

**James Johnston & Co. of Elgin Limited**

**Directors' report and consolidated  
financial statements**

**Registered number SC022553**

**31 December 2012**

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## **Company information**

### **Directors**

IGM Urquhart  
JE Sugden OBE  
DH Waters OBE  
DA Harrison  
JBH Dracup (Resigned: 3 April 2013)  
NE Urquhart  
NAC Bannerman  
CJM Gaffney

### **Secretary**

CJM Gaffney

### **Auditor**

KPMG LLP  
37 Albyn Place  
Aberdeen  
AB10 1JB

### **Bankers**

Bank of Scotland  
90 High Street  
Elgin  
IV30 1BN

Bank of Scotland  
Princes House  
50 West Campbell Street  
Glasgow  
G2 6YJ

### **Solicitors**

MacRoberts LLP  
Capella  
60 York Street  
Glasgow  
G2 8JX

### **Registered Office**

Newmill  
Elgin  
Morayshire  
IV30 4AF

## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012.

### Principal activities

The group is principally engaged in the manufacture and sale of cashmere and woollen goods.

### Business review

#### *Overview of performance in year*

2012 was a challenging year for Johnstons. A mild winter in many of our consumer markets in 2011/12 resulted in high carry-over stocks being held by many customers and reduced orders to us through 2012. This, combined with on-going sluggishness in the developed markets of the UK, Europe and the US, resulted in sales lower by 8.5% in value. Customers bought higher value items so volume fell by a greater amount. As well as the direct impact of lower sales on gross profit, the contraction in volume also resulted in reduced operating efficiencies, pulling margin down.

There were some positive areas of growth in Japan and with our French luxury branded customers. The year also saw the opening of a retail visitor centre in Hawick at the end of May, which performed in line with expectations for its first six months.

#### *Monitoring of performance*

Budgets are set at the beginning of the financial year and reviewed by the board quarterly against figures achieved. The performance during 2012 was in line with the budget agreed by the board in December 2011, as close communication with their customer base enabled management to have visibility of the downturn in orders for 2012.

#### *Key Performance Indicators*

The directors' review the following key performance indicators on a regular basis, as they feel they provide the best metrics of the performance and financial position of the group.

A comparison of KPI's in the 2012 and 2011 financial years is shown below:

	2012	2011	Measure
Stock days	214.3	212.7	Stock/Cost of Sales *365
Debtor days	48.2	51.3	Trade debtors/Sales *365
Creditor days	26.3	17.4	Trade creditors/Cost of Sales *365
Return on capital employed	-6.7%	8.7%	Profit before tax/Net assets less deferred tax

#### *Risks and uncertainties*

The main risks and uncertainties centre on raw material prices and supply, currency variations on both sales and purchases and demand profiles from customers. Wherever possible the risk attached to raw material prices is managed by maintaining close contact with the market and suppliers at source.

Close attention is paid to the stock position in the market and those held within the group's possession. Our currency position is hedged by conservative forward contracts for both buying and selling purposes in the major currencies with which we conduct our business.

#### *Future prospects*

As at March 2013, our order book is much more healthy than it was in the prior year. Customers have de-stocked and the flow of forward orders is now more consistent. Work continues on the development of additional business for the Johnston's brand in wholesale, our ecommerce business is growing and our luxury branded customers are showing positive growth.

## **Directors' report** *(continued)*

### **Dividends**

The directors have proposed a further dividend of £0.04 per share. This has not been included within creditors as it was not approved before the year end.

Dividends paid during the year total £197,000 (2011: £246,000).

### **Directors**

The directors who held office during the year and up to the date of this report are listed on page 1.

DH Waters retires by rotation from the board at the Annual General Meeting and, being eligible, offers himself for re-election.

### **Fixed assets**

The directors are of the opinion that the market value of land and buildings is in excess of book value.

### **Employee involvement**

Company representatives have discussed the employment of disabled persons with James Johnston & Co. of Elgin Limited with appropriate officials representing disabled workers. Agreement reached was that applicant suitability for each vacancy would be the criteria for selection.

Regular management meetings enable both executives and employees to be aware of and discuss matters which can affect the future of the business.

A consultative forum made up of employee representatives from each area of the business is in existence and meets quarterly.

### **Political and charitable donations**

During the year the company made various charitable donations totalling £2,000 (2011: £7,000) and no political donations.

### **Policy and Practice on payment of creditors**

The Company aims to pay all its suppliers within a reasonable period of their invoice being received, and in any case within the supplier's own standard payment terms. The number of days' purchases outstanding for the Company at 31 December 2012 was 26 days (2011: 17 days).

### **Disclosure of information to auditor**

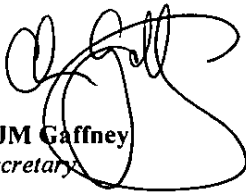
The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Directors' report** *(continued)*

**Auditor**

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

  
**CJM Gaffney**  
Secretary

4 April 2013

## **Statement of directors' responsibilities in respect of the Directors' report and the financial statements**

The directors are responsible for preparing the Directors' report and 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK 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 parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



## **Independent auditor's report to the members of James Johnston & Co. of Elgin Limited**

We have audited the financial statements of James Johnston & Co. of Elgin Limited for the year ended 31 December 2012 set out on pages 7 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' responsibilities statement set out on page 5, 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 and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Duncan MacAskill (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
37 Albyn Place  
Aberdeen  
AB10 1JB

9 April 2013



**Consolidated profit and loss account**  
*for the year ended 31 December 2012*

	<i>Note</i>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Turnover</b>	<b>2</b>	<b>46,821</b>	<b>51,195</b>
Cost of sales		(36,806)	(37,422)
<b>Gross profit</b>		<b>10,015</b>	<b>13,773</b>
Distribution costs		(5,015)	(4,952)
Administrative expenses		(6,419)	(6,238)
<b>Operating (loss)/profit</b>		<b>(1,419)</b>	<b>2,583</b>
Interest receivable	6	106	2
Interest payable and similar charges	7	(46)	(165)
Other finance (costs)/income	8	(446)	213
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>3-5</b>	<b>(1,805)</b>	<b>2,633</b>
Tax on loss/(profit) on ordinary activities	9	502	(569)
<b>(Loss)/profit for the financial year</b>		<b>(1,303)</b>	<b>2,064</b>

A statement of movements on reserves is given in note 18.

All of the turnover and operating (loss)/profit above relates to continuing operations.

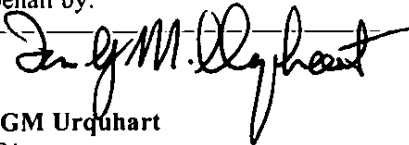
**Consolidated statement of total recognised gains and losses**  
*for the year ended 31 December 2012*

	<b>2012 £000</b>	<b>2011 £000</b>
<b>(Loss)/profit for the financial year</b>	<b>(1,303)</b>	<b>2,064</b>
Actuarial losses recognised in the pension scheme (see note 23)	(1,996)	(7,393)
Deferred tax arising on losses in the pension scheme (see note 23)	211	1,558
<b>Total recognised losses relating to the financial year</b>	<b>(3,088)</b>	<b>(3,771)</b>

**Consolidated balance sheet**  
*at 31 December 2012*

	<i>Note</i>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Fixed assets</b>			
Tangible assets	11	8,767	8,634
		<u>8,767</u>	<u>8,634</u>
<b>Current assets</b>			
Stocks	13	21,605	21,806
Debtors	14	6,811	7,672
Cash at bank and in hand		5,972	5,990
		<u>34,388</u>	<u>35,468</u>
<b>Creditors: amounts falling due within one year</b>	15	(5,006)	(4,428)
<b>Net current assets</b>		<u>29,382</u>	<u>31,040</u>
<b>Total assets less current liabilities</b>		<u>38,149</u>	<u>39,674</u>
<b>Provisions for liabilities and charges</b>	16	(19)	(86)
<b>Net assets excluding pension liability</b>		<u>38,130</u>	<u>39,588</u>
<b>Pension liability</b>			
Defined benefit scheme with net liabilities	23	(11,263)	(9,436)
<b>Net assets including pension liability</b>		<u>26,867</u>	<u>30,152</u>
<b>Capital and reserves</b>			
Called up share capital	17	984	984
Share premium account	18	113	113
Profit and loss account	18	25,654	28,939
Capital redemption reserve	18	116	116
<b>Shareholders' funds</b>	19	<u>26,867</u>	<u>30,152</u>

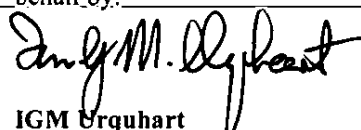
These financial statements were approved by the board of directors on 4 April 2013 and were signed on its behalf by:

  
**IGM Urquhart**  
*Director*

**Company balance sheet**  
at 31 December 2012

	<i>Note</i>	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
<b>Fixed assets</b>			
Tangible assets	11	8,766	8,632
Investments	12	237	237
		<b>9,003</b>	<b>8,869</b>
<b>Current assets</b>			
Stocks	13	21,596	21,794
Debtors	14	6,865	7,713
Cash at bank and in hand		5,927	5,942
		<b>34,388</b>	<b>35,449</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(5,226)</b>	<b>(4,644)</b>
<b>Net current assets</b>		<b>29,162</b>	<b>30,805</b>
<b>Total assets less current liabilities</b>		<b>38,165</b>	<b>39,674</b>
<b>Provisions for liabilities and charges</b>	16	<b>(19)</b>	<b>(86)</b>
<b>Net assets excluding pension liability</b>		<b>38,146</b>	<b>39,588</b>
<b>Pension liability</b>			
Defined benefit scheme with net liabilities	23	(11,263)	(9,436)
<b>Net assets including pension liability</b>		<b>26,883</b>	<b>30,152</b>
<b>Capital and reserves</b>			
Called up share capital	17	984	984
Share premium account	18	113	113
Profit and loss account	18	25,670	28,939
Capital redemption reserve	18	116	116
<b>Shareholders' funds</b>	19	<b>26,883</b>	<b>30,152</b>

These financial statements were approved by the board of directors on 4 April 2013 and were signed on its behalf by:

  
**IGM Urquhart**  
Director

**Consolidated cash flow statement**  
*for the year ended 31 December 2012*

	<i>Note</i>	<b>2012</b> <b>£000</b>	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>	<b>2011</b> <b>£000</b>
<b>Net cash inflow from operating activities</b>	20		<b>1,823</b>		<b>5,262</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		<b>2</b>		<b>2</b>	
Interest paid		<b>(46)</b>		<b>(36)</b>	
<b>Net return on investments and servicing of finance</b>			<b>(44)</b>		<b>(34)</b>
<b>Taxation</b>					
UK corporation tax paid			<b>(215)</b>		<b>(959)</b>
<b>Capital expenditure</b>					
Purchase of tangible fixed assets		<b>(1,571)</b>		<b>(1,012)</b>	
Sale of tangible fixed assets		<b>82</b>		<b>644</b>	
<b>Net cash outflow on capital expenditure</b>			<b>(1,489)</b>		<b>(368)</b>
<b>Dividends paid</b>			<b>(197)</b>		<b>(246)</b>
<b>(Decrease)/increase in cash</b>	21		<b>(122)</b>		<b>3,655</b>

**Reconciliation of net cash flow to movement in net funds**

	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
(Decrease)/increase in cash	<b>(122)</b>	<b>3,655</b>
Translation differences	<b>104</b>	<b>(129)</b>
Movement in net funds in the year	<b>(18)</b>	<b>3,526</b>
Net funds at the start of the year	<b>5,990</b>	<b>2,464</b>
Net funds at the end of the year	<b>5,972</b>	<b>5,990</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on page 2.

The current global economic conditions continue to create widespread uncertainty, particularly in relation to the level of demand for the group's products.

The group has cash resources currently available and has an overdraft facility available to it should the business need arise.

After making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Directors' report and consolidated financial statements.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 December 2012.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The group's share of the profits less losses of associates is not included in the consolidated profit and loss account on the grounds of materiality and the group's interest in the net assets of associates is not included in investments in the consolidated balance sheet on the grounds of materiality.

#### ***Investments***

In the company's financial statements, investments in subsidiary undertakings and associated undertakings are stated at cost less provision for impairment.

#### ***Tangible fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	25 years
Motor vehicles	4 years
Plant and machinery	8 years
Computer hardware	3 to 4 years

No depreciation is provided on freehold land.

#### ***Stocks***

Stocks are stated at the lower of cost and net realisable value.

In the case of raw materials, cost is purchase price. In the case of work in progress and finished goods, cost consists of direct materials, direct labour plus attributable overheads based on the normal level of activity.

Net realisable value is based on estimated selling price less estimated further costs of completion and disposal.

## **Notes (continued)**

### **1 Accounting policies (continued)**

#### ***Taxation***

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

#### ***Contributions to pension funds***

The group operates three pension schemes. The first, a defined benefit scheme provides benefits based on final pensionable pay. This scheme is now closed to new entrants and future accrual. The assets of the defined benefit scheme are held separately from those of the group, being invested by professional investment managers. Pension scheme assets are measured using current bid price. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. The movement in pension scheme deficit is split between administrative expenses, finance costs and, in the statement of total recognised gains and losses, actuarial gains and losses.

The two remaining schemes are Stakeholder schemes providing individual arrangements for either permanent or temporary employees. The assets of the schemes are held separately from those of the group in independently administered individual funds. The amount charged to the profit and loss account represents the contributions payable by the employer to the schemes in respect of the accounting year.

#### ***Foreign currencies***

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

#### ***Turnover***

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to third party customers.

#### ***Leases***

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

#### ***Dividends***

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

## Notes (continued)

### 2 Analysis of turnover

A geographical analysis of turnover is set out below:

	2012 £000	2011 £000
United Kingdom	33,293	38,155
Exports	13,528	13,040
	<u>46,821</u>	<u>51,195</u>

### 3 Profit on ordinary activities before taxation

	2012 £000	2011 £000
Profit on ordinary activities before taxation is stated after charging (crediting):		
Depreciation (see note 11)	1,391	1,450
Operating lease rentals – land and buildings	141	181
Operating lease rentals – cars	79	9
Auditor's remuneration :		
audit of these financial statements	38	38
other services relating to taxation	13	7
audit of The Johnstons of Elgin pension scheme	5	5
other services	10	1
Profit on disposal of tangible fixed assets	(34)	(424)
	<u></u>	<u></u>

### 4 Remuneration of directors

	2012 £000	2011 £000
Directors' emoluments	571	660
Company contributions paid to defined benefit and defined contribution pension schemes	42	44
	<u>613</u>	<u>704</u>

Retirement benefits are accruing to the following number of directors under:

	2012	2011
Defined benefit scheme	1	2
Defined contribution scheme	2	2
	<u></u>	<u></u>

The aggregate emoluments of the highest paid director were £180,000 (2011: £189,000). Pension contributions of £20,000 were made on behalf of this director (2011: £19,000).

**Notes (continued)**

**5 Staff numbers and costs**

The average number of persons employed by the group (including directors) during the year analysed by category, was as follows:

	Number of employees Group	
	2012	2011
Factory employees	536	558
Other	227	221
	<u>763</u>	<u>779</u>

The aggregate payroll costs of those persons were as follows:

	Group	
	2012 £000	2011 £000
Wages and salaries	14,262	14,501
Social security costs	1,151	1,180
Other pension costs	891	785
	<u>16,304</u>	<u>16,466</u>

**6 Interest receivable**

	2012 £000	2011 £000
On bank deposits	2	2
Exchange gains	104	-
	<u>106</u>	<u>2</u>

**7 Interest payable and similar charges**

	2012 £000	2011 £000
On bank overdraft	46	36
Exchange losses	-	129
	<u>46</u>	<u>165</u>

**8 Other finance (costs)/income**

	2012 £000	2011 £000
Expected return on pension scheme assets (see note 23)	2,265	2,947
Interest on pension scheme liabilities (see note 23)	(2,711)	(2,734)
	<u>(446)</u>	<u>213</u>



**Notes (continued)**

9

**Taxation**

Analysis of charge in year	2012	2011
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the year	(287)	548
Adjustments in respect of prior years	(148)	(110)
Total current tax charge	(435)	438
<i>Deferred tax</i>		
Reversal of timing differences	(50)	(43)
Adjustment in respect of prior years	(17)	(3)
Total deferred tax credit	(67)	(46)
Pension scheme movements	-	177
Tax on profit on ordinary activities	(502)	569

*Factors affecting the tax charge for the current year*

The rate of corporation tax in the UK was reduced from 26% to 24% effective 1 April 2012. The composite rate applied during the year is 24.5%.

The current tax credit (2011: charge) for the year is lower (2011: lower) than the standard rate of corporation tax in the UK 24.5%, (2011: 26%). The differences are explained below:

	2012	2011
	£000	£000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(1,805)	2,633
Current tax at 24.5% (2011: 26.5%)	(442)	698
<i>Effects of:</i>		
Expenses not deductible for tax purposes	10	10
Depreciation on assets not qualifying for capital allowances	103	98
Difference between capital allowances and depreciation for year	48	41
Other timing differences	-	10
Adjustments to tax charge in respect of previous periods	(148)	(110)
Marginal relief	(22)	-
Timing differences in relation to pension scheme	12	(177)
Industrial buildings allowance	-	(3)
Additional relief on research and development and land remediation costs	-	(64)
Chargeable gains	-	(65)
Group loss not available for group relief	4	-
Total current tax charge (see above)	(435)	438

## Notes (continued)

### 9 Taxation (continued)

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly.

### 10 Dividends

	2012 £000	2011 £000
The aggregate amount of dividends comprises:		
Dividends paid in year	197	246

The aggregate amount of dividends proposed not recognised as liabilities as at the year end is £39,000 (2011: £49,000).

### 11 Tangible fixed assets

Group	Freehold land and buildings £000	Plant and machinery, motor vehicles and computer hardware £000	Total £000
<b>Cost</b>			
At beginning of year	11,278	17,394	28,672
Exchange rate revaluation	(3)	(1)	(4)
Additions	424	1,147	1,571
Disposals	-	(606)	(606)
At end of year	11,699	17,934	29,633
<b>Depreciation</b>			
At beginning of year	5,963	14,075	20,038
Exchange rate revaluation	(3)	(1)	(4)
Charge for year	421	970	1,391
Disposals	-	(559)	(559)
At end of year	6,381	14,485	20,866
<b>Net book value</b>			
At 31 December 2012	5,318	3,449	8,767
At 31 December 2011	5,315	3,319	8,634

The gross book value of land and buildings includes £11,426,764 (2011: £11,008,978) of depreciable assets.

## Notes (continued)

### 11 Tangible fixed assets (continued)

Company	Freehold land and buildings £000	Plant and machinery, motor vehicles and computer hardware £000	Total £000
<b>Cost</b>			
At beginning of year	11,177	17,355	28,532
Additions	425	1,148	1,573
Disposals	-	(606)	(606)
At end of year	11,602	17,897	29,499
<b>Depreciation</b>			
At beginning of year	5,862	14,038	19,900
Charge for year	422	969	1,391
Disposals	-	(558)	(558)
At end of year	6,284	14,449	20,733
<b>Net book value</b>			
At 31 December 2012	5,318	3,448	8,766
At 31 December 2011	5,315	3,317	8,632

The gross book value of land and buildings includes £11,005,555 (2011: £10,905,762) of depreciable assets.

### 12 Investments

Company	Shares in subsidiary undertakings £000
<b>Cost</b>	
At beginning of year and end of the year	237

At 31 December 2012 the company had the following wholly owned subsidiary undertakings:

Company name	Class of shares held	Nature of business	Country of incorporation
James Johnston of Scotland Knitwear Limited	Ordinary	Dormant	Scotland
James Johnston of Scotland Limited	Ordinary	Dormant	England
Johnstons of Elgin Limited	Ordinary	Dormant	Scotland
Balmoral Knitwear Limited	Ordinary	Dormant	Scotland
HB Mackintosh Co Limited	Ordinary	Dormant	Scotland
Rutherford Knitwear Limited	Ordinary	Dormant	Scotland
Johnstons GmbH	Ordinary	Sale of cashmere and woollens	Germany

During the year Johnstons GmbH, a company which is incorporated in Germany, operated as a representative agency of James Johnston & Co. of Elgin Limited.

**Notes (continued)**

**13 Stocks**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Raw materials	11,670	11,343	11,670	11,343
Work in progress	2,407	2,595	2,407	2,595
Finished goods	7,528	7,868	7,519	7,856
	<u>21,605</u>	<u>21,806</u>	<u>21,596</u>	<u>21,794</u>

**14 Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade debtors	6,189	7,201	6,187	7,194
Amounts due from subsidiary undertaking	-	-	58	57
Corporation tax receivable	536	-	536	-
Other debtors	43	44	41	36
Prepayments	43	427	43	426
	<u>6,811</u>	<u>7,672</u>	<u>6,865</u>	<u>7,713</u>

**15 Creditors: amounts falling due within one year**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Trade creditors	2,649	1,780	2,643	1,770
Amounts due to subsidiary undertakings	-	-	236	236
Amounts due to associated undertakings	26	26	26	26
Other taxes and social security	827	738	821	732
Corporation tax payable	-	114	-	114
Accruals and deferred income	1,504	1,770	1,500	1,766
	<u>5,006</u>	<u>4,428</u>	<u>5,226</u>	<u>4,644</u>

**Notes** *(continued)*

**16 Deferred taxation**

The movement in deferred taxation is as follows:

	<b>Group and company</b> <b>£000</b>
At beginning of year	86
Credit for the year (see note 9)	(67)
	<hr/>
At end of year	19
	<hr/>

The elements of deferred taxation are as follows:

	<b>Group and company</b> <b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
Difference between accumulated depreciation and capital allowances	34	103
Other timing differences	(15)	(17)
	<hr/>	<hr/>
Deferred tax liability	19	86
	<hr/>	<hr/>

**17 Called up share capital**

	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	984	984
	<hr/>	<hr/>

**Notes (continued)**

**18 Reserves**

<b>Group</b>	<b>Share premium account £000</b>	<b>Profit and loss account £000</b>	<b>Capital redemption reserve £000</b>
At beginning of year	113	28,939	116
Loss for the financial year	-	(1,303)	-
Dividends	-	(197)	-
Actuarial losses recognised in the pension scheme	-	(1,996)	-
Deferred tax arising on losses in the pension scheme	-	211	-
	<hr/>	<hr/>	<hr/>
At end of year	<b>113</b>	<b>25,654</b>	<b>116</b>

<b>Company</b>	<b>Share premium account £000</b>	<b>Profit and loss Account £000</b>	<b>Capital redemption reserve £000</b>
At beginning of year	113	28,939	116
Loss for the financial year	-	(1,287)	-
Dividends	-	(197)	-
Actuarial losses recognised in the pension scheme	-	(1,996)	-
Deferred tax arising on losses in the pension scheme	-	211	-
	<hr/>	<hr/>	<hr/>
At end of year	<b>113</b>	<b>25,670</b>	<b>116</b>

	<b>Group</b>		<b>Company</b>	
	<b>2012 £000</b>	<b>2011 £000</b>	<b>2012 £000</b>	<b>2011 £000</b>
Profit and loss reserve excluding pension liability	36,917	38,375	36,933	38,375
Pension liability	(11,263)	(9,436)	(11,263)	(9,436)
	<hr/>	<hr/>	<hr/>	<hr/>
Profit and loss reserve including pension liability	<b>(25,654)</b>	<b>28,939</b>	<b>25,670</b>	<b>28,939</b>

The cumulative amount of positive goodwill resulting from the acquisition of subsidiary undertakings in earlier financial years which has been written-off is £22,000 (2011: £22,000).

**Notes (continued)**

**19 Reconciliation of shareholders' funds**

<b>Group</b>	<b>2012 £000</b>	<b>2011 £000</b>
(Loss)/profit for the financial year	(1,303)	2,064
Dividends	(197)	(246)
	<u>(1,500)</u>	<u>1,818</u>
Other recognised losses relating to the year (net)	(1,785)	(5,835)
	<u>(3,285)</u>	<u>(4,017)</u>
Net reduction of shareholders' funds		
Opening shareholders' funds	30,152	34,169
	<u>26,867</u>	<u>30,152</u>
Closing shareholders' funds		
	<u>2012 £000</u>	<u>2011 £000</u>
<b>Company</b>		
Profit for the financial year	(1,287)	2,019
Dividends	(197)	(246)
	<u>(1,484)</u>	<u>1,773</u>
Other recognised gains and losses relating to the year (net)	(1,785)	(5,835)
	<u>(3,269)</u>	<u>(4,062)</u>
Net (reduction of) addition to shareholders' funds		
Opening shareholders' funds	30,152	34,214
	<u>26,883</u>	<u>30,152</u>
Closing shareholders' funds		

**20 Reconciliation of operating profit to operating cash flows**

	<b>2012 £000</b>	<b>2011 £000</b>
Operating (loss)/profit	(1,419)	2,583
Depreciation of tangible fixed assets	1,391	1,450
Profit on sale of tangible fixed assets	(38)	(424)
Decrease (increase) in stock	201	259
Decrease (increase) in debtors	1,397	608
Increase (decrease) in creditors	686	1,229
Pension service costs	538	495
Pension scheme contributions	(933)	(938)
	<u>1,823</u>	<u>5,262</u>
Net cash inflow from operating activities		

**Notes (continued)**

**21 Analysis of net funds**

	At beginning of year £000	Cash flow £000	Exchange £000	At end of year £000
Cash at bank and in hand	5,990	(122)	104	5,972

**22 Commitments**

- (a) There are no capital commitments at the end of the year (2011: nil).  
(b) Annual commitments under non-cancellable operating leases are as follows:

	Group and company Land and buildings	
	2012 £000	2011 £000
Operating leases which expire:		
In less than one year	22	34
In the second to fifth years inclusive	92	147
	<u>114</u>	<u>181</u>
	Motor vehicles	
	2012 £000	2011 £000
Operating leases which expire:		
In less than one year	19	12
In the second to fifth years inclusive	57	48
	<u>76</u>	<u>60</u>

- (c) At 31 December 2012, the group had entered into forward currency contracts. This included the purchase of \$11,500,000 through 15 forward currency contracts, with execute dates between January and October 2013. The average exchange rate of these contracts is 1.60, resulting in a sale of £7,181,000.

The group has also entered into 5 forward currency contracts to sell €2,500,000, with execute dates between February and October 2013. The average exchange rate of these contracts is 1.24, resulting in a purchase of £2,020,000.

~~These contracts are not included in the balance sheet at fair value, in line with UK-GAAP, as the group has not yet adopted FRS25 and FRS26.~~



## Notes (continued)

### 23 Pension commitments

#### Defined benefit scheme

The group operates a pension scheme providing benefits based on final pensionable pay. The scheme is closed to new entrants and was closed to future accrual for current employees during 2013. The assets of the scheme are held separately from those of the group, being invested by professional investment managers.

The information disclosed below is in respect of the whole of the scheme for which the group is the sponsoring employer throughout the periods shown.

	Group and company	
	2012	2011
	£000	£000
Present value of funded defined benefit obligations	(65,472)	(57,947)
Fair value of plan assets	50,844	45,366
	<hr/>	<hr/>
Recognised liability for defined benefit obligations	(14,628)	(12,581)
Related deferred tax asset	3,365	3,145
	<hr/>	<hr/>
Net liability	(11,263)	(9,436)
	<hr/>	<hr/>

#### Movements in present value of defined benefit obligation

	Group and company	
	2012	2011
	£000	£000
At 1 January	57,947	52,016
Current service cost	538	495
Interest cost	2,711	2,734
Actuarial losses	5,343	4,029
Benefits paid	(1,315)	(1,578)
Contributions by members	248	251
	<hr/>	<hr/>
At 31 December	65,472	57,947
	<hr/>	<hr/>

#### Movements in fair value of plan assets

	Group and company	
	2012	2011
	£000	£000
At 1 January	45,366	46,349
Expected return on plan assets	2,265	2,947
Actuarial gains/(losses) on assets	3,347	(3,541)
Contributions by employer	933	938
Contributions by members	248	251
Benefits paid	(1,315)	(1,578)
	<hr/>	<hr/>
At 31 December	50,844	45,366
	<hr/>	<hr/>

## Notes (continued)

### 23 Pension commitments (continued)

#### Expense recognised in the profit and loss account

	Group and company	
	2012	2011
	£000	£000
Current service cost	538	495
Expected return on defined benefit pension plan assets	(2,265)	(2,947)
Interest on defined benefit pension plan obligation	2,711	2,734
Total	984	282

The expense is recognised in the following line items in the profit and loss account:

	Group and company	
	2012	2011
	£000	£000
Staff costs	538	495
Other finance costs/(income)	446	(213)
Total	984	282

The total amount recognised in the consolidated statement of total recognised gains and losses in respect of actuarial gains and losses is losses of £1,996,000 (2011: losses £7,393,000).

Cumulative actuarial gains/losses reported in the consolidated statement of recognised gains and losses for accounting periods ending on or after 22 June 2002 are losses of £11,790,000 (2011: £9,794,000).

The fair value of the scheme's assets and the return on those assets were as follows:

	Fair value	Fair value
	2012	2011
	£000	£000
Equities	31,685	29,639
Bonds	15,314	12,197
Property	901	907
Other	2,944	2,623
Total	50,844	45,366

The assumed long term rates of return on the scheme assets were as follows:

	2012	2011
Equities	5.7%	5.8%
Bonds	2.9%	3.3%
Property	5.7%	5.8%
Other	2.9%	3.3%

The expected return on bonds and other assets was based on the average of yields on long dated fixed interest gilts and long dated AA corporate bonds. The expected return on equities and property was based on the yield on long dated fixed interest gilts at the year end adjusted for an equity risk premium. All returns are net of investment management expenses.

## Notes (continued)

### 23 Pension commitments (continued)

The major assumptions used by the actuary at the year end were as follows:

	2012	2011
Inflation assumption	2.20%	2.20%
Rate of increase in salaries	3.90%	3.90%
Discount rate	4.30%	4.70%
Rate of Limited Price Indexation (with 5% cap)	2.90%	2.90%
Rate of Limited Price Indexation (with 2.5% cap)	2.00%	2.00%
	2012	2011
	£000	£000
Expected return plan assets	2,265	2,947
Gains/(losses) on plan assets	3,347	(3,541)
Actual return/(losses) on plan assets	5,612	(594)

In valuing the liabilities of the pension scheme at 31 December 2012, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the scheme lived for one year longer, the value of the reported liabilities at 31 December 2012 would have increased by approximately £2,187,000 before deferred tax.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 21.2 years (male), 24.0 years (female) (2011: 21.1 years (male), 23.9 years (female)).
- Future retiree, currently aged 45, upon reaching 65: 23.1 years (male), 25.9 years (female) (2011: 23.0 years (male), 25.8 years (female)).

#### History of plans

The history of the plans for the current and prior periods is as follows:

#### Balance sheet

	2012	2011	Group and company		
	2012	2011	2010	2009	2008
	£000	£000	£000	£000	£000
Present value of defined benefit obligation	(65,472)	(57,947)	(52,016)	(45,834)	(38,338)
Fair value of plan assets	50,844	45,366	46,349	39,460	32,653
Deficit	(14,628)	(12,581)	(5,667)	(6,374)	(5,685)

## Notes (continued)

### 23 Pension commitments (continued)

#### Experience adjustments

	Group and company				
	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Experience adjustments on plan liabilities	16	26	1,608	(105)	244
Experience adjustments on plan assets	3,347	(3,541)	3,942	5,125	(9,528)
(Losses)/gains on change of assumptions on defined benefit obligation	(5,359)	(4,055)	(5,742)	(5,539)	8,452
Total (losses)/gains recognised in the statement of total recognised gains and losses	(1,996)	(7,570)	(192)	(519)	(832)

The loss on change of assumptions during the year relates entirely to changes in financial assumptions.

The group expects to contribute approximately £954,000 to its defined benefit plan in the next financial year.

#### Stakeholder pension schemes

The group contributes towards stakeholders' individual pension arrangements. The pension charge for the year was £339,000 (2011: £290,000). There were no outstanding or prepaid contributions at the end of the financial year.