

AIRSPRUNG BEDS LIMITED

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DIRECTORS' REPORT

The directors submit their report, together with the audited accounts, for the year ended 31 March 1998.

Statement of directors' responsibilities

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

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Profits and dividends

The profit for the year and the appropriation thereof are set out in the profit and loss account on page 5.

Interim dividends of £660,000 and £600,000 were paid on 19 January 1998 and 26 March 1998 respectively. The directors propose a third interim dividend of £400,000 in respect of the year ended 31 March 1998.

Activities

The principal activity of the company is the manufacture of beds. The directors do not foresee any major changes in the level or nature of the company's business.

Tangible fixed assets

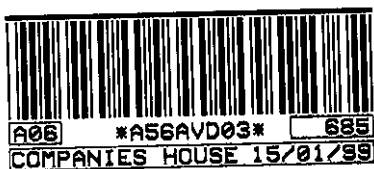
The company's freehold land and buildings were professionally valued as at 1 April 1997. (See note 8)

Directors

The directors of the company at 31 March 1998, all of whom served throughout the year, or from the date of their appointment, were:-

A J R Alsop
K G Hillier
I D Love
P J Mander
J A Parsons
S G W Yates
P R Ziemniak
R G Park
G Allen

M V Rose - appointed 23 September 1997



J Wiseman who was appointed a director on 25 April 1997, resigned on 7 November 1997. J E Pierce who was a director as at 31 March 1997 resigned as a director on 20 August 1997. C W Preston who was a director as at 31 March 1997 retired on 1 August 1997. J Anderson was appointed a director on 3 April 1998, and K Quadling and D Janman were appointed directors on 1 April 1998.

Directors' interests

None of the directors who served during the year had any interest in the shares of the company.

The beneficial interests of the directors, who were not directors of the ultimate holding company, in the shares of that company at the relevant dates were:-

	Ordinary shares of 10p each		
	At 31 March 1997	At 31 March 1998	At 3 June 1998
K G Hillier	6,608	7,756	7,756
P J Mander	-	-	-
J Parsons	-	-	-
I D Love	-	-	-
R G Park	554	658	658
G P Allen	-	-	-
M V Rose	-	1,500	2,500

The interests of the other directors are shown in the accounts of the ultimate holding company.

Employee involvement

Management continues to consult with employees at all levels on matters which are likely to affect their interests. Profit bonus and other incentive schemes have been developed to enable employees to benefit directly from their performance.

Disabled employees

Our 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 company.

Creditor payment policy

The majority of trade creditors are paid within 7 days of the agreed terms. Creditor days, calculated in accordance with The Companies Act 1985, are 70.

Year 2000 and the Euro

Formal procedures have been put into place to identify the full impact of the Year 2000 on the company's computer systems.

A timetable has been agreed and progress against specific action points is being monitored. This timetable allows for any of the systems which have been identified as requiring an upgrade, to be made compliant before the end of the century, to minimise any possible exposure to the Year 2000 effect.

Work for Euro compliance has commenced.

By order of the Board



M V Rose
Secretary

Trowbridge
4 June 1998

AUDITORS' REPORT

Report of the Auditors to the members of Airsprung Beds Limited.

We have audited the financial statements on pages 5 to 13.

Respective responsibilities of directors and auditors

As described on page 1 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

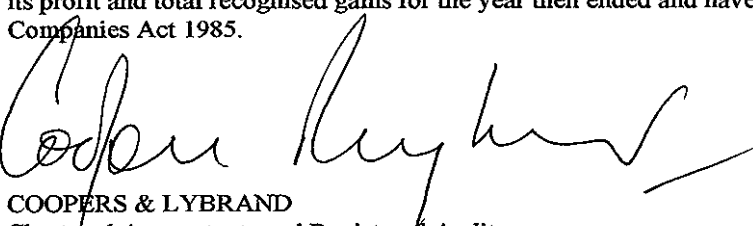
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1998 and of its profit and total recognised gains for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



COOPERS & LYBRAND
Chartered Accountants and Registered Auditors
Bristol
4 June 1998

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1998**Continuing operations**

	Notes	Year to 31.3.98 £	Year to 31.3.97 £
Turnover	1	40,105,328	40,081,857
Cost of sales		28,939,694	29,372,287
Gross profit		11,165,634	10,709,570
Net operating expenses	2	6,876,631	6,497,132
Operating profit	3	4,289,003	4,212,438
Interest receivable	6	537,826	481,015
Profit before taxation		4,826,829	4,693,453
Tax	7	1,534,001	1,563,377
Profit after taxation		3,292,828	3,130,076
Equity Dividends paid and proposed to parent company		1,660,000	1,565,000
Retained profit for year		1,632,828	1,565,076
Retained profit at 1 April		13,519,305	11,954,229
Retained profit at 31 March		15,152,133	13,519,305

There is no material difference between the profit before tax and the retained profit and their historical cost equivalents for the period stated above.

The principal accounting policies and the notes, which form part of these accounts, are on pages 8 to 13.

The report of the Auditors is on page 4.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Year to 31.3.98 £	Year to 31.3.97 £
Profit for the year	3,292,828	3,130,076
Unrealised surplus on revaluation of properties	12,458	-
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	<u>3,305,286</u>	<u>3,130,076</u>

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Year to 31.3.98 £	Year to 31.3.97 £
Profit for the year	3,292,828	3,130,076
Dividends	<u>(1,660,000)</u>	<u>(1,565,000)</u>
	1,632,828	1,565,076
Unrealised surplus on revaluation of properties	12,458	-
	<hr/>	<hr/>
Net movement in shareholders' funds	1,645,286	1,565,076
Opening shareholders' funds	15,436,593	13,871,517
	<hr/>	<hr/>
Closing shareholders' funds	<u>17,081,879</u>	<u>15,436,593</u>

AIRSPRUNG BEDS LIMITED

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BALANCE SHEET AT 31 MARCH 1998

	Note	31 March 1998		31 March 1997	
		£	£	£	£
Employment of capital					
Tangible fixed assets	8		8,238,055		6,988,630
Current assets					
Stocks	9	3,013,878		2,580,345	
Debtors	10	5,108,166		4,477,050	
Bank and cash balances	11	8,713,579		8,840,057	
		<u>16,835,623</u>		<u>15,897,452</u>	
Creditors: amounts falling due within one year	12	7,841,799		7,449,489	
Net current assets			<u>8,993,824</u>		<u>8,447,963</u>
Provisions for liabilities and charges	17		(150,000)		-
			<u>17,081,879</u>		<u>15,436,593</u>
Capital employed					
Capital and reserves					
Called up share capital	14		50,000		50,000
Revaluation reserve	15		1,879,746		1,867,288
Profit and loss account	15		15,152,133		13,519,305
Equity shareholders' funds			<u>17,081,879</u>		<u>15,436,593</u>

The accounts were approved by the directors on 4 June 1998.

 Director

The principal accounting policies and the notes, which form part of these accounts, are on pages 8 to 13.

The report of the Auditors is on page 4.

PRINCIPAL ACCOUNTING POLICIES**1. Accounting convention**

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

2. Depreciation

Depreciation is calculated to write off the costs or amount of the valuation of tangible fixed assets by equal instalments over the estimated useful lives of the assets at the following principal annual rates:

Freehold buildings	2.5%
Plant and equipment	10% - 20%
Motor vehicles	10% - 20%

3. Leases

Where the company 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 fixed tangible 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 rental charges are taken to the profit and loss account.

4. Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis; in the case of manufactured products cost includes all direct expenditure and production overheads based on the normal level of activity. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation and, where appropriate, the cost of conversion from their existing state to a finished condition. Provision is made, where necessary, for obsolescent, slow moving and defective stocks.

5. Deferred taxation

Provision for deferred tax is made, using the liability method, except in respect of any timing differences which are expected to continue for the foreseeable future. The provision is calculated at the rate expected to apply when the liability arises.

6. Pensions

The company contributes to a group pension scheme operated by the ultimate holding company. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employee's services. The effects of variations from regular costs are spread over the expected remaining working lifetime of members of the scheme.

NOTES TO ACCOUNTS**1. Turnover**

Turnover, which excludes value added tax, represents the invoiced value of sales less trade discounts and allowances.

	Year to 31.3.98 £	Year to 31.3.97 £
2. Net operating expenses		
Net operating expenses are made up as follows:-		
Distribution expenses	4,461,775	4,297,624
Administration expenses	2,522,369	2,299,125
Other income	(107,513)	(99,617)
	<hr/> 6,876,631	<hr/> 6,497,132

3. Operating profit

Operating profit is stated after charging/(crediting):-

Auditors' remuneration for:		
Audit	12,777	11,983
Other services	9,790	12,623
Depreciation	523,892	443,185
Directors' emoluments (see note 4) excluding pension contributions	405,687	400,456
Operating lease rentals - vehicles	538,817	585,693
Rent receivable	(101,513)	(99,617)
	<hr/> 6,876,631	<hr/> 6,497,132

4. Directors' emoluments

The highest paid directors' emoluments, disclosed in accordance with Schedule 6 of the Companies Act 1985 are as follows:-

Aggregate emoluments	58,464	114,384
Accrued pension at the end of the year under a defined benefits pension scheme	11,123	26,830

The emoluments of Messrs A J R Alsop, J E Pierce and S G W Yates are paid by the parent company. Mr P R Ziemniak's emoluments post 1 September 1997 are paid by the parent company. Their services to this company and to a number of fellow subsidiaries are of a non-executive nature and their emoluments are deemed to be wholly attributable to their services to the parent company. Accordingly the above details include no emoluments in respect of the aforementioned directors

Retirement benefits are accruing for all directors under a group defined benefits scheme in which the company participates.

5. Employee information

a) The average number of persons employed by the company, including executive directors, during the year is analysed below:-

	Year to 31.3.98 Number	Year to 31.3.97 Number
Production	661	655
Distribution	136	129
Administration	42	36
	<hr/> 839	<hr/> 820

b) Employment costs, including executive directors:-

	£	£
Aggregate gross wages and salaries and benefits	11,579,524	11,087,712
Employers' national insurance contributions	1,021,057	971,703
Employers' pension contributions under the group pension scheme	233,190	234,781
	<hr/> 12,833,771	<hr/> 12,294,196

6. Interest

Interest is made up as follows:-

Payable:-

Intra-group loans	(188,089)	(114,114)
Other	-	(161)

Receivable:-

Short-term deposits	83,322	177,514
Intra-group loans	691,690	417,776
	<hr/> 537,826	<hr/> 481,015

7. Tax

The charge is made up as follows:-

On the taxable profit for the year		
UK corporation tax at 31% (1997 33%)	1,424,045	1,570,600
Deferred tax	150,000	-
Prior year adjustments	(40,044)	(7,223)
	<hr/> 1,534,001	<hr/> 1,563,377

8. Tangible fixed assets

	Freehold land and buildings £	Equipment & vehicles £	Total £
Cost or valuation (see below)			
at 1 April 1997	5,960,720	6,241,005	12,201,725
additions	653,368	1,156,352	1,809,720
revaluation	(994,163)	-	(994,163)
disposals	(12,700)	(74,183)	(86,883)
at 31 March 1998	5,607,225	7,323,174	12,930,399
Depreciation			
at 1 April 1997	1,006,621	4,206,474	5,213,095
provision for the year	81,178	442,714	523,892
revaluation	(1,006,621)	-	(1,006,621)
relating to disposals	(3,245)	(34,777)	(38,022)
at 31 March 1998	77,933	4,614,411	4,692,344
Net book value			
at 31 March 1998	5,529,292	2,708,763	8,238,055
at 31 March 1997	4,954,099	2,034,531	6,988,630

Cost or valuation of freehold land and buildings includes £4,966,577 in respect of properties which were professionally valued on an open market existing use basis as at 1 April 1997, the historical cost of which was £4,812,020. Additions since 1 April 1997 are shown at cost. The value included in the balance sheet in respect of revalued properties is £4,867,276 (1997 £2,750,000).

	At 31.3.98 £	At 31.3.97 £
9. Stocks		
Raw materials	1,989,820	1,827,362
Work in progress	623,872	567,631
Finished goods	400,186	185,352
	3,013,878	2,580,345
10. Debtors		
Trade debtors	4,512,440	3,817,241
Amounts owed by fellow subsidiaries	506,655	285,495
Other debtors	52,126	114,168
Prepayments and accrued income	36,945	260,146
	5,108,166	4,477,050

11. Bank and cash balances

The company operates a group call account into which the company's daily cleared balance and the daily cleared balances of fellow subsidiaries and the parent company are transferred. In addition to the balance shown at 31 March 1998 the company held net debt of £4,860,792 on behalf of other group companies.

	Year to 31.3.98 £	Year to 31.3.97 £
12. Creditors: amounts falling due within one year		
Trade creditors	3,608,480	3,442,616
Amounts due to fellow subsidiaries	369,551	664,780
Amount due to parent company	503,567	15,204
Corporation tax and ACT	1,277,095	1,383,100
Other taxation and social security	1,195,266	1,109,408
Accruals and deferred income	887,840	834,381
	<hr/> 7,841,799	<hr/> 7,449,489

13. Commitments under operating leases

The company had annual commitments under non-cancellable operating leases for vehicles expiring:-

within one year	87,212	133,497
in years 2 to 5	405,373	343,763
after 5 years	15,672	59,365
	<hr/> 508,257	<hr/> 536,625

14. Called up share capital

Ordinary shares of £1 each		
Authorised, allotted and fully paid	50,000	50,000

15. Reserves

	Revaluation reserve £	Profit & Loss account £
At 1 April 1997	1,867,288	13,519,305
Retained profit for the year	-	1,632,828
Revaluation surplus on land and buildings	12,458	-
At 31 March 1998	<hr/> 1,879,746	<hr/> 15,152,133

16. Capital commitment

	Year to 31.3.98 £	Year to 31.3.97 £
Expenditure contracted for	84,990	1,263,600

17. Provisions for liabilities and charges
- deferred tax

At 31.3.98

At 31.3.97

	Not provided	Provision	Not Provided	Provision
	£	£	£	£
Fixed asset timing difference	413,050	150,000	537,970	-
Other	(8,261)	-	(64,698)	-
	<u>404,789</u>	<u>150,000</u>	<u>473,272</u>	<u>-</u>

18. Contingent liabilities

The company has given an unlimited guarantee in respect of the bank overdraft of its parent company. The contingent liability at 31 March 1998 was £10,000,000 (1997 - £10,000,000).

The company has given guarantees in respect of bank loans to its parent company. The contingent liability at 31 March 1998 was £900,000 (1997 - £1,200,000). A guarantee in favour of Bymacks Limited, a fellow subsidiary, also exists for up to £500,000 (1997 - £500,000).

The company has indemnified Lloyds Bank Plc in respect of indemnities and guarantees given by the bank on its behalf. The contingent liability in respect of these indemnities at 31 March 1998 was £40,000 (1997 - £40,000).

19. Pensions

Pensions are provided for staff, including directors, through a defined benefits group scheme, the Airsprung Retirement and Death Benefits Plan. The plan's assets are held in a separate trustee administered fund and the fund is valued every three years by a professional qualified independent actuary. The group also operates the Airsprung Money Purchase Scheme for employees not eligible to join the staff scheme. Additional information on these schemes is included in the Report and Accounts of the ultimate holding company.

20. Ultimate holding company

Airsprung Furniture Group PLC, which owns 100% of the issued share capital of the company and is registered in England and Wales, is the company's ultimate holding company and also its ultimate controlling party. Copies of the ultimate holding company's financial statements may be obtained from its registered office at Canal Road, Trowbridge, Wiltshire, BA14 8RQ.

21. Transactions with related parties

The company has taken advantage of the exemption permitted by Financial Reporting Standard No 8, available to subsidiary undertakings where 90% or more of the voting rights are controlled within the group and where the consolidated financial statements of that group are publicly available, not to disclose transactions with other group companies within these accounts.

The report of the Auditors is on page 4.