

AIRSPRUNG FURNITURE GROUP PLC

Preliminary Results for the year ended 31 March 2009

Chairman's Statement

Results

After a weak first half year of trading, the company returned to profitability in the second half, showing a full-year loss of £417,000 (2008: profit £1.464 million). Sales for the twelve month period were £42.8 million, a fall of 14% on the prior year. Although revenues in the final six months showed little sign of recovery, the company earned profits in the second half year of £304,000. Thus, although the result for the year is disappointing, it reflects an encouraging turn-round, due to early and decisive action by management, who responded with urgency to the sharp downturn in trading activity and the unforeseen increase in raw materials and fuel prices referred to in my interim statement in December. The loss attributable to equity shareholders after financial costs and taxation was £507,000, compared with a prior year profit of £1.422 million.

The Group's operating activities generated net cash from operating activities of £41,000 (2008: £177,000). A vigorous stock reduction programme reduced inventories by £1.2 million and capital expenditure came down by nearly £0.5 million. Although creditors fell by £1.8 million due to the curtailment in buying, cash at the year end was £1.469 million, little short of the prior year's £1.672 million. The Group also mitigated the effects of a weaker pound by well-judged purchases of euros and dollars to protect budgeted trading margins. Despite the difficulties in the domestic and global economies, Airsprung ended the year with a solid balance sheet.

Dividends

As previously announced, the board took steps to redeem the 10% Preference shares with their full entitlement of accrued interest. The cost of £655,000 was financed with a bank loan at 1.75% above base rate. The company paid off £112,000 prior to the year end.

The last six months saw an encouraging return to profitability, and in the light of this and having regard to current trading the board recommends that a dividend of 0.5p per share, at a cost of just under £120,000, be paid in respect of the year ended 31 March 2009. A resolution proposing this dividend will be presented to shareholders at the forthcoming AGM.

Operating review

During the year under review, all the Group's business units suffered as a result of the depressed trading environment. Airsprung Beds, which supplies mass-market retailers trading through high street stores, catalogues and the internet, was particularly affected by the sharp increase in raw material and oil prices. Gainsborough supplies high quality beds and sofa-beds to independent retailers, department stores and hotels, and its markets were hard hit by the recession. Cavendish, which manufactures upholstered furniture in its facility in Chorley, distributes mainly to the independent sector and had a very poor year due to reduced consumer demand. The Group's smaller businesses, Airofreem, specialising in foam conversion, and Arena, the marketing and graphic design division, performed satisfactorily in difficult markets.

In addition to responding to the immediate challenges of their sectors, the Group's management teams took steps to create new areas of revenue generation, which give the board confidence for the future. Airsprung Beds has continued to win important supply contracts within its sector. Gainsborough continues to strengthen its reputation as a supplier to the hotel sector. Cavendish was selected as a supplier to one of the UK's largest furniture retailers. Airofreem's new operation in Chorley came on stream and is now consistently profitable.

At the group level, the company signed a new licensing agreement for the USA and Canadian markets with a leading American bed manufacturer. As a result, Airsprung branded beds are expected to be distributed through over 300 stores operated by one of the largest groups in its sector. The USA turnover of Airsprung products at ex factory prices was approximately \$20 million in 2008-09; these sales are not consolidated in the Airsprung accounts, but the licensing income will contribute to the profit and loss account in the current year.

In the UK, the Group negotiated the acquisition of the business and assets of Hush-a-Bye Limited, a middle-market supplier of beds and mattresses, a transaction which was completed after the year end.

The total cash consideration was £300,000, with an initial payment of £30,000 and a deferred payment yet to be made of £270,000, subject to certain conditions being met. Hush-a-Bye had an operating profit of £84,000 for the year ended 30 September 2008. The value of fixed assets acquired is £13,000 and the balance of the consideration relates to business information, intellectual property rights and goodwill.

This acquisition will provide Airsprung with a sales team and complementary distribution network which will improve the Group's market share in the high street, providing greater penetration not just for Hush-a-Bye products, but potentially those of other Group brands. The transfer of manufacturing operations and back-office systems to Trowbridge is well under way, and production is being integrated into a dedicated manufacturing facility.

Cavendish also took an important further step to improve its market penetration. The business negotiated an exclusive licensing agreement with an independent sales agency which has long experience in the supply of both fabric and leather furniture. The agreement will provide a new revenue stream for Cavendish, which will manufacture products under its Bymacks brand for onward sale by the newly formed agency. The agreement was signed shortly after the year end.

Directors and staff

I would like to express my thanks and those of the board to Tony Lisanti, Chief Executive, and Tean Dallaway, Finance Director, for leading the management teams in an extremely demanding year, and to the teams themselves, who have worked under very great pressure. I would also like to thank the Group's employees, many of whom have made financial sacrifices in the interests of the company, but have continued to work diligently and loyally. Not least, I wish to thank those who, sadly, have lost their jobs with the company due to the depth of the recession and other commercial pressures, sometimes after many years of service. We greatly appreciate the contribution they have made to the Group and wish them well for the future.

Outlook

The year under review suffered from sharp and unpredictable rises in the prices of raw materials and fuel, particularly of steel, diesel fuel and petrochemical-derived foam. Although there has been some stabilisation in these prices since the beginning of the calendar year, the costs are still considerably higher than two years ago. It is likely that, as the world economy recovers, there will be further upward movements of oil and steel prices, and there are no grounds for management to weaken its resolve to achieve further operational efficiencies and rebuild gross margins.

Currency markets remain unpredictable, and the Group will continue to take careful positions on the euro and dollar to protect gross margins on overseas purchases. The Group is covered at acceptable rates for the first half year and is taking advantage of exchange rate fluctuations to put further cover in place.

The trading outlook appears to be more stable, although business activity is at a lower level, but the directors are keenly aware that this may be a temporary phenomenon. The increased levels of unemployment may cause occasional downward fluctuations in retail demand for some months to come.

Against this backdrop, the directors are pleased with the way the Group's business units have positioned themselves to take advantage of any improvement in the trading environment. Airsprung Beds has achieved a reduction in its breakeven threshold and has won new retail exposure. The Hush-a-Bye acquisition will strengthen the Group's performance in the middle market bed sector. Cavendish has a full order book for the first half year as a result of its business initiatives. The new licensing agreements in the USA, Canada and UK are expected to be sources of improved brand presence and profitability, and the Group will continue to look for similar profitable partnerships through which to exploit its brands. The board will be seeking authority at the forthcoming AGM to simplify the company's name to Airsprung Group PLC.

The Group as a whole is stable, well-managed and well-positioned. Although sales for the first quarter of the current year remain generally weak, operating results are appreciably ahead. Barring unforeseen circumstances, the board is confident that the first half of the current year will show a strong recovery with a return to reasonable profits after the severe losses of the previous year's comparable period.

Stuart Lyons CBE
Chairman
29 June 2009

Consolidated income statement
for the year ended 31 March 2009

	12 months to 31.03.09 £000	12 months to 31.03.08 £000
Revenue	42,812	49,920
Cost of sales	(32,372)	(35,705)
Gross profit	10,440	14,215
Operating costs	(10,968)	(12,695)
Operating (loss)/profit before financing	(528)	1,520
Finance income	188	18
Finance costs	(77)	(74)
(Loss)/profit before tax	(417)	1,464
Income tax	(90)	(42)
(Loss)/profit attributable to equity holders of the parent	(507)	1,422
Basic earnings per share	(2.1p)	6.0p
Diluted earnings per share	(2.1p)	5.6p

All the above figures relate to continuing operations.

Consolidated balance sheet
at 31 March 2009

	31.03.09 £000	31.03.08 £000
Property, plant and equipment	8,232	8,754
Deferred tax	488	578
Total non-current assets	8,720	9,332
Inventories	3,157	4,349
Trade and other receivables	6,736	7,723
Cash and cash equivalents	1,469	1,672
Total current assets	11,362	13,744
Total assets	20,082	23,076
Called up share capital	2,389	2,389
Share premium account	2,348	2,348
Reserves	3,065	2,399
Retained earnings	3,501	4,301
Total equity	11,303	11,437
Financial liabilities	435	145
Pension scheme deficit	2,027	2,927
Total non-current liabilities	2,462	3,072
Trade and other payables	6,042	7,870
Financial liabilities	275	42
Shares classed as financial liabilities	—	655
Total current liabilities	6,317	8,567
Total liabilities	8,779	11,639
Total equity and liabilities	20,082	23,076

Consolidated cash flow statement
for the year ended 31 March 2009

	2008/2009 £000	2007/2008 £000
(Loss)/profit before tax	(417)	1,464
<i>Adjustments for:</i>		
Depreciation	634	542
Interest expense	(111)	56
Contributions to defined benefit pension scheme	(350)	(450)
Charge for share based payments	11	19
Operating cash flows before movements in working capital	(233)	1,631
Decrease/(increase) in inventories	1,192	(842)
Decrease in receivables	987	193
(Decrease) in payables	(1,813)	(599)
Cash generated from operations	133	383
Non-equity dividends and appropriations paid	(56)	(198)
Interest paid	(36)	(8)
Net cash from operating activities	41	177
Investing activities		
Interest received	—	2
Purchase of property, plant and equipment	(112)	(607)
Net cash (outflow) from investing activities	(112)	(605)
Financing activities		
Increase in borrowing	674	197
Redemption of preference shares	(655)	—
Repayment of loan	(112)	—
Payment of finance lease liabilities	(39)	(83)
Net cash (outflow)/inflow from financing activities	(132)	114
Net (decrease) in cash and cash equivalents	(203)	(314)
Cash and cash equivalents at beginning of period	1,672	1,986
Cash and cash equivalents at end of period	1,469	1,672

Consolidated statement of recognised income and expense

for the year ended 31 March 2009

	2008/2009 £000	2007/2008 £000
(Loss)/profit for the period	(507)	1,422
Actuarial gain on defined benefit pension scheme	362	2,814
Total recognised income and expense for the period	(145)	4,236

Notes for the year ended 31 March 2009

- 1 This summary of results does not constitute the statutory financial statements for the year ended 31 March 2009. The financial statements have not yet been delivered to the Registrar of Companies, nor have the auditors yet reported on them. The statutory accounts for the year ended 31 March 2009 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies. The financial information for the year ended 31 March 2008 has been extracted from the full report and statements which were prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union. Those accounts were filed with the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s.237 (2) or (3) Companies Act 1985.
- 2 Total continuing turnover includes turnover generated in the United Kingdom of £42.6 million (2008: £49.3 million) and export sales of £0.2 million (2008: £0.6 million). All profit is generated from activities located in the United Kingdom.
- 3 The profit per ordinary share has been calculated on 23,889,000 ordinary shares (2008: 23,889,000) being the weighted average number of shares in issue during the period.