



*airsprung* furniture  
GROUP PLC

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Annual Report and Accounts 2008



Cavendish Upholstery – Boutique Collection



Airsprung Beds – Ortho Pocket 1200

# Contents

4	Financial review
5-6	Chairman's statement
7	Directors and Advisers

## GROUP FINANCIAL STATEMENTS

9-14	Directors' report
15-16	Independent Auditors' report to the members of Airsprung Furniture Group PLC
17	Consolidated income statement
18	Consolidated balance sheet
19	Consolidated cash flow statement
20	Consolidated statement of recognised income and expense
21-40	Notes to the Group financial statements

## COMPANY FINANCIAL STATEMENTS

42	Company balance sheet
43-53	Notes to the company financial statements
54	Trading activities
54	Three year summary
55-56	Notice of meeting

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

If you have sold or otherwise transferred all of your shares in Airsprung Furniture Group PLC, please send this document and the accompanying form of proxy, at once to the purchaser or transferee of those shares or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

**This document should be read in full.**

Notice of the Annual General Meeting (AGM) which is to be held at 12.30pm on 18 September 2008 at Canal Road, Trowbridge, Wiltshire is enclosed with this document. Shareholders will also find enclosed a form of proxy for use in connection with the AGM. If they intend to appoint a proxy, shareholders are requested to complete, sign and return it as soon as possible in accordance with the instructions printed on it but, in any event, so as to be received at the offices of the Company's registrars at Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, or by hand during normal business hours, no later than 12.30pm on 16 September 2008. Completion and return of a proxy form will not preclude shareholders from attending and voting at the AGM in person.

## Financial review

	12 months to 31.03.08 £000	12 months to 31.03.07 £000
Sales revenue	49,920	45,252
Profit before tax	1,464	847
Cash and cash equivalents	1,672	1,986
Earnings per share – basic	6.0p	6.1p
Earnings per share – diluted	5.6p	5.8p

# Chairman's statement

## Results

Profit before tax on ordinary activities for the year ended 31 March 2008 rose to £1.464 million compared with the previous year's £847,000. Profit after tax attributable to equity holders reflected a tax charge of £42,000, compared with the prior year's partial release of deferred taxation. Shareholders' equity increased to £11.4 million from £7.2 million one year earlier.

Group turnover rose to £49.9 million against the previous year's £45.3 million, the second consecutive annual increase of more than 10%. Although gross margins fell by one percentage point to 28.5% of sales, operating profit before financing increased to £1.52 million compared with £991,000. Operating profit before finance and adjustments relating to the pension scheme rose to £1.07 million compared to the previous year's £853,000, an increase of 25%. Net cash at the year-end stood at £1.67 million against £1.99 million.

Shortly before the year-end, the Group announced it would be resuming interest payments to holders of its 655,000 cumulative 10% preference shares.

## Operating review

Airsprung Beds, the Group's largest business by volume, had another credible performance in challenging market conditions. Sales rose strongly for the second successive year in spite of intense price competition in the marketplace. Trading margins came under further pressure as the business had to contend with sharp increases in the prices of steel, foam and diesel fuel, which it was initially unable to pass on to customers. Nevertheless, the continuing sales growth and improved manufacturing, distribution and buying efficiencies brought about a further rise in operating profits for the year.

Over recent years, the Group has made significant progress in outsourcing from overseas, which has helped contain prices and maintain competitiveness, but lead times for such programmes are longer, giving rise to greater pressure on working capital. Group inventories rose over the year to £4.3 million compared with the prior year's £3.5 million, reflecting this factor and the increased sales level.

After Gainsborough's strong performance the previous year, when it was fulfilling start-up orders for a major department store group, this division just failed to maintain its sales, and operating profits fell slightly. The business is continuing to invest in innovative products and a new range of foam-based mattresses was well received by the trade towards the year-end.

Cavendish Upholstery, based in Chorley, had a poor year. This business supplies independent furniture retailers, a sector which has found itself under increasing pressures in the marketplace. The division suffered an operating loss in deteriorating market conditions. Towards the end of the year, Cavendish won floor space for a new designer range of upholstered furniture with a national department store group, but this came too late in the year to have a material effect on profitability.

Airofreem, the Group's foam conversion business, again produced a good result, due to the high volumes going through Group businesses and growing demand from external customers. The division invested in a new computerised cutting system which is now operational, and will provide greater flexibility and lower unit costs.

In order to improve the return on the Chorley site, a new foam processing facility has been established there to make more productive use of space and provide competitively priced foam components for the Cavendish business. Airsprung Beds also took over part of the same facility to provide forward assembly of mattresses at a reduced distribution cost. These initiatives are now operational.

Arena Design Associates, which supplies high quality graphic design and marketing support services to both Group businesses and external companies, made an improved contribution to group profits.

# Chairman's statement

continued

## Property

The Group's application for outline planning consent for the 2.9 hectare Brick Lane Business Park was successful. A raw materials store is now available for external letting and some enquiries have been received. However, in view of the current weakness in the industrial property market, no further expenditure has been authorised on any refurbishment or building works on the site.

## Pension scheme

During the year, the Group discussed with the Trustees of the Airsprung Retirement and Death Benefits Plan various changes in management and investment policy, which were then implemented. The actuarial deficit fell at the end of the year to £2.9 million from the previous year's £6.2 million, partly due to the favourable impact of corporate bond rates. Some of these improvements are purely technical and may be reversed in later periods. Nevertheless, the general progress in reducing the deficit is encouraging.

## Directors and staff

I would like to express my thanks and that of the board to Tony Lisanti, Chief Executive, and Tean Dallaway, Finance Director, for leading the management teams to another positive result, and to the executives and staff who have contributed with energy and commitment to the year's outturn. I would also like to thank our two non-executive directors John Newman and Stephen Yates for their helpful and wise advice during the year.

## Outlook

During the past three months, there has been a serious deterioration in the market sectors in which the Group is involved. The negative impacts of the sub-prime mortgage crisis and the subsequent credit squeeze have led to a fall in consumer spending and marked weakness in the residential property market, both of which affect the sales of beds, mattresses and furniture. Meanwhile, the prices of raw materials and fuel have increased sharply. Price rises announced over the period include cumulative increases for steel of 80%, petrochemical-derived foam of 25% and diesel fuel of 25%. It is essential for the stability of the manufacturing industry on which they depend that major retailers recognise commodity prices on this scale cannot be absorbed by their suppliers and must be reflected in their own pricing to consumers.

Group sales for the first quarter will be significantly down on 2008, with falls in volumes and average selling prices. Sales and profits for the first half-year are likely to be well down on the previous year's comparable period. For the year as a whole, sales will be dependent on the restoration of disposable incomes, consumer confidence and housing activity. Every effort is being made by our management teams to secure price increases, but gross margins will remain under pressure.

The Group's restructuring over recent years has given it greater flexibility and improved control over operational efficiencies. This has enabled it to respond to current market pressures by reducing controllable costs. The board believes the present difficulties will be temporary and that the Group will emerge from them satisfactorily, but there are no grounds for believing the current year's trading results will match the progress of the recent past.



Stuart Lyons CBE

# Directors and Advisers

## Directors

Stuart Lyons CBE  
Tony Lisanti  
Teian Dallaway  
John Newman  
Stephen Yates

Chairman  
Chief Executive  
Finance Director  
Non-executive Director  
Non-executive Director

## Registered Auditors

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

## Secretary

Teian Dallaway

## Registered Office

Canal Road  
Trowbridge  
Wiltshire  
BA14 8RQ

## Bankers

The Royal Bank of Scotland  
3 Temple Back East  
Bristol  
BS1 6DZ

## Registrars

Capita Registrars Ltd  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield  
HD8 0LA

## Stockbrokers

Blue Oar Securities Plc  
Colston Tower  
Colston Street  
Bristol  
BS1 4RD



Directors' report	9-14
Independent Auditors' report	15-16
Consolidated income statement	17
Consolidated balance sheet	18
Consolidated cash flow statement	19
Consolidated statement of recognised income and expense	20
Notes to the Group financial statements	21-40

# GROUP FINANCIAL STATEMENTS

# Directors' report

The directors submit their report together with the audited accounts for the year ended 31 March 2008.

## Profits and dividends

The consolidated income statement account on page 17 shows a profit before taxation of £1,464,000 (2007: £847,000).

The directors do not recommend the payment of a dividend (2007: Nil). A retained profit of £4,236,000 (2007: £2,116,000) has been transferred to reserves (see page 20).

## Activities

The principal activity of the Group is the supply of manufactured and imported furniture to retailers. 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 in the Chairman's statement. The directors consider the key performance indicators for the Group to be gross and net margins and cash generation.

## Directors and their interests

The directors of the company at 31 March 2008, all of whom served throughout the year were:

	Ordinary shares of 10p each		
	15 August 2008	31 March 2008	1 April 2007
S R Lyons CBE	1,500,000	1,110,000	1,110,000
A Lisanti	3,500,000	3,500,000	3,500,000
T E Dallaway	170,700	120,700	100,700
J D Newman	100,000	100,000	100,000
S G W Yates	977,658	977,658	1,977,658

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 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 Lisanti and S G W Yates will retire at the Annual General Meeting and being eligible offer themselves for re-election.

# Directors' report

continued

## Corporate governance

### Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Insofar as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware;
- 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.

To the best of the directors' knowledge:

- the financial statements include a fair review of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Chairman's statement includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Board responsibilities

# Directors' report

continued

The board of directors meets regularly throughout the year. S R Lyons (Chairman) 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.

## 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 two non-executive directors, S R Lyons and J D Newman. No director takes part in any discussion about his own remuneration;

the audit committee, consisting of S R Lyons, J D Newman and S G W Yates (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 two non-executive directors and one executive director: 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 a 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:

# Directors' report

continued

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 of 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.

## 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				Exercise price	Date from which exercisable	Date options expire
	At 01.04.07	Granted in the year	Cancelled in the year	At 31.03.08			
T E Dallaway	10,000	—	—	10,000	15.5p	06.07.08	06.07.12
	50,000	—	—	50,000	26.0p	29.07.08	29.07.12
	—	100,000	—	100,000	38.5p	26.07.10	26.07.14
A Lisanti	400,000	—	—	400,000	15.5p	06.07.08	06.07.12
	600,000	—	—	600,000	26.0p	29.07.08	29.07.12

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.

# Directors' report

continued

The market price of the company's ordinary shares at the end of the financial year was 40.5p and the range of market prices during the year was between 35.0p and 63.0p.

## 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 60 days (2007: 71 days).

## 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 health, safety and the 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 £300 (2007: £600).

## 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 15 August 2008:

	Number of ordinary shares	%
Redbird Holdings SA	7,156,000	29.9
J P Yates	1,993,262	8.3
Schroder Investment Management Limited	1,879,778	7.9
High Street Investors LP	1,030,000	4.3

## 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 24 of the financial statements. This includes details of the Group's exposure to interest rate and currency risk.

# Directors' report

continued

## Stock market

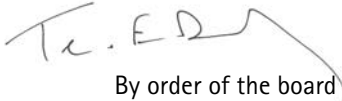
The company's ordinary shares are listed on the Alternative Investment Market.

## Auditors

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

Trowbridge

15 August 2008



By order of the board

T E Dallaway, Finance Director and Secretary

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

We have audited the group and parent company financial statements (the 'financial statements') of Airsprung Furniture Group PLC for the year ended 31 March 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the consolidated notes 1 to 26 and the parent company notes 1 to 14. These group and company 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 auditor's 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 group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and for preparing the parent company 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 and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Chairman's statement that is cross referred from the business review section of the directors' report.

In addition we 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. The 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 judgements 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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 March 2008 and of its profit for the year then ended;

the Group financial statements have been properly prepared in accordance with the Companies Act 1985;

the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2008;

the parent company financial statements have been properly prepared in accordance with the Companies Act 1985;

the information given in the directors' report is consistent with the financial statements.

Grant Thornton UK LLP  
Registered Auditors  
Chartered Accountants

Bristol  
15 August 2008

# Consolidated income statement

for the year ended 31 March 2008

	Notes	12 months to 31.03.08 £000	12 months to 31.03.07 £000
Revenue	3	49,920	45,252
Cost of sales		(35,705)	(31,912)
<b>Gross profit</b>		<b>14,215</b>	13,340
Operating costs	4	(13,145)	(12,487)
IAS 19 pension movement	15	450	138
Operating profit before financing		1,520	991
Finance income	7	18	36
Finance costs	7	(74)	(180)
<b>Profit before tax</b>		<b>1,464</b>	847
Income tax	8	(42)	620
<b>Profit attributable to equity holders of the parent</b>		<b>1,422</b>	1,467
Basic earnings per share	22	6.0p	6.1p
Diluted earnings per share	22	5.6p	5.8p

All the above figures relate to continuing operations.

# Consolidated balance sheet

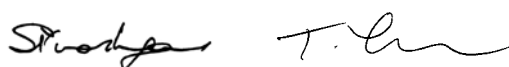
at 31 March 2008

	Notes	31.03.08 £000	31.03.07 £000
Property, plant and equipment	9	8,754	8,689
Deferred tax	16	578	620
<b>Total non-current assets</b>		<b>9,332</b>	9,309
Inventories	10	4,349	3,507
Trade and other receivables	11	7,723	7,916
Cash and cash equivalents	20	1,672	1,986
<b>Total current assets</b>		<b>13,744</b>	13,409
<b>Total assets</b>		<b>23,076</b>	22,718
Called up share capital	17	2,389	2,389
Share premium account	18	2,348	2,348
Reserves	18	2,399	2,380
Retained earnings	18	4,301	65
<b>Total equity</b>		<b>11,437</b>	7,182
Obligations under finance leases	13	145	22
Shares classed as financial liabilities	14	—	655
Pension scheme deficit	15	2,927	6,207
<b>Total non-current liabilities</b>		<b>3,072</b>	6,884
Trade and other payables	12	7,912	8,652
Shares classed as financial liabilities	17	655	—
<b>Total current liabilities</b>		<b>8,567</b>	8,652
<b>Total liabilities</b>		<b>11,639</b>	15,536
<b>Total equity and liabilities</b>		<b>23,076</b>	22,718

Approved by the board on 15 August 2008 and signed on its behalf by:

S R Lyons CBE  
A Lisanti

} Directors



The accounting policies on pages 21 to 25 and the notes on pages 26 to 40 form part of these accounts.

The independent auditors' report on the financial statements is on pages 15 to 16.

# Consolidated cash flow statement

for the year ended 31 March 2008

	Notes	2007/2008 £000	2006/2007 £000
<b>Profit before tax</b>		<b>1,464</b>	847
<i>Adjustments for:</i>			
Depreciation		542	643
Interest expense		56	144
Contributions to defined benefit pension scheme		(450)	(138)
Charge for share based payments		19	21
Profit on sale of tangible fixed assets		–	(4)
<b>Operating cash flows before movements in working capital</b>		<b>1,631</b>	1,513
(Increase) in inventories		(842)	(2)
Decrease/(increase) in receivables		193	(866)
(Decrease)/increase in payables		(599)	1,451
<b>Cash generated from operations</b>		<b>383</b>	2,096
Non-equity dividends and appropriations paid		(198)	–
Interest paid		(8)	(22)
<b>Net cash from operating activities</b>		<b>177</b>	2,074
<b>Investing activities</b>			
Interest received		2	36
Proceeds on disposal of property, plant and equipment		–	7
Purchase of property, plant and equipment		(607)	(173)
Repayment of loan		–	112
<b>Net cash (outflow) from investing activities</b>		<b>(605)</b>	(18)
<b>Financing activities</b>			
Increase in borrowing		197	–
Payment of finance lease liabilities		(83)	(96)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>114</b>	(96)
Net (decrease)/increase in cash and cash equivalents		(314)	1,960
Cash and cash equivalents at beginning of period		1,986	26
<b>Cash and cash equivalents at end of period</b>	20	<b>1,672</b>	1,986

# Consolidated statement of recognised income and expense

for the year ended 31 March 2008

	Notes	2007/2008 £000	2006/2007 £000
Profit for the period		1,422	1,467
Actuarial gain on defined benefit pension scheme	15	2,814	649
<b>Total recognised income and expense for the period</b>	<b>18</b>	<b>4,236</b>	<b>2,116</b>

# Notes to the Group financial statements

31 March 2008

## 1 Basis of preparation

- 1.1 Prior to 31 March 2007 the Group prepared its audited financial statements under UK GAAP. For the year ending 31 March 2008 the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and also in accordance with the IFRSs as issued by the International Accounts Standards Board.

These consolidated financial statements have been prepared in accordance with the accounting policies set out below, taking into account the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards'. The transition date for the Group's application of IFRS is 1 April 2006 and the comparative figures for 31 March 2007 have been restated accordingly. There are no material changes to profit, total assets, total equity or total liabilities as a result of a transition from UK GAAP to IFRS.

The financial statements have been prepared on the historic cost basis, except that derivative financial instruments are stated at their fair value.

## 1.2 Transition to IFRS

The board have closely reviewed the financial statements and do not believe there to be any effect on the income statement or balance sheet items from the point of transition (1 April 2006) to the balance sheet date of the transition to International Financial Reporting Standards. The board have identified two areas where the treatment under IFRS will be different to the policy previously employed:

freehold land and buildings were held at a 1997 valuation under the transitional provisions of FRS 15 'Tangible fixed assets'. This revalued amount has been deemed to be the cost under the transitional provisions of IFRS 1. As a result there has been no adjustment to the carrying value of the amount previously reported under FRS 15 'Tangible fixed assets'. The revaluation reserve has been transferred to the profit and loss reserve.

the Group uses foreign currency swaps to manage its foreign currency exposure. These instruments should be recognised at fair value under International Accounting Standard IAS 39. There were no instruments in effect at the transition date, or at 31 March 2007. At 31 March 2008 the fair value of these swaps was £13,000. This was considered immaterial by the directors and has not been reflected in the financial statements.

## 2 Accounting policies

### 2.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Airsprung Furniture Group PLC and its subsidiaries.

The Group has elected not to apply IFRS 3 'Business combinations' retrospectively to business combinations prior to the date of transition.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement.

### 2.2 Revenue recognition

Revenue is measured as the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, allowances and value added tax.

Sales of goods and services are recognised on delivery when the risks and rewards of ownership pass to the customer.

# Notes to the Group financial statements

31 March 2008 continued

## 2.3 Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional and presentational currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

## 2.4 Pension costs

The defined benefit scheme previously operated by the Group closed to future accrual on 31 May 2006. For this scheme 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 income statement 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.

Actuarial gains and losses are recognised immediately in the statement of recognised income and expense.

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 is presented separately on the face of the balance sheet.

## 2.5 Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management evaluates positions taken in the tax returns with respect to situations in which the applicable tax regulation is subject to interpretation, and established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred corporation tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in respect of all temporary differences except where the deferred tax liability arises from the initial recognition of goodwill in business combinations.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and tax losses, to the extent that they are regarded as recoverable. They are regarded as recoverable where, on the basis of available evidence, there will be suitable taxable profits against which the future reversal of the underlying temporary differences can be deducted. The carrying value of the amount of deferred tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the tax asset to be utilised. Deferred tax liabilities are recognised in full without discounting.

Deferred corporation tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been substantively enacted at the balance sheet date.

# Notes to the Group financial statements

31 March 2008 continued

## 2.6 Property, plant and equipment

Property, plant and equipment are held at cost or deemed cost (see note 1.2), net of depreciation less any provision for impairment. Depreciation is provided by the straight line method at rates calculated to write off the cost of the assets, other than freehold land, less their estimated residual value over their expected useful lives:

Freehold land	Nil
Freehold buildings	2½ % per annum
Plant and vehicles	10 % to 20 % per annum
Computer equipment	33⅓ % per annum

## 2.7 Impairment of non current assets

At each balance sheet date, the Group reviews the carrying amounts of its non current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost on a first-in, first-out basis comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

## 2.9 Trade receivables

Trade receivables arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. Trade receivables are initially recorded at invoiced value and subsequently remeasured at invoiced value, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

## 2.10 Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at

# Notes to the Group financial statements

31 March 2008 continued

the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

## 2.11 Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The Group uses foreign exchange forward contracts to minimise this exposure. The fair value of the outstanding forward contracts at 31 March 2008 was not considered material to the accounts. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. Amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

## 2.12 Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based payment'. In accordance with the transitional provisions, IFRS 2 has been applied to grants of equity instruments after 7 November 2002 that were unvested at 1 April 2006.

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the income statement on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. This estimate is reviewed annually. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

## 2.13 Segmental reporting

Activities are allocated to one business segment being the supply to retailers of furniture. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns which are different from those segments operating in other economic environments.

# Notes to the Group financial statements

31 March 2008 continued

## 2.14 New Standards and interpretations not yet applied

A number of new EU adopted Standards, amendments to Standards and interpretations are not yet effective for the year ended 31 March 2008 and have not been applied in preparing these financial statements.

IAS 1 'Presentation of financial statements (Revised 2007)' will result in changes to the presentation of the Group's financial statements for the year ended 31 March 2010 as the format currently adopted for the Statement of Recognised Income and Expense will no longer be permitted. Instead the Group will present a Statement of Comprehensive Income combining the existing income statement with other income and expenses currently presented as part of the Statement of Recognised Income and Expense.

IFRS 8 'Operating segments' introduces the "management approach" to segment reporting and will be effective for the Group's financial statements for the year ended 31 March 2010. The board is currently assessing the impact of IFRS 8 on the segmental disclosure employed in the business.

IAS 23 'Borrowing costs' generally requires the immediate expensing of borrowing costs. IAS 23 (Revised) will become mandatory for the Group's 31 March 2010 financial statements and is not expected to further impact the Group's financial statements.

## 2.15 Judgements and estimates

The key areas that require management to make difficult, subjective or complex judgements and estimates about matters that are inherently uncertain are:

- the assumptions used to calculate the defined benefit deficit (see note 15);

- the recognition of a deferred tax asset (see note 16).

Management bases its estimates on historical experience and other assumptions that it believes reasonable. Actual results could differ from estimates used in employing the critical accounting policies and these could have a material impact on the results.

## 2.16 Capital maintenance

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders;

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

## 2.17 Equity instruments

Share capital is determined using the nominal value of shares that have been issued. Equity-settled share-based employee remuneration is credited to the share option reserve until the related share options are exercised.

Dividends are included in current liabilities when the dividends are approved in general meeting prior to the balance sheet date.

# Notes to the Group financial statements

31 March 2008 continued

## 3 Segment reporting

### 3.1 Business segments

Based on the risks and returns, the directors consider that the primary reporting format is by business segment. The directors consider there is only one business segment, being the supply of furniture. Therefore, the disclosures for the primary segment have already been given in the financial statements.

### 3.2 Geographical segments

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the products:

	2007/2008 £000	2006/2007 £000
United Kingdom	49,335	44,702
Rest of the world	585	550
	<b>49,920</b>	<b>45,252</b>

## 4 Operating costs

Net operating costs are made up as follows:

	2007/2008 £000	2006/2007 £000
Distribution costs	7,002	7,091
Administration costs	6,171	5,538
Other income	(28)	(142)
	<b>13,145</b>	<b>12,487</b>

## 5 Operating profit

	2007/2008 £000	2006/2007 £000
Operating profit is stated after charging/(crediting):		
Auditors' remuneration for:		
Fees payable to the company's auditors for the audit of the company's annual accounts	20	19
Fees payable to the company's auditors for other services: the audit of the company's subsidiaries	21	20
Depreciation of owned assets	534	609
Depreciation of leased assets	8	34
Rental income	(27)	(21)
Directors' emoluments excluding pension contributions	576	640
Operating lease rentals:		
Vehicles	369	558

# Notes to the Group financial statements

31 March 2008 continued

6	Employee information	2007/2008 Number	2006/2007 Number
a)	<b>The average number of employees, including executive directors, was:</b>		
	Production	484	453
	Distribution	45	45
	Administration	87	81
		<b>616</b>	579
b)	<b>Employment costs, including executive directors:</b>	£000	£000
	Gross wages and salaries	13,927	12,712
	Social security costs	1,316	1,215
	Other pension costs	450	572
		<b>15,693</b>	14,499
c)	<b>Directors' remuneration consists of:</b>		
	Aggregate emoluments	576	640

During the year no retirement benefits were accruing to any director (2007: 3) in respect of a final salary pension scheme. The highest paid director received remuneration (including salary and benefits in kind) of £253,000 (2007: £260,000). A pension of £9,000 (2007: £8,000) is paid by the company to a past director.

7	Finance income and finance costs	2007/2008 £000	2006/2007 £000
	<b>Finance income</b>		
	Interest receivable	2	36
	Interest receivable on pension scheme liability	16	–
	<b>Finance income</b>	<b>18</b>	36
	<b>Finance costs</b>		
	Finance costs	(7)	(12)
	Finance charge on shares classed as financial liabilities	(66)	(66)
	Other interest charges	(1)	(10)
	Interest charge on pension scheme liability	–	(92)
	<b>Finance costs</b>	<b>(74)</b>	(180)

# Notes to the Group financial statements

31 March 2008 continued

## 8 Tax

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

	2007/2008 £000	2006/2007 £000
The credit is made up as follows:		
<b>Current tax</b>		
UK corporation tax at 30% (2007: 30%)	—	—
<b>Total current tax charge/(credit)</b>	<b>—</b>	<b>—</b>
<b>Deferred tax</b>		
Current year	42	—
Prior year	—	(620)
Total deferred tax charge	42	(620)
<b>Tax charge/(credit) on profit on ordinary activities</b>	<b>42</b>	<b>(620)</b>

### 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:

	2007/2008 £000	2006/2007 £000
UK corporation tax rate	30%	30%
Profit before taxation	1,464	847
Tax at 30%	439	254
Expenses not deductible for tax purposes	70	46
Decrease of tax rate on opening deferred tax asset	42	—
Additional deferred tax asset recognition	(509)	(920)
Small companies marginal relief	—	—
<b>Total taxation (continuing operations)</b>	<b>42</b>	<b>(620)</b>

### c) Factors that may affect future tax charges:

The standard corporation tax rate has decreased with effect from 1 April 2008 to 28% (previously 30%).

The Finance Bill 2008 contains provisions for the phasing out of industrial buildings allowances which are anticipated to have a net cost of approximately £40,000 per annum, once existing losses have been utilised.

Had these provisions been enacted at 31 March 2008, the decrease in the recognised deferred tax asset would have been approximately £330,000 with a corresponding charge to the income statement.

# Notes to the Group financial statements

31 March 2008 continued

## 9 Property, plant and equipment

	Freehold land and buildings £000	Plant and equipment £000	Total £000
Cost at 1 April 2006	8,411	11,340	19,751
Additions	–	173	173
Disposals	–	(19)	(19)
Cost at 31 March 2007	8,411	11,494	19,905
Additions	25	582	607
<b>Cost at 31 March 2008</b>	<b>8,436</b>	<b>12,076</b>	<b>20,512</b>
Depreciation at 1 April 2006	1,239	9,350	10,589
Charge for the year	158	485	643
Disposals	–	(16)	(16)
Depreciation at 31 March 2007	1,397	9,819	11,216
Charge for the year	158	384	542
<b>Depreciation at 31 March 2008</b>	<b>1,555</b>	<b>10,203</b>	<b>11,758</b>
Net book value			
at 31 March 2008	<b>6,881</b>	<b>1,873</b>	<b>8,754</b>
at 31 March 2007	7,014	1,675	8,689
at 1 April 2006	7,172	1,990	9,162

At 31 March 2008 the net book value of plant and equipment includes £226,000 (2007: £260,000) 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.

## 10 Inventories

	2008 £000	2007 £000
Raw materials	<b>2,875</b>	2,262
Work-in-progress	<b>449</b>	331
Finished goods	<b>1,025</b>	914
	<b>4,349</b>	3,507

The cost of inventory which has been taken to the income statement is £25,733,000 (2007: £21,689,000).

# Notes to the Group financial statements

31 March 2008 continued

## 11 Trade and other receivables

	2008 £000	2007 £000
Trade receivables	6,442	6,896
Prepayments and accrued income	1,281	1,020
	<b>7,723</b>	<b>7,916</b>

### 11.1 Ageing of receivables

The ageing of trade receivables at 31 March 2008 is detailed below:

	2008 £000	2007 £000
Current	5,928	5,430
Up to 90 days overdue	217	1,239
Past 91 days overdue	297	227
	<b>6,442</b>	<b>6,896</b>

## 12 Trade and other payables – current

	2008 £000	2007 £000
Obligations under finance leases	42	51
Trade payables	5,035	5,191
Other tax and social security	1,107	1,471
Accruals and deferred income	1,728	1,939
	<b>7,912</b>	<b>8,652</b>

## 13 Obligations under finance leases – non-current

	2008 £000	2007 £000
Obligations under finance leases		
Due: between 1 and 2 years	42	11
between 2 and 5 years	103	11
	<b>145</b>	<b>22</b>

## 14 Shares classed as financial liabilities

	2008 £000	2007 £000
Shares classed as financial liabilities (see note 17)	–	655
	<b>–</b>	<b>655</b>

# Notes to the Group financial statements

31 March 2008 continued

## 14 Shares classed as financial liabilities – non-current continued

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.

## 15 Pensions

The Group operates a funded group pension scheme, established under trust, providing defined benefits based on final salary. The scheme was closed to all future accrual on 31 May 2006. The assets of the scheme are held separately from those of the Group. BlackRock Investment Management (UK) 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 independent scheme Actuary valued the scheme using the projected unit method.

A market-consistent approach for valuing assets and liabilities was adopted. 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 2008 was £450,000 (2007: £572,000).

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 2008 by the Actuary.

### The major assumptions used by the Actuary were:

	At 31 March 2008 %	At 31 March 2007 %	At 31 March 2006 %
Rate of increase in pensionable salaries (salaried staff members)	—	—	3.00
(hourly paid members)	—	—	3.00
Rate of increase in pensions in payment	3.40	3.10	2.80
Discount rate	6.60	5.40	5.15
Inflation	3.50	3.15	3.00

Life expectancy assumptions in line with PA92 (YOB) medium cohort have been used.

# Notes to the Group financial statements

31 March 2008 continued

## 15 Pensions continued

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

	Long term rate of return expected at 31.03.08 %	Value at 31.03.08 £m	Long term rate of return expected at 31.03.07 %	Value at 31.03.07 £m	Long term rate of return expected at 31.03.06 %	Value at 31.03.06 £m
Target return fund assets	8.2	20.2	—	—	—	—
Equities	7.0	0.4	7.3	17.8	6.8	16.9
Gilts	—	—	5.4	1.6	5.0	1.1
Annuity policy	6.6	0.4	5.4	0.4	5.0	0.4
Cash	4.8	(0.3)	4.8	1.1	4.0	1.2
	8.2	20.7	7.0	20.9	6.5	19.6

The following amounts were measured in accordance with the requirements of IAS 19:

	At 31 March 2008 £000	At 31 March 2007 £000	At 31 March 2006 £000
Total market value of assets	20,703	20,895	19,598
Present value of scheme liabilities	(23,630)	(27,102)	(26,500)
<b>Deficit in scheme</b>	<b>(2,927)</b>	<b>(6,207)</b>	<b>(6,902)</b>

Total funds as a result of recognition in the financial statements were:

	2008 £000	2007 £000	2006 £000
<b>Net assets</b>			
Total funds excluding pension deficit	14,364	13,389	11,947
Pension deficit	(2,927)	(6,207)	(6,902)
<b>Total funds including pension deficit</b>	<b>11,437</b>	<b>7,182</b>	<b>5,045</b>
<b>Reserves</b>			
Profit and loss reserve excluding pension deficit	7,228	6,272	4,851
Pension deficit	(2,927)	(6,207)	(6,902)
<b>Profit and loss reserve including pension deficit</b>	<b>4,301</b>	<b>65</b>	<b>(2,051)</b>

# Notes to the Group financial statements

31 March 2008 continued

## 15 Pensions continued

### Charge to the financial statements:

	2008 £000	2007 £000	2006 £000
<b>Operating charge:</b>			
Current service cost	—	(74)	(383)
Gains and losses on any settlements or curtailments	—	(360)	—
	<b>—</b>	<b>(434)</b>	<b>(383)</b>
<b>Pension finance costs:</b>			
Expected return on pension scheme assets	<b>1,462</b>	1,275	1,107
Interest on pension scheme liabilities	<b>(1,446)</b>	(1,367)	(1,236)
<b>Total charge:</b>	<b>16</b>	<b>(92)</b>	<b>(129)</b>

### Gains/(losses) for the year ended 31 March 2008

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
<b>Difference between the expected and actual return on scheme assets:</b>					
Amount	<b>(1,438)</b>	141	3,077	900	1,600
Percentage of scheme assets	<b>(6.9%)</b>	0.7%	15.7%	5.9%	12.4%
<b>Experience gains/(losses) on scheme liabilities</b>					
Amount	<b>(371)</b>	—	499	500	1,700
Percentage of the present value of the scheme liabilities	<b>(1.6%)</b>	—	1.9%	2.1%	8.1%
<b>Effect of change in assumptions underlying the present value of scheme liabilities</b>					
Amount	<b>4,623</b>	508	(2,409)	(900)	(900)
Percentage of the present value of the scheme liabilities	<b>19.6%</b>	1.9%	(9.1%)	(3.9%)	(4.3%)
<b>Total amount recognised in the statement of recognised income and expense</b>	<b>2,814</b>	649	1,167	500	2,400
Percentage of scheme liabilities	<b>11.9%</b>	2.4%	4.4%	2.2%	11.4%

# Notes to the Group financial statements

31 March 2008 continued

## 15 Pensions continued

### Change in present value of:

	At 31 March 2008 £000	At 31 March 2007 £000	At 31 March 2006 £000
<b>Obligations</b>			
at 1 April	27,102	26,500	23,300
Current service cost	—	74	383
Interest cost on pensions scheme liabilities	1,446	1,367	1,236
Benefits paid	(666)	(691)	(329)
Loss on curtailment	—	360	—
Actuarial (gain)/loss on obligation	(4,252)	(508)	1,910
<b>at 31 March</b>	<b>23,630</b>	<b>27,102</b>	<b>26,500</b>
<b>Plan assets</b>			
at 1 April	20,895	19,598	15,200
Expected return on assets	1,462	1,275	1,107
Contributions	450	572	543
Benefits paid	(666)	(691)	(329)
Actuarial (loss)/gain on plan assets	(1,438)	141	3,077
<b>at 31 March</b>	<b>20,703</b>	<b>20,895</b>	<b>19,598</b>
<b>Movements in deficit</b>			
at 1 April	(6,207)	(6,902)	(8,100)
Current service cost	—	(74)	(383)
Contributions	450	572	543
Loss on curtailment	—	(360)	—
Other financial costs	16	(92)	(129)
Actuarial gain	2,814	649	1,167
<b>at 31 March</b>	<b>(2,927)</b>	<b>(6,207)</b>	<b>(6,902)</b>

# Notes to the Group financial statements

31 March 2008 continued

## 16 Deferred tax

	2007/2008 £000	2006/2007 £000
Property, plant and equipment timing differences	702	725
Other	(1,280)	(1,345)
	<b>(578)</b>	<b>(620)</b>
at 1 April	<b>(620)</b>	–
Transfer to income statement	42	(620)
<b>at 31 March</b>	<b>(578)</b>	<b>(620)</b>

£350,000 (2007: £350,000) of the deferred tax asset is due after more than one year. There is an additional unrecognised deferred tax asset in respect of trading losses of £100,000 (2007: £505,000).

The deferred tax asset of £820,000 in respect of the IAS 19 pension deficit is unrecognised.

## 17 Called up share capital

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each at 1 April 2007 and 31 March 2008	<b>30,000,000</b>	<b>3,000</b>	<b>23,888,698</b>	<b>2,389</b>
Cumulative 10% preference shares of £1 each (redeemable at par in 2008) at 1 April 2007 and 31 March 2008 (see note 14)	<b>654,599</b>	<b>655</b>	<b>654,599</b>	<b>655</b>

# Notes to the Group financial statements

31 March 2008 continued

## 18 Share premium account and reserves

	Share option reserve £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
at 1 April 2006	14	2,348	2,345	(2,051)
Profit for the year	—	—	—	2,116
Transfer to share option reserve	21	—	—	—
at 1 April 2007	35	2,348	2,345	65
Profit for the year	—	—	—	4,236
Transfer to share option reserve	19	—	—	—
<b>at 31 March 2008</b>	<b>54</b>	<b>2,348</b>	<b>2,345</b>	<b>4,301</b>

## 19 Share-based payments

### Equity-settled share-based payments

The company has a share option scheme for directors and senior executives within the Group. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually three years. The exercise of options is also dependent on eligible executives meeting performance criteria. The options are settled in equity once exercised.

If the options remain unexercised after a period of four years from the date of grant, the options expire. Options are forfeited if the employee leaves the company before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	31.03.2008 Number	31.03.2007 Number
<b>Weighted average exercise price</b>		
Outstanding at the beginning of the year	1,490,000	1,560,000
Granted during the year	100,000	—
Forfeited during the year	(30,000)	(70,000)
Exercised during the year	—	—
<b>Outstanding at the end of the year</b>	<b>1,560,000</b>	<b>1,490,000</b>
Exercisable at the end of the year	—	—

# Notes to the Group financial statements

31 March 2008 continued

## 19 Share-based payments continued

The share options outstanding at the end of the year have a weighted average remaining contractual life of 0.4 years (2007: 1.3 years) and have the following exercise prices:

	Exercise price
6 July 2008	15.5p
29 July 2008	26.0p
26 July 2010	38.5p

In the year ended 31 March 2008 options were granted on 26 July 2007. The estimated fair value of the options granted on those dates was £10,000. The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2008	2007
Weighted average share price	23p	22p
Weighted average exercise price	23p	22p
Expected volatility	20.0%	20.0%
Expected life	3.0 years	3.0 years
Risk free rate	5.0%	5.0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The company recognised total expenses of £19,000 (2007: £21,000) related to equity-settled share-based payment transactions during the year.

## 20 Cash and cash equivalents

	2008 £000	2007 £000
<b>Cash at bank and in hand</b>	<b>1,672</b>	1,986

Bank balances and cash comprise cash held by the Group and the carrying value of these assets approximates to their fair value.

## 21 Commitments under operating leases

	2008 £000	2007 £000
The Group had minimum future lease payments under vehicle operating leases as follows:		
expiring within 1 year	44	86
expiring in years 2 to 5	559	724
	<b>603</b>	810

# Notes to the Group financial statements

31 March 2008 continued

## 22 Earnings per share

	2008 £000	2007 £000
Profit per ordinary share has been calculated on the following basis:		
Profit for the financial year	1,422	1,467
	Number '000	Number '000
Weighted average of ordinary shares in issue during the year	23,889	23,889
Weighted average of diluted potential ordinary shares during the year	1,536	1,595
Weighted average of ordinary shares in issue during the year adjusted to assume conversion of all diluted potential ordinary shares	25,425	25,484

## 23 Capital commitments

	2008 £000	2007 £000
Expenditure contracted but not provided for	25	104

## 24 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.

### a) Cash at bank and in hand

	2008 £000	2007 £000
Cash at bank and in hand	1,672	1,986

Cash at bank and in hand is held in sterling and earns interest at 0.75% (2007: 0.75%) below the bank base rate.

# Notes to the Group financial statements

31 March 2008 continued

## 24 Financial instruments continued

### b) Maturity of financial liabilities

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

	Debt £000	Finance leases £000	2008 Total £000	Debt £000	Finance leases £000	2007 Total £000
Within one year, or on demand	655	42	697	—	51	51
Between 1 and 5 years	—	145	145	655	22	677
	<b>655</b>	<b>187</b>	<b>842</b>	655	73	728

Debt due between 1 and 5 years in 2007 represents £655,000 in respect of the company's preference shares. The Group has an undrawn overdraft facility available at 31 March 2008 of £2.0 million, secured on the Group's property. The security is of a floating nature and is reviewed annually in September.

The banking facilities of the company and its subsidiaries are cross guaranteed.

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	5.0	4.4	187
Preference shares	10.0	0.4	655
<b>at 31 March 2008</b>		<b>1.3</b>	<b>842</b>
Financial liabilities	5.0	1.3	73
Preference shares	10.0	1.4	655
<b>at 31 March 2007</b>		<b>1.4</b>	<b>728</b>

### c) Fair values

The fair values of cash at bank and in hand and borrowings at 31 March 2008 are approximate to the book value at that date. The fair value of the preference shares at 31 March 2008 approximates to £655,000 (2007: £814,000) as the shares are due for redemption in the 2008/2009 financial year. The book value of the preference shares is £655,000.

### d) Currency risk

The Group is exposed to transaction and translation foreign risk, in relation to the Euro and US Dollar.

Approximately 1% (2007: 1%) of the sales of the Group's businesses for the period to 31 March 2008 were to customers in foreign markets. These sales are priced in sterling but are invoiced in the currencies of the customers involved. Foreign exchange differences on the conversion of these balances are taken to the income statement of the Group companies and the Group.

# Notes to the Group financial statements

31 March 2008 continued

## 24 Financial instruments continued

Approximately 10% of the purchases made by the Group during the period to 31 March 2008 were from suppliers in foreign markets. Foreign exchange differences on the conversion of these balances are taken to the income statement of the Group companies and the Group.

At 31 March 2008 the Group companies had monetary assets in Euros and US Dollars of £129,000 (2007: Nil). Exchange differences on retranslation of these assets are taken to the income statement of the Group companies and the Group.

A 5% change in the Euro and US Dollar exchange rates would impact the income statement by approximately £119,000 and £88,000 respectively.


## 25 Financial assets and liabilities

Classification of the Group's financial instruments are as below:

	Loans and receivables £000	Non- financial assets £000	Total £000
<b>Financial assets at 31 March 2008</b>			
Cash and balances with central banks	1,672	—	1,672
Prepaid expenses and accrued income	6,442	1,281	7,723
<b>Total</b>	<b>8,114</b>	<b>1,281</b>	<b>9,395</b>
<b>Liabilities at 31 March 2008</b>			
	Held for trading £000	Non- financial liabilities £000	Total £000
Payables	5,035	2,877	7,912
Other liabilities	—	3,727	3,727
<b>Total</b>	<b>5,035</b>	<b>6,604</b>	<b>11,639</b>

## 26 Related party disclosures

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.



Company balance sheet 42

Notes to the company financial statements 43-53

# COMPANY FINANCIAL STATEMENTS

# Company balance sheet

at 31 March 2008

<b>Assets employed</b>	Notes	31.03.08 £000	31.03.07 £000
<b>Fixed assets</b>			
Tangible assets	3	18	8
Investments	4	12,236	12,342
		<b>12,254</b>	12,350
<b>Current assets</b>			
Debtors	5	400	99
Cash at bank and in hand		509	1,177
		<b>909</b>	1,276
Creditors: amounts falling due within one year	6	1,269	740
Net current assets		<b>(360)</b>	536
<b>Total assets less current liabilities</b>		<b>11,894</b>	12,886
<b>Financed by</b>			
Creditors: amounts falling due after one year	7	—	655
Pension liability	8	2,927	6,207
		<b>2,927</b>	6,862
<b>Capital and reserves</b>			
Called up share capital	10	2,389	2,389
Share premium account	11	2,348	2,348
Capital redemption reserve	11	2,345	2,345
Share option reserve	11	54	35
Profit and loss account	11	1,831	(1,093)
Total shareholders' funds		<b>8,967</b>	6,024
		<b>11,894</b>	12,886

Approved by the board on 15 August 2008 and signed on its behalf by:

S R Lyons CBE  
A Lisanti

}

Directors



The accounting policies on pages 43 to 44 and the notes on pages 45 to 53 form part of these accounts.

# Notes to the company financial statements

31 March 2008

## 1 Accounting policies

### 1.1 Accounting convention

The accounts have been prepared in accordance with United Kingdom accounting standards and under the historical cost convention.

No profit and loss account is presented by the company as permitted by Section 230 of the Companies Act 1985.

### 1.2 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 tax. Turnover is recognised on delivery when the risks and rewards of ownership pass to the customer.

### 1.3 Tangible fixed assets and depreciation

Tangible fixed assets are carried at cost. 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:

Plant and equipment      10-20%

Computer equipment      33 $\frac{1}{3}$ %

### 1.4 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.

### 1.5 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.

# Notes to the company financial statements

31 March 2008 continued

## 1.6 Pensions

For the defined benefit scheme 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.

The defined benefit scheme is 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.

## 1.7 Share-based payments

The company issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed to the profit and loss account on a straight-line basis over the vesting period, together with a corresponding increase in equity (via a credit to the share option reserve), based upon the company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate to share premium.

Where the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it is granted, the cancelled and new transactions are treated as if they were a modification of the original transaction, as described in the previous paragraph.

# Notes to the company financial statements

31 March 2008 continued

## 2 Profit attributable to members of the parent company

The profit attributable to members of the parent company is £2,924,000 (2007: £1,233,000).

## 3 Tangible fixed assets

	Plant and equipment £000
Cost or valuation	
at 1 April 2007	193
Additions	19
<b>at 31 March 2008</b>	<b>212</b>
Depreciation	
at 1 April 2007	185
Provision for year	9
<b>at 31 March 2008</b>	<b>194</b>
Net book value	
<b>at 31 March 2008</b>	<b>18</b>
at 31 March 2007	8

## 4 Investments

	2008 £000	2007 £000
Shares in Group companies at 1 April	978	978
Loans to Group companies	27	27
Intercompany balances transferred in Group companies	15,117	15,223
Provision	(3,886)	(3,886)
	<b>12,236</b>	12,342

The principal trading subsidiary was Airsprung Furniture Ltd.

The company held 100% of the issued ordinary share capital of Airsprung Furniture Ltd.

Airsprung Furniture Ltd is incorporated in Great Britain and is engaged in the manufacture and sale of furniture.

# Notes to the company financial statements

31 March 2008 continued

## 5 Debtors

	2008 £000	2007 £000
Trade debtors	76	58
Prepayments and accrued income	324	41
	<b>400</b>	<b>99</b>

## 6 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Other tax and social security	50	58
Accruals and deferred income	564	682
Shares classed as financial liabilities	655	—
	<b>1,269</b>	<b>740</b>

## 7 Creditors: amounts falling due after one year

	2008 £000	2007 £000
Shares classed as financial liabilities.	—	655
	<b>—</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.

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.

## 8 Pensions

The Group operates a funded group pension scheme, established under trust, providing defined benefits based on final salary. The scheme was closed to all future accrual on 31 May 2006. The assets of the scheme are held separately from those of the Group. BlackRock Investment Management (UK) 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 Independent scheme Actuary valued the scheme using the projected unit method.

A market-consistent approach for valuing assets and liabilities was adopted. The principal assumptions used in the valuation were:

# Notes to the company financial statements

31 March 2008 continued

## 8 Pensions continued

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 2008 was £450,000 (2007: £572,000).

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 2008 by the Actuary.

### The major assumptions used by the Actuary were:

	At 31 March 2008 %	At 31 March 2007 %	At 31 March 2006 %
Rate of increase in pensionable salaries (salaried staff members)	—	—	3.00
(hourly paid members)	—	—	3.00
Rate of increase in pensions in payment	3.40	3.10	2.80
Discount rate	6.60	5.40	5.15
Inflation	3.50	3.15	3.00

Life expectancy assumptions in line with PA92 (YOB) medium cohort have been used.

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

	Long term rate of return expected at 31.03.08 %	Value at 31.03.08 £m	Long term rate of return expected at 31.03.07 %	Value at 31.03.07 £m	Long term rate of return expected at 31.03.06 %	Value at 31.03.06 £m
Target return fund assets	8.2	20.2	—	—	—	—
Equities	7.0	0.4	7.3	17.8	6.8	16.9
Gilts	—	—	5.4	1.6	5.0	1.1
Annuity policy	6.6	0.4	5.4	0.4	5.0	0.4
Cash	4.8	(0.3)	4.8	1.1	4.0	1.2
	8.2	20.7	7.0	20.9	6.5	19.6

# Notes to the company financial statements

31 March 2008 continued

## 8 Pensions continued

The following amounts were measured in accordance with the requirements of FRS 17:

	At 31 March 2008 £000	At 31 March 2007 £000	At 31 March 2006 £000
Total market value of assets	20,703	20,895	19,598
Present value of scheme liabilities	(23,630)	(27,102)	(26,500)
<b>Deficit in scheme</b>	<b>(2,927)</b>	<b>(6,207)</b>	<b>(6,902)</b>

Total funds as a result of recognition in the financial statements are:

	2008 £000	2007 £000	2006 £000
<b>Net assets</b>			
Total funds excluding pension deficit	11,894	12,231	11,672
Pension deficit	(2,927)	(6,207)	(6,902)
Related deferred tax asset	—	—	—
<b>Total funds including pension deficit</b>	<b>8,967</b>	<b>6,024</b>	<b>4,770</b>
<b>Reserves</b>			
Profit and loss reserve excluding pension deficit	4,758	5,114	4,576
Pension deficit	(2,927)	(6,207)	(6,902)
Related deferred tax asset	—	—	—
<b>Profit and loss reserve including pension deficit</b>	<b>1,831</b>	<b>(1,093)</b>	<b>(2,326)</b>

The deferred tax asset of £820,000 in respect of the FRS 17 pension deficit is unrecognised.

# Notes to the company financial statements

31 March 2008 continued

## 8 Pensions continued

### Charge to the financial statements:

	2008 £000	2007 £000	2006 £000
<b>Operating charge:</b>			
Current service cost	—	(74)	(383)
Gains and losses on any settlements or curtailments	—	(360)	—
	<b>—</b>	<b>(434)</b>	<b>(383)</b>
<b>Pension finance costs:</b>			
Expected return on pension scheme assets	<b>1,462</b>	1,275	1,107
Interest on pension scheme liabilities	<b>(1,446)</b>	(1,367)	(1,236)
<b>Total charge:</b>	<b>16</b>	<b>(92)</b>	<b>(129)</b>

### Gains and losses for the year ended 31 March 2008

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
<b>Difference between the expected and actual return on scheme assets</b>					
Amount	<b>(1,438)</b>	141	3,077	900	1,600
Percentage of scheme assets	<b>(6.9%)</b>	0.7%	15.7%	5.9%	12.4%
<b>Experience gains and losses on scheme liabilities</b>					
Amount	<b>(371)</b>	—	499	500	1,700
Percentage of the present value of the scheme liabilities	<b>(1.6%)</b>	—	1.9%	2.1%	8.1%
<b>Effect of change in assumptions underlying the present value of scheme liabilities</b>					
Amount	<b>4,623</b>	508	(2,409)	(900)	(900)
Percentage of the present value of the scheme liabilities	<b>19.6%</b>	1.9%	(9.1%)	(3.9%)	(4.3%)
<b>Total amount recognised in the statement of total recognised gains and losses</b>	<b>2,814</b>	649	1,167	500	2,400
Percentage of scheme liabilities	<b>11.9%</b>	2.4%	4.4%	2.2%	11.4%

# Notes to the company financial statements

31 March 2008 continued

## 8 Pensions continued

### Movements in the actuarial deficit during the year

	2008 £000	2007 £000	2006 £000
Deficit in the scheme at the beginning of the year	<b>(6,207)</b>	(6,902)	(8,100)
<b>Movements in the year</b>			
Current service costs	–	(74)	(383)
Contributions	<b>450</b>	572	543
Loss on curtailment of service	–	(360)	–
Other financial costs	<b>16</b>	(92)	(129)
Actuarial gain	<b>2,814</b>	649	1,167
	<b>(2,927)</b>	(6,207)	(6,902)

### Changes in fair value of plan assets are as follows:

	Defined benefit pension plans	
	2008 £000	2007 £000
Opening fair value of plan assets	<b>20,895</b>	19,598
Expected return	<b>1,462</b>	1,275
Actuarial gains/(losses)	<b>(1,448)</b>	30
Contributions by employer	<b>450</b>	572
Benefits paid	<b>(656)</b>	(580)
	<b>20,703</b>	20,895

# Notes to the company financial statements

31 March 2008 continued

## 9 Provisions for liabilities and charges – deferred tax

	2007/08 £000	2006/07 £000
Fixed asset timing differences	—	—
Other	—	—
	—	—
at 1 April	—	—
Transfer to profit and loss account	—	—
<b>at 31 March</b>	<b>—</b>	<b>—</b>

## 10 Called up share capital

	Authorised		Allotted and fully paid	
	Number	£000	Number	£000
Ordinary shares of 10p each				
<b>at 1 April 2007 and 31 March 2008</b>	30,000,000	3,000	23,888,698	2,389
Cumulative 10% preference shares of £1 each (redeemable at par in 2008)				
<b>at 1 April 2007 and 31 March 2008 (see notes 6 and 7)</b>	654,599	655	654,599	655

## 11 Share premium account and reserves

	Share option reserve £000	Share premium account £000	Capital redemption reserve £000	Profit and loss account £000
at 1 April 2007	35	2,348	2,345	(1,093)
Profit for the year	—	—	—	2,924
Transfer to share option reserve	19	—	—	—
<b>at 31 March 2008</b>	<b>54</b>	<b>2,348</b>	<b>2,345</b>	<b>1,831</b>

# Notes to the company financial statements

31 March 2008 continued

## 12 Share-based payments

### Equity-settled share-based payments

The company has a share option scheme for directors and senior executives within the Group. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually three years. The exercise of options is also dependent on eligible executives meeting performance criteria. The options are settled in equity once exercised.

If the options remain unexercised after a period of four years from the date of grant, the options expire. Options are forfeited if the employee leaves the company before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	31.03.2008 Number	31.03.2007 Number
<b>Weighted average exercise price</b>		
Outstanding at the beginning of the year	1,490,000	1,560,000
Granted during the year	100,000	—
Forfeited during the year	(30,000)	(70,000)
Exercised during the year	—	—
<b>Outstanding at the end of the year</b>	<b>1,560,000</b>	<b>1,490,000</b>
Exercisable at the end of the year	—	—

The share options outstanding at the end of the year have a weighted average remaining contractual life of 0.4 years (2007: 1.3 years) and have the following exercise prices:

	Exercise price
6 July 2008	15.5p
29 July 2008	26.0p
26 July 2010	38.5p

# Notes to the company financial statements

31 March 2008 continued

## 12 Share-based payments continued

In the year ended 31 March 2008 options were granted on 26 July 2007. The estimated fair value of the options granted on those dates was £10,000. The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	2008	2007
Weighted average share price	23p	22p
Weighted average exercise price	23p	22p
Expected volatility	20.0%	20.0%
Expected life	3.0 years	3.0 years
Risk free rate	5.0%	5.0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous year. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The company recognised total expenses of £19,000 (2007: £21,000) related to equity-settled share-based payment transactions during the year.

## 13 Commitments under operating leases

The Group had annual commitments under vehicle operating leases as follows:

	2008 £000	2007 £000
Expiring within 1 year	3	7
Expiring in years 2 to 5	16	9
	<hr/>	<hr/>
	19	16

## 14 Related party disclosures

In accordance with the exemptions available under FRS 8 '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 and mattresses	Airsprung Beds
	The Windsor Bed Company
	The Hush Sleep Collection
Upholstery/sofa beds	Cavendish Upholstery
	Gainsborough
Foam conversion	Airofreem
Design services	Arena Design Associates

## Three year summary

	2008 £000	2007 £000	2006 £000
<b>Consolidated profit and loss account</b>			
Turnover	<b>49,920</b>	42,252	41,219
Profit/(loss) before exceptionals and taxation	<b>1,464</b>	847	(774)
Exceptional items	—	—	(679)
Profit/(loss) before taxation	<b>1,464</b>	847	(1,453)
Taxation (charge)/credit	<b>(42)</b>	620	—
	<b>1,422</b>	1,467	(1,453)
EBITDA*	<b>2,078</b>	1,542	42
Profit/(loss) per ordinary share	<b>6.0p</b>	6.1p	(6.0p)
<b>Dividend per ordinary share</b>	<b>—</b>	—	—

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

## Notice of meeting

**This notice is important and requires your immediate attention. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.**

If you have sold or otherwise transferred all of your shares in Airsprung Furniture Group PLC, please send this document and the accompanying form of proxy at once to the purchaser or transferee of those shares or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

Notice is hereby given that the Annual General Meeting of the company will be held at the Registered Office, Canal Road, Trowbridge, Wiltshire, on 18 September 2008 at 12.30pm at which the following resolutions will be proposed, resolutions 1 to 4 as Ordinary Resolutions and resolution 5 as a Special Resolution.

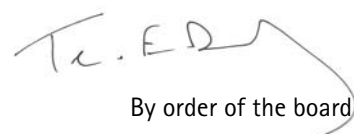
### Ordinary Business

- 1 To receive the report of the directors together with the accounts for the year ended 31 March 2008 and the report of the auditors thereon.
- 2 To re-elect A Lisanti a director.
- 3 To re-elect S G W Yates a director.
- 4 To re-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.

### Special Business

- 5 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 £611,130, to such persons at such times and on such terms as they think proper, such authority to expire (unless previously varied, renewed or revoked by the company in general meeting) 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 (unless previously varied, renewed or revoked by the company in general meeting) 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, provided that this power shall be limited:
    - i) to the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective number of ordinary shares held by them;
    - ii) to the allotment (other than pursuant to sub-paragraph i) above) of equity securities up to an aggregate nominal value of £119,443.

Canal Road  
Trowbridge  
Wiltshire  
BA14 8RQ  
Registered No. 1277785

  
By order of the board  
T E Dallaway, Secretary  
15 August 2008

# Notice of meeting

continued

## 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 exercise all or any of his rights instead of the member provided that if more than one proxy is appointed each proxy is appointed to exercise the rights to different shares held by that sender. 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, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU 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 in which case any votes cast by the proxy will be excluded.

The company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those shareholders registered in the register of members of the company at the close of business on 16 September 2008 shall be entitled to attend and vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote 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 5: 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 5 authorises the directors to:

- a) issue shares up to a nominal value of £611,130 (approximately 25.6% of the company's current issued ordinary share capital);
- b) issue shares on a rights issue to the holders of ordinary shares, or to issue shares up to a nominal amount of £119,443 (approximately 5% of the company's current issued ordinary 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.

## Biography of directors to be re-elected

A Lisanti, Chief Executive Officer, joined the Group in May 2002. Having trained and later graduated as a manufacturing engineer, he held posts with Mars Ltd and various subsidiaries of RTZ Industries. Previously he was Group Managing Director of Spear & Jackson plc.

S G W Yates joined the Airsprung Group in 1977 and has held various managerial positions in sales and marketing. He joined the Group board in 1987 and was appointed to his current position in 2007.

He has been Chairman of the Sleep Council, the bed industry's promotional body set up to raise awareness of the benefits of sleep. More recently, from 2004-2006 he was President of the National Bed Federation, the bed industry's trade organisation.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:

- a) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions;
- b) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - [www.icsa.org.uk](http://www.icsa.org.uk) - for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in a) above.

As at 12 noon on 15 August 2008, the company's issued share capital comprised 23,888,698 ordinary shares of £0.10 and 654,599 preference shares of £1. The preference shares do not carry the right to vote unless their preference dividend has not been paid, if they have not been redeemed in accordance with the company's articles, or if the meeting is to consider the winding up of the company. None of these are applicable and so the preference shares carry no right to vote at the meeting. The ordinary shares carry one vote for every £0.10 of nominal capital (ie one vote per share). Therefore, the total number of voting rights in the company at 12 noon on 15 August 2008 is 23,888,698.



Gainsborough – Positano corner group



The Windsor Bed Company – Empire

# airsprung furniture GROUP PLC

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www.airsprung-furniture.co.uk email: group@airsprung-furniture.co.uk  
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