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**Directors' Report and Financial Statements
for the year ended 25 February 2018**

**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
J Hurst
F Gunn

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
Central Square
29 Wellington Street
Leeds
West Yorkshire
LS1 4DL

Bankers

HSBC Bank plc
2 Cloth Hall Street
Huddersfield
West Yorkshire
HD1 2ES

JOHN COTTON GROUP LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 25 FEBRUARY 2018

Review of the business

The directors are satisfied with the overall financial performance in 2017/18. The Group has expanded its overseas operations by the acquisition of the Tontine business in Australia on 1 March 2017. Maintenance of the Group's gross margins, particularly in the UK, continues to be a concern as a result of the increase in key raw material prices and the continued volatility of Sterling against the US dollar.

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

	2018	2017
	£'000	£'000
- Turnover	208,663	180,509
- Gross profit	34,625	33,215
- Operating profit	9,083	13,404

Demand for the Group's products has increased by 15.6% during 2017/18. This is mainly as a result of the acquisition of the Tontine business in Australia and increased sales in Poland following increased demand from a number of major retailers. Gross profit has decreased to 16.6% (2017: 18.4%). The reduction in gross profit is mainly due to increases in raw materials prices and the volatility of the Sterling/US dollar exchange rate. The Group mitigates this exchange risk by entering into forward foreign currency contracts. The increase in the value of Sterling against the US dollar during January and February 2018 has resulted in these contracts showing a net loss of £2,386,000 when revalued at the year end exchange rate in accordance with FRS 102. Subsequent movements in the Sterling/US dollar exchange rate during the first 6 months of 2018/19 have resulted in this loss being substantially reversed.

The Group has continued to dispose of the properties it holds as current asset investments which were purchased on 23 June 2015. During the year it sold 3 properties (2017: 9) for a profit of £208,000 (2017: profit of £1,054,000). All the properties purchased on 23 June 2015 and held as current asset investments have now been sold.

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:

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

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 2018/19.

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.

JOHN COTTON GROUP LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 25 FEBRUARY 2018

Principal Risks and Uncertainties (continued)

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.

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 the development of 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 12 October 2018 and signed by order of the board by:



S G Swalwell
Company Secretary

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 25 FEBRUARY 2018

The directors present their report and the audited financial statements of the Group for the year ended 25 February 2018.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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 25 FEBRUARY 2018

Dividends

No interim dividend was paid during the year (2017: £2,000,000). The directors do not recommend the payment of a final dividend for the year (2017: £Nil). The profit for the financial year was £7,269,000 (2017: profit of £11,696,000).

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 (with the exception of a property classified as an investment property) 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 MBE
B Cotton
M A Cotton
N J Cotton
N H Manning
A E Grant
J Hurst (appointed 24 April 2018)
F Gunn (appointed 1 May 2018)

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 25 February 2018 were 71 days (2017: 75 days).

JOHN COTTON GROUP LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 25 FEBRUARY 2018

Donations

During the year, the Group made payments of £9,650 (2017: £14,296) for charitable purposes to a variety of organisations, and £10,000 (2017: £11,000) 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 commenced 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 25 February 2018.

Provision of information to auditors

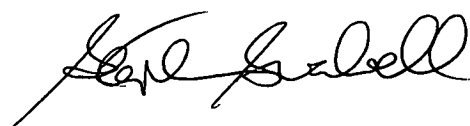
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- 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 12 October 2018 and signed by order of the board by:



S G Swalwell
Company Secretary

Independent auditors' report to the members of John Cotton Group Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the group's and of the company's affairs as at 25 February 2018 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' Report and Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 25 February 2018; the consolidated profit and loss account and consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent auditors' report to the members of John Cotton Group Limited

Report on the audit of the financial statements

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 25 February 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the 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.

Other required reporting

Companies Act 2006 exception reporting

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Andy Ward (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
15 October 2018

JOHN COTTON GROUP LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 25 FEBRUARY 2018

	Note	2018 £'000	2017 £'000
Turnover	5	208,663	180,509
Cost of sales		<u>(174,038)</u>	<u>(147,294)</u>
Gross profit		34,625	33,215
Distribution costs		(15,871)	(12,407)
Administrative expenses		<u>(9,671)</u>	<u>(7,404)</u>
Operating profit		9,083	13,404
Exceptional items	9	208	1,425
Interest receivable and similar income		14	25
Interest payable and similar expenses	8	<u>(75)</u>	<u>(65)</u>
Profit before taxation	9	9,230	14,789
Tax on profit	10	<u>(1,961)</u>	<u>(3,093)</u>
Profit for the financial year		<u>7,269</u>	<u>11,696</u>

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

The notes on pages 13 to 34 form part of these financial statements.

JOHN COTTON GROUP LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 25 FEBRUARY 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		7,269	11,696
Exchange differences arising on translation of net investments in overseas subsidiary undertakings		64	183
Remeasurements of net defined benefit liabilities	23	1,218	(2,162)
Deferred tax on defined benefit pension liabilities	22	(207)	368
Adjustment to rate of deferred tax on defined benefit pension liabilities		-	(10)
		<hr/>	<hr/>
Total comprehensive income for the year		<u>8,344</u>	<u>10,075</u>

The notes on pages 13 to 34 form part of these financial statements.

JOHN COTTON GROUP LIMITED

Registered Number - 273492

CONSOLIDATED AND COMPANY BALANCE SHEETS AS AT 25 FEBRUARY 2018

	Note	Group		Company	
		2018 £'000	2017 £'000	2018 £'000	2017 £'000
Fixed assets					
Goodwill	13	93	143	-	-
Intangible assets	14	1,442	-	-	-
Tangible assets	15	37,882	28,629	26,126	24,009
Investment property	16	1,770	1,770	1,770	1,770
Investments	17	-	-	8,645	7,464
Interests in joint venture:	17				
Share of gross assets		1	1	-	-
Share of gross liabilities		(196)	(196)	-	-
		(195)	(195)	-	-
		<u>40,992</u>	<u>30,347</u>	<u>36,541</u>	<u>33,243</u>
Current assets					
Stocks	18	25,399	20,238	15,858	15,318
Debtors: amounts falling due within one year	19	35,945	30,979	46,106	33,690
Current asset investments	20	-	963	-	963
Cash at bank and in hand		17,826	26,438	15,117	25,007
		<u>79,170</u>	<u>78,618</u>	<u>77,081</u>	<u>74,978</u>
Creditors: amounts falling due within one year	21	<u>(45,598)</u>	<u>(41,354)</u>	<u>(43,718)</u>	<u>(44,625)</u>
Net current assets		<u>33,572</u>	<u>37,264</u>	<u>33,363</u>	<u>30,353</u>
Total assets less current liabilities		74,564	67,611	69,904	63,596
Provisions for liabilities	22	-	-	-	-
Pension liabilities	23	(1,504)	(2,895)	(1,504)	(2,895)
Net assets		<u>73,060</u>	<u>64,716</u>	<u>68,400</u>	<u>60,701</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		71,513	63,169	66,853	59,154
Total shareholders' funds		<u>73,060</u>	<u>64,716</u>	<u>68,400</u>	<u>60,701</u>

The financial statements on pages 8 to 34 were approved and authorised for issue by the board and were signed on its behalf on 12 October 2018.



J D Cotton MBE
Director

JOHN COTTON GROUP LIMITED

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 25 FEBRUARY 2018

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 1 March 2016	251	437	859	55,094	56,641
Profit for the financial year	-	-	-	11,696	11,696
Other comprehensive expense for the year	-	-	-	(1,621)	(1,621)
Total comprehensive income for the year	-	-	-	10,075	10,075
Dividends (note 12)	-	-	-	(2,000)	(2,000)
Balance as at 26 February 2017	251	437	859	63,169	64,716
Profit for the financial year	-	-	-	7,269	7,269
Other comprehensive income for the year	-	-	-	1,075	1,075
Total comprehensive income for the year	-	-	-	8,344	8,344
Dividends (note 12)	-	-	-	-	-
Balance as at 25 February 2018	251	437	859	71,513	73,060

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 1 March 2016	251	437	859	51,411	52,958
Profit for the financial year	-	-	-	11,547	11,547
Other comprehensive expense for the year	-	-	-	(1,804)	(1,804)
Total comprehensive income for the year	-	-	-	9,743	9,743
Dividends (note 12)	-	-	-	(2,000)	(2,000)
Balance as at 26 February 2017	251	437	859	59,154	60,701
Profit for the financial year	-	-	-	6,688	6,688
Other comprehensive income for the year	-	-	-	1,011	1,011
Total comprehensive income for the year	-	-	-	7,699	7,699
Dividends (note 12)	-	-	-	-	-
Balance as at 25 February 2018	251	437	859	66,853	68,400

JOHN COTTON GROUP LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 25 FEBRUARY 2018

	Note	2018 £'000	2017 £'000
Profit for the financial year		7,269	11,696
Adjustments for:			
Tax on profit		1,961	3,093
Net interest expense		61	40
Operating profit		9,291	14,829
Net cash outflow from defined benefit pension contributions		(242)	(242)
Amortisation of goodwill		50	102
Amortisation of intangible fixed assets		76	-
Depreciation of tangible fixed assets		3,843	3,367
(Profit)/loss on sale of tangible fixed assets		(5)	205
Revaluation gain on Investment property		-	(371)
Increase in stocks		(1,442)	(1,470)
Increase in trade debtors		(3,866)	(82)
Decrease/(increase) in prepayments and accrued income		39	(34)
Decrease in other debtors		1,578	20
Decrease in current asset investments		963	3,419
Increase/(decrease) in trade creditors		849	(1,613)
(Decrease)/increase in other taxation and social security		(1,299)	791
Increase in other creditors		2,528	18
Cash flow from operating activities		12,363	18,939
Taxation paid			
UK corporation tax paid		(2,282)	(2,964)
Overseas taxation paid		(245)	(456)
		(2,527)	(3,420)
Net cash generated from operating activities		9,836	15,519
Cash flow from investing activities			
Proceeds from disposals of tangible fixed assets		7	52
Business acquisition	32	(7,296)	-
Purchase of tangible fixed assets	15	(11,123)	(6,404)
Interest received		14	25
Net cash used in investing activities		(18,398)	(6,327)
Cash flow from financing activities			
Dividends paid	12	-	(2,000)
Interest paid		(6)	(33)
Net cash used in financing activities		(6)	(2,033)
Net (decrease)/increase in cash	26	(8,568)	7,159
Cash at the beginning of the year		26,438	18,997
Exchange (losses)/gains on cash and cash equivalents		(44)	282
Cash at the end of the year		17,826	26,438
Cash and cash equivalents consist of:			
Cash at bank and in hand		17,826	26,438
Bank overdrafts		-	-
		17,826	26,438

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 25 FEBRUARY 2018

1 General information

John Cotton Group Limited is a private company limited by shares and is incorporated in the United Kingdom. The address of its registered office is No 1 Park Row, Leeds, West Yorkshire, LS1 5AB, England. 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.

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 25 FEBRUARY 2018

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 Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed. On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Goodwill recognised represents the excess of the fair value over the fair values of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired. Positive goodwill is written off over its expected 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 5%.

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 25 FEBRUARY 2018

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 25 FEBRUARY 2018

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 25 FEBRUARY 2018

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.

3.18 Exceptional items

Exceptional items are items that the directors consider to be one off items in terms of size and nature. They are excluded from operating profit in order to ensure that the Group's results are presented in a consistent manner.

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 25 FEBRUARY 2018

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.

(f) Fair values on acquisition of Tontine business (note 32)

The fair value of tangible and intangible assets acquired on the acquisition of Tontine involved the use of valuation techniques and the estimation of future cash flows to be generated over a number of years.

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:-

	2018 £'000	2017 £'000
Geographical segments		
United Kingdom	148,702	149,405
Rest of Europe	35,739	30,792
Rest of the World	24,222	312
	<u>208,663</u>	<u>180,509</u>

6 Directors' emoluments

	2018 £'000	2017 £'000
Emoluments	<u>2,023</u>	<u>2,004</u>

The Company made contributions of £Nil (2017: £7,000) to defined contribution schemes in respect of directors' qualifying services.

Retirement benefits are accruing to two directors (2017: two) under money purchase schemes.

Highest paid director	2018 £'000	2017 £'000
Aggregate emoluments including benefits	<u>905</u>	<u>912</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

7 Employee information

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

	Group		Company	
	2018 Number	2017 Number	2018 Number	2017 Number
By type of work				
Production	1,192	1,111	730	738
Selling and distribution	166	130	105	101
Administration	61	44	33	32
	<u>1,419</u>	<u>1,285</u>	<u>868</u>	<u>871</u>

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Staff costs (for the above persons):				
Wages and salaries	36,387	31,518	28,212	28,509
Social security costs	3,528	3,206	2,634	2,615
Other Pension costs (see note 23)	1,302	969	988	969
	<u>41,217</u>	<u>35,693</u>	<u>31,834</u>	<u>32,093</u>

8 Interest payable and similar expenses

	2018 £'000	2017 £'000
Bank loans and overdrafts	6	33
Interest charge on pension liabilities (note 23)	69	32
	<u>75</u>	<u>65</u>

9 Profit before taxation

	2018 £'000	2017 £'000
Profit before taxation is stated after charging/(crediting):		
Amortisation/depreciation charge for the year:		
Goodwill	50	102
Intangible fixed assets	76	-
Tangible owned fixed assets	3,843	3,367
Auditors' remuneration for:		
Audit (Company £41,000 (2017: £45,000))	93	60
Non-audit services	195	5
Exchange difference arising on loans to foreign subsidiaries	(209)	(476)
Research and development expenditure	513	470
Hire of plant and machinery – operating leases	900	796
Rental of land and buildings – operating leases	1,374	418
(Profit)/loss on disposal of tangible fixed assets	<u>(5)</u>	<u>205</u>
Exceptional items are as follows:		
Profit on sale of current asset investments	(208)	(1,054)
Revaluation gain on Investment property (note 16)	-	(371)
	<u>(208)</u>	<u>(1,425)</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

10 Tax on profit on ordinary activities

(a) Analysis of charge in year

	2018		2017	
	£'000	£'000	£'000	£'000
Current tax:				
UK corporation tax on profits for the year	1,554		2,618	
Adjustments in respect of prior years	(74)		(27)	
Overseas tax	509		400	
Total current tax		1,989		2,991
Deferred tax:				
Origination and reversal of timing differences for the year	(56)		55	
Effect of decrease in tax rate	-		13	
Adjustments in respect of prior years	(1)		(2)	
Deferred tax on pension liabilities	29		36	
Total deferred tax (see note 22)		(28)		102
Tax on profit on ordinary activities		1,961		3,093

(b) Factors affecting tax charge for year

The tax assessed for the year is higher (2017: higher) than the standard rate of corporation tax in the UK of 19.08% (2017: 20.00%). The differences are explained below.

	2018 £'000	2017 £'000
Profit before taxation	9,230	14,789
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.08% (2017: 20.00%)	1,761	2,958
Effects of:		
Expenses not deductible for tax purposes	202	172
Adjustments in respect of prior years	(75)	(29)
Difference between current and deferred tax rates	(10)	-
Overseas tax rate more than UK rate	83	99
Investment property revaluation gain	-	(74)
Research and development expenditure credit	-	(33)
	200	135
Tax charge for year	1,961	3,093

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 £6,688,000 (2017: £11,547,000) 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 25 FEBRUARY 2018

12 Dividends

	2018 £'000	2017 £'000
Interim ordinary dividend paid of Nil pence per share (2017: 79.7697 pence per share)	-	2,000

13 Goodwill

Group	Positive goodwill £'000	Negative goodwill £'000	Total goodwill £'000
Cost			
At 27 February 2017 and 25 February 2018	3,015	(40)	2,975
Accumulated amortisation			
At 27 February 2017	(2,872)	40	(2,832)
Charge for the year	(50)	-	(50)
At 25 February 2018	(2,922)	40	(2,882)
Net book value			
At 25 February 2018	93	-	93
At 26 February 2017	143	-	143

Company

	Goodwill £'000
Cost	
At 27 February 2017 and 25 February 2018	350
Accumulated amortisation	
At 27 February 2017 and 25 February 2018	350
Net book value	
At 25 February 2018	-
At 26 February 2017	-

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 25 FEBRUARY 2018

14 Intangible assets

Group

	Intangible assets £'000
Cost or fair value	
At 27 February 2017	100
Business acquisition (note 32)	1,518
At 25 February 2018	<u>1,618</u>
Accumulated amortisation	
At 27 February 2017	100
Charge for the year	76
At 25 February 2018	<u>176</u>
Net book value	
At 25 February 2018	<u>1,442</u>
At 26 February 2017	<u>-</u>

Company

	Intangible assets £'000
Cost	
At 27 February 2017 and 25 February 2018	<u>100</u>
Accumulated amortisation	
At 27 February 2017	100
Charge for the year	-
At 25 February 2018	<u>100</u>
Net book value	
At 25 February 2018	<u>-</u>
At 26 February 2017	<u>-</u>

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

During the year the Group acquired the Tontine business (see note 32) and the fair value exercise undertaken following the acquisition resulted in the Group recognising £1,518,000 in respect of the Tontine brand.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

15 Tangible assets

Group

	Land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost			
At 27 February 2017	14,981	58,561	73,542
Business acquisition (note 32)	-	1,636	1,636
Additions	7,143	3,980	11,123
Exchange rate movements	115	401	516
Disposals	-	(251)	(251)
At 25 February 2018	<u>22,239</u>	<u>64,327</u>	<u>86,566</u>
Accumulated depreciation			
At 27 February 2017	3,766	41,147	44,913
Exchange rate movements	32	145	177
Charge for the year	316	3,527	3,843
Eliminated on disposals	-	(249)	(249)
At 25 February 2018	<u>4,114</u>	<u>44,570</u>	<u>48,684</u>
Net book value			
At 25 February 2018	<u>18,125</u>	<u>19,757</u>	<u>37,882</u>
At 26 February 2017	<u>11,215</u>	<u>17,414</u>	<u>28,629</u>

The net book value of land and buildings comprises:

	2018 £'000	2017 £'000
Freehold	14,701	7,770
Long leasehold	2,391	2,442
Short leasehold	1,033	1,003
	<u>18,125</u>	<u>11,215</u>

Included within plant, equipment and motor vehicles at 25 February 2018 are assets in the course of construction amounting to £1,490,000 (2017: £570,000).

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

15 Tangible assets (continued)

Company

	Land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost			
At 27 February 2017	13,235	52,823	66,058
Inter group transfer	-	(313)	(313)
Additions	2,926	2,388	5,314
Disposals	-	(145)	(145)
At 25 February 2018	<u>16,161</u>	<u>54,753</u>	<u>70,914</u>
Accumulated depreciation			
At 27 February 2017	3,116	38,933	42,049
Inter group transfer	-	(26)	(26)
Charge for the year	266	2,644	2,910
Eliminated on disposals	-	(145)	(145)
At 25 February 2018	<u>3,382</u>	<u>41,406</u>	<u>44,788</u>
Net book value			
At 25 February 2018	<u>12,779</u>	<u>13,347</u>	<u>26,126</u>
At 26 February 2017	<u>10,119</u>	<u>13,890</u>	<u>24,009</u>

The net book value of land and buildings comprises:

	2018 £'000	2017 £'000
Freehold	10,387	7,677
Long leasehold	<u>2,392</u>	<u>2,442</u>
	<u>12,779</u>	<u>10,119</u>

Included within plant, equipment and motor vehicles at 25 February 2018 are assets in the course of construction amounting to £526,000 (2017: £285,000).

16 Investment property

Group and Company

	Freehold land and buildings £'000
Fair value	
At 27 February 2017	1,770
Revaluation gain	-
At 25 February 2018	<u>1,770</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

16 Investment property (continued)

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

	2018 £'000	2017 £'000
Cost	1,488	1,488
Accumulated depreciation	(313)	(285)
Net book value	<u>1,175</u>	<u>1,203</u>

As at 25 February 2018 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:

	2018	2017
Market rent	£188,000	£188,000
Vacancy rate	0%	0%
Yield requirement	10%	10%

17 Investments

Group

	Interests in joint venture £'000
At 27 February 2017	(195)
Share of profit	-
At 25 February 2018 – 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.

Company

	Interests in subsidiary and joint venture undertakings £'000
Cost	
At 27 February 2017	7,464
Addition	1,181
At 25 February 2018	<u>8,645</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

17 Investments (continued)

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 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%
John Cotton Australia Pty Limited	Australia	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.

All companies with the exception of Hangzhou John Cotton Trade Company Limited have coterminous year ends, with that company having a statutory year end of 31 December as prescribed by the governing laws in China.

With the exception of John Cotton Europe Sp.z.o.o, John Cotton Australia Pty Limited. 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 . and John Cotton Australia Pty Limited 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.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

18 Stocks

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Raw materials and consumables	15,701	13,740	9,931	10,474
Finished goods and goods for resale	9,698	6,498	5,927	4,844
	<u>25,399</u>	<u>20,238</u>	<u>15,858</u>	<u>15,318</u>

19 Debtors

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	34,682	27,706	26,681	24,803
Amounts owed by joint venture undertaking	196	196	-	-
Amounts owed by Group undertakings	-	-	18,423	5,940
Deferred taxation asset (see note 22)	374	768	381	668
Other debtors	-	1,578	-	1,578
Prepayments and accrued income	693	731	621	701
	<u>35,945</u>	<u>30,979</u>	<u>46,106</u>	<u>33,690</u>

20 Current asset investments

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Freehold properties for resale	-	963	-	963

21 Creditors: amounts falling due within one year

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	-	-	-	-
Trade creditors	37,538	34,794	28,893	30,457
Amounts owed to Group undertakings	-	-	8,022	7,981
Corporation tax payable	609	1,152	392	1,217
Other taxation and social security	2,944	4,233	3,357	4,196
Other creditors	4,507	1,175	3,054	774
	<u>45,598</u>	<u>41,354</u>	<u>43,718</u>	<u>44,625</u>

22 Provisions for liabilities

Deferred taxation

	Group		Company	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Accelerated capital allowances	524	139	133	139
Short term timing differences	(642)	(415)	(258)	(315)
Pension liabilities	(256)	(492)	(256)	(492)
	<u>(374)</u>	<u>(768)</u>	<u>(381)</u>	<u>(668)</u>

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

22 Provisions for liabilities (continued)

Deferred taxation

	2018 £'000
Debtor at start of year	768
Business acquisition in year (note 32)	(223)
Exchange difference	8
Deferred tax credit in profit and loss account	28
Deferred tax credit in the year in OCI relating to the defined benefit pension scheme	(207)
Debtor at end of year (see note 19)	<u>374</u>

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015. A further reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016.

This will reduce the Group's future current tax charge accordingly. The deferred tax liability at 25 February 2018 has been calculated based on the rate of 17% 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:

	25 February 2018 %	26 February 2017 %
Rate of increase in salaries	N/A	N/A
Rate of increase in pensions payment	2.2	2.3
Discount rate	2.7	2.5
Inflation assumption	3.2	3.3

The mortality assumptions used were as follows:

	At 25 February 2018 Years	At 26 February 2017 Years
For a male aged 65 now	21.2	21.1
At 65 for a male member aged 45 now	22.9	22.8
For a female aged 65 now	23.5	23.4
At 65 for a female member aged 45 now	25.4	25.3

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

23 Pensions (continued)

The deficit of the scheme is as follows:

	At 25 February 2018 £'000	At 26 February 2017 £'000
Fair value of scheme assets	15,770	15,829
Present value of funded benefit obligations	(17,274)	(18,724)
Deficit	(1,504)	(2,895)

The fair value of the scheme assets was:

	Value at 25 February 2018 £'000	Value at 26 February 2017 £'000
Equities	10,656	10,667
Bonds	1,234	1,624
Insured pensions	2,480	2,711
Other	1,400	827
	15,770	15,829

- **Movements in present value of defined benefit obligations**

	Year to 25 February 2018 £'000	Year to 26 February 2017 £'000
At beginning of the year	18,724	14,381
Current service cost	-	-
Interest cost	456	549
Actuarial (gains)/losses	(931)	4,379
Benefits paid	(975)	(585)
At end of the year	17,274	18,724

- **Movements in fair value of scheme assets**

	Year to 25 February 2018 £'000	Year to 26 February 2017 £'000
At beginning of the year	15,829	13,438
Interest income	387	517
Asset gains	287	2,217
Contributions by employer	242	242
Benefits paid	(975)	(585)
At end of the year	15,770	15,829

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

23 Pensions (continued)

- Expense recognised in the profit and loss account

	Year to 25 February 2018 £'000	Year to 26 February 2017 £'000
Current service cost	-	-
Net interest expense	(69)	(32)
	<u>(69)</u>	<u>(32)</u>

The Company expects to contribute £242,000 to the defined benefit pension scheme in the year ending 3 March 2019.

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

	Year to 25 February 2018 £'000	Year to 26 February 2017 £'000
Asset return less interest income recognised in the profit and loss account	287	2,217
Experience gains on benefit obligations	145	215
Effect of assumption changes on benefit obligations	786	(4,594)
Total recognised in OCI	<u>1,218</u>	<u>(2,162)</u>

- History of experience gains and losses

	Year to 25 February 2018 £'000	Year to 26 February 2017 £'000
Difference between the asset return and interest income recognised in P&L	287	2,217
- as % of scheme assets	2%	14%
Experience gains/(losses) on obligations	145	215
- as % of obligation	1%	1%
Total amount recognised in OCI	1,218	(2,162)
- as % of obligations	7%	(12%)

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

23 Pensions (continued)

Defined Contribution Schemes

The Company also operated a defined contribution pension scheme as a separate section of the defined benefit scheme. The assets of this section of the scheme were 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 (2017: £Nil). This scheme was closed to member contributions on 31 March 2013 and was wound up on 5 January 2017.

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 £847,000 (2017: £819,000) 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 (2017: £37,000).

Automatic Enrolment

The Company made contributions to The People's Pension Scheme in respect of UK employees not enrolled into the Group Personal Pension Plan above. The total pension cost for the Group in respect of these arrangements was £114,000 (2017: £113,000).

John Cotton Australia Pty Limited made contributions to the Australian Superannuation scheme in respect of Australian employees. The total pension cost for the Group in respect of these arrangements was £314,000 (2017: £Nil).

24 Financial instruments

The Group enters into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency payables. At 25 February 2018 the outstanding contracts all mature within 18 months (2017: 12 months) of the year end. The Group is committed to buy US\$70,000,000 and €320,000 and pay a fixed sterling amount (2017: US\$77,325,000 and €Nil). The Group is also committed to buy US\$8,700,000 and pay a fixed AUD amount (2017: US\$18,000,000) and US\$10,150,000 and pay a fixed PLN amount (2017: US\$2,500,000).

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, AUD:USD, GBP:AUD, PLN:USD, GBP:PLN and GBP:EUR. The fair value of the forward currency contracts is a creditor of £2,386,000 (2017: debtor of £1,301,000). These amounts are included in other creditors in note 21 (2017: included in other debtors in note 19).

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

25 Called up share capital

	2018 £'000	2017 £'000
Authorised		
7,500,000 (2017: 7,500,000) ordinary shares of 10p each	750	750
750,000 (2017: 750,000) 13.25% cumulative preference shares of £1 each	<u>750</u>	<u>750</u>
	<u>1,500</u>	<u>1,500</u>
Allotted, called up and fully paid Included in share capital		
2,507,219 (2017: 2,507,219) ordinary shares of 10p each	<u>251</u>	<u>251</u>

26 Analysis of changes in net funds

	At 27 February 2017 £'000	Cash flow £'000	Currency translation difference £'000	At 25 February 2018 £'000
Cash in hand and at bank	26,438	(8,568)	(44)	17,826
Bank loans and overdrafts	-	-	-	-
Net funds	<u>26,438</u>	<u>(8,568)</u>	<u>(44)</u>	<u>17,826</u>

27 Capital commitments

	Group		Company	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>3,465</u>	<u>1,170</u>	<u>1,164</u>	<u>534</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>1,040</u>	<u>1,018</u>	<u>1,040</u>	<u>1,007</u>

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 25 February 2018 amounted to £Nil (2017: £Nil).

The Company is party to a guarantee in respect of the fluctuating overdraft of John Cotton Europe Sp.z.o.o. which at 25 February 2018 amounted to £Nil (2017: £Nil).

The Company is party to a guarantee in respect of the fluctuating overdraft of John Cotton Australia Pty Limited, which at 25 February 2018 amounted to £Nil (2017: £Nil).

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.

JOHN COTTON GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 25 FEBRUARY 2018

29 Financial commitments

At 25 February 2018, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	2018		2017	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Not later than one year	1,306	461	404	466
Later than one year and not later than five years	5,235	764	1,364	896
Later than five years	2,724	1	1,056	14
	<u>9,265</u>	<u>1,226</u>	<u>2,824</u>	<u>1,376</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 25 February 2018, the Company was owed a loan balance of £196,000 (2017: £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 25 FEBRUARY 2018

32 Business combination

On 1 March 2017 the Company's subsidiary, John Cotton Australia Pty Limited, acquired the business, assets and liabilities of Tontine from Hanes Innerwear Australia Pty Limited and Hanes Australia Pty Limited. Tontine is a long established business in Australia selling pillows and duvets. The Company used acquisition accounting to account for the purchase. Details of the purchase consideration, net assets acquired and goodwill are as follows:

		£'000	
Purchase consideration			
Cash paid		7,297	
Recognised amounts of identifiable assets acquired and liabilities assumed			
	Note	Book Value £'000	Fair value £'000
Tangible fixed assets		1,636	1,636
Intangible assets – brands and trademarks	(a)	-	1,518
Stocks		3,348	3,348
Trade debtors		2,903	2,903
Cash		1	1
Trade creditors		(525)	(525)
Accruals		(587)	(587)
Provision for employee benefits		(774)	(774)
Lease provision	(b)	(770)	770
Deferred taxation	(c)	232	(455)
Net identifiable assets acquired		5,464	7,297
Goodwill			-
Net assets acquired			7,297

(a) The recognition of an intangible asset in respect of the Tontine brand and associated trademarks.

(b) Lease provision was calculated from the perspective of the seller of the business and was written off.

(c) Deferred tax adjustment arising from the acquired Tontine brand.

For cashflow disclosure purposes the amounts are disclosed as follows:

	£'000
Cash consideration	7,297
Less:	
Cash acquired	1
	7,296

The consolidated profit and loss account for the year ended 25 February 2018 includes turnover of £24,031,000 and a profit before tax of £730,000 in respect of the Tontine acquisition. The Tontine profit before tax is after charging acquisition costs of £150,000.