

Company Registration No. 273492

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the year ended 26 February 2006**

**John Cotton Group  
Limited**

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# JOHN COTTON GROUP LIMITED

## DIRECTORS AND ADVISERS

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<b>Directors</b>	J D Cotton B Cotton D M Mein M A Cotton A E Grant
<b>Secretary</b>	S G Swalwell
<b>Company number</b>	273492
<b>Registered office</b>	No 1 Park Row Leeds West Yorkshire LS1 5AB
<b>Auditors</b>	Mazars LLP Mazars House Gelderd Road Gildersome Leeds West Yorkshire LS27 7JN
<b>Solicitors</b>	Pinsent Masons No 1 Park Row Leeds West Yorkshire LS1 5AB
<b>Bankers</b>	HSBC Bank plc 2 Cloth Hall Street Huddersfield West Yorkshire HD1 2ES

# **JOHN COTTON GROUP LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 26 FEBRUARY 2006**

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The directors present their report and financial statements for the year ended 26 February 2006.

### **Directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss of the company and group for that period. In preparing those 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group will continue in business.

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

### **Review of the business**

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; and
- Continental quilts, pillows and sleeping bags for the retail trade.

The consolidated profit and loss account for the year and the appropriation thereof are set out on page 6. 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**

No ordinary dividend is proposed for the year (2005: £Nil). The profit attributable to ordinary shareholders was £3,524,000 (2005: £3,680,000).

### **Redemption of preference shares**

During the year, the company redeemed 460,000 13.25% cumulative preference £1.00 shares with a nominal value of £460,000, at a cost of £881,000.

# JOHN COTTON GROUP LIMITED

## DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 26 FEBRUARY 2006

### 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, the group has chosen not to revalue these properties and will, in accordance with FRS 15, continue to carry these properties in the financial statements at their historic cost.

### Directors

The directors set out below have held office during the whole of the period from 28 February 2005 to the date of this report unless otherwise stated.

J D Cotton  
B Cotton  
D M Mein  
M A Cotton  
A E Grant

The interests of the directors holding office on 26 February 2006 in the shares of the company, according to the register of directors' interests, were as shown below:-

	Number of ordinary shares of 10p each			
	26 February 2006		27 February 2005	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
J D Cotton	1,157,627	1,133,142	1,157,627	1,133,142
B Cotton	214,285	690,285	214,285	690,285
M A Cotton	1,087,067	-	1,087,067	-
A E Grant	-	604,571	-	604,571
D M Mein	-	-	-	-

Some shareholdings are duplicated in the above table as more than one director has an interest in them as defined by the Companies Act 1985.

### Disabled persons

The group's policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

Disabled employees receive appropriate training to promote their career development within the group. Employees who become disabled are retained in their existing posts where possible or retrained for suitable alternative posts.

### Employee involvement

The company involves its employees and their representatives both in daily decisions and longer term matters. The company is fully committed to keeping all of its employees informed about their work unit and, where appropriate, the wider business. The company also discusses the implications of major business changes and other relevant matters through personal briefings, meetings and email.

# JOHN COTTON GROUP LIMITED

## DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 26 FEBRUARY 2006

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### Creditor payment policy

The group agrees payment terms and conditions with individual suppliers which vary according to the commercial relationship and the terms of the agreements reached. It is the policy of the group that, wherever possible, payments to suppliers are made in accordance with the terms agreed. Creditor days as at 26 February 2006 were 69 days (2005: 70 days).


### Donations

During the year the group made payments of £36,000 for charitable purposes to a variety of organisations and £10,000 for political purposes to the Conservative Party.

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Mazars LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

Approved by the board on 4 August 2006  
and signed on its behalf by



S G Swalwell  
Company Secretary

# **JOHN COTTON GROUP LIMITED**

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN COTTON GROUP LIMITED**

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We have audited the financial statements of John Cotton Group Limited for the year ended 26 February 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company's Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and related notes. These financial statements have been prepared under accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the company and other members of the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatement within it.

### **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 circumstances of the company and the group, 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.

# JOHN COTTON GROUP LIMITED

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHN COTTON GROUP LIMITED (continued)

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### Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's and the group's affairs as at 26 February 2006 and of the group's profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Mazars LLP*

**Mazars LLP**  
**Chartered Accountants**  
and Registered Auditors  
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*5 August 2006*

# JOHN COTTON GROUP LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 26 FEBRUARY 2006

	Notes	2006 £'000	2005 as restated £'000
Turnover	2	79,495	79,975
Cost of sales		<u>(65,446)</u>	<u>(64,597)</u>
Gross profit		14,049	15,378
Distribution costs		(5,521)	(5,387)
Administration expenses		<u>(2,952)</u>	<u>(4,322)</u>
Operating profit		5,576	5,669
Interest receivable		123	102
Interest payable and similar charges	5	(526)	(290)
Other finance income	17	<u>70</u>	<u>19</u>
Profit on ordinary activities before taxation	6	5,243	5,500
Taxation	7	<u>(1,719)</u>	<u>(1,820)</u>
Profit for the financial year	8,20	<u>3,524</u>	<u>3,680</u>

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

The group's turnover and expenses all relate to continuing operations.



# JOHN COTTON GROUP LIMITED

## CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 26 FEBRUARY 2006

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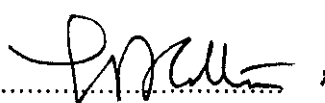
	2006	2005 as restated
	£'000	£'000
Profit and loss for the financial year as reported	3,524	3,680
Actuarial gains on defined benefit pension schemes	388	176
Deferred tax on defined benefit pension scheme	(116)	(52)
Total gains and losses recognised relating to the year	<u>3,796</u>	<u>3,804</u>
Prior year adjustment – full adoption of FRS17	(890)	
Prior year adjustment – adoption of FRS 25	(97)	
Total recognised gains and losses since last annual report	<u>2,809</u>	

# JOHN COTTON GROUP LIMITED

## BALANCE SHEETS AS AT 26 FEBRUARY 2006

	Notes	Group		Company	
		2006	2005 as restated	2006	2005 as restated
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Goodwill	9	1,265	1,367	-	-
Tangible assets	10	14,118	15,815	13,216	14,942
Investments in subsidiaries	11	-	-	5,112	5,112
Interests in joint venture:	11				
Share of gross assets		1	1	-	-
Share of gross liabilities		(196)	(196)	-	-
		(195)	(195)	-	-
		<u>15,188</u>	<u>16,987</u>	<u>18,328</u>	<u>20,054</u>
<b>Current assets</b>					
Stocks	12	6,437	7,166	5,157	5,867
Debtors: amounts falling due within one year	13	15,900	15,890	14,113	15,000
Debtors: amounts falling due after more than one year	13	196	196	-	-
Cash at bank and in hand		7,095	4,291	7,202	3,942
		<u>29,628</u>	<u>27,543</u>	<u>26,472</u>	<u>24,809</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(18,386)</u>	<u>(18,736)</u>	<u>(20,048)</u>	<u>(19,957)</u>
<b>Net current assets</b>		<u>11,242</u>	<u>8,807</u>	<u>6,424</u>	<u>4,852</u>
<b>Total assets less current liabilities</b>		<u>26,430</u>	<u>25,794</u>	<u>24,752</u>	<u>24,906</u>
<b>Creditors: amounts falling due after more than one year</b>	15	-	(2,189)	(1,101)	(3,290)
<b>Provisions for liabilities and charges</b>	16	<u>(735)</u>	<u>(953)</u>	<u>(872)</u>	<u>(1,175)</u>
<b>Net assets excluding pension liabilities</b>		<u>25,695</u>	<u>22,652</u>	<u>22,779</u>	<u>20,441</u>
Pension liabilities	17	<u>(137)</u>	<u>(890)</u>	<u>(137)</u>	<u>(890)</u>
<b>Net assets including pension liabilities</b>		<u>25,558</u>	<u>21,762</u>	<u>22,642</u>	<u>19,551</u>
<b>Capital and reserves</b>					
Called up share capital	18	271	271	271	271
Share premium account		437	437	437	437
Capital redemption reserve	19	839	379	839	379
Profit and loss account	20	24,011	20,675	21,095	18,464
<b>Equity shareholders' funds</b>	21	<u>25,558</u>	<u>21,762</u>	<u>22,642</u>	<u>19,551</u>

Approved by the board on 4 August 2006  
and signed on its behalf by:

  
J D Cotton  
Director

# JOHN COTTON GROUP LIMITED

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 26 FEBRUARY 2006

	Notes	2006 £'000	2005 as restated £'000
Operating profit		5,576	5,669
FRS 17 charge – current service cost, contributions, settlements and curtailments		(618)	138
Amortisation of goodwill		102	452
Depreciation of tangible fixed assets		3,056	2,095
Loss on sale of tangible fixed assets		183	18
Decrease/(increase) in stocks		729	(1,568)
(Increase) in trade debtors		(293)	(134)
Decrease in other debtors		-	541
Decrease/(increase) in prepayments and accrued income		283	(328)
(Decrease)/increase in trade creditors		(503)	2,817
Increase in other taxation and social security		324	140
(Decrease)/increase in other creditors		(13)	25
<b>Net cash inflow from operating activities</b>		<u>8,826</u>	<u>9,865</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		123	102
Interest paid		(98)	(94)
Dividends paid on preference shares		(50)	(99)
Premium paid on redemption of preference shares		(421)	(97)
<b>Net cash outflow for returns on investments and servicing of finance</b>		<u>(446)</u>	<u>(188)</u>
<b>Taxation</b>			
UK corporation tax paid		(1,515)	(1,691)
Overseas taxation paid		(16)	(11)
		<u>(1,531)</u>	<u>(1,702)</u>
<b>Capital expenditure and financial investment</b>			
Sale of tangible fixed assets		27	1
Purchase of tangible fixed assets		(1,569)	(2,131)
<b>Net cash outflow for capital expenditure and financial investment</b>		<u>(1,542)</u>	<u>(2,130)</u>
<b>Acquisitions</b>			
Purchase of business undertaking		-	(4,563)
<b>Net cash outflow from acquisitions</b>		<u>-</u>	<u>(4,563)</u>
<b>Net cash inflow before financing</b>		5,307	1,282
<b>Financing</b>			
New loan		-	2,200
Decrease in borrowings		(2,043)	(157)
Purchase of own shares		-	(3,000)
Redemption of preference shares		(460)	(290)
<b>Net cash outflow from financing</b>		<u>(2,503)</u>	<u>(1,247)</u>
<b>Increase in cash in the year</b>	22	<u>2,804</u>	<u>35</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

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### 1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. During the year the Group has fully adopted the following new accounting standards issued by the UK Accounting Standards Board: FRS 17 – Retirement Benefits; and FRS 25 – Financial Instruments: Disclosure and Presentation. The impact of adopting these standards has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

A summary of the more important accounting policies, as amended by the adoption of the above, is set out below.

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 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. Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

#### 1.3 Joint ventures

The group has accounted for joint ventures using the gross equity method of accounting in accordance with Financial Reporting Standard ("FRS") 9 (Associates, joint ventures and other joint arrangements). Under this method of accounting the group's share of the aggregate gross assets and liabilities underlying the net equity investment are shown on the face of the balance sheet.

#### 1.4 Goodwill

Where businesses or subsidiaries are acquired, any difference between the cost of acquisition and the value attributable to the acquired assets and liabilities is reflected as goodwill on the balance sheet. Goodwill is written off over its estimated useful life of 20 years (which is considered to be the useful economic life of the related investments).

The directors review the carrying value of goodwill in respect of each acquisition each year to ensure that it is still appropriate to include it in the balance sheet. If an impairment is identified, the carrying value is written down to its recoverable amount.

#### 1.5 Tangible fixed assets

Tangible fixed assets are stated at their purchase price, together with any incidental expenses of acquisition, less accumulated depreciation. 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%, 7½%, 10% and 20%
Short leasehold land and buildings	over the lease term

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

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### **1.6 Research and development**

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

### **1.7 Lease commitments**

Assets held under finance leases, which are those where substantially all the risks and rewards of ownership of the asset have passed to the group, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

### **1.8 Stocks**

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

### **1.9 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.

### **1.10 Turnover**

Turnover, which excludes value added tax, sales between group companies and trade discounts, represents the invoiced value of goods and services supplied.

### **1.11 Taxation**

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

### **1.12 Pension costs**

Following the full adoption of FRS 17, for defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 1.12 Pension costs *(continued)*

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 of the scheme liabilities. The actuarial valuations are obtained at least triennially and the assumptions 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.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

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

### 2 Turnover

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

	2006 £'000	2005 £'000
<b>Geographical segments</b>		
United Kingdom	77,835	77,854
Rest of Europe	1,576	2,027
Rest of the World	84	94
	<u>79,495</u>	<u>79,975</u>

### 3 Directors' emoluments

	2006 £'000	2005 £'000
Emoluments	<u>1,086</u>	<u>1,210</u>

The company made contributions of £16,000 (2005: £43,000) to defined contribution schemes and £13,000 (2005: £12,000) to a defined benefit scheme in respect of directors' qualifying services.

Retirement benefits are accruing to one director (2005: one) under money purchase schemes and one director (2005: one) under a defined benefit scheme.

	2006 £'000	2005 £'000
<b>Highest paid director</b>		
Aggregate emoluments including benefits	<u>640</u>	<u>622</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 4 Employee information

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

	2006 Number	2005 Number
<b>By type of work</b>		
Production	610	681
Selling and distribution	59	61
Administration	24	31
	<u>693</u>	<u>773</u>

	2006 £'000	2005 as restated £'000
<b>Staff costs (for the above persons):</b>		
Wages and salaries	15,510	16,203
Social security costs	1,520	1,591
Other pension costs (see note 17)	(356)	415
	<u>16,674</u>	<u>18,209</u>

### 5 Interest payable and similar charges

	2006 £'000	2005 as restated £'000
Bank loan	98	87
Bank overdraft	-	7
Preference dividend paid	7	99
Premium payable on redemption of preference shares	421	97
	<u>526</u>	<u>290</u>

As a result of the adoption of FRS 25 - Financial Instruments: Disclosure and Presentation, the dividends on the 13.25% cumulative preference shares have been reclassified to be included under the heading Interest payable and similar charges having previously been disclosed as Dividends.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 6 Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation is stated after charging:		
Amortisation/depreciation charge for the year:		
Goodwill	102	452
Tangible owned fixed assets	3,056	2,095
Auditors' remuneration for:		
Audit (Company £20,000 (2005: £19,000))	30	29
Non-audit services	-	4
Research and development expenditure	148	141
Hire of plant and machinery – operating leases	960	1,057
Rental of land and buildings – operating leases	693	563
Loss on disposal of tangible fixed assets	<u>183</u>	<u>18</u>

The impact of the full adoption of FRS 17 – Retirement Benefits has been to increase the operating profit by £618,000 (2005: (£138,000)).

### 7 Taxation on profit on ordinary activities

#### (a) Analysis of charge in period

	2006		2005 as restated	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profits for the period	1,738		1,634	
Adjustments in respect of prior periods	(24)		-	
Overseas tax	<u>16</u>		<u>11</u>	
Total current tax (note 7b)		1,730		1,645
Deferred tax:				
Origination and reversal of timing differences for the period	(2)		174	
Adjustments in respect of previous periods	<u>(9)</u>		<u>1</u>	
Total deferred tax (see note 16)		(11)		175
Tax on profit on ordinary activities		<u>1,719</u>		<u>1,820</u>



# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 7 Taxation on profit on ordinary activities *(continued)*

#### (b) Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2006 £'000	2005 as restated £'000
Profit on ordinary activities before tax	5,243	5,500
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30%)	1,573	1,650
Effects of:		
Expenses not deductible for tax purposes	212	176
Fixed asset timing differences	221	(214)
Adjustment to tax charge in respect of prior periods	(24)	-
Overseas tax rate less than UK rate	(25)	(7)
Short term timing differences	(13)	5
Non-taxable income	(8)	-
Defined benefit pension scheme timing differences	(206)	35
	157	(5)
Current tax charge for period (note 7a)	1,730	1,645

### 8 Profit of parent company

As permitted by Section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. Of the profit for the financial year, a profit of £2,819,000 (2005: £3,049,000) has been dealt with in the financial statements of the company.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 9 Goodwill

<b>Group</b>	<b>Goodwill £'000</b>
<b>Cost</b>	
At 28 February 2005 and 26 February 2006	<u>3,015</u>
<b>Amortisation</b>	
At 28 February 2005	1,648
Charge for the year	102
At 26 February 2006	<u>1,750</u>
<b>Net book value</b>	
At 26 February 2006	<u>1,265</u>
At 27 February 2005	<u>1,367</u>
 <b>Company</b>	 <b>Goodwill £'000</b>
<b>Cost</b>	
At 28 February 2005 and 26 February 2006	<u>350</u>
<b>Amortisation</b>	
At 28 February 2005 and 26 February 2006	<u>350</u>
<b>Net book value</b>	
At 26 February 2006	-
At 27 February 2005	<u>-</u>

Goodwill which has arisen as a result of past acquisitions is being amortised over 20 years. In the opinion of the directors, this represents a prudent estimate of the period over which the group will derive economic benefit from the goodwill existing at the date of acquisition.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 10 Tangible fixed assets

#### Group

	Short leasehold land and buildings £'000	Freehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>				
At 28 February 2005	190	6,248	28,936	35,374
Additions	-	10	1,559	1,569
Disposals	-	-	(1,427)	(1,427)
At 26 February 2006	<u>190</u>	<u>6,258</u>	<u>29,068</u>	<u>35,516</u>
<b>Depreciation</b>				
At 28 February 2005	131	1,264	18,164	19,559
Charge for the year	10	126	2,920	3,056
Eliminated on disposals	-	-	(1,217)	(1,217)
At 26 February 2006	<u>141</u>	<u>1,390</u>	<u>19,867</u>	<u>21,398</u>
<b>Net book value</b>				
At 26 February 2006	<u>49</u>	<u>4,868</u>	<u>9,201</u>	<u>14,118</u>
At 27 February 2005	<u>59</u>	<u>4,984</u>	<u>10,772</u>	<u>15,815</u>

At 26 February 2006 the group had tangible fixed assets having a cost of approximately £11,906,000 (2005: £9,912,000) which were fully written down in the books of the group.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 10 Tangible fixed assets (continued)

#### Company

	Freehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
<b>Cost</b>			
At 28 February 2005	6,248	27,023	33,271
Additions	10	1,381	1,391
Disposals	-	(1,427)	(1,427)
At 26 February 2006	<u>6,258</u>	<u>26,977</u>	<u>33,235</u>
<b>Depreciation</b>			
At 28 February 2005	1,264	17,065	18,329
Charge for the year	126	2,781	2,907
Eliminated on disposals	-	(1,217)	(1,217)
At 26 February 2006	<u>1,390</u>	<u>18,629</u>	<u>20,019</u>
<b>Net book value</b>			
At 26 February 2006	<u>4,868</u>	<u>8,348</u>	<u>13,216</u>
At 27 February 2005	<u>4,984</u>	<u>9,958</u>	<u>14,942</u>

At 26 February 2006 the company had tangible fixed assets having a cost of approximately £11,738,000 (2005: £9,754,000) which were fully written down in the books of the company.

Included within group and company plant, equipment and motor vehicles are assets in the course of construction amounting to £167,000 (2005: £52,000).

### 11 Fixed asset investments

#### Group

	Interests in joint venture £'000
At 28 February 2005	(195)
Share of profit	-
At 26 February 2006 – net liabilities	<u>(195)</u>

The company owns a 50% share of a joint venture company, JCLB Limited. The principal activity of JCLB Limited was the sale of continental quilts and pillows for the retail trade. Due to the poor trading performance of the company, JCLB Limited ceased to trade on 25 February 2002.

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 11 Fixed asset investments (continued)

#### Company

	Interests in subsidiary and joint venture undertakings £'000
<b>Cost</b>	
At 28 February 2005	5,112
Write down of investments	-
At 26 February 2006	<u>5,112</u>

The directors consider that to give full particulars of all subsidiary and joint venture undertakings would lead to a statement of excessive length. The following information relates to those undertakings whose results and financial position, in the opinion of the directors, principally affect the figures of the group.

Name of undertaking	Country of Incorporation	Description of shares	Proportion of issued shares held by the company
John Cotton Fibres Limited	England	Ordinary shares of £1 each	100%
Northern Feather (Home Furnishings) Limited	England	Ordinary and deferred shares of 10p each	100%
JCLB Limited (see above)	England	Ordinary shares of £1 each	50%
Onebuild Limited	England	Ordinary shares of £1 each	100%
Snuggledown of Norway (UK) Limited	England	Ordinary shares of £1 each	100% *
GKO Limited	England	Ordinary shares of £1 each	100%
Northern Textiles plc	England	Ordinary shares of £1 each	100% *
Shanghai John Cotton International Trade Company Limited	China	Ordinary shares of \$1 each	100%

\* Held by subsidiary undertaking

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 26 FEBRUARY 2006

### 11 Fixed asset investments (continued)

The principal activity of Northern Feather (Home Furnishings) Limited is the manufacture of quilts and pillows for the retail trade. The principal activity of Shanghai John Cotton International Trade Company Limited is the purchase of quilts and pillows for sale by other group companies. GKO Limited is the holding non-trading company which owns the shares of Northern Textiles plc. Onebuild Limited is the holding non-trading company which owns the shares of Snuggledown of Norway (UK) Limited. Snuggledown of Norway (UK) Limited, John Cotton Fibres Limited and Northern Textiles plc no longer trade.

### 12 Stocks

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Raw materials and consumables	4,633	4,871	3,899	4,299
Finished goods and goods for resale	1,804	2,295	1,258	1,568
	<u>6,437</u>	<u>7,166</u>	<u>5,157</u>	<u>5,867</u>

### 13 Debtors

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
<b>Amounts falling due within one year</b>				
Trade debtors	15,463	15,170	13,667	14,309
Amounts owed by group undertakings	-	-	55	70
Prepayments and accrued income	437	720	391	621
	<u>15,900</u>	<u>15,890</u>	<u>14,113</u>	<u>15,000</u>
<b>Amounts falling due after more than one year</b>				
Amounts owed by joint venture undertaking	<u>196</u>	<u>196</u>	<u>-</u>	<u>-</u>

### 14 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Secured bank loan	-	314	-	314
Trade creditors	15,237	15,740	12,757	13,947
Amounts owed to subsidiary undertakings	-	-	4,677	3,472
Corporation tax payable	950	751	761	554
Other taxation and social security	1,803	1,479	1,510	1,278
Other creditors	396	409	343	349
Dividends payable	-	43	-	43
	<u>18,386</u>	<u>18,736</u>	<u>20,048</u>	<u>19,957</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 15 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
Secured bank loan	-	1,729	-	1,729
Amounts owed to subsidiary undertakings	-	-	1,101	1,101
Preference shares (note 18)	-	460	-	460
	<u>-</u>	<u>2,189</u>	<u>1,101</u>	<u>3,290</u>

The secured bank loan is repayable as follows:-

	2006 £'000	2005 £'000
In less than one year	-	314
In one to two years	-	314
In two to five years	-	942
In more than five years	-	473
	<u>-</u>	<u>2,043</u>

Interest is charged on the loan at 0.75% above Bank of England base rate. The loan was secured by a mortgage on one of the group's freehold properties.

### 16 Provisions for liabilities and charges

#### Deferred taxation

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Accelerated capital allowances	742	972	879	1,194
Short term timing differences	(7)	(19)	(7)	(19)
Undiscounted provision for deferred tax	<u>735</u>	<u>953</u>	<u>872</u>	<u>1,175</u>

	2006 £'000
Provision at start of period	953
Deferred tax credit in profit and loss account for period	(11)
Adjustment for deferred tax charge in profit and loss account for period relating to defined benefit pension scheme	(207)
Provision at end of period	<u>735</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 17 Pensions

#### Defined Benefit Scheme

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 2003 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 increase to pensions in payment was made.

The market value of the assets held in respect of the company members at 6 April 2003 was £5,026,000 and the funding level based on the market value of the assets was 89%. The total pension credit for the company including the costs for the executive directors was £415,000 (2005: charge £360,000).

#### Composition of the Scheme

The full actuarial valuation was carried out at 6 April 2003 and was updated as at 26 February 2006 by a qualified independent actuary. The major assumptions used by the actuary were:-

	26 February 2006 %	27 February 2005 %	29 February 2004 %
Rate of increase in salaries	4.7	4.8	4.8
Rate of increase in pensions payment	2.7	2.8	2.8
Discount rate	5.0	5.5	5.5
Inflation assumption	2.7	2.8	2.8

During the year the company decided to close the defined benefit scheme to future accrual with effect from 5 April 2006. The closure of the scheme to future accrual has been reflected in the update of the actuarial valuation as at 26 February 2006.

The group has adopted FRS 17 Retirement Benefits in full for the year ended 26 February 2006. For the year ended 27 February 2005, the group accounted for retirement benefits under SSAP24 and gave disclosures under FRS17 transitional arrangements.

The fair market value of assets in the scheme and the expected rate of return were:-

	Long-term rate of return expected at 26 February 2006	Value at 26 February 2006 £'000
Equities	7.1%	7,900
Bonds	4.4%	779
Other	4.4%	628
Total market value of assets		9,307
Present value of scheme liabilities		(9,503)
Deficit in scheme		(196)
Related deferred tax asset		59
Net pension liability		(137)



# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 17 Pensions (continued)

	Long-term rate of return expected at 27 February 2005	Value at 27 February 2005 £'000
Equities	7.7%	6,413
Bonds	4.8%	591
Other	4.8%	335
Total market value of assets		7,339
Present value of scheme liabilities		(8,611)
Deficit in scheme		(1,272)
Related deferred tax asset		382
Net pension liability		(890)

	Long-term rate of return expected at 29 February 2004	Value at 29 February 2004 £'000
Equities	7.3%	5,120
Bonds	4.6%	661
Other	4.6%	473
Total market value of assets		6,254
Present value of scheme liabilities		(7,583)
Deficit in scheme		(1,329)
Related deferred tax asset		399
Net pension liability		(930)

- **Liability and funded status**

	At 26 February 2006 £'000	At 27 February 2005 £'000	At 29 February 2004 £'000
Total market value of assets	9,307	7,339	6,254
Value of liabilities	(9,503)	(8,611)	(7,583)
Deficit	(196)	(1,272)	(1,329)

- **Analysis of the amounts charged to operating profit**

	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000
Current service cost (net of employee contributions)	346	360
Settlements or curtailments	(761)	-
Total operation (credit)/charge	(415)	360

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 17 Pensions (continued)

- Analysis of the amounts credited to other finance income

	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000
Expected return on assets	544	436
Interest on liabilities	(474)	(417)
Net return	<u>70</u>	<u>19</u>

- Movement in deficit during the year

	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000	Year to 29 February 2004 £'000
Deficit at beginning of the year	(1,272)	(1,329)	(1,084)
Movement in year:			
Current service cost (including employee contributions)	(506)	(526)	(449)
Contributions	363	388	392
Settlements or curtailments	761	-	-
Net return from other finance income	70	19	54
Actuarial gain/(loss)	388	176	(242)
Deficit at end of the year	<u>(196)</u>	<u>(1,272)</u>	<u>(1,329)</u>

- Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000	Year to 29 February 2004 £'000	Year to 23 February 2003 £'000
Actual return less expected return on assets	1,270	347	713	(1,607)
Experience gains/losses on the liabilities	(110)	(171)	(253)	247
Change in assumptions	(772)	-	(702)	(40)
Actuarial gain/(loss)	<u>388</u>	<u>176</u>	<u>(242)</u>	<u>(1,400)</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 17 Pensions (continued)

- History of experience gains and losses

	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000	Year to 29 February 2004 £'000	Year to 23 February 2003 £'000
Difference between the actual and expected return on assets	1,270	347	713	(1,607)
- as % of scheme assets	14%	5%	11%	(33%)
Experience gains/losses on liabilities	(110)	(171)	(253)	247
- as % of liabilities	(1%)	(2%)	(3%)	4%
Total amount recognised in STRGL	388	176	(242)	(1,400)
- as % of liabilities	4%	2%	(3%)	(24%)

#### Defined Contribution Schemes

The company also operates a defined contribution pension scheme as a separate section of the defined benefit scheme. The assets of this section 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 £47,000 (2005: £40,000).

In addition to the above scheme, the company operates a further 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 £16,000 (2005: £43,000) including contributions for the executive directors.

One of the company's subsidiaries, Northern Feather (Home Furnishings) Limited, operates a defined contribution pension scheme, the assets of which are held separately from those of the company in an independently administered fund. The total pension cost for the group in respect of these arrangements was £13,000 (2005: £13,000).

The company also made contributions to personal pension schemes for certain staff. The funds of these schemes are administered by trustees and are separate from those of the company. The total pension cost for the group in respect of these arrangements was £12,000 (2005: £14,000).

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 18 Called-up share capital

	2006	2005 as restated
	£'000	£'000
<b>Authorised</b>		
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>
<b>Allotted, called-up and fully paid</b>		
<b>Included in share capital</b>		
2,708,743 ordinary shares of 10p each (2005 – 2,708,743)	<u>271</u>	<u>271</u>
<b>Included in creditors</b>		
Nil 13.25% cumulative preference shares of £1 each (2005 – 460,000)	<u>-</u>	<u>460</u>

#### Preference shares

Following adoption of FRS 25 - Financial Instruments: Disclosure and Presentation, the 13.25% cumulative preference shares have been reclassified as a liability and as a result the 27 February 2005 balance sheets have been restated to include the 13.25% cumulative preference shares within Creditors: amounts falling due after more than one year.

#### Redemption of preference shares

During the year 460,000 13.25% cumulative preference shares having a nominal value of £460,000, were redeemed by the company for an aggregate consideration of £881,000. These shares were then cancelled and the nominal value of the shares transferred to the capital redemption reserve (see note 19). Following the adoption of FRS 25 the premium payable on redemption of preference shares has been charged to the profit and loss account as finance costs. A prior year adjustment to the profit and loss account has been made to reflect this treatment for the shares redeemed in the previous period. As a result of the restatement the profit for the financial year ended 27 February 2005 has been reduced by £97,000.

### 19 Capital redemption reserve

	Group		Company	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
At 28 February 2005	379	58	379	58
Purchase of own ordinary shares	-	31	-	31
Redemption of preference shares	460	290	460	290
At 26 February 2006	<u>839</u>	<u>379</u>	<u>839</u>	<u>379</u>

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 20 Profit and loss account

	Group		Company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
At 28 February 2005 as previously reported	21,565	21,091	19,354	19,511
Prior year adjustment	(890)	(930)	(890)	(930)
As restated	20,675	20,161	18,464	18,581
Purchase of own ordinary shares	-	(3,000)	-	(3,000)
Transfer to capital redemption reserve on redemption of preference shares	(460)	(290)	(460)	(290)
Actuarial gain on defined benefit pension scheme (net of tax)	272	124	272	124
Retained profit for the financial year	3,524	3,680	2,819	3,049
At 26 February 2006	24,011	20,675	21,095	18,464

The prior year adjustment reflected above is as a result of the full adoption of FRS 17: Retirement Benefits.

### 21 Reconciliation of movements in shareholders' funds

	Group		Company	
	2006	2005 as restated	2006	2005 as restated
	£'000	£'000	£'000	£'000
Profit for the financial year	3,524	3,680	2,819	3,049
Actuarial gain on defined benefit pension scheme (net of tax)	272	124	272	124
Purchase of own ordinary shares	-	(3,000)	-	(3,000)
Net movement in shareholders' funds	3,796	804	3,091	173
Opening shareholders' funds	21,762	20,958	19,551	19,378
Closing shareholders' funds	25,558	21,762	22,642	19,551

Group and company - of the total reserves £1,276,000 (2005: £816,000) is not available for distribution.

### 22 Analysis of net funds

	At 28 February 2005 £'000	Cash flow £'000	At 26 February 2006 £'000
Cash in hand, at bank	4,291	2,804	7,095
Bank loan due within one year	(314)	314	-
Bank loan due after one year	(1,729)	1,729	-
	2,248	4,847	7,095

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

### 23 Reconciliation of net cash flow to movement in net debt

	2006 £'000	2005 £'000
Increase in cash in period	2,804	35
Cash flow from decrease/(increase) in debt	2,043	(2,043)
Change in net debt resulting from cash flows	4,847	(2,008)
Net cash at 28 February 2005	2,248	4,256
Net cash at 26 February 2006	7,095	2,248

### 24 Capital commitments

	Group and company	
	2006 £'000	2005 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	97	26
Capital expenditure that has been authorised by the directors but has not yet been contracted for	326	337

### 25 Contingent liabilities

The company is party to an unlimited multilateral guarantee in respect of the fluctuating overdrafts of John Cotton Fibres Limited, Northern Feather (Home Furnishings) Limited, Snuggledown of Norway (UK) Limited and Northern Textiles plc which at 26 February 2006 amounted to £681,000 (2005: £128,000). No loss is expected to arise.

### 26 Financial commitments

At 26 February 2006 the group had annual commitments under non-cancellable operating leases in respect of land and buildings and plant and machinery as follows:-

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	400	170	-	124
Expiring between two and five years inclusive	189	355	400	335
Expiring in over five years	42	35	200	7
	631	560	600	466

# JOHN COTTON GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 26 FEBRUARY 2006

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### 27 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from disclosing related party transactions with wholly owned subsidiaries included in its consolidated financial statements.

As at 26 February 2006 the company was owed a loan balance of £196,000 (2005: £196,000) from JCLB Limited which is a joint venture between John Cotton Group Limited, a company registered in England and Wales and Louisville Bedding, a company registered in the United States of America. This has been included in the financial statements as debtors due after more than one year.

### 28 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 Mr J D Cotton is the ultimate controlling party.