

**Annual report
for the year ended 2 March 1997**

	Pages
Directors and advisers	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Report of the auditors	6
Consolidated profit and loss account	7
Balance sheets	8
Consolidated cash flow statement	9
Notes to the financial statements	10 - 21



Directors and advisers

Executive directors

**S H Ward
J D Cotton
B Cotton
D M Mein
N J Cotton**

Registered Auditors

**Coopers & Lybrand
Benson House
33 Wellington Street
LEEDS
LS1 4JP**

Non-executive director

A E Grant

Solicitors

**Pinsent Curtis
41 Park Square
LEEDS
LS1 2NS**

Secretary and registered office

**D M Mein
c/o Pinsent Curtis
41 Park Square
LEEDS
LS1 2NS**

Bankers

**Midland Bank plc
2 Cloth Hall Street
HUDDERSFIELD
HD1 2ES**

**Directors' report
for the year ended 2 March 1997**

The directors present their report and the audited financial statements for the year ended 2 March 1997.

Principal activity

The group's principal activity remains that of manufacturing non-woven textile products including:-

Fillings for the bedding and upholstery trade
Bonded wadding for the quilting and clothing trades
Continental quilts, pillows and sleeping bags for the retail trade
Abrasives for domestic and industrial use

Review of business

The consolidated profit and loss account for the year and the appropriation thereof are set out on page 7. The directors consider the level of business and the year end financial position to be satisfactory and expect the present level of activity to be sustained for the foreseeable future.

Dividends and transfers to reserves

The directors have declared or now recommend the following dividends in respect of the year ended 2 March 1997:

	£
Preference dividends paid	99,375
Ordinary dividends:	
Interim paid	4,000,000
	<hr/>
	4,099,375
	<hr/>

After payment of the above dividends the loss of £760,000 (1996: loss of £14,000) for the financial year will be taken to reserves.

Changes in fixed assets

The movements in tangible fixed assets during the year are set out in note 9 to the financial statements.

Research and development activities

The group is committed to research and development activities in order to maintain its market position. £360,000 (1996: £306,000) of costs attributable to pure and applied research have been written off during the year.

Market value of land and buildings

The directors consider that the open market value of the group's freehold properties, on an existing use basis, exceeds their book value. However, as there is no intention to dispose of these assets, the directors do not consider that the cost of professional valuation is warranted at this time.

Directors

The directors of the company at 2 March 1997, all of whom have been directors for the whole of the year ended on that date, except for S H Ward, N J Cotton and D M Mein, and A E Grant who were appointed on 19 December 1996, are listed on page 1.

Directors' interests in shares of the company

The interests of the directors at 2 March 1997 in the shares of the company were as follows:-

	Number of ordinary shares of 10p each			
	2 March 1997		25 February 1996	
	Beneficial	Non beneficial	Beneficial	Non beneficial
Mr J D Cotton	1,157,627	1,133,542	1,157,627	1,133,142
Mrs B Cotton	214,285	690,285	214,285	690,285
Nr N J Cotton	1,087,067	-	1,087,067	-

Certain shareholdings are duplicated in the above table as both directors have an interest in them as defined by the Companies Act 1985.

Mr J P Zigmond, a partner in Coopers & Lybrand, is a trustee of trusts which own 604,571 ordinary shares in the company.

Employment of disabled persons

The group's policy is to recruit disabled persons for those vacancies which they are able to fill. All necessary assistance with initial training courses is given. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Employee involvement

If and when matters of concern to employees arise, the group takes appropriate steps to inform and consult with the employees concerned.

Political donations

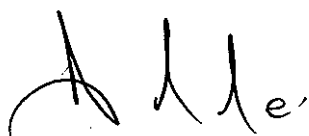
The contributions made by the group during the year for political purposes were:

The Conservative Party	<u>11,000</u>
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Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



D M Mein
Secretary
30 April 1997

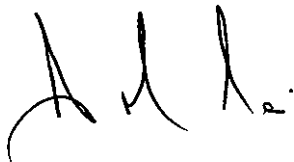
Statement of directors' responsibilities

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 and of the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that 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 2 March 1997. 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 of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

A handwritten signature in black ink, appearing to read 'D M Mein', with a stylized flourish at the end.

D M Mein
Secretary

30 April 1997

**Report of the auditors to the members of
John Cotton (Mirfield) Limited**

We have audited the financial statements on pages 7 to 21.

Respective responsibilities of directors and auditors

As described on page 5 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 and group'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 affairs of the company and the group at 2 March 1997 and of the results and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
Leeds
30 April 1997

**Consolidated profit and loss account
for the year ended 2 March 1997**

	Notes	1997 £'000	1996 £'000
Turnover	2	49,029	39,885
Cost of sales		(37,820)	(33,541)
Gross profit		11,209	6,344
Distribution costs		(4,013)	(3,278)
Administration expenses		(2,085)	(1,621)
Operating profit		5,111	1,445
Interest receivable		45	-
Interest payable on bank overdraft		(62)	(173)
Profit on ordinary activities before taxation	5	5,094	1,272
Taxation	6	(1,755)	(387)
Profit for the financial year	7	3,339	885
Dividends (including dividends in respect of non-equity shares)	8	(4,099)	(899)
Loss sustained for the year	18	(760)	(14)

All of the results included in the profit and loss account above relate to continuing activities.

Movements on reserves are set out in note 18.

The group has no recognised gains and losses other than those included in the results above and, therefore, no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the loss sustained for the year stated above and their historical cost equivalents.

Balance sheets at 2 March 1997

	Notes	Group		Company	
		1997 £'000	1996 £'000	1997 £'000	1996 £'000
Fixed assets					
Tangible assets	9	8,404	7,610	8,233	7,344
Investments	10	-	-	1,111	1,111
		<u>8,404</u>	<u>7,610</u>	<u>9,344</u>	<u>8,455</u>
Current assets					
Stocks	11	2,817	2,594	2,775	2,416
Debtors	12	11,347	11,332	11,248	10,384
Cash at bank and in hand		14	9	14	7
		<u>14,178</u>	<u>13,935</u>	<u>14,037</u>	<u>12,807</u>
Creditors: amounts falling due within one year	13	(11,000)	(9,838)	(11,224)	(9,114)
Net current assets		<u>3,178</u>	<u>4,097</u>	<u>2,813</u>	<u>3,693</u>
Total assets less current liabilities		<u>11,582</u>	<u>11,707</u>	<u>12,157</u>	<u>12,148</u>
Creditors: amounts falling due after more than one year	14	-	-	(1,101)	(1,101)
Provisions for liabilities and charges	15	(1,475)	(840)	(1,475)	(840)
		<u>(1,475)</u>	<u>(840)</u>	<u>(2,576)</u>	<u>(1,941)</u>
Net assets		<u>10,107</u>	<u>10,867</u>	<u>9,581</u>	<u>10,207</u>
Capital and reserves					
Called-up share capital	17	1,052	1,052	1,052	1,052
Share premium account		437	437	437	437
Capital redemption reserve		58	58	58	58
Profit and loss account	18	8,560	9,320	8,034	8,660
Equity shareholders' funds		<u>9,357</u>	<u>10,117</u>	<u>8,831</u>	<u>9,457</u>
Non-equity shareholders' funds		<u>750</u>	<u>750</u>	<u>750</u>	<u>750</u>
Total shareholders' funds	19	<u>10,107</u>	<u>10,867</u>	<u>9,581</u>	<u>10,207</u>

The financial statements on pages 7 to 21 were approved by the board of directors on 30 April 1997 and were signed on its behalf by:-



J D Cotton
Director

**Consolidated cash flow statement
for the year ended 2 March 1997**

	1997 £'000	1996 £'000
Operating profit	5,111	1,445
Depreciation on tangible fixed assets	1,209	1,226
(Profit)/loss on sale of tangible fixed assets	14	(44)
(Increase)/decrease in stocks	(223)	758
Increase in trade debtors	(172)	(1,451)
Decrease/(increase) in prepayments and accrued income	157	(141)
Increase/(decrease) in trade creditors	1,987	(631)
Increase/(decrease) in other taxation and social security	60	(22)
(Decrease)/increase in other creditors	(27)	80
Increase in other provisions	500	-
Net cash inflow from operating activities	8,616	1,220
Returns on investments and servicing of finance		
Interest received	45	-
Interest paid	(62)	(173)
Dividends paid	(4,899)	(99)
Net cash outflow from returns on investments and servicing of finance	(4,916)	(272)
Taxation		
Corporation tax paid	(580)	(188)
Investing activities		
Purchase of tangible fixed assets	(2,263)	(463)
Sale of tangible fixed assets	246	54
Net cash outflow from investing activities	(2,017)	(409)
Increase in cash and cash equivalents	1,103	351
Changes during the year		
At 26 February 1996	(1,735)	(2,086)
Net cash inflow	1,103	351
At 2 March 1997	(632)	(1,735)

**Notes to the financial statements
for the year ended 2 March 1997****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements for the parent company and its subsidiaries made up to the end of the financial period. The results of subsidiaries sold or acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Inter-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

The excess of the purchase price over the value of the net assets of subsidiary undertakings is written off at the date of acquisition.

Tangible fixed assets

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose, which are consistent with those of the previous year, are:-

	%
Freehold buildings	2
Plant, equipment and motor vehicles	5, 10 and 20

Freehold land is not depreciated.

Research and development

Research and development expenditure is charged against profit of the year in which it is incurred.

Principal accounting policies (continued)**Operating leases**

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks and work in progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Provision is made where necessary for obsolete, slow moving and defective stocks.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction is entered into. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date, except in those instances where a forward exchange contract has been arranged in which case this forward rate is used. Exchange gains or losses are included in operating profit.

Turnover

Turnover, which excludes value added tax, sales between group companies and trade discount, represents the invoiced value of goods and services supplied. Turnover is derived entirely from activities in the United Kingdom.

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items and other permanent differences. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the corporation tax rate which is expected to be applied when the liability or asset is expected to crystallise.

Pension costs

Pension contributions are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group.

The group provides no other post-retirement benefits to its employees.

2 Turnover by geographical area

The analysis by geographical area of the group's turnover is set out below:-

	1997 £'000	1996 £'000
Geographical segment		
United Kingdom	45,233	35,946
Rest of Europe	2,600	1,901
Rest of the World	1,196	2,038
	<u>49,029</u>	<u>39,885</u>

3 Directors' emoluments

The remuneration paid to the directors of the company for management services, including pension contributions, was £652,835 (1996: £440,000).

Emoluments (excluding pension contributions) include amounts paid to:-

	1997	1996
The chairman and highest paid director	<u>£469,300</u>	<u>£277,950</u>

The number of directors (excluding the chairman and the highest-paid director) who received emoluments (excluding pension contributions) in the following ranges was:-

	1997 Number	1996 Number
£0 to £5,000	1	1
£15,001 to £20,000	1	-
£30,001 to £35,000	1	-
£45,001 to £50,000	1	-
£50,001 to £55,000	1	1

4 Employee information

The average weekly number of persons (excluding executive directors) employed by the group during the year was:-

	1997 Number	1996 Number
By type of work		
Production	442	384
Selling and distribution	43	48
Administration	24	24
	<u>509</u>	<u>456</u>
	<u>509</u>	<u>456</u>
	1997	1996
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	8,494	6,975
Social security costs	866	711
Other pension costs (see note 16)	-	7
	<u>9,360</u>	<u>7,693</u>
	<u>9,360</u>	<u>7,693</u>

5 Profit on ordinary activities before taxation

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charge for the year:		
Tangible owned fixed assets	1,209	1,226
Auditors' remuneration for:		
Audit (Company £20,680; 1996: £18,500)	30	28
Non-audit services	88	101
Research and development expenditure	360	306
Hire of plant and machinery - operating leases	235	203
Loss/(profit) on disposal of tangible fixed assets	14	(44)
	<u>1,946</u>	<u>1,820</u>
	<u>1,946</u>	<u>1,820</u>

6 Taxation

	1997 £'000	1996 £'000
United Kingdom corporation tax at 33% (1996: 33%):		
Current	1,840	400
Deferred	(65)	20
	<u>1,775</u>	<u>420</u>
Adjustments in respect of prior years:		
Current	(20)	(33)
	<u>1,755</u>	<u>387</u>

7 Profit for the financial year

As permitted by Section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. Of the result for the year, a profit of £3,473,000 (1996: £706,000) has been dealt with in the financial statements of the company.

8 Dividends

	1997 £'000	1996 £'000
Preference paid	99	99
Ordinary:		
Interim paid	4,000	800
	<u>4,099</u>	<u>899</u>

9 Tangible fixed assets
Group

	Freehold land and buildings £'000	Plant and machinery and motor vehicles £'000	Total £'000
Cost			
At 26 February 1996	2,200	17,194	19,394
Additions	276	1,987	2,263
Disposals	-	(1,313)	(1,313)
	<u>2,476</u>	<u>17,868</u>	<u>20,344</u>
At 2 March 1997			
Depreciation			
At 26 February 1996	618	11,166	11,784
Charge for the year	46	1,163	1,209
Eliminated in respect of disposals	-	(1,053)	(1,053)
	<u>664</u>	<u>11,276</u>	<u>11,940</u>
At 2 March 1997			
Net book value			
At 2 March 1997	<u>1,812</u>	<u>6,592</u>	<u>8,404</u>
Net book value			
At 25 February 1996	<u>1,582</u>	<u>6,028</u>	<u>7,610</u>

At 2 March 1997, the group had tangible fixed assets, having a cost of approximately £6,621,000 (1996: £6,625,000) which were fully written down in the books of the group.

Tangible fixed assets (continued)
Company

	Freehold land and buildings £'000	Plant and machinery and motor vehicles £'000	Total £'000
Cost			
At 26 February 1996	2,025	16,681	18,706
Additions	276	1,978	2,254
Disposals	-	(1,217)	(1,217)
	<u> </u>	<u> </u>	<u> </u>
At 2 March 1997	2,301	17,442	19,743
	<u> </u>	<u> </u>	<u> </u>
Depreciation			
At 26 February 1996	566	10,796	11,362
Charge for the year	42	1,139	1,181
Eliminated in respect of disposals	-	(1,033)	(1,033)
	<u> </u>	<u> </u>	<u> </u>
At 2 March 1997	608	10,902	11,510
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 2 March 1997	1,693	6,540	8,233
	<u> </u>	<u> </u>	<u> </u>
Net book value			
At 25 February 1996	1,459	5,885	7,344
	<u> </u>	<u> </u>	<u> </u>

At 2 March 1997, the company had tangible fixed assets, having a cost of approximately £6,438,000 (1996: £6,417,000) which were fully written down in the books of the company.

Included within the group and company plant and machinery and motor vehicles are assets in the course of construction amounting to £293,209 (1996: £Nil).

10 Fixed asset investments
Company

	Interests in group undertakings £'000
Cost	
At 26 February 1996 and 2 March 1997	1,111
	<u> </u>

Fixed asset investments (continued)

All the group undertakings are 100% owned and registered in England and Wales.

With the exception of John Cotton Fibres Limited, none of the group undertakings traded during the year. The principal activity of John Cotton Fibres Limited is that of processing hosiery waste.

11 Stocks

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Raw materials and consumables	2,212	1,917	2,195	1,875
Finished goods and goods for resale	605	677	580	541
	<u>2,817</u>	<u>2,594</u>	<u>2,775</u>	<u>2,416</u>

12 Debtors

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Trade debtors	11,093	10,921	10,838	9,768
Prepayments and accrued income	254	411	295	428
Amounts owed by subsidiary undertakings	-	-	115	188
	<u>11,347</u>	<u>11,332</u>	<u>11,248</u>	<u>10,384</u>

All the above amounts are due within one year.

13 Creditors: amounts falling due within one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank overdraft	646	1,744	445	887
Trade creditors	8,241	6,254	8,212	5,811
Amounts owed to subsidiary undertakings	-	-	422	610
Corporation tax payable	627	387	627	387
Advance corporation tax payable	1,000	200	1,000	200
Other taxation and social security payable	268	208	263	189
Other creditors	175	202	212	187
Dividends payable	43	843	43	843
	<u>11,000</u>	<u>9,838</u>	<u>11,224</u>	<u>9,114</u>

14 Creditors: amounts falling due after more than one year

	Group		Company	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Amounts owed to subsidiary undertakings	-	-	1,101	1,101
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Provisions for liabilities and charges
Group and company

	Other provisions	Deferred taxation	Total
	£'000	(see below)	£'000
	£'000	£'000	£'000
At 26 February 1996	-	840	840
Profit and loss account	500	135	635
	<u> </u>	<u> </u>	<u> </u>
At 2 March 1997	500	975	1,475
	<u> </u>	<u> </u>	<u> </u>

Deferred taxation

Deferred taxation provided and unprovided in the financial statements is as follows:-

Group

	Amounts provided		Amounts unprovided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Accelerated capital allowances	1,056	1,066	-	-
Losses	(21)	(38)	-	-
Short term timing differences	(60)	12	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	975	1,040	-	-
Less: ACT recoverable	-	(200)	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	975	840	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

15 Provisions for liabilities and charges (continued)
Company

	Amounts provided		Amounts unprovided	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Accelerated capital allowances	1,035	1,028	-	-
Short term timing differences	(60)	12	-	-
	<u>975</u>	<u>1,040</u>	<u>-</u>	<u>-</u>
Less: ACT recoverable	-	(200)	-	-
	<u>975</u>	<u>840</u>	<u>-</u>	<u>-</u>

16 Pension obligations

- (a) The company operates a funded defined benefit scheme, the assets of which are held separately from those of the company in an independently administered fund. The last actuarial valuation was carried out as at 6 April 1994 by an independent qualified actuary. The actuary used the projected unit method for determining the future costs. The principal assumption was that the average future rate of return on assets would exceed the average rate of future salary inflation by 2% per annum. No allowance for discretionary increases to pensions in payment was made.

The market value of the assets held in respect of the company members at 6 April 1994 was £3,031,000 and the funding level based on the actuarial value of the assets was 145%. The company's level of contributions has been adjusted to take account of the past level of overfunding. The total pension cost for the company was £Nil (1996: £7,000).

- (b) In addition to the scheme in (a) above the company also operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £31,000 (1996: £142,000).

17 Called-up share capital

	1997 £'000	1996 £'000
Authorised		
7,500,000 ordinary shares of 10p each	750	750
750,000 13.25% cumulative preference shares of £1 each	750	750
	<u>1,500</u>	<u>1,500</u>
Allotted, called-up and fully paid		
3,022,858 ordinary shares of 10p each	302	302
750,000 13.25% cumulative preference shares of £1 each	750	750
	<u>1,052</u>	<u>1,052</u>

18 Profit and loss account

	Group		Company	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000
At beginning of the year	9,320	9,334	8,660	8,853
Loss sustained for the year	(760)	(14)	(626)	(193)
At end of the year	<u>8,560</u>	<u>9,320</u>	<u>8,034</u>	<u>8,660</u>

19 Reconciliation of movements in shareholders' funds

	1997 £'000	1996 £'000
Profit for the financial year	3,339	885
Dividends	(4,099)	(899)
Net deduction from shareholders' funds	<u>(760)</u>	<u>(14)</u>
Opening shareholders' funds	10,867	10,881
Closing shareholders' funds	<u>10,107</u>	<u>10,867</u>

20 Capital commitments

	Group and company	
	1997 £'000	1996 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	373	-
Capital expenditure that has been authorised by the directors but has not yet been contracted for	391	49

21 Contingent liabilities

The company is party to a group banking arrangement with John Cotton Fibres Limited. Under these arrangements the company has given an unlimited guarantee in respect of the fluctuating bank overdrafts of John Cotton Fibres Limited which at 2 March 1997 amounted to £201,000. No loss is expected to arise.

22 Financial commitments

At 25 February 1996 the group had annual commitments under non-cancellable operating leases in respect of plant and machinery as follows:-

	1997	1996
	£'000	£'000
Expiring within one year	58	51
Expiring between two and five years inclusive	167	116
	==	==
	225	167
	==	==

23 Related party disclosure

During the year an interest free unsecured loan of £107,000 was granted to Ken Morris, who was appointed managing director of John Cotton Fibres Limited subsequent to the year end. This loan remains fully outstanding at 2 March 1997 and is included within debtors.

24 Ultimate controlling party

Having regard to the disposition of shareholdings and the obligations of trustees of trusts which own shares in the company, the directors consider that the company has no ultimate controlling party.