

Company Registration No. 273492

Contents

**Directors' Report and Financial Statements
for the year ended 28 February 2016**

John Cotton Group Limited

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JOHN COTTON GROUP LIMITED

DIRECTORS AND ADVISERS

Directors	J D Cotton MBE B Cotton M A Cotton N J Cotton N H Manning A E Grant
Company Secretary	S G Swalwell
Company number	273492
Registered office	No 1 Park Row Leeds West Yorkshire LS1 5AB
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants & Statutory Auditors St Paul's Place 121 Norfolk Street Sheffield South Yorkshire S1 2LE
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

STRATEGIC REPORT FOR THE YEAR ENDED 28 FEBRUARY 2016

Review of the business

As the business enters its centenary year in 2016, the directors are satisfied with the overall financial performance in 2015/16. Maintenance of the Group's gross margins continues to be a major concern as a result of customer selling price pressures and the increase in key raw material prices due to the 18% devaluation of Sterling against the US dollar following the Brexit vote on 23 June 2016.

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

	2016	2015
	£'000	£'000
- Turnover	171,852	160,506
- Gross profit	34,576	30,645
- Operating profit	14,962	12,815

Demand for the Group's products has increased by 7.1% during 2015/16. This is mainly as a result of increased sales in Poland following increased demand from a number of major retailers and continued growth in the UK from Slumberdown and Snuggledown branded products. Gross profit has increased to 20.1% (2015: 19.1%) mainly due to a move towards sales of higher value products and changes in raw materials. The Group continues to invest in new capital equipment in order to remain competitive and reduce its cost base wherever possible.

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 these areas.

The Group ends the year in a reasonable financial position which should enable it to meet the challenges that will occur during 2016/17.

Principal Risks and Uncertainties

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 established and reliable 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 when considered appropriate on future committed purchases. The Group mitigates its credit risk by taking out a credit insurance policy against its trade debtors in the Company together with the use of internal credit limits.

JOHN COTTON GROUP LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 28 FEBRUARY 2016

Key areas of strategic development

The Group continues to regularly invest in Research and Development in order to continually explore further innovation in both new and existing products.

The Group has previously, and is continuing to focus on its manufacturing processes to ensure the products it produces are as environmentally friendly as possible. Examples of current projects include foam replacement products and the use of recycled fibres.

The directors are confident that the Group has structured itself in a way to meet the ongoing changes in the global economy and the challenges that have arisen following the Brexit vote.

This report was approved by the board on 24 November 2016 and signed by order of the board by:



S G Swalwell
Company Secretary

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2016

The directors present their report and the audited financial statements of the Group for the year ended 28 February 2016.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the Group and parent company financial statements (the "financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law (United Kingdom Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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
- Quilts and pillows for the retail trade.

The consolidated profit and loss account for the year is set out on page 8. 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.

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2016

Dividends

Interim dividends of £4,000,000 were paid during the year (2015: £2,000,000). The directors do not recommend the payment of a final dividend for the year (2015: £Nil). The profit for the financial year was £11,895,000 (2015: profit of £10,041,000).

On 4 April 2016 the Company paid an interim dividend for the year ending 26 February 2017 of £2,000,000.

Going concern

The use of the going concern basis of accounting is appropriate because there are no material uncertainties to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern.

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 102, continue to carry these properties in the financial statements at their historic cost.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements were:

J D Cotton
B Cotton
M A Cotton
N J Cotton (appointed on 17 December 2015)
N H Manning
A E Grant
G E Frost (resigned on 29 February 2016)

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.

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 28 FEBRUARY 2016

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 28 February 2016 were 72 days (2015: 74 days).

Donations

During the year, the Group made payments of £1,322 (2015: £5,400) for charitable purposes to a variety of organisations, and £Nil (2015: £20,000) for political purposes to the Conservative Party.

Qualifying third party indemnity provisions

The Group had Directors' and officers' insurance in place throughout the year and at the date of approval of the financial statements.

EU Referendum

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy, with increased volatility expected to financial markets. This does not impact the fair value of assets and liabilities, reported at the balance sheet date of 28 February 2016.

Provision of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Group and Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 24 November 2016 and signed by order of the board by:



S G Swalwell
Company Secretary

JOHN COTTON GROUP LIMITED

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

Report on the financial statements

Our opinion

In our opinion, John Cotton Group Limited's group financial statements and parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 28 February 2016 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), comprise:

- the consolidated and company balance sheets as at 28 February 2016;
- the consolidated profit and loss account and consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated and company statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events..

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

JOHN COTTON GROUP LIMITED

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

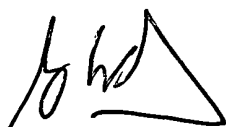
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Sheffield

24 November 2016

JOHN COTTON GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 28 FEBRUARY 2016

	Note	2016 £'000	2015 £'000
Turnover	5	171,852	160,506
Cost of sales		<u>(137,276)</u>	<u>(129,861)</u>
Gross profit		34,576	30,645
Distribution costs		(11,374)	(9,929)
Administrative expenses		<u>(8,240)</u>	<u>(7,901)</u>
Operating profit		14,962	12,815
Interest receivable and similar income		31	37
Interest payable and similar charges	8	(13)	(39)
Interest charge on pension liabilities	23	<u>(61)</u>	<u>(32)</u>
Profit on ordinary activities before taxation	9	14,919	12,781
Tax on profit on ordinary activities	10	<u>(3,024)</u>	<u>(2,740)</u>
Profit for the financial year		<u>11,895</u>	<u>10,041</u>

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

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

The notes on pages 13 to 40 form part of these financial statements.

JOHN COTTON GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 FEBRUARY 2016

	2016 £'000	2015 £'000
Profit for the financial year	11,895	10,041
Exchange differences arising on translation of net investments in overseas subsidiary undertakings	147	(3)
Remeasurements of net defined benefit liabilities	511	(1,447)
Deferred tax on defined benefit pension liabilities	(92)	289
Adjustment to rate of deferred tax on defined benefit pension liabilities	(41)	-
	<hr/>	<hr/>
Total comprehensive income for the year	<u>12,420</u>	<u>8,880</u>

The notes on pages 13 to 40 form part of these financial statements.

JOHN COTTON GROUP LIMITED

Registered Number - 273492

CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 28 FEBRUARY 2016

	Note	Group		Company	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
Fixed assets					
Goodwill	13	245	347	-	-
Intangible assets	14	-	-	-	-
Tangible assets	15	25,705	18,822	21,735	15,352
Investment property	16	1,205	1,205	1,205	1,205
Investments in subsidiaries	17	-	-	7,580	7,580
Interests in joint venture:	17				
Share of gross assets		1	1	-	-
Share of gross liabilities		(196)	(196)	-	-
		(195)	(195)	-	-
		<u>26,960</u>	<u>20,179</u>	<u>30,520</u>	<u>24,137</u>
Current assets					
Stocks	18	18,456	18,030	14,820	15,100
Debtors: amounts falling due within one year	19	30,381	26,703	32,976	29,263
Current asset investments	20	4,382	-	4,382	-
Cash at bank and in hand		18,997	21,589	16,125	19,800
		<u>72,216</u>	<u>66,322</u>	<u>68,303</u>	<u>64,163</u>
Creditors: amounts falling due within one year	21	<u>(41,592)</u>	<u>(36,220)</u>	<u>(44,922)</u>	<u>(40,972)</u>
Net current assets		<u>30,624</u>	<u>30,102</u>	<u>23,381</u>	<u>23,191</u>
Total assets less current liabilities		57,584	50,281	53,901	47,328
Provisions for liabilities	22	-	-	-	-
Pension liabilities	23	(943)	(2,060)	(943)	(2,060)
Net assets		<u>56,641</u>	<u>48,221</u>	<u>52,958</u>	<u>45,268</u>
Capital and reserves					
Called up share capital	25	251	251	251	251
Share premium account		437	437	437	437
Capital redemption reserve		859	859	859	859
Profit and loss account		55,094	46,674	51,411	43,721
Total shareholders' funds		<u>56,641</u>	<u>48,221</u>	<u>52,958</u>	<u>45,268</u>

The financial statements on pages 8 to 40 were approved and authorised for issue by the board and were signed on its behalf on 24 November 2016.



J D Cotton MBE
Director

JOHN COTTON GROUP LIMITED

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 FEBRUARY 2016

Consolidated statement of changes in equity

	Called up Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance as at 3 March 2014	251	437	859	39,794	41,341
Profit for the financial year	-	-	-	10,041	10,041
Other comprehensive expense for the year	-	-	-	(1,161)	(1,161)
Total comprehensive income for the year	-	-	-	8,880	8,880
Dividends (note 12)	-	-	-	(2,000)	(2,000)
Balance as at 1 March 2015	251	437	859	46,674	48,221
Profit for the financial year	-	-	-	11,895	11,895
Other comprehensive income for the year	-	-	-	525	525
Total comprehensive income for the year	-	-	-	12,420	12,420
Dividends (note 12)	-	-	-	(4,000)	(4,000)
Balance as at 28 February 2016	251	437	859	55,094	56,641

Company statement of changes in equity

	Called up Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total shareholders' funds £'000
Balance as at 3 March 2014	251	437	859	37,385	38,932
Profit for the financial year	-	-	-	9,494	9,494
Other comprehensive expense for the year	-	-	-	(1,158)	(1,158)
Total comprehensive income for the year	-	-	-	8,336	8,336
Dividends (note 12)	-	-	-	(2,000)	(2,000)
Balance as at 1 March 2015	251	437	859	43,721	45,268
Profit for the financial year	-	-	-	11,312	11,312
Other comprehensive income for the year	-	-	-	378	378
Total comprehensive income for the year	-	-	-	11,690	11,690
Dividends (note 12)	-	-	-	(4,000)	(4,000)
Balance as at 28 February 2016	251	437	859	51,411	52,958

JOHN COTTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 FEBRUARY 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		11,895	10,041
Adjustments for:			
Tax on profit on ordinary activities		3,024	2,740
Net interest expense		43	34
Operating profit		14,962	12,815
Net cash outflow from defined benefit pension contributions		(667)	(242)
Amortisation of goodwill		102	102
Amortisation of intangible fixed assets		-	20
Depreciation of tangible fixed assets		2,759	3,792
Loss/(profit) on sale of tangible fixed assets		24	(20)
Increase in stocks		(329)	(4,400)
Increase in trade debtors		(3,456)	(8)
Increase in prepayments and accrued income		(111)	(58)
Decrease/(increase) in other debtors		341	(1,939)
Increase in current asset investments		(4,382)	-
Increase in trade creditors		4,117	4,828
Increase in other taxation and social security		378	271
Increase/(decrease) in other creditors		213	(811)
Cash flow from operating activities		13,951	14,350
Taxation paid			
UK corporation tax paid		(2,450)	(1,968)
Overseas taxation paid		(230)	(182)
		(2,680)	(2,150)
Net cash generated from operating activities		11,271	12,200
Cash flow from investing activities			
Proceeds from disposals of tangible fixed assets		23	28
Purchase of tangible fixed assets		(9,573)	(5,347)
Interest received		31	33
Net cash used in investing activities		(9,519)	(5,286)
Cash flow from financing activities			
Dividends paid		(4,000)	(2,000)
Interest paid		(13)	(39)
Net cash used in financing activities		(4,013)	(2,039)
Net (decrease)/increase in cash	26	(2,261)	4,875
Cash at the beginning of the year		21,107	16,197
Exchange gains on cash and cash equivalents		151	35
Cash at the end of the year		18,997	21,107
Cash and cash equivalents consist of:			
Cash at bank and in hand		18,997	21,589
Bank overdrafts		-	(482)
		18,997	21,107

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 28 FEBRUARY 2016

1 General information

John Cotton Group Limited is a private company limited by shares and is incorporated in England. The address of its registered office is No. 1 Park Row, Leeds, LS1 5AB. The nature of the Group's principal activities are set out in the Directors' Report on page 3.

2 Statement of compliance

The Group and individual financial statements of John Cotton Group Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

3 Accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. Details of the transition to FRS 102 are disclosed in note 32.

3.1 Basis of preparation

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

The Company has taken advantage of the exemption in section 408 of the Companies Act from disclosing its individual profit and loss account.

The Company meets the definition of a qualifying entity under FRS 102 and has therefore taken advantage of the exemption not to prepare a statement of cash flows, on the basis that the consolidated statement of cash flows included in these financial statements includes the Company's cash flows.

The Group's financial statements have been prepared in pounds sterling which is the functional currency of the Group rounded to the nearest £'000. Both the functional and reporting currency of the Group is considered to be pounds sterling because that is the currency of the primary economic environment in which the Company operates.

3.2 Going concern

The Group meets its day-to-day working capital requirements through its cash balances and bank facilities. The current economic conditions continue to create uncertainty over (a) the level of demand for the Group's products; and (b) the availability of bank finance for the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

3 Accounting policies (continued)

3.3 Basis of consolidation

The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings 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.

3.4 Joint ventures

The Group has accounted for joint ventures using the gross equity method of accounting in accordance with FRS 102. 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.

3.5 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.

3.6 Intangible fixed assets

Intangible fixed assets, which consist of brand names, trade marks and intellectual property purchased from third parties, are stated at their purchase price, together with any incidental costs of acquisition less accumulated amortisation. The amortisation charge is calculated so as to write off the costs of the intangible fixed assets on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rate used for this purpose is 20%.

3.7 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. No depreciation is charged on freehold land. The principal annual rates used for this purpose, which are consistent with those of the previous year, are:

Freehold buildings	2%
Long leasehold land and buildings	2%
Short leasehold land and buildings	over the lease term
Plant, equipment and motor vehicles	5%, 7½%, 10% and 20%

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

3 Accounting policies (continued)

3.8 Investment property

Investment property is carried at fair value determined annually by external valuers and derived from current market rents and investment property yields for comparable real estate, adjusted if necessary for any differences in the nature, location or condition of the specific asset. No depreciation is provided. Changes in fair value are recognised in the profit and loss account.

3.9 Research and development

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

3.10 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 and included in tangible fixed assets at fair value. They 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.

3.11 Stocks

Stocks are stated at the lower of cost and net realisable value. The cost of finished goods and work in progress includes direct labour and an attributable proportion of appropriate production overheads based on normal levels of activity. Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made where necessary for obsolete, slow moving and defective stocks.

3.12 Current asset investments

Current asset investments consist of freehold properties held for resale. They are stated at the lower of cost and net realisable value.

3.13 Foreign currencies

Trading transactions denominated in foreign currencies are translated into pounds sterling at the exchange rate ruling when the transaction is entered into. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses are included in operating profit. Exchange differences arising on the translation of opening balances in respect of foreign subsidiaries are shown in the statement of comprehensive income.

3.14 Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the profit and loss account immediately.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

3 Accounting policies (continued)

3.15 Turnover

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

3.16 Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Current or deferred tax assets and liabilities are not discounted.

3.17 Employee benefits

The Company operates a number of defined contribution pension schemes for its employees. A defined contribution scheme is a pension scheme under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the schemes are held separately from the Company in independently administered funds.

The Company operates a defined benefit pension scheme for certain employees. A defined benefit scheme defines the pension benefit that the employee will receive on retirement, usually dependent on several factors including age, length of service and remuneration. The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation at the reporting date less the fair value of the scheme assets at the reporting date.

The defined benefit scheme obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ("discount rate"). The fair value of scheme assets is measured in accordance with FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on scheme assets, less amounts included in net interest, are disclosed as "Remeasurement of net defined benefit liability".

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

3 Accounting policies (continued)

3.17 Employee benefits (continued)

The cost of the defined benefit scheme, recognised in the profit and loss account as employee costs, comprises:

- (a) the increase in pension benefits liability arising from employee service during the period; and
- (b) the cost of scheme introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the scheme assets. This cost is recognised in the profit and loss account as "Interest charge on pension liabilities".

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

4 Critical accounting judgements and estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both the current and future periods.

The following are the critical judgements that the directors have made in applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

(a) Rebates to customers

Customer rebates affect the recorded value of revenue and accruals. The amounts payable under rebate agreements are mainly non coterminous with the Group's financial year end, requiring judgement over the level of future sales. At the balance sheet date the directors make judgements on the amount of rebate that will become payable by the Group under these arrangements, based upon prices, volume and product mix.

(b) Recoverability of debtors

A provision is made for debtors that are considered not to be recoverable. When assessing recoverability the directors use factors such as the ageing of the debtors, past experience of recoverability and the credit profile of the customer to calculate the provision required.

(c) Provisions for slow moving and obsolete stock

The Group manufactures duvets, pillows and wadding for the bed industry and is subject to changing customer demands and market conditions. As a result, the directors have reviewed the cost of stocks and the associated provisioning required. When calculating the provisions, the directors have considered the nature and conditions of the stocks as well as the saleability of finished goods and future use of the raw materials.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

4 Critical accounting judgements and estimation uncertainty (continued)

(d) Defined benefit pension scheme

The Company has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, asset valuations and the discount rate on corporate bonds. The directors estimate these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

(e) Provisions

The Group recognises a provision where a legal or constructive obligation exists at the balance sheet date and a reliable estimate can be made of the likely outcome. Although provisions are reviewed on a regular basis and adjusted to the directors' best current estimates, the judgemental nature of these items means that future amounts settled may be different from those provided.

5 Turnover

All turnover relates to the Group's principal activity. The analysis by geographical area of the Group's turnover is set out below:-

	2016 £'000	2015 £'000
Geographical segments		
United Kingdom	148,723	141,692
Rest of Europe	23,070	18,291
Rest of the World	59	523
	<u>171,852</u>	<u>160,506</u>

6 Directors' emoluments

	2016 £'000	2015 £'000
Emoluments	<u>2,982</u>	<u>2,885</u>

The Company made contributions of £46,000 (2015: £32,000) to defined contribution schemes in respect of directors' qualifying services.

Retirement benefits are accruing to two directors (2015: two) under money purchase schemes.

	2016 £'000	2015 £'000
Highest paid director		
Aggregate emoluments including benefits	<u>1,417</u>	<u>1,446</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

7 Employee information

The monthly average number of persons (including directors) employed by the Group during the year was:

	2016 Number	2015 Number
By type of work		
Production	1,020	938
Selling and distribution	96	89
Administration	42	43
	<u>1,158</u>	<u>1,070</u>

	2016 £'000	2015 £'000
Staff costs (for the above persons):		
Wages and salaries	29,672	27,179
Social security costs	2,950	2,707
Other Pension costs (see note 23)	1,088	927
	<u>33,710</u>	<u>30,813</u>

8 Interest payable and similar charges

	2016 £'000	2015 £'000
Bank loans and overdrafts	13	39
Other loans	-	-
	<u>13</u>	<u>39</u>

9 Profit on ordinary activities before taxation

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Amortisation/depreciation charge for the year:		
Goodwill	102	102
Intangible fixed assets	-	20
Tangible owned fixed assets	2,759	3,792
Auditors' remuneration for:		
Audit (Company £32,000 (2015: £28,000))	46	40
Non-audit services	22	-
Exchange difference arising on loan to foreign subsidiary	(192)	576
Research and development expenditure	454	369
Hire of plant and machinery – operating leases	616	612
Rental of land and buildings – operating leases	415	223
Profit on sale of current asset investments	(369)	-
Loss/(profit) on disposal of tangible fixed assets	<u>24</u>	<u>(20)</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

10 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2016		2015	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profits for the year	3,298		2,359	
Adjustments in respect of prior years	(21)		(23)	
Overseas tax	236		168	
Total current tax		3,513		2,504
Deferred tax:				
Origination and reversal of timing differences for the year	(610)		198	
Effect of decrease in tax rate	12		-	
Adjustments in respect of prior years	-		(4)	
Deferred tax on pension liabilities	109		42	
Total deferred tax (see note 22)		(489)		236
Tax on profit on ordinary activities		3,024		2,740

(b) Factors affecting tax charge for year

The tax assessed for the year is higher (2015: higher) than the standard rate of corporation tax in the UK of 20.08% (2015: 21.17%). The differences are explained below.

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	14,919	12,781
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.08% (2015: 21.17%)	2,996	2,706
Effects of:		
Expenses not deductible for tax purposes	119	94
Adjustments in respect of prior years	(21)	(27)
Difference between current and deferred tax rates	15	(14)
Overseas tax rate more/(less) than UK rate	30	(5)
Deferred tax not previously recognised	(115)	-
Research and development expenditure credit	-	(14)
	28	34
Tax charge for year	3,024	2,740

11 Profit of parent company

As permitted by Section 408 of the Companies Act 2006, 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 £11,312,000 (2015: £9,494,000) 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 28 FEBRUARY 2016

12	Dividends			
			2016	2015
			£'000	£'000
	Interim ordinary dividend paid of 159.5393 pence per share (2015: 79.7697 pence per share)		<u>4,000</u>	<u>2,000</u>
13	Goodwill			
	Group	Positive goodwill £'000	Negative goodwill £'000	Total goodwill £'000
	Cost			
	At 2 March 2015 and 28 February 2016	<u>3,015</u>	<u>(40)</u>	<u>2,975</u>
	Accumulated amortisation			
	At 2 March 2015	(2,668)	40	(2,628)
	Charge for the year	<u>(102)</u>	<u>-</u>	<u>(102)</u>
	At 28 February 2016	<u>(2,770)</u>	<u>40</u>	<u>(2,730)</u>
	Net book value			
	At 28 February 2016	<u>245</u>	<u>-</u>	<u>245</u>
	At 1 March 2015	<u>347</u>	<u>-</u>	<u>347</u>
	Company			Goodwill £'000
	Cost			
	At 2 March 2015 and 28 February 2016			<u>350</u>
	Accumulated amortisation			
	At 2 March 2015 and 28 February 2016			<u>350</u>
	Net book value			
	At 28 February 2016			<u>-</u>
	At 1 March 2015			<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 John Cotton Europe Sp.z.o.o. (formerly Indriana Sp. z.o.o.) during 2008 has been 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 28 FEBRUARY 2016

14 Intangible assets

Group and Company

	Intangible assets £'000
Cost	
At 2 March 2015 and 28 February 2016	100
Accumulated amortisation	
At 2 March 2015	100
Charge for the year	-
28 February 2016	100
Net book value	
At 28 February 2016	-
At 1 March 2015	-

Intangible assets consist of brand names, trade marks and intellectual property purchased from third parties and are stated at their purchase price, together with any incidental costs of acquisition less accumulated amortisation.

15 Tangible assets

Group

	Land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost			
At 2 March 2015	10,542	47,410	57,952
Additions	4,324	5,249	9,573
Exchange rate movements	44	124	168
Disposals	-	(209)	(209)
At 28 February 2016	14,910	52,574	67,484
Accumulated depreciation			
At 2 March 2015	3,246	35,884	39,130
Exchange rate movements	10	42	52
Charge for the year	256	2,503	2,759
Eliminated on disposals	-	(162)	(162)
At 28 February 2016	3,512	38,267	41,779
Net book value			
At 28 February 2016	11,398	14,307	25,705
At 1 March 2015	7,296	11,526	18,822

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

15 Tangible assets (continued)

The net book value of land and buildings comprises:

	2016 £'000	2015 £'000
Freehold	7,975	6,328
Long leasehold	2,463	-
Short leasehold	960	968
	<u>11,398</u>	<u>7,296</u>

Included within plant, equipment and motor vehicles at 28 February 2016 are assets in the course of construction amounting to £2,072,000 (2015: £536,000).

Company

	Land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost			
At 2 March 2015	8,982	43,715	52,697
Additions	4,304	4,398	8,702
Disposals	-	(122)	(122)
At 28 February 2016	<u>13,286</u>	<u>47,991</u>	<u>61,277</u>
Accumulated depreciation			
At 2 March 2015	2,725	34,620	37,345
Charge for the year	214	2,078	2,292
Eliminated on disposals	-	(95)	(95)
At 28 February 2016	<u>2,939</u>	<u>36,603</u>	<u>39,542</u>
Net book value			
At 28 February 2016	<u>10,347</u>	<u>11,388</u>	<u>21,735</u>
At 1 March 2015	<u>6,257</u>	<u>9,095</u>	<u>15,352</u>

The net book value of land and buildings comprises:

	2016 £'000	2015 £'000
Freehold	7,884	6,257
Long leasehold	2,463	-
	<u>10,347</u>	<u>6,257</u>

Included within plant, equipment and motor vehicles at 28 February 2016 are assets in the course of construction amounting to £1,732,000 (2015: £394,000).

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

16 Investment property

Group and Company

	Freehold land and buildings £'000
Fair value	
At 2 March 2015	1,205
Revaluation gain/(loss)	-
At 28 February 2016	<u>1,205</u>

Had the investment property been measured at historical cost, the amounts would be:

	2016 £'000	2015 £'000
Cost	1,205	1,205
Accumulated depreciation	(168)	(140)
Net book value	<u>1,037</u>	<u>1,065</u>

As at 28 February 2016 the fair value of the investment property was based on a valuation performed by an independent valuer, who holds a professional qualification with the Royal Institute of Chartered Surveyors and has experience in the location and classes of investment property valued.

Investment property is valued by adopting the investment method of valuation. This approach involves applying market driven capitalisation yields to current and market derived future income streams with the appropriate adjustments for income voids arising from vacancies or rent free periods. These capitalisation yields and future income streams are derived from comparable property and leasing transactions and are considered to be the key inputs in the valuation. Other factors taken into account in the valuation include the tenure of the property, tenancy details and ground and structural conditions. The critical assumptions made are set out below:

	2016
Market rent	£145,000
Vacancy rate	0%
Yield requirement	12%

17 Investments

Group

	Interests in joint venture £'000
At 2 March 2015	(195)
Share of profit	-
At 28 February 2016 – 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 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 28 FEBRUARY 2016

17 Investments (continued)

Company

Interests in
subsidiary
and joint venture
undertakings
£'000

Cost

At 2 March 2015

7,580

Additions

-

At 28 February 2016

7,580

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Set out below are details of the Company's subsidiary and joint venture undertakings.

Name of subsidiary undertaking	Country of incorporation	Class of share held	Percentage of issued shares held by Company
John Cotton Europe Sp. z.o.o.	Poland	Ordinary	100%
Hangzhou John Cotton Trade Company Limited	China	Ordinary	100%
Shanghai John Cotton International Trade Company Limited	China	Ordinary	100%
Northern Feather (Home Furnishings) Limited	England	Ordinary and Deferred	100%
Alexandra Bedcovers Limited	England	Ordinary	100%
Bridge Inn Limited	England	Ordinary	100%
Stanley A Brown Limited	England	Ordinary and Deferred	100%
Schofield (Felts) Limited	England	Ordinary	100%
Snuggledown Limited	England	Ordinary	100%*
Snuggledown of Norway (UK) Limited	England	Ordinary	100%*
Northern Textiles plc	England	Ordinary	100%*
Hollingsworth Bros Limited	England	Ordinary	100%
Prefabricated Felts Limited	England	Ordinary	100%
The Tyneside Flock Company Limited	England	Ordinary	100%
Pennys Transport Co Limited	England	Ordinary	100%
Carr Haulage Company Limited	England	Ordinary	100%
Textiles Wastes (Scotland) Limited	Scotland	Ordinary	100%*
John Cotton Fibres Limited	England	Ordinary	100%
M Ferrar & Sons (Glasgow) Limited	Scotland	Ordinary	100%*
Onebuild Limited	England	Ordinary and Redeemable	100%
R M Truscott Limited	England	Ordinary	100%
Grandrover Limited	England	Ordinary and Deferred	100%*
GKO Limited	England	Ordinary	100%
Wash & Dry Me Limited	England	Ordinary	100%
JCLB Limited	England	A Ordinary	50%

*Investments held by Group company.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

17 Investments (continued)

All companies with the exception of Shanghai John Cotton International Trade Company Limited and Hangzhou John Cotton Trade Company Limited have coterminous year ends, with those two companies having statutory year ends of 31 December as prescribed by the governing laws in China.

With the exception of John Cotton Europe Sp.z.o.o. and Hangzhou John Cotton Trade Company Limited, all of the above companies are dormant. The principal activity of John Cotton Europe Sp. z.o.o. is the manufacture of quilts and pillows for the retail trade. The principal activity of Hangzhou John Cotton Trade Company Limited is the manufacture and purchase of quilts and pillows.

18 Stocks

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Raw materials and consumables	13,028	12,431	10,214	10,467
Finished goods and goods for resale	5,428	5,599	4,606	4,633
	<u>18,456</u>	<u>18,030</u>	<u>14,820</u>	<u>15,100</u>

19 Debtors

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	27,388	23,836	24,748	21,669
Amounts owed by joint venture undertaking	196	196	-	-
Amounts owed by Group undertakings	-	-	5,548	4,933
Deferred taxation asset (see note 22)	503	147	394	147
Other debtors	1,598	1,939	1,598	1,939
Prepayments and accrued income	696	585	688	575
	<u>30,381</u>	<u>26,703</u>	<u>32,976</u>	<u>29,263</u>

20 Current asset investments

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Freehold properties for resale	<u>4,382</u>	<u>-</u>	<u>4,382</u>	<u>-</u>

21 Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	-	482	-	-
Trade creditors	35,447	31,019	31,173	28,371
Amounts owed to Group undertakings	-	-	8,011	8,157
Corporation tax payable	1,580	748	1,589	763
Other taxation and social security	3,440	3,070	3,398	3,105
Other creditors	1,125	901	751	576
	<u>41,592</u>	<u>36,220</u>	<u>44,922</u>	<u>40,972</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

22 Provisions for liabilities

Deferred taxation

	Group		Company	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
Accelerated capital allowances	134	87	134	87
Short term timing differences	(467)	178	(358)	178
Pension liabilities	(170)	(412)	(170)	(412)
	<u>(503)</u>	<u>(147)</u>	<u>(394)</u>	<u>(147)</u>

	2016 £'000
Debtor at start of year	147
Deferred tax credit in profit and loss account	489
Deferred tax charge in the year in OCI relating to the defined benefit pension scheme	<u>(133)</u>
Debtor at end of year (see note 19)	<u>503</u>

Reductions in the UK corporation tax rate from 23 to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015.

This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 28 February 2016 has been calculated based on the rate of 18% substantively enacted at the balance sheet date.

23 Pensions

Defined Benefit Scheme

The Company operates a defined benefit scheme, the assets of which are held separately from those of the Company in an independently administered fund. The scheme provides retirement benefits on the basis of members' final salary. The scheme was closed to future accrual with effect from 5 April 2006. The scheme is administered by trustees who are responsible for ensuring that the scheme is sufficiently funded to meet current and future obligations. The Company has agreed a funding plan with the trustees to reduce the funding deficit of the scheme.

The last actuarial valuation was carried out as at 6 April 2015 by an independent qualified actuary. The actuary used the projected unit method for determining the future costs. Adjustments to the valuation at that date have been made based on the following assumptions:

	28 February 2016 %	1 March 2015 %
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions payment	1.8	1.9
Discount rate	3.9	3.4
Inflation assumption	2.8	2.9

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

23 Pensions (continued)

The mortality assumptions used were as follows:

	At 28 February 2016 Years	At 1 March 2015 Years
For a male aged 65 now	21.0	20.9
At 65 for a male member aged 45 now	22.7	22.3
For a female aged 65 now	23.3	23.2
At 65 for a female member aged 45 now	25.2	24.7

The deficit of the scheme is as follows:

	At 28 February 2016 £'000	At 1 March 2015 £'000
Fair value of scheme assets	13,438	13,902
Present value of funded benefit obligations	(14,381)	(15,962)
Deficit	(943)	(2,060)

The fair value of the scheme assets was:

	Value at 28 February 2016 £'000	Value at 1 March 2015 £'000
Equities	9,006	8,942
Bonds	1,020	1,189
Insured pensions	2,456	2,977
Other	956	794
	13,438	13,902

• Movements in present value of defined benefit obligations

	Year to 28 February 2016 £'000	Year to 1 March 2015 £'000
At beginning of the year	15,962	13,407
Current service cost	-	-
Interest cost	534	613
Actuarial (gains)/losses	(1,578)	2,650
Benefits paid	(537)	(708)
At end of the year	14,381	15,962

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

23 Pensions (continued)

- Movements in fair value of scheme assets

	Year to 28 February 2016 £'000	Year to 1 March 2015 £'000
At beginning of the year	13,902	12,584
Interest income	473	581
Asset (losses)/gains	(1,067)	1,203
Contributions by employer	667	242
Benefits paid	(537)	(708)
At end of the year	<u>13,438</u>	<u>13,902</u>

- Expense recognised in the profit and loss account

	Year to 28 February 2016 £'000	Year to 1 March 2015 £'000
Current service cost	-	-
Net interest expense	(61)	(32)
	<u>(61)</u>	<u>(32)</u>

The Company expects to contribute £242,000 to the defined benefit pension scheme in the year ending 26 February 2017.

- Analysis of the amount recognised in Statement of Other Comprehensive Income (OCI)

	Year to 28 February 2016 £'000	Year to 1 March 2015 £'000
Asset return less interest income recognised in the profit and loss account	(1,067)	1,203
Experience gains/(losses) on benefit obligations	127	(10)
Effect of assumption changes on benefit obligations	1,451	(2,640)
Total recognised in OCI	<u>511</u>	<u>(1,447)</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

23 Pensions (continued)

- History of experience gains and losses

	Year to 28 February 2016 £'000	Year to 1 March 2015 £'000
Difference between the asset return and interest income recognised in P&L	(1,067)	1,203
- as % of scheme assets	(8%)	9%
Experience gains/(losses) on obligations	127	(10)
- as % of obligation	1%	0%
Total amount recognised in OCI	511	(1,447)
- as % of obligations	4%	(9%)

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 £Nil (2015: £Nil). This scheme was closed to member contributions on 31 March 2013.

The Company set up a new Group Personal Pension Plan with effect from 1 April 2013 to replace the above scheme. The funds of this scheme are administered by trustees and are separate from those of the Company. The total pension cost for the Company in respect of this Group Personal Pension Plan is £962,000 (2015: £786,000) including contributions for the directors.

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 Company in respect of these arrangements was £27,000 (2015: £64,000).

Automatic Enrolment

The Company made contributions to The People's Pension Scheme in respect of employees not enrolled into the Group Personal Pension Plan above. The total pension cost for the Group in respect of these arrangements was £99,000 (2015: £77,000).

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

24 Financial instruments

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 28 February 2016 the outstanding contracts all mature within 8 months (2015: 12 months) of the year end. The Group is committed to buy US\$30,350,000 and €3,300,000 and pay a fixed sterling amount (2015: US\$55,210,000 and €Nil).

The forward currency contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the currency contracts are the forward exchange rates and year end exchange rates for GBP:USD and GBP:EUR. The fair value of the forward currency contracts is £1,598,000 (2015: £1,939,000). These amounts are included in other debtors in note 19.

25 Called up share capital

	2016 £'000	2015 £'000
Authorised		
7,500,000 (2015: 7,500,000) ordinary shares of 10p each	750	750
750,000 (2015: 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 (2015: 2,507,219) ordinary shares of 10p each	<u>251</u>	<u>251</u>

26 Analysis of changes in net funds

	At 2 March 2015 £'000	Cash flow £'000	Currency translation difference £'000	At 28 February 2016 £'000
Cash in hand and at bank	21,589	(2,759)	167	18,997
Bank loans and overdrafts	(482)	498	(16)	-
Net funds	<u>21,107</u>	<u>(2,261)</u>	<u>151</u>	<u>18,997</u>

27 Capital commitments

	Group		Company	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>1,898</u>	<u>2,401</u>	<u>1,540</u>	<u>2,319</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>2,156</u>	<u>465</u>	<u>2,150</u>	<u>465</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

28 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 28 February 2016 amounted to £Nil (2015: £Nil).

The Company is party to a guarantee in respect of the fluctuating overdraft of John Cotton Europe Sp.z.o.o. which at 28 February 2016 amounted to £Nil (2015: £482,000).

In addition, the bank has a guarantee in favour of HM Revenue & Customs for £3,000,000, on behalf of the Company. No loss is expected to arise.

29 Financial commitments

At 28 February 2016, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016		2015	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Payments due				
Not later than one year	386	389	220	354
Later than one year and not later than five years	1,432	829	119	455
Later than five years	1,381	29	-	13
	<u>3,199</u>	<u>1,247</u>	<u>339</u>	<u>822</u>

30 Related party transactions

The Company has taken advantage of the exemption in FRS 102 from disclosing related party transactions with wholly owned subsidiaries included in its consolidated financial statements.

As at 28 February 2016, the Company was owed a loan balance of £196,000 (2015: £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 within one year.

31 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 J D Cotton MBE is the ultimate controlling party.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102

This is the first year that the Group and Company has presented its results under FRS 102. The last financial statements prepared under the previous UK GAAP were for the year ended 1 March 2015. The date of transition to FRS 102 was 3 March 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 1 March 2015 and the total shareholders' funds as at 3 March 2014 and 1 March 2015 between UK GAAP as previously reported and FRS 102.

(a) Consolidated balance sheet

		At 3 March 2014		
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Goodwill		449	-	449
Intangible assets		20	-	20
Tangible assets	B	18,654	(1,093)	17,561
Investment property	B	-	1,205	1,205
Interests in joint venture		(195)	-	(195)
		<u>18,928</u>	<u>112</u>	<u>19,040</u>
Current assets				
Stocks		13,903	-	13,903
Debtors - amounts falling due within one year	E	24,552	196	24,748
Debtors - amounts falling due after more than one year	E	196	(196)	-
Cash at bank and in hand		16,197	-	16,197
		<u>54,848</u>	<u>-</u>	<u>54,848</u>
Creditors - amounts falling due within one year	A	(30,854)	(964)	(31,818)
Net current assets		<u>23,994</u>	<u>(964)</u>	<u>23,030</u>
Total assets less current liabilities		42,922	(852)	42,070
Creditors - amounts falling due after more than one year				
		-	-	-
Provisions for liabilities	D, E	(264)	358	94
Pension liabilities	E	(658)	(165)	(823)
		<u>-</u>	<u>-</u>	<u>-</u>
Net assets		<u>42,000</u>	<u>(659)</u>	<u>41,341</u>
Capital and reserves				
Called up share capital		251	-	251
Share premium account		437	-	437
Capital redemption reserve		859	-	859
Profit and loss account	A, B, D	40,453	(659)	39,794
Total shareholders' funds		<u>42,000</u>	<u>(659)</u>	<u>41,341</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

(a) Consolidated balance sheet (continued)

		At 1 March 2015		
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Goodwill		347	-	347
Intangible assets		-	-	-
Tangible assets	B	19,887	(1,065)	18,822
Investment property	B	-	1,205	1,205
Interests in joint venture		(195)	-	(195)
		<u>20,039</u>	<u>140</u>	<u>20,179</u>
Current assets				
Stocks		18,030	-	18,030
Debtors - amounts falling due within one year	A, D, E	24,544	2,159	26,703
Debtors - amounts falling due after more than one year	E	196	(196)	-
Cash at bank and in hand		21,589	-	21,589
		<u>64,359</u>	<u>1,963</u>	<u>66,322</u>
Creditors - amounts falling due within one year		(36,220)	-	(36,220)
Net current assets		<u>28,139</u>	<u>1,963</u>	<u>30,102</u>
Total assets less current liabilities		48,178	2,103	50,281
Creditors - amounts falling due after more than one year		-	-	-
Provisions for liabilities		-	-	-
Pension liabilities	E	(1,648)	(412)	(2,060)
Net assets		<u>46,530</u>	<u>1,691</u>	<u>48,221</u>
Capital and reserves				
Called up share capital		251	-	251
Share premium account		437	-	437
Capital redemption reserve		859	-	859
Profit and loss account	A, B, D	44,983	1,691	46,674
Total shareholders' funds		<u>46,530</u>	<u>1,691</u>	<u>48,221</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

(b) Consolidated profit and loss account

Year ended 1 March 2015				
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Turnover		160,506	-	160,506
Cost of sales	A, B	(132,792)	2,931	(129,861)
Gross profit		27,714	2,931	30,645
Distribution costs		(9,929)	-	(9,929)
Administrative expenses		(7,901)	-	(7,901)
Operating profit		9,884	2,931	12,815
Interest receivable and similar income		37	-	37
Interest payable and similar charges		(39)	-	(39)
Interest charge on pension liabilities	C	90	(122)	(32)
Profit on ordinary activities before taxation		9,972	2,809	12,781
Tax on profit on ordinary activities	D	(2,183)	(557)	(2,740)
Profit for the financial year		7,789	2,252	10,041

(c) Statement of other comprehensive income

Year ended 1 March 2015				
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Profit for the financial year		7,789	2,252	10,041
Exchange differences arising on translation on net investments in overseas subsidiary undertakings		(3)	-	(3)
Remeasurements of net defined benefit obligations	C	(1,569)	122	(1,447)
Deferred tax on defined benefit pension scheme	D	313	(24)	289
Total comprehensive income for the year		6,530	2,350	8,880

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

(d) Consolidated statement of changes in equity

	Notes	Year ended 1 March 2015		
		As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Balance as at 3 March 2014		42,000	(659)	41,341
Profit for the financial year	A, B, C, D	7,789	2,252	10,041
Other comprehensive expense for the year	C, D	(1,259)	98	(1,161)
Total comprehensive income for the year		<u>6,530</u>	<u>2,350</u>	<u>8,880</u>
Dividends		(2,000)	-	(2,000)
Balance as at 1 March 2015		<u>46,530</u>	<u>1,691</u>	<u>48,221</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

(e) Company balance sheet

		At 3 March 2014		
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Intangible assets		20	-	20
Tangible assets	B	15,987	(1,093)	14,894
Investment property	B	-	1,205	1,205
Investments in subsidiaries		7,580	-	7,580
		<u>23,587</u>	<u>112</u>	<u>23,699</u>
Current assets				
Stocks		11,513	-	11,513
Debtors - amounts falling due within one year	E	22,370	3,923	26,293
Debtors - amounts falling due after more than one year	E	3,923	(3,923)	0
Cash at bank and in hand		14,730	-	14,730
		<u>52,536</u>	<u>-</u>	<u>52,536</u>
Creditors - amounts falling due within one year	A, E	(34,509)	(2,065)	(36,574)
Net current assets		<u>18,027</u>	<u>(2,065)</u>	<u>15,962</u>
Total assets less current liabilities		41,614	(1,953)	39,661
Creditors - amounts falling due after more than one year	E	(1,101)	1,101	-
Provisions for liabilities	D, E	(264)	358	94
Pension liabilities	E	(658)	(165)	(823)
		<u>39,591</u>	<u>(659)</u>	<u>38,932</u>
Net assets		<u>39,591</u>	<u>(659)</u>	<u>38,932</u>
Capital and reserves				
Called up share capital		251	-	251
Share premium account		437	-	437
Capital redemption reserve		859	-	859
Profit and loss account	A, B, D	38,044	(659)	37,385
Total shareholders' funds		<u>39,591</u>	<u>(659)</u>	<u>38,932</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

(e) Company balance sheet (continued)

		At 1 March 2015		
	Notes	As previously stated £'000	Effect of transition £'000	FRS 102 (as restated) £'000
Fixed assets				
Intangible assets		-	-	-
Tangible assets	B	16,417	(1,065)	15,352
Investment property	B	-	1,205	1,205
Investments in subsidiaries		7,580	-	7,580
		<u>23,997</u>	<u>140</u>	<u>24,137</u>
Current assets				
Stocks		15,100	-	15,100
Debtors - amounts falling due within one year	A, D, E	22,367	6,896	29,263
Debtors - amounts falling due after more than one year	E	4,933	(4,933)	-
Cash at bank and in hand		19,800	-	19,800
		<u>62,200</u>	<u>1,963</u>	<u>64,163</u>
Creditors - amounts falling due within one year	E	(39,871)	(1,101)	(40,972)
Net current assets		<u>22,329</u>	<u>862</u>	<u>23,191</u>
Total assets less current liabilities		46,326	1,002	47,328
Creditors - amounts falling due after more than one year	E	(1,101)	1,101	-
Provisions for liabilities		-	-	-
Pension liabilities	E	(1,648)	(412)	(2,060)
Net assets		<u>43,577</u>	<u>1,691</u>	<u>45,268</u>
Capital and reserves				
Called up share capital		251	-	251
Share premium account		437	-	437
Capital redemption reserve		859	-	859
Profit and loss account	A, B, D	42,030	1,691	43,721
Total shareholders' funds		<u>43,577</u>	<u>1,691</u>	<u>45,268</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

A Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Group did not recognise these instruments in the financial statements. The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 3 March 2014 outstanding forward currency contracts showed a loss of £964,000 when their value was calculated using the year end exchange rates. This amount was included in other creditors and retained earnings. At 1 March 2015 outstanding forward currency contracts showed a profit of £1,939,000 when their value was calculated using year end exchange rates. This amount was included in other debtors and the profit for the year ended 1 March 2015 was increased by £2,903,000 to reflect the loss already recognised on outstanding currency contracts as at 3 March 2014. This additional profit has been included in cost of sales.

B Investment property

Under FRS 102 where a freehold property is partly occupied by a third party it should be treated as an investment property rather than as a tangible fixed asset under previous UK GAAP. One of the Company's freehold properties is partly leased out to a number of third party tenants and therefore the area of the property occupied by third parties has been treated as an investment property. The depreciation previously charged on area of the property occupied by third parties has been cancelled and the property has been valued at market value. The effect of the change has been to include an investment property of £1,205,000 in the Company balance sheet at 3 March 2014 with a transfer of £1,093,000 from tangible fixed assets and an increase of £112,000 to retained earnings to cancel the depreciation previously charged. For the year ended 1 March 2015 a further write back of depreciation of £28,000 has been credited to cost of sales with the investment property again being valued at £1,205,000.

C Defined benefit scheme

Under previous UK GAAP the Group recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 3 March 2014 or 1 March 2015. The effect of the change has been to reduce the credit to the profit and loss account in the year ended 1 March 2015 by £122,000 and decrease the debit in other comprehensive income by an equivalent amount.

D Deferred taxation

The impact on deferred tax as a result of the adjustments above was to decrease the deferred tax liability at 3 March 2014 by £193,000, increase the profit and loss account charge by £557,000 and decrease the other comprehensive income tax credit by £24,000 for the year ended 1 March 2015. The deferred tax asset at 1 March 2015 was decreased by £388,000.

E Other adjustments arising on transition to FRS 102

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or profit and loss account but which have affected the presentation of these items on the balance sheet. The main items are:

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 28 FEBRUARY 2016

32 Transition to FRS 102 (continued)

E Other adjustments arising on transition to FRS 102 (continued)

(a) Inter company creditors and debtors

Certain inter company debtors and creditors were previously disclosed as amounts payable or receivable after more than one year as there was no intention that these amounts would be settled in the foreseeable future. However, the actual legal terms of the loans are such that they are immediately due on demand. Therefore at 3 March 2014 and 1 March 2015 amounts owed by joint venture undertakings of £196,000 in the consolidated balance sheet were reclassified from debtors falling due after more than one year to debtors falling due within one year. At 3 March 2014 in the Company balance sheet, amounts owed by Group undertakings of £3,923,000 and amounts owed to Group undertakings of £1,101,000 were reclassified to debtors falling due within one year and creditors falling due within one year respectively. At 1 March 2015 in the Company balance sheet, amounts owed by Group undertakings of £4,933,000 and amounts owed to Group undertakings of £1,101,000 were reclassified to debtors falling due within one year and creditors falling due within one year respectively.

(b) Deferred taxation on pension scheme liability

Under previous UK GAAP the pension scheme liability included on the balance sheet was shown net of the related deferred taxation asset. Under FRS 102 the deferred taxation asset on the pension scheme liability is now included in the deferred taxation balance. At 3 March 2014 the pension scheme liability was increased by £165,000 and the deferred taxation asset was increased by £165,000. At 1 March 2015 the pension scheme liability was increased by £412,000 and the deferred taxation asset was increased by £412,000.

F Statement of cash flows

The Group's cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1.