrawn overdraft facility available at 31 March 2006 of £2 million secured on the Group's property which is reviewed annually in June. 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 2006 continued

Note

27 Financial instruments continued

b) Maturity of financial liabilities continued

The interest profile is given below:

Fixed rate liabilities	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Total £000
Financial liabilities	5.0	2.3	169
Preference shares	10.0	2.4	655
At 31 March 2006		2.4	824
Financial liabilities	3.3	2.3	204
Preference shares	10.0	3.4	655
At 31 March 2005		3.1	859

c) Fair values

The fair values of cash at bank and in hand and borrowings at 31 March 2006 are approximate to the book value at that date. The fair value of the preference shares at 31 March 2006 approximates to £752,000 (2005: £747,000). 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 Related party disclosures

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

Trading activities

Activity	Trading name
Beds	Airsprung Beds The Windsor Bed Company Hush Sleep Collection
Upholstery/sofa beds	Benchmark Cavendish Upholstery CD Collection Gainsborough
Foam conversion	Airofreem
Design services	Arena Design Associates

Three year summary

	2006 £000	2005 £000 As restated	2004 £000 As restated
Consolidated profit and loss account			
Turnover	41,219	39,707	49,048
Loss before exceptionals and taxation	(760)	(3,560)	(2,517)
Exceptional items	(679)	–	(2,286)
Loss before taxation	(1,439)	(3,560)	(4,803)
Taxation credit	–	562	617
Dividends	–	–	(836)
	(1,439)	(2,998)	(5,022)
EBITDA*	56	(2,772)	(1,380)
Loss per ordinary share	(6.0p)	(12.5p)	(21.0p)
Dividend per ordinary share	–	–	3.5p

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

Notice of meeting

Notice is hereby given that the Annual General Meeting of the company will be held at the Registered Office, Canal Road, Trowbridge, Wiltshire, on 14 September 2006 at 12.30pm at which the following resolutions will be proposed, resolutions 1 to 3 as Ordinary Resolutions and resolution 4 as a Special Resolution.

Ordinary Business

- 1 To receive the report of the directors together with the accounts for the year ended 31 March 2006 and the report of the auditors thereon.
- 2 To elect S R Lyons CBE a director.
- 3 To appoint Grant Thornton UK LLP as auditors to hold office from the conclusion of the Meeting and to authorise the directors to fix their remuneration.
- 4 That;
 - a) the directors be and they are hereby generally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all powers of the company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £50,000, to such persons at such times and on such terms as they think proper, such authority to expire at the conclusion of the next Annual General Meeting of the company save that the company may before such expiry make an offer or enter into an agreement which would or might require relevant securities to be allotted after such expiry;
 - b) during the period between the date of the passing of this resolution and the conclusion of the next Annual General Meeting of the company, the directors be and are hereby given power pursuant to Section 95(1) of the Act to allot equity securities (as defined in Section 94 of the Act) wholly for cash pursuant to the authority conferred by paragraph (a) above, as if Section 89(1) of the Act did not apply to such allotment, within the overall limit laid down in paragraph (a) of this resolution.

Canal Road
Trowbridge
Wiltshire
BA14 8RQ
Registered No 1277785



By order of the Board
T E Dallaway, Secretary
14 August 2006

Notes

All members who hold ordinary shares, or preference shares in respect of which a preference dividend has not been paid on a due date are entitled to attend and vote at the meeting. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of the member. A proxy need not be a member of the company. A form of proxy for the use of shareholders is enclosed with this report. If you do not intend being present at the meeting please sign it and return it so as to reach the company's registrar at least 48 hours before the meeting. The return by a member of a duly completed form of proxy will not preclude any such member from attending in person and voting at the meeting.

The following documents are available for inspection by members at the Registered Office during normal business hours prior to and during the Annual General Meeting:

Register of directors' shareholdings
Contracts of service of the directors.

Explanation of resolution 4: authority to allot shares

Under Section 80, Companies Act 1985 the directors may only issue shares if they are authorised to do so. In addition, under Section 89, Companies Act 1985, the directors may only issue shares to existing shareholders in proportion to their existing holdings, unless the shareholders otherwise agree by special resolution.

Resolution 4 authorises the directors to:

- a) issue shares up to a nominal value of £50,000, (approximately 2.1% of the company's current issued share capital);
- and
- b) issue shares up to a nominal amount of £50,000 (approximately 2.1% of the company's current issued share capital) without first offering them to existing shareholders in accordance with Section 89(1) of the Companies Act 1985.

There are no current plans to allot shares and these authorities will end at the company's next Annual General Meeting.