

Company Registration No. 273492

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**Financial Statements for
the year ended 2 March 2008**

**John Cotton Group
Limited**

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JOHN COTTON GROUP LIMITED

DIRECTORS AND ADVISERS

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

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 2 MARCH 2008

The directors present their report and financial statements for the year ended 2 March 2008.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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; and
- 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.

Principal activities

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 and pillows 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.

Review of the business and financial highlights

The directors are satisfied with the overall financial performance in 2008.

The challenging market has meant that the group has had to restructure and lower its cost of production in order to stay competitive. As a result, the group expanded into Poland during the year to take advantage of the lower cost of production and allow the group to keep prices competitive.

The directors of the business consider the key performance indicators (KPI's) of the group to be:

- turnover;
- gross margin; and
- operating profit.

The group has achieved strong growth in its key markets during the 2008 financial year with increases in turnover of 10.4% but has seen a reduction in its gross margin to 18.3% (2007: 20.9%) mainly as a result of pressure from customers to reduce selling prices together with increased raw material prices which have not been fully passed onto our customers.

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 2 MARCH 2008

The directors of the business consider the non-financial KPI's of the group to be:

- staff retention;
- environmental issues; and
- health and safety compliance and improvements.

The directors review each of the non-financial KPI's regularly ensuring that the group is maximising its added value in each of the areas.

The group ends the year in a strong position despite the changing and challenging market and overall economic conditions.

Risk exposure and mitigating procedures

Market risk

One of the major risks to the business is customer loss through non-competitive pricing. The group has mitigated this risk by investing in plant and machinery to ensure that manufacturing costs are minimised.

Operational risk

The group has solid reporting systems and produces timely and accurate management information which is consistently reviewed by the directors.

Financial risk

Financial risks are managed through internal management controls, regular, timely and accurate management information and by carefully monitoring the prices and forecast production requirements. The group mitigates its foreign exchange risk by having forward currency contracts on future committed purchases.

Dividends

An interim dividend of £0.80 per share amounting to £2,000,000 was paid during the year (2007: £nil). The profit attributable to ordinary shareholders after the payment of the dividend was £2,131,000 (2007: £5,746,000).

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 26 February 2007 to the date of this report unless otherwise stated.

J D Cotton
B Cotton
D M Mein
M A Cotton
A E Grant
G E Frost (appointed 25 April 2007)

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 2 MARCH 2008

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

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 2 March 2008 were 82 days (2007: 90 days).

Donations

During the year the group made payments of £1,200 for charitable purposes to a variety of organisations and £12,500 for political purposes to the Conservative Party.

Future developments

The directors are optimistic about the future despite the increasing market and economic pressures. The directors are confident that the group has structured itself in a way to meet the ongoing changes in the global economy.

Qualifying third party indemnity provisions

The group had Directors' and officers insurance in place throughout the year.

Auditors

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

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 2 MARCH 2008

Statement of disclosure to auditors

- (a) so far as the directors are aware, there is no relevant audit information of which the company and group's auditors are unaware, and
- (b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company and group's auditors are aware of that information.

Approved by the board on 20 August 2008
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

We have audited the financial statements of John Cotton Group Limited for the year ended 2 March 2008 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, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

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 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.

JOHN COTTON GROUP LIMITED

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

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 2 March 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Mazars LLP

Mazars LLP
Chartered Accountants
and Registered Auditors
LEEDS

20 August

2008

JOHN COTTON GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 2 MARCH 2008

	Notes	2008 £'000	2007 £'000
Turnover			
Continuing operations		90,803	83,842
Acquisition		1,786	-
Group turnover	2	92,589	83,842
Cost of sales		(75,604)	(66,280)
Gross profit		16,985	17,562
Distribution costs		(6,470)	(5,126)
Administration expenses		(5,197)	(4,523)
Continuing operations		5,776	7,913
Acquisition		(458)	-
Operating profit		5,318	7,913
Interest receivable		513	364
Interest payable and similar charges	5	(60)	(1)
Other finance income	18	-	149
Profit on ordinary activities before taxation	6	5,771	8,425
Taxation	7	(1,640)	(2,679)
Profit for the financial year	8, 21	4,131	5,746

There is no difference between the profit on ordinary activities before taxation and the 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 2 MARCH 2008

	2008	2007
	£'000	£'000
Profit for the financial year as reported	4,131	5,746
Exchange differences arising on translation of net investments in overseas subsidiary undertakings	80	-
Actuarial gains on defined benefit pension scheme	32	14
Deferred tax on defined benefit pension scheme	(10)	(4)
	<hr/>	<hr/>
Total gains and losses recognised relating to the year	4,233	5,756


JOHN COTTON GROUP LIMITED

BALANCE SHEETS AS AT 2 MARCH 2008

	Notes	Group		Company	
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Fixed assets					
Goodwill - Positive goodwill		1,061	1,163	-	-
- Negative goodwill		(32)	-	-	-
- Total goodwill	10	1,029	1,163	-	-
Tangible assets	11	17,456	14,717	14,904	13,692
Investments in subsidiaries	12	-	-	5,483	5,112
Interests in joint venture:	12				
Share of gross assets		1	1	-	-
Share of gross liabilities		(196)	(196)	-	-
		(195)	(195)	-	-
		<u>18,290</u>	<u>15,685</u>	<u>20,387</u>	<u>18,804</u>
Current assets					
Stocks	13	9,177	7,626	7,506	5,931
Debtors: amounts falling due within one year	14	17,537	17,092	16,172	15,243
Debtors: amounts falling due after more than one year	14	196	196	1,141	-
Cash at bank and in hand		9,892	11,073	9,301	11,850
		<u>36,802</u>	<u>35,987</u>	<u>34,120</u>	<u>33,024</u>
Creditors: amounts falling due within one year	15	(21,921)	(20,630)	(24,640)	(23,250)
Net current assets		<u>14,881</u>	<u>15,357</u>	<u>9,480</u>	<u>9,774</u>
Total assets less current liabilities		<u>33,171</u>	<u>31,042</u>	<u>29,867</u>	<u>28,578</u>
Creditors: amounts falling due after more than one year	16	-	-	(1,101)	(1,101)
Provisions for liabilities and charges	17	(624)	(706)	(642)	(792)
Net assets excluding pension liabilities		<u>32,547</u>	<u>30,336</u>	<u>28,124</u>	<u>26,685</u>
Pension liabilities	18	-	(22)	-	(22)
Net assets including pension liabilities		<u>32,547</u>	<u>30,314</u>	<u>28,124</u>	<u>26,663</u>
Capital and reserves					
Called up share capital	19	251	251	251	251
Share premium account		437	437	437	437
Capital redemption reserve	20	859	859	859	859
Profit and loss account	21	31,000	28,767	26,577	25,116
Equity shareholders' funds	22	<u>32,547</u>	<u>30,314</u>	<u>28,124</u>	<u>26,663</u>

Approved by the board on 20 August 2008
and signed on its behalf by:

J D Cotton
Director



JOHN COTTON GROUP LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 2 MARCH 2008

	Notes	2008 £'000	2007 £'000
Operating profit		5,318	7,913
FRS 17 charge – current service cost, contributions, settlements and curtailments		-	(1)
Amortisation of goodwill		94	102
Depreciation of tangible fixed assets		2,010	2,031
Loss on sale of tangible fixed assets		55	220
(Increase) in stocks		(1,348)	(1,189)
(Increase) in trade debtors		(108)	(1,237)
Decrease in prepayments and accrued income		135	45
Increase in trade creditors		216	1,826
Increase/(decrease) in other taxation and social security		779	(352)
Increase in other creditors		13	3
Net cash inflow from operating activities		7,164	9,361
Returns on investments and servicing of finance			
Interest received		513	364
Interest paid		(47)	(1)
Net cash inflow for returns on investments and servicing of finance		466	363
Taxation			
UK corporation tax paid		(3,157)	(1,884)
Overseas taxation paid		(6)	(12)
		(3,163)	(1,896)
Capital expenditure and financial investment			
Sale of tangible fixed assets		7	17
Purchase of tangible fixed assets		(3,332)	(2,867)
Net cash outflow for capital expenditure and financial investment		(3,325)	(2,850)
Acquisitions			
Purchase of subsidiary undertaking	12	(371)	-
Cash at bank and in hand acquired with subsidiary undertaking		45	-
Net cash outflow from acquisitions		(326)	-
Equity dividends paid		(2,000)	-
Net cash (outflow)/inflow before financing		(1,184)	4,978
Financing			
Purchase of own shares		-	(1,000)
Net cash outflow from financing			(1,000)
(Decrease)/increase in cash in the year	23,24	(1,184)	3,978

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

1 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, 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 year. 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. Positive 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). Negative goodwill is written back over its useful economic life, which in the opinion of the directors, is 5 years.

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 2 MARCH 2008

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. Exchange differences arising on the translation of opening balances are shown in the statement of recognised gains and losses.

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

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 2 MARCH 2008

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. The amount of any surplus recognised in the balance sheet is limited to the amount that the company can use to generate future economic benefits.

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:-

	2008 £'000	2007 £'000
Geographical segments		
United Kingdom	89,052	81,900
Rest of Europe	3,459	1,861
Rest of the World	78	81
	<u>92,589</u>	<u>83,842</u>

3 Directors' emoluments

	2008 £'000	2007 £'000
Emoluments	<u>1,497</u>	<u>1,365</u>

The company made contributions of £238,000 (2007: £227,000) to defined contribution schemes and £nil (2007: £59,000) to a defined benefit scheme in respect of directors' qualifying services.

Retirement benefits are accruing to two directors (2007: two) under money purchase schemes and no directors (2007: one) under a defined benefit scheme.

	2008 £'000	2007 £'000
Highest paid director		
Aggregate emoluments including benefits	<u>769</u>	<u>758</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

4 Employee information

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

	2008 Number	2007 Number
By type of work		
Production	703	610
Selling and distribution	70	57
Administration	32	23
	<u>805</u>	<u>690</u>

	2008 £'000	2007 £'000
Staff costs (for the above persons):		
Wages and salaries	17,460	15,543
Social security costs	1,795	1,536
Other pension costs (see note 18)	319	419
	<u>19,574</u>	<u>17,498</u>

5 Interest payable and similar charges

	2008 £'000	2007 £'000
Bank overdraft	5	1
Other interest	55	-
	<u>60</u>	<u>1</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

6 Profit on ordinary activities before taxation

	2008 £'000	2007 £'000
Profit on ordinary activities before taxation is stated after charging:		
Amortisation/depreciation charge for the year:		
Goodwill	94	102
Tangible owned fixed assets	2,010	2,031
Auditors' remuneration for:		
Audit (Company £22,000 (2007: £22,000))	33	32
Non-audit services	-	2
Research and development expenditure	335	213
Hire of plant and machinery – operating leases	997	922
Rental of land and buildings – operating leases	755	748
Loss on disposal of tangible fixed assets	55	220

7 Taxation on profit on ordinary activities

(a) Analysis of charge in period

	2008		2007	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profits for the period	1,732		2,656	
Adjustments in respect of prior periods	(16)		(5)	
Overseas tax	6		12	
Total current tax (note 7b)		1,722		2,663
Deferred tax:				
Origination and reversal of timing differences for the period	(38)		19	
Effect of decreased tax rate	(45)		-	
Adjustments in respect of previous periods	1		(3)	
Total deferred tax (see note 16)		(82)		16
Tax on profit on ordinary activities		1,640		2,679

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

7 Taxation on profit on ordinary activities (continued)

(b) Factors affecting tax charge for period

The tax assessed for the period is lower (2007: higher) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	5,771	8,425
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	1,731	2,527
Effects of:		
Expenses not deductible for tax purposes	161	176
Fixed asset timing differences	(189)	(45)
Adjustment to tax charge in respect of prior periods	(16)	(5)
Overseas tax rate less than UK rate	(11)	(17)
Short term timing differences	(48)	72
Losses not utilised	137	-
Industrial building allowances	(55)	-
Enhanced land remediation relief	(1)	-
Tax on dividend from foreign subsidiary	13	-
Defined benefit pension scheme timing differences	-	(45)
	(9)	136
Current tax charge for period (note 7a)	1,722	2,663

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 after dividends for the financial year, a profit of £3,439,000 (2007: £5,011,000) has been dealt with in the financial statements of the company.

9 Dividends

	2008 £'000	2007 £'000
Interim ordinary dividend paid	2,000	-

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

10 Goodwill

Group	Positive goodwill £'000	Negative goodwill £'000	Total goodwill £'000
Cost			
At 26 February 2007	3,015	-	3,015
Additions	-	(40)	(40)
At 2 March 2008	<u>3,015</u>	<u>(40)</u>	<u>2,975</u>
Amortisation			
At 26 February 2007	(1,852)	-	1,852
Charge for the year	(102)	8	94
At 2 March 2008	<u>(1,954)</u>	<u>8</u>	<u>1,946</u>
Net book value			
At 2 March 2008	<u>1,061</u>	<u>(32)</u>	<u>1,029</u>
At 25 February 2007	<u>1,163</u>	<u>-</u>	<u>1,163</u>

Company	Goodwill £'000
Cost	
At 26 February 2007 and 2 March 2008	<u>350</u>
Amortisation	
At 26 February 2007 and 2 March 2008	<u>350</u>
Net book value	
At 2 March 2008	<u>-</u>
At 25 February 2007	<u>-</u>

Positive 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.

Negative goodwill which arose on the acquisition of Indriana Sp. z.o.o. during the financial year is being written back in the profit and loss account over 5 years.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

11 Tangible fixed assets

Group

	Short leasehold land and buildings £'000	Freehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost				
At 26 February 2007	190	6,721	29,595	36,506
Additions	-	72	3,557	3,629
Business acquisition	563	319	310	1,192
Exchange rate movements	115	65	65	245
Disposals	-	-	(841)	(841)
At 2 March 2008	<u>868</u>	<u>7,177</u>	<u>32,686</u>	<u>40,731</u>
Depreciation				
At 26 February 2007	151	1,515	20,123	21,789
Business acquisition	-	-	211	211
Exchange rate movements	-	-	44	44
Charge for the year	19	143	1,848	2,010
Eliminated on disposals	-	-	(779)	(779)
At 2 March 2008	<u>170</u>	<u>1,658</u>	<u>21,447</u>	<u>23,275</u>
Net book value				
At 2 March 2008	<u>698</u>	<u>5,519</u>	<u>11,239</u>	<u>17,456</u>
At 26 February 2007	<u>39</u>	<u>5,206</u>	<u>9,472</u>	<u>14,717</u>

At 2 March 2008 the group had tangible fixed assets having a cost of approximately £15,832,000 (2007: £15,335,000) which were fully written down in the books of the group.

Included within plant, equipment and motor vehicles are assets in the course of construction amounting to £1,015,000 (2007: £693,000).

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

11 Tangible fixed assets (continued)

Company

	Freehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost			
At 26 February 2007	6,721	27,263	33,984
Additions	72	3,016	3,088
Disposals	-	(830)	(830)
At 2 March 2008	<u>6,793</u>	<u>29,449</u>	<u>36,242</u>
Depreciation			
At 26 February 2007	1,515	18,777	20,292
Charge for the year	135	1,690	1,825
Eliminated on disposals	-	(779)	(779)
At 2 March 2008	<u>1,650</u>	<u>19,688</u>	<u>21,338</u>
Net book value			
At 2 March 2008	<u>5,143</u>	<u>9,761</u>	<u>14,904</u>
At 26 February 2007	<u>5,206</u>	<u>8,486</u>	<u>13,692</u>

At 2 March 2008 the company had tangible fixed assets having a cost of approximately £14,869,000 (2007: £14,607,000) which were fully written down in the books of the company.

Included within plant, equipment and motor vehicles are assets in the course of construction amounting to £742,000 (2007: £693,000).

12 Fixed asset investments

Group

	Interests in joint venture £'000
At 26 February 2007	(195)
Share of profit	-
At 2 March 2008 – 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 2 MARCH 2008

12 Fixed asset investments (continued)

Company

	Interests in subsidiary and joint venture undertakings £'000
Cost	
At 26 February 2007	5,112
Addition	371
At 2 March 2008	<u>5,483</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
Northern Feather (Home Furnishings) Limited	England	Ordinary and deferred shares of 10p each	100%
Shanghai John Cotton International Trade Company Limited	China	Ordinary shares of \$1 each	100%
Indriana Sp. z.o.o.	Poland	Ordinary shares of PLN 500 each	100%

The principal activities of Northern Feather (Home Furnishings) Limited and Indriana Sp. z.o.o. are the manufacture of quilts and pillows for the retail trade. The principal activity of Shanghai John Cotton International Trade Company Limited is the manufacture and purchase of quilts and pillows.

13 Stocks

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Raw materials and consumables	6,062	4,919	5,079	3,970
Finished goods and goods for resale	<u>3,115</u>	<u>2,707</u>	<u>2,427</u>	<u>1,961</u>
	<u>9,177</u>	<u>7,626</u>	<u>7,506</u>	<u>5,931</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

14 Debtors

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	16,959	16,700	15,294	14,805
Amounts owed by group undertakings	-	-	383	85
Corporation tax recoverable	295	-	295	-
Prepayments and accrued income	283	392	200	353
	<u>17,537</u>	<u>17,092</u>	<u>16,172</u>	<u>15,243</u>
Amounts falling due after more than one year				
Amounts owed by joint venture undertaking	196	196	-	-
Amounts owed by group undertakings	-	-	1,141	-
	<u>196</u>	<u>196</u>	<u>1,141</u>	<u>-</u>

15 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade creditors	18,518	17,063	15,558	14,821
Amounts owed to subsidiary undertakings	-	-	6,503	5,435
Corporation tax payable	571	1,717	231	1,427
Other taxation and social security	2,318	1,451	2,004	1,227
Other creditors	514	399	344	340
	<u>21,921</u>	<u>20,630</u>	<u>24,640</u>	<u>23,250</u>

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Amounts owed to subsidiary undertakings	<u>-</u>	<u>-</u>	<u>1,101</u>	<u>1,101</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

17 Provisions for liabilities and charges

Deferred taxation

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Accelerated capital allowances	708	793	709	851
Short term timing differences	(84)	(87)	(67)	(59)
	<u>624</u>	<u>706</u>	<u>642</u>	<u>792</u>

	2008
	£'000
Provision at start of year	706
Deferred tax charge in profit and loss account for the year	(82)
Provision at end of year	<u>624</u>

18 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 2006 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 inflation by 3.7% 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 2006 was £9,560,000 and the funding level based on the market value of the assets was 106%. The total pension charge for the company including the costs for the executive directors was £nil (2007: £176,000).

Composition of the Scheme

The full actuarial valuation was carried out at 6 April 2006 and was updated as at 2 March 2008 by a qualified independent actuary. The major assumptions used by the actuary were:-

	2 March 2008	25 February 2007	26 February 2006
	%	%	%
Rate of increase in salaries	N/A	N/A	4.7
Rate of increase in pensions payment	3.2	3.0	2.7
Discount rate	6.6	5.4	5.0
Inflation assumption	3.2	3.0	2.7

The company closed 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 2 March 2008.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

18 Pensions (continued)

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

	Long-term rate of return expected at 2 March 2008	Value at 2 March 2008 £'000
Equities	7.6%	8,061
Bonds	5.5%	972
Other	5.25%	690
Total market value of assets		9,723
Present value of scheme liabilities		(9,113)
Surplus in scheme		610
Unrecognised surplus		(610)
Net pension liability (as disclosed in the balance sheet)		-

Due to the scheme being closed to future accrual with effect from 5 April 2006, the company is unable to generate future economic benefit from the pension scheme surplus. As a result as at 2 March 2008 no surplus is recognised in the company's or group's balance sheet.

	Long-term rate of return expected at 25 February 2007	Value at 25 February 2007 £'000
Equities	7.7%	8,216
Bonds	4.9%	1,022
Other	4.9%	886
Total market value of assets		10,124
Present value of scheme liabilities		(10,156)
Deficit in scheme		(32)
Related deferred tax asset		10
Net pension liability		(22)

	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 2 MARCH 2008

18 Pensions (continued)

- Liability and funded status

	At 2 March 2008 £'000	At 25 February 2007 £'000	At 26 February 2006 £'000
Total market value of assets	9,723	10,124	9,307
Value of liabilities	(9,113)	(10,156)	(9,503)
Surplus/(deficit)	<u>610</u>	<u>(32)</u>	<u>(196)</u>

- Analysis of the amounts charged to operating profit

	Year to 2 March 2008 £'000	Year to 26 February 2007 £'000
Past service cost	-	176
Current service cost (net of employee contributions)	-	-
Settlements or curtailments	-	-
Total operation charge/(credit)	<u>-</u>	<u>176</u>

- Analysis of the amounts credited to other finance income

	Year to 2 March 2008 £'000	Year to 25 February 2007 £'000
Expected return on assets	548	624
Interest on liabilities	(548)	(475)
Net return	<u>-</u>	<u>149</u>

- Movement in deficit during the year

	Year to 2 March 2008 £'000	Year to 25 February 2007 £'000
Deficit at beginning of the year	(32)	(196)
Movement in year:		
Current service cost (including employee contributions)	-	-
Past service costs	-	(176)
Contributions	-	177
Settlements or curtailments	-	-
Net return from other finance income	-	149
Actuarial gain/(loss)	<u>32</u>	<u>14</u>
Deficit at end of the year	<u>-</u>	<u>(32)</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

18 Pensions (continued)

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

	Year to 2 March 2008 £'000	Year to 25 February 2007 £'000
Actual return less expected return on assets	(793)	123
Experience (losses)/gains on the liabilities	(382)	18
Change in assumptions	1,207	(127)
Actuarial gain/(loss)	<u>32</u>	<u>14</u>

- History of experience gains and losses

	Year to 2 March 2008 £'000	Year to 25 February 2007 £'000	Year to 26 February 2006 £'000	Year to 27 February 2005 £'000	Year to 29 February 2004 £'000
Difference between the actual and expected return on assets	(793)	123	1,270	347	713
- as % of scheme assets	(8%)	1%	14%	5%	11%
Experience gains/(losses) on liabilities	(382)	18	(110)	(171)	(253)
- as % of liabilities	(4%)	0.2%	(1%)	(2%)	(3%)
Total amount recognised in STRGL	32	14	388	176	(242)
- as % of liabilities	0.4%	0.1%	4%	2%	(3%)

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 £261,000 (2007: £253,000) including contributions for the executive directors.

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 £225,000 (2007: £215,000) including contributions for the executive directors.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

18 Pensions (continued)

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 £16,000 (2007: £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 £27,000 (2007: £12,000).

19 Called-up share capital

	2008 £'000	2007 £'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		
Included in share capital		
2,507,219 ordinary shares of 10p each	<u>251</u>	<u>251</u>

20 Capital redemption reserve

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 26 February 2007	859	839	859	839
Purchase of own ordinary shares	-	20	-	20
At 2 March 2008	<u>859</u>	<u>859</u>	<u>859</u>	<u>859</u>

21 Profit and loss account

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 26 February 2007	28,767	24,011	25,116	21,095
Purchase of own ordinary shares	-	(1,000)	-	(1,000)
Exchange differences arising on translation of net investments in overseas subsidiary undertakings	80	-	-	-
Actuarial gain on defined benefit pension scheme (net of tax)	22	10	22	10
Profit for the financial year	4,131	5,746	3,439	5,011
Dividends paid	(2,000)	-	(2,000)	-
At 2 March 2008	<u>31,000</u>	<u>28,767</u>	<u>26,577</u>	<u>25,116</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

22 Reconciliation of movements in shareholders' funds

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Profit for the financial year	4,131	5,746	3,439	5,011
Dividends	(2,000)	-	(2,000)	-
	<u>2,131</u>	<u>5,746</u>	<u>1,439</u>	<u>5,011</u>
Exchange differences arising on translation of net investments in overseas subsidiary undertakings	80	-	-	-
Actuarial gain on defined benefit pension scheme (net of tax)	22	10	22	10
Purchase of own ordinary shares	-	(1,000)	-	(1,000)
Net movement in shareholders' funds	<u>2,233</u>	<u>4,756</u>	<u>1,461</u>	<u>4,021</u>
Opening shareholders' funds	<u>30,314</u>	<u>25,558</u>	<u>26,663</u>	<u>22,642</u>
Closing shareholders' funds	<u>32,547</u>	<u>30,314</u>	<u>28,124</u>	<u>26,663</u>

Group and company - of the total reserves £1,296,000 (2007: £1,296,000) is not available for distribution.

23 Analysis of net funds

	At 26 February 2007 £'000	Cash flow £'000	Currency translation difference £'000	At 2 March 2008 £'000
Cash in hand and at bank	<u>11,073</u>	<u>(1,184)</u>	<u>3</u>	<u>9,892</u>

24 Reconciliation of net cash flow to movement in net funds

	2008 £'000	2007 £'000
(Decrease)/increase in cash in period	(1,184)	3,978
Currency translation difference	<u>3</u>	<u>-</u>
Movement in net funds in the period	<u>(1,181)</u>	<u>3,978</u>
Net cash at 26 February 2007	<u>11,073</u>	<u>7,095</u>
Net cash at 2 March 2008	<u>9,892</u>	<u>11,073</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)* FOR THE YEAR ENDED 2 MARCH 2008

25 Capital commitments

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,229	1,164	453	1,164
Capital expenditure that has been authorised by the directors but has not yet been contracted for	536	1,232	357	1,232

26 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 2 March 2008 amounted to £nil (2007: £1,323,000). No loss is expected to arise.

27 Financial commitments

At 2 March 2008, the group had annual commitments under non-cancellable operating leases in respect of land and buildings and plant and machinery as follows:-

	2008		2007	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Expiring within one year	9	125	429	189
Expiring between two and five years inclusive	245	386	245	289
Expiring in over five years	-	50	-	35
	254	561	674	513

28 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 2 March 2008, the company was owed a loan balance of £196,000 (2007: £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.

29 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.