

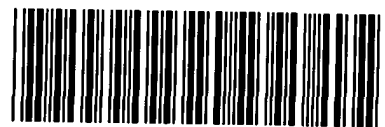
**James Johnston & Co. of Elgin Limited**

**Annual report and consolidated  
financial statements**

**Registered number SC022553**

**31 December 2020**

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## Company information

### Directors

IGM Urquhart  
DA Harrison  
NE Urquhart  
NAC Bannerman  
CJM Gaffney  
SJ Cotton  
JM Urquhart  
MS Wikstrom

### Secretary

CJM Gaffney

### Auditor

KPMG LLP  
1 Marischal Square  
Broad Street  
Aberdeen  
AB10 1DD

### Bankers

Royal Bank of Scotland  
6<sup>th</sup> Floor  
2 Marischal Square  
Broad Street  
Aberdeen  
AB10 1BL

### Solicitors

MacRoberts LLP  
Capella  
60 York Street  
Glasgow  
G2 8JX

### Registered Office

Newmill  
Elgin  
Morayshire  
IV30 4AF

## Strategic report

### Principal activities

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

### Business model

The business adds value through its vertically integrated business model. The entire process from designing products and sourcing raw fibre through the production steps of dying, yarn manufacture, weaving, knitting, finishing, embroidery and labelling can all be conducted at our Scottish based sites. This allows control of quality throughout the process and retains the value added in each step in the business.

Manufacturing facilities are in Elgin in the Scottish Highlands (Wovens) and in Hawick in the Borders (Knitted), producing across broad categories of accessories (scarves, gloves, hats, socks), garments and cloth for clothing and home interiors.

The company sells to internationally recognisable luxury brands with their label and to department stores, boutiques and consumers with our own "Johnstons of Elgin" brand. There are five retail sites in the UK, one at each of our manufacturing sites, a shop in St Andrews and flagship stores on New Bond Street in London and Multrees Walk in Edinburgh. The retail business also operates through e-commerce and mail order. A sales company in Germany (Johnstons GmbH) is a wholly owned subsidiary.

### Directors' obligations under Section 172 of the Companies Act 2006

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- a) The likely consequences of any decisions in the long term

The Directors continue to take a long term view on investment and take a custodial approach to the business, aiming to pass it on to future generations in keeping with its heritage. In 2020, despite challenges with the Coronavirus, the company invested £1.5m in capital, including projects to ensure that our knitting and weaving capabilities continue to develop in line with changing long term customer preferences.

- b) The interests of the company's employees

Having a skilled and motivated workforce is a key part of Johnstons future success.

Johnstons is accredited by the Living Wage Foundation, Investors in Young People and is a Scottish Qualifications Authority (SQA) approved centre, allowing the company to deliver modern apprenticeship qualifications to our staff.

The Pension Scheme remains a significant stakeholder in the company. Contributions in 2020 were £1.4m the directors continue to work closely with the trustees to manage the risks of the scheme.

The challenges of Covid-19 resulted in Johnstons having to re-structure our business in 2020 to reflect reduced levels of activity. This unfortunately led to 73 compulsory redundancies. The company made every effort to conduct the process in a fair and transparent way, consulting with employees throughout. During that process and throughout the pandemic, the mental health of our employees has been important to us. We have 21 mental health first aiders in our business and have been signposting support to our colleagues throughout this difficult time.

## Strategic report *(continued)*

### c) The need to foster the company's business relationships with suppliers, customers and others

A large part of the business remains private label manufacture for the world's most exclusive brands. Providing excellent service, quality and design innovation is key to maintaining these relationships. The directors review service KPIs and our ISO Quality Management System supports on-going control of quality. Offices in Paris, London, Dusseldorf, New York and Tokyo allow us to remain very close to our wholesale customers and to react to their needs.

Building a relationship with our direct consumers is also important as we grow the brand and we ensure that our retail staff are trained to a high standard and that our communications through traditional and social media are in line with our brand proposition.

As a vertically integrated company we have close supply relationships with our cashmere and wool fibres sources and our yarn suppliers. Our key operational partners are audited by us to ensure their compliance to our responsible business standard.

### d) The impact of the company's operation on the community and the environment

Community is important to Johnstons as our mills operate in semi-rural locations where we are a significant employer. We work closely with local schools to develop the future workforce, our employees generate significant contributions to our annually nominated charities and we participate in local and national business groups.

Johnstons is committed to limiting its impact on the environment. We continue to be a contributor to the Zero Discharge of Hazardous Chemicals (ZDHC) programme, which aims to eliminate harmful chemicals from the textile supply chain. As a vertically integrated manufacturer with UK operations we are well placed to control our footprint and we are accredited with the ISO Environmental Management Standard.

Johnstons was a founder member of the Sustainable Fibre Alliance (SFA) in 2015 and continues to work to encourage the adoption of responsible production practices that minimise environmental impact, safeguard herder livelihoods and meet high animal welfare standards in the cashmere supply chain. In 2020 Johnstons was able to procure batches from the first SFA certified fibre to come to market through a completely traceable supply chain.

Renewable electricity is purchased and projects are under evaluation to further reduce our use of natural gas.

### e) The desirability of the company to maintain a reputation for high standards of business conduct

The company culture is based on the values of Trust, Community, Innovation and Craftsmanship. Reputation is important to us and the board and family owners are directly involved in considering how we consistently instill our values in our teams.

### f) The need to act fairly as between members of the company

Johnstons is a family company with a small shareholder group that are very close to the management of the company.

## Business review and results

The loss before tax was £4.4m compared with a profit of £6.4m in 2019.

In 2020 the Coronavirus had a very significant impact on the business. In late March our mills and retail shops were closed during the first lockdown. These slowly reopened through the summer as the operational teams learned how to manage Covid risks. Our primary consideration through this period has been our employee and customer welfare and the reaction of our teams to the crisis has been exceptional.

## Strategic report (continued)

Sales were down by 33% due to retail closures, in both our own stores and those of our wholesale customers. Some areas performed more strongly, notably our ecommerce business, products for the home and European luxury private label, whilst our boutique and tourist based businesses were impacted disproportionately.

Margin fell from 31.1% to 13.1% as labour costs were not reduced in line with sales, slow moving stock increased and high value cashmere stock purchased at the market peak in 2019 was being consumed. There was a partial offset to the lost margin in other operating income, as £4.35m was claimed through the government furlough scheme. This was critical in supporting our employees and in enabling us to retain employment and skills for the recovery.

In a challenging and uncertain environment the conservation of cash has been important and we are pleased to have increased cash to £19.2m from £7.1m in the prior year. Working capital has been reduced through a reduction in our stockholding (£9m) and a Coronavirus Large Business Interruption Loan (£10m), with a three year term, was drawn down to provide support as we seek to rebuild profitability through 2021 and 2022.

### Monitoring of performance

Budgets are set at the beginning of the financial year and reviewed by the board quarterly against figures achieved.

### Key Performance Indicators

	2020	2019	Measure
Stock days	273.2	292.8	Stock/Cost of sales *365
Debtor days	40.1	31.9	Average trade debtors/Sales *365
Creditor days	30.7	33.6	Average trade creditors/Cost of sales *365
Gross margin	13.1%	31.1%	Gross profit/Turnover
Operating margin	(8.2%)	8.5%	Operating profit/Turnover
Return on capital employed	(8.3%)	11.3%	Profit before tax/Net assets less deferred tax

### Principal risks and uncertainties

As of March 2021 we are hopeful that the roll out of vaccines will subdue the virus and allow a return to a more normal trading position for our main winter season.

The main commercial risks and uncertainties remain around raw material prices and supply, currency variations on both sales and purchases and demand profiles from customers. The risk attached to raw material prices is managed by maintaining close contact with the market and suppliers at source and holding significant forward inventory of both fibre and yarn. We also seek to work closely with our major customers to collaboratively plan demand and reduce fluctuations where possible.

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 in the major currencies with which we conduct our business.

### Brexit & Tariffs

The board is pleased to note that in early March 2021 the 25% tariffs on knitwear sales to the US as a result of the Boeing/Airbus dispute have been suspended for four months, and look forward to these being permanently removed.

Brexit was less damaging than could have been the case, due to the implementation of a zero-tariff deal. However, frictions in trade to the EU have increased due to additional customs requirements, VAT arrangements and complex country of origin rules.

## Strategic report *(continued)*

### Funding and going concern

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. Available financial resources include the company's new Coronavirus Large Business Interruption Loan (£10m), with a three year term to 2023. Further details in respect of going concern are disclosed in note 1 to the financial statements.

### Energy and Carbon reporting

The usage of energy and related emissions of CO<sub>2</sub>e of the Group and Company are as follows:

Source	Unit	2020
<b>Energy Usage:</b>		
Electricity	kWh	279,407
Electricity Certified Renewable	kWh	4,575,950
Natural Gas	kWh	15,583,671
Business Transport (own vehicles and rentals)	Litres	4,364
<b>Emissions:</b>		
Electricity	tCO <sub>2</sub> e	65.1
Electricity Certified Renewable	tCO <sub>2</sub> e	Nil
Natural Gas	tCO <sub>2</sub> e	2,865.4
Business Transport (own vehicles and rentals)	tCO <sub>2</sub> e	11.1
<b>Total tCO<sub>2</sub>e</b>	<b>tCO<sub>2</sub>e</b>	<b>2,941.6</b>
Intensity Ratio	tCO <sub>2</sub> e/£m Turnover	56.9

The electricity supplied to power our mills is certified by our supplier and supported by Renewable Energy Guarantees of Origin. As our retail contracts come up for renewal it is also our intention to move to green energy for those sites.

In 2020 the company commissioned a de-carbonisation strategy plan for our largest mill in Elgin, supported by Zero Waste Scotland. This report, received in early 2021, looked at the energy flows through our weaving mill and proposed options to reduce energy use over time. These proposals are likely to be the basis for investments in this area in future years.

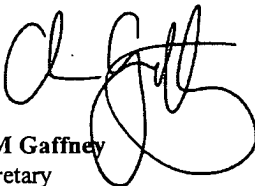
## Strategic report *(continued)*

### Future developments

Our strategy of growth with our major luxury branded customers and through our own brand in wholesale, retail and online remains consistent.

Stock overhangs at our customers and the second wave of coronavirus in the first quarter of 2021 will result in sales failing to recover to pre-pandemic levels this year, so profitability will remain under pressure. However, the board are confident that our positioning as a "Made in Scotland" manufacturer of high quality, natural products will stand us in good stead to recover strongly as the consumer seeks out timeless and sustainable, slow fashion products from trusted brands.

Signed on behalf of the board



**CJM Gaffney**  
Secretary

Newmill  
Elgin  
Morayshire  
IV30 4AF

5 April 2021



## Directors' report

### Dividends

Dividends paid during the year total £nil (2019: £1,014,000).

No further dividend payment has been approved by the board at the date of approving the financial statements.

### Directors

The directors who held office during the year and up to the date of this report are as follows:

IGM Urquhart  
DA Harrison  
NE Urquhart  
NAC Bannerman  
CJM Gaffney  
SJ Cotton  
JM Urquhart  
MS Wikstrom

The Company provided qualifying third party indemnity provisions to the directors of the Company during the financial year and at the date of this report.

### Engagement with Employees, Suppliers, Customers and Others

Relationships with stakeholders are of strategic importance to the company and these matters are therefore dealt with in the strategic report (under section 172 obligations).

### Disclosure of Energy Consumption and Emissions

Sustainability is of strategic importance to our company and these matters are therefore dealt with in the strategic report.

### Financial instruments

The Group's financial instruments comprise cash, working capital balances and derivative forward currency contracts. Further details are presented in note 17 of the financial statements.

### Disclosure of information to auditor

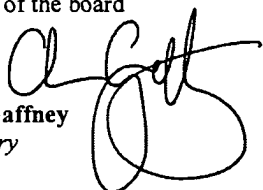
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make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

### 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



Newmill  
Elgin  
Morayshire  
IV30 4AF

5 April 2021

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

The directors are responsible for preparing the Annual 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), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 are 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, and 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**

### **Opinion**

We have audited the financial statements of James Johnston & Co. of Elgin Limited ("the company") for the year ended 31 December 2020 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, consolidated statement of changes in equity, company statement of changes in equity, consolidated cash flow statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the group or the company or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the group's business model and analysed how those risks might affect the group and company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the group or the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the company will continue in operation.

### **Fraud and breaches of laws and regulations – ability to detect**

#### *Identifying and responding to risks of material misstatement due to fraud*

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

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

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular the risk that wholesale revenue is recorded in the wrong period and the risk that Group management may be in a position to make inappropriate accounting entries.

We performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included unbalanced journals; those posted to unusual accounts; and journals containing key words which may indicate high risk.

### *Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations*

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience (as required by auditing standards), and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

### *Context of the ability of the audit to detect fraud or breaches of law or regulation*

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

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

### **Strategic report and directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Under the Companies Act 2006, we are required 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.

We have nothing to report in these respects.

### **Directors' responsibilities**

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; assessing the group and parent 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 they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

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

**The purpose of our audit work and to whom we owe our responsibilities**

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.



**David Derbyshire (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 Marischal Square  
Broad Street  
Aberdeen  
AB10 1DD

7 April 2021

## Consolidated profit and loss account

for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Turnover	3	51,682	77,049
Cost of sales		(44,908)	(53,065)
<b>Gross profit</b>		<b>6,774</b>	<b>23,984</b>
Distribution costs		(7,191)	(8,323)
Administrative expenses		(8,187)	(9,095)
Other operating income	4	4,353	-
<b>Operating (loss)/profit</b>		<b>(4,251)</b>	<b>6,566</b>
Interest receivable and similar income	7	4	29
Interest payable and similar expenses	8	(112)	(180)
<b>(Loss)/profit before taxation</b>	4	<b>(4,359)</b>	<b>6,415</b>
Tax on (loss)/profit	9	662	(1,264)
<b>(Loss)/profit for the financial year</b>		<b>(3,697)</b>	<b>5,151</b>

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

## Consolidated statement of comprehensive income

for the year ended 31 December 2020

	2020 £000	2019 £000
<b>(Loss)/profit for the financial year</b>	<b>(3,697)</b>	<b>5,151</b>
Actuarial (losses)/gains recognised in the pension scheme (note 19)	(1,389)	3,403
Deferred and current tax arising on gains in the pension scheme (note 9)	264	(579)
Exchange differences on retranslation	(15)	(1)
Net change in fair value of cash flow hedges (note 17)	242	(727)
Deferred tax arising on cash flow hedges (note 9)	(39)	124
<b>Other comprehensive (expense)/income</b>	<b>(937)</b>	<b>2,220</b>
<b>Total comprehensive (expense)/income for the financial year</b>	<b>(4,634)</b>	<b>7,371</b>

**Consolidated balance sheet**  
*at 31 December 2020*

	<i>Note</i>	2020 £000	2019 £000
<b>Fixed assets</b>			
Tangible assets	11	10,892	11,168
		<hr/>	<hr/>
		10,892	11,168
<b>Current assets</b>			
Stocks	13	33,611	42,565
Debtors	14	6,261	7,566
Cash at bank and in hand		19,187	7,067
		<hr/>	<hr/>
		59,059	57,198
<b>Creditors: amounts falling due within one year</b>	15	(7,662)	(11,157)
		<hr/>	<hr/>
<b>Net current assets</b>		51,397	46,041
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		62,289	57,209
<b>Creditors: amounts falling due after more than one year</b>	16	(10,000)	-
<b>Provision for deferred tax liability</b>	9	(43)	(329)
		<hr/>	<hr/>
<b>Net assets</b>		52,246	56,880
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	20	780	780
Share premium account	21	113	113
Profit and loss account		51,111	55,948
Cash flow hedging reserve	21	(78)	(281)
Capital redemption reserve	21	320	320
		<hr/>	<hr/>
<b>Shareholders' funds</b>		52,246	56,880
		<hr/>	<hr/>

These financial statements were approved by the board of directors on its behalf by:

S April 2021 and were signed on



**SJ Cotton**  
Director



**Company balance sheet**  
at 31 December 2020

	<i>Note</i>	<b>2020</b> <b>£000</b>	<b>2019</b> <b>£000</b>
<b>Fixed assets</b>			
Tangible assets	11	10,892	11,168
Investments	12	-	-
		<b>10,892</b>	<b>11,168</b>
<b>Current assets</b>			
Stocks	13	33,590	42,541
Debtors	14	6,264	7,578
Cash at bank and in hand		19,081	6,926
		<b>58,935</b>	<b>57,045</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(7,637)</b>	<b>(11,109)</b>
<b>Net current assets</b>		<b>51,298</b>	<b>45,936</b>
<b>Total assets less current liabilities</b>		<b>62,190</b>	<b>57,104</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>(10,000)</b>	<b>-</b>
<b>Provision for deferred tax liability</b>	9	<b>(43)</b>	<b>(329)</b>
<b>Net assets</b>		<b>52,147</b>	<b>56,775</b>
<b>Capital and reserves</b>			
Called up share capital	20	780	780
Share premium account	21	113	113
Profit and loss account		51,012	55,843
Cash flow hedging reserve	21	(78)	(281)
Capital redemption reserve	21	320	320
<b>Shareholders' funds</b>		<b>52,147</b>	<b>56,775</b>

These financial statements were approved by the board of directors on its behalf by:

5 April 2021 and were signed on



**SJ Cotton**  
Director

**Consolidated statement of changes in equity**  
*for the year ended 31 December 2020*

	Called up share capital £000	Share premium £000	Profit and loss account £000	Cash flow hedging reserve £000	Capital redemption reserve £000	Total equity £000
<b>At 1 January 2019</b>	<b>780</b>	<b>113</b>	<b>48,988</b>	<b>322</b>	<b>320</b>	<b>50,523</b>
Profit for the financial year	-	-	5,151	-	-	5,151
Actuarial gains recognised in the pension scheme	-	-	3,403	-	-	3,403
Deferred and current tax arising on gains in the pension scheme	-	-	(579)	-	-	(579)
Exchange differences on retranslation	-	-	(1)	-	-	(1)
Net change in fair value of cash flow hedges	-	-	-	(727)	-	(727)
Deferred tax arising on cash flow hedges	-	-	-	124	-	124
<i>Transactions with owners recorded directly in equity</i>						
Dividends paid	-	-	(1,014)	-	-	(1,014)
<b>At 31 December 2019</b>	<b>780</b>	<b>113</b>	<b>55,948</b>	<b>(281)</b>	<b>320</b>	<b>56,880</b>
Loss for the financial year	-	-	(3,697)	-	-	(3,697)
Actuarial losses recognised in the pension scheme	-	-	(1,389)	-	-	(1,389)
Deferred and current tax arising on losses in the pension scheme	-	-	264	-	-	264
Exchange differences on retranslation	-	-	(15)	-	-	(15)
Net change in fair value of cash flow hedges	-	-	-	242	-	242
Deferred tax arising on cash flow hedges	-	-	-	(39)	-	(39)
<i>Transactions with owners recorded directly in equity</i>						
Dividends paid	-	-	-	-	-	-
<b>At 31 December 2020</b>	<b>780</b>	<b>113</b>	<b>51,111</b>	<b>(78)</b>	<b>320</b>	<b>52,246</b>

**Company statement of changes in equity**  
*for the year ended 31 December 2020*

	Called up share capital £000	Share premium £000	Profit and loss account £000	Cash flow hedging reserve £000	Capital redemption reserve £000	Total equity £000
<b>At 1 January 2019</b>	<b>780</b>	<b>113</b>	<b>49,294</b>	<b>322</b>	<b>320</b>	<b>50,829</b>
Profit for the financial year	-	-	4,739	-	-	4,739
Actuarial gains recognised in the pension scheme	-	-	3,403	-	-	3,403
Deferred and current tax arising on gains in the pension scheme	-	-	(579)	-	-	(579)
Net change in fair value of cash flow hedges	-	-	-	(727)	-	(727)
Deferred tax arising on cash flow hedges	-	-	-	124	-	124
<i>Transactions with owners recorded directly in equity</i>						
Dividends paid	-	-	(1,014)	-	-	(1,014)
<b>At 31 December 2019</b>	<b>780</b>	<b>113</b>	<b>55,843</b>	<b>(281)</b>	<b>320</b>	<b>56,775</b>
Loss for the financial year	-	-	(3,706)	-	-	(3,706)
Actuarial losses recognised in the pension scheme	-	-	(1,389)	-	-	(1,389)
Deferred and current tax arising on losses in the pension scheme	-	-	264	-	-	264
Net change in fair value of cash flow hedges	-	-	-	242	-	242
Deferred tax arising on cash flow hedges	-	-	-	(39)	-	(39)
<i>Transactions with owners recorded directly in equity</i>						
Dividends paid	-	-	-	-	-	-
<b>At 31 December 2020</b>	<b>780</b>	<b>113</b>	<b>51,012</b>	<b>(78)</b>	<b>320</b>	<b>52,147</b>

**Consolidated cash flow statement**  
*for the year ended 31 December 2020*

	2020 £000	2019 £000
<b>Cash flows from operating activities</b>		
(Loss)/profit for the year	(3,697)	5,151
Adjustments for:		
Depreciation charge	1,705	1,643
Interest receivable and similar income	(4)	(29)
Interest payable and similar expenses	112	180
Profit on sale of tangible fixed assets	(60)	-
Taxation	(662)	1,264
Pension scheme contributions	(1,400)	(2,000)
Decrease/(increase) in stock	8,954	(8,710)
Decrease in debtors	1,358	639
(Decrease)/increase in creditors	(2,885)	1,259
<b>Cash generated from/(used in) operations</b>	<b>3,421</b>	<b>(603)</b>
Taxation refunded/(paid)	244	(447)
<b>Net cash generated from/(used in) operating activities</b>	<b>3,665</b>	<b>(1,050)</b>
<b>Cash flows from investing activities</b>		
Interest received	4	29
Proceeds on disposal of fixed assets	130	-
Purchase of fixed assets	(1,563)	(3,565)
<b>Net cash used in investing activities</b>	<b>(1,429)</b>	<b>(3,536)</b>
<b>Cash flows from financing activities</b>		
Proceeds from new loan	10,000	-
Dividends paid	-	(1,014)
Interest paid	(101)	(40)
<b>Net cash generated from/(used in) financing activities</b>	<b>9,899</b>	<b>(1,054)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>12,135</b>	<b>(5,640)</b>
Effect of exchange rate fluctuations on cash held	(15)	1
<b>Cash and cash equivalents at the beginning of the year</b>	<b>7,067</b>	<b>12,706</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>19,187</b>	<b>7,067</b>

## **Notes to the financial statements**

*(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.

In these financial statements the Company has applied the following amendments to FRS 102, with the date of transition being 1 January 2018, in the following areas:

- Triennial Review 2017 Amendments: Section 7 Statement of Cash Flows. As a result a net debt reconciliation has been disclosed for the Group – see note 18.

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

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS 102”). All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

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

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2020. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

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

In the parent financial statements, investments in subsidiaries are carried at cost less provision for impairment.

#### ***Government grants***

Government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the expected useful lives of the assets to which they relate or in periods in which the related costs are incurred. In the year, the company has received £4,353,000 in income from the UK Government Job Retention Scheme. This government grant allows for employers to claim up to 80% of the salary to a maximum of £2,500 a month for employees placed on furlough. This income has been recognised at the same time as the underlying wage and salary costs for which relief has been claimed is recognised. There are no amounts considered to be repayable and no unfulfilled conditions. This income has been presented within other operating income within the statement of profit and loss.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### *Going concern*

##### **Basis of preparation – going concern**

The financial statements have been prepared on a going concern basis which the directors believe to be appropriate for the following reasons.

The Group's business activities, together with the factors likely to affect its future development are set out in the Strategic Report on pages 2 to 6. The Group made a loss in 2020. In 2020 the Coronavirus had a very significant impact on the business. In late March our mills and both our retail shops and those of our wholesale customers were closed during the first lockdown. Our operations slowly reopened through the summer as the operational teams learned how to manage Covid risks. The directors continue to have a strategy of growth, and expect to return to profitability in future years.

The directors have prepared projected cash flow information for the twelve months from the date of approval of these financial statements, including reasonably possible downside scenarios which principally reflect a risk of lower than forecast sales. The directors consider that the net funds currently available will provide sufficient liquidity to finance the Group for the next twelve months under both their base and downside forecast scenarios.

At the year end, the Group had net funds of £9.1m, a cash balance of £19.1m, and no significant operating lease commitments other than in respect of its retail properties (note 23). No repayments are due on the bank loan of £10.0m until September 2023. The Group forecasts show compliance with its financial covenant. The Group continues to trade with its customers, and holds a significant investment in inventories (note 13).

Consequently, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook and will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

#### *Tangible fixed assets and depreciation*

The cost of tangible fixed assets is their purchase cost, together with any other costs directly attributable to bringing the asset into working condition for its intended use.

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:

Land and buildings	10 to 25 years
Motor vehicles	4 years
Plant and machinery	4 to 8 years
Computer hardware	3 to 4 years

No depreciation is provided on freehold land.

The Group performs impairment reviews in respect of fixed assets whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the recoverable amount of the asset, being the higher of the asset's net realisable value and its value in use, is found to be less than the carrying value, then an impairment loss is recognised in the profit and loss account.

#### *Investments*

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

#### *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 to the financial statements *(continued)*

### 1 Accounting policies *(continued)*

#### *Taxation*

The credit/charge for taxation is based on the loss/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 the accounting standard.

#### *Contributions to pension funds*

The group operates two pension schemes. The first is a defined benefit scheme that provides benefits based on final pensionable pay. This scheme is closed to new entrants and to 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 surplus is split between interest payable and similar expenses in the profit and loss account and actuarial gains and losses in the statement of other comprehensive income.

The second scheme is a Stakeholder scheme providing individual arrangements for 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 to third party customers.

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods has transferred to the buyer, usually on despatch of the goods.

#### *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.

#### *Basic financial instruments*

Basic financial instruments such as debtors and creditors are recognised at cost, less any impairment for bad debts in the case of trade debtors.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### *Derivatives*

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are re-measured at their fair value at each subsequent reporting date

Currently the group only has cash flow hedge relationships. Cash flow hedges are hedges of particular risks that might change the amount or timing of future cash flows. For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity, and any remaining ineffective portion is reported in the income statement. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation.

The fair value of the forward currency contract is calculated by reference to current forward exchange contracts with similar maturity profiles.

#### *Cash*

Cash, for the purposes of the cashflow statement, comprises cash on hand and cash in short term deposits.

### 2 Accounting estimates and judgements

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

#### *Defined benefit pension plan*

The Group operates a defined benefit plan. The estimation of the defined benefit obligation liabilities depends on such factors as life expectancy of the members, future inflation assumptions and the discount rate used to calculate the present value of the liabilities. The Group uses previous experience and impartial actuarial advice to select the values of these critical estimates. The estimates adopted, and the sensitivity of key estimates, are disclosed in note 19.

#### *Stock provisioning*

The Group has recognised provisions for the impairment of stock. The judgements, estimates and other associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors. This provision is based on an assessment of stock value taking into account the ageing of the stock, the quantities on hand, date of last usage, and the quality of stock. The value of stock in note 13 is net of the provision for impairment of stock.

### 3 Analysis of turnover

A geographical analysis of turnover is set out below:

	2020 £000	2019 £000
United Kingdom	29,401	47,172
Rest of the World	22,281	29,877
	<u>51,682</u>	<u>77,049</u>

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

Turnover is derived entirely from the sale of textile products and ancillary services (on-site coffee shops).



## Notes to the financial statements (continued)

### 4 Expenses, other operating income and auditor's remuneration

	2020 £000	2019 £000
<i>(Loss)/profit before taxation is stated after charging/(crediting):</i>		
Depreciation (see note 11)	1,705	1,643
Operating lease rentals – land and buildings	690	670
Operating lease rentals – cars	63	68
Auditor's remuneration	124	93
Profit on disposal of tangible fixed assets	(60)	-
Other operating income – Government Grants (Job Retention Scheme)	(4,353)	-
	<u>          </u>	<u>          </u>

The remuneration of the auditor's is further analysed as follows:

	2020 £000	2019 £000
Audit of the financial statements	47	45
Audit of the pension scheme	7	6
Audit related assurance services	4	-
	<u>          </u>	<u>          </u>
Total audit services	58	51
Taxation compliance services	20	22
Taxation advisory services	46	20
	<u>          </u>	<u>          </u>
Total non-audit services	66	42
	<u>          </u>	<u>          </u>
	<u>124</u>	<u>93</u>

### 5 Directors' remuneration and key management compensation

	2020 £000	2019 £000
Directors' emoluments	701	975
Company contributions paid to defined contribution pension schemes	39	44
Amounts receivable under long term incentive schemes	-	395
	<u>          </u>	<u>          </u>
	740	1,414
	<u>          </u>	<u>          </u>

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

	2020	2019
Defined contribution scheme	3	4
	<u>          </u>	<u>          </u>

The aggregate remuneration of the highest paid director was £203,000 (2019: £311,000), and in addition to this the highest paid director also had amounts receivable under long term incentive schemes of £nil (2019: £155,000). Pension contributions of £19,000 were made on behalf of this director (2019: £18,000).

The amounts receivable under long term incentive schemes in the prior year relate to an incentive plan covering the period from 2015 to 2019. This plan has now ended and the above amount represents a one-off payment in the prior year.

The directors' are the Key Management Personnel of the Group.

## Notes to the financial statements *(continued)*

### 6 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	
	2020	2019
Factory employees	652	724
Sales and administration employees	297	320
	<u>949</u>	<u>1,044</u>

The aggregate payroll costs of those persons were as follows:

	Group	
	2020 £000	2019 £000
Wages and salaries	21,852	24,375
Social security costs	1,895	2,237
Other pension costs (note 19)	1,128	1,149
	<u>24,875</u>	<u>27,761</u>

### 7 Interest receivable and similar income

	2020 £000	2019 £000
Bank interest receivable	4	23
Other interest payable	-	6
	<u>4</u>	<u>29</u>

### 8 Interest payable and similar expenses

	2020 £000	2019 £000
Bank interest payable	92	40
Other interest payable	9	-
Net interest on net defined benefit liability	11	140
	<u>112</u>	<u>180</u>

## Notes to the financial statements (continued)

### 9 Taxation

	£000	2020 £000	£000	£000	2019 £000	£000
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit and loss account	(231)	(431)	(662)	856	408	1,264
Recognised in equity	(370)	145	(225)	(433)	888	455
Total tax	(601)	(286)	(887)	423	1,296	1,719

#### Analysis of charge in year in profit and loss

	2020 £000	£000	2019 £000	£000
<i>Current tax</i>				
UK corporation tax	-		1,048	
Foreign tax	-		122	
Adjustments in respect of prior years	(231)		(314)	
Total current tax (credit)/charge		(231)		856
<i>Deferred tax</i>				
Origination and reversal of timing differences	(383)		140	
Effect of tax rate change on opening balance	(40)		-	
Adjustment in respect of prior years	(8)		268	
Total deferred tax (credit)/charge		(431)		408
Tax on (loss)/profit		(662)		1,264

The tax (credit) (2019: charge) for the year is lower (2019: higher) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
<i>Total tax reconciliation</i>		
(Loss)/profit before tax	(4,359)	6,415
Tax at 19% (2019: 19%)	(828)	1,219
<i>Effects of:</i>		
Adjust deferred tax to closing average rate	40	(121)
Non-deductible fixed asset depreciation	99	111
Overseas profit not recognised	(2)	(65)
Expenses not deductible for tax purposes	6	102
Movement on deferred tax on pension scheme	7	53
Adjustments in respect of prior years	(239)	(46)
Losses carried back to prior year	241	-
Foreign tax adjustment	-	38
Other adjustments	14	(27)
Total tax (credit)/expense included in profit and loss account	(662)	1,264

The current tax credit within equity also has been recovered through carry back of losses.

## Notes to the financial statements (continued)

### 9 Taxation (continued)

#### Deferred tax

	2020 £000	2019 £000
<i>The elements of deferred taxation are as follows:</i>		
Accelerated capital allowances	(565)	(355)
Timing differences on defined benefit pension scheme	-	93
Losses and other deductions	774	-
Other timing difference	60	213
Capital gains	(312)	(280)
	<hr/>	<hr/>
Deferred tax liability	(43)	(329)
	<hr/>	<hr/>
<i>The movement in deferred taxation is as follows:</i>		£000
At 1 January 2020		(329)
Deferred taxation charged in the profit and loss account for the period		431
Deferred taxation charged in other comprehensive income for the period		(145)
		<hr/>
At 31 December 2020		(43)
		<hr/>

### 10 Dividends

	2020 £000	2019 £000
The aggregate amount of dividends comprises:		
Dividends paid in year	-	1,014
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 11 Tangible fixed assets

Group	Land and buildings £000	Plant and machinery, motor vehicles and computer hardware £000	Total £000
<b>Cost</b>			
At beginning of year	13,365	25,912	39,277
Additions	133	1,366	1,499
Disposals	-	(482)	(482)
At end of year	13,498	26,796	40,294
<b>Depreciation</b>			
At beginning of year	8,499	19,610	28,109
Charge for year	485	1,220	1,705
Disposals	-	(412)	(412)
At end of year	8,984	20,418	29,402
<b>Net book value</b>			
At 31 December 2020	4,514	6,378	10,892
At 31 December 2019	4,866	6,302	11,168

Company	Land and buildings £000	Plant and machinery, motor vehicles and computer hardware £000	Total £000
<b>Cost</b>			
At beginning of year	13,273	25,830	39,103
Additions	133	1,366	1,499
Disposals	-	(436)	(436)
At end of year	13,406	26,760	40,166
<b>Depreciation</b>			
At beginning of year	8,407	19,528	27,935
Charge for year	485	1,220	1,705
Disposals	-	(366)	(366)
At end of year	8,892	20,382	29,274
<b>Net book value</b>			
At 31 December 2020	4,514	6,378	10,892
At 31 December 2019	4,866	6,302	11,168

Included within Group and Company land and buildings is land of £272,000 (2019: £272,000) which is not depreciated.

## Notes to the financial statements (continued)

### 12 Investments

Company	Shares in subsidiary undertakings £000
<i>Cost and net book value</i>	
At beginning of the year and at the end of the year	-

At 31 December 2020 the company had the following wholly owned subsidiary undertakings:

Company name	Class of shares held	Nature of business	Country of incorporation
Johnstons of Elgin Limited (i)	Ordinary	Dormant	Scotland
Johnstons GmbH (ii)	Ordinary	Sale of cashmere and woollens	Germany

The registered offices of the subsidiary companies is as per below for the references noted:

- (i) Newmill, Elgin, IV30 4AF, UK.
- (ii) Kaiserwertherstrasse 140, 40474 Dusseldorf, Germany.

### 13 Stocks

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Raw materials	21,762	24,258	21,762	24,258
Work in progress	2,045	2,706	2,045	2,706
Finished goods	9,804	15,601	9,783	15,577
	<u>33,611</u>	<u>42,565</u>	<u>33,590</u>	<u>42,541</u>

Raw materials, work in progress and finished goods recognised as cost of sales in the year amounted to £44,908,000 (2019: £53,065,000) for the Group, and £44,907,000 (2019: £52,960,000) for the Company.

The movement in the provision to allow for the write down of stocks to net realisable value was an increase of £4,284,000 in the year (2019: increase of £2,184,000). The write down is included in cost of sales.

### 14 Debtors

	Group		Company	
	2020 £000	2019 £000	2020 £000	2019 £000
Trade debtors	4,937	6,409	4,925	6,409
Amounts due from subsidiary undertakings	-	-	20	20
Corporation tax	53	-	53	-
Other debtors	2	427	2	427
Prepayments	1,269	730	1,264	722
	<u>6,261</u>	<u>7,566</u>	<u>6,264</u>	<u>7,578</u>

Included in prepayments is an amount of £96,000 (2019: £96,000) which is due after more than one year.

## Notes to the financial statements (continued)

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

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Trade creditors	2,169	5,395	2,153	5,372
Other financial liabilities (note 17)	97	339	97	339
Corporation tax payable	-	398	-	398
Other taxes and social security	1,192	833	1,186	827
Accruals and deferred income	4,204	4,192	4,201	4,173
	<u>7,662</u>	<u>11,157</u>	<u>7,637</u>	<u>11,109</u>

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

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Bank loans	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>

#### Bank loans are repayable as follows:

	Group		Company	
	2020	2019	2020	2019
	£000	£000	£000	£000
Between two to five years	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>

During the year the group agreed a Coronavirus Large Business Interruption Scheme loan with Royal Bank of Scotland for £10,000,000. This loan was fully drawn at year end, and is repayable in one bullet repayment in September 2023. This loan is secured by a floating charge over the assets of the company. Interest on the loan is charged at 1.41% over The Royal Bank of Scotland's base rate for the first 12 months of the loan, and then at 1.91% over the base rate for the remainder of the term.

### 17 Financial instruments

#### Carrying amount of financial instruments

The Group's principal financial instruments are cash and cash equivalents, trade debtors, trade creditors and accruals all of which are carried at cost (notes 14 and 15).

Derivative financial instruments are carried at fair value and are included within debtors or creditors. Valuations are based on equivalent market prices or information derived indirectly from market prices.

#### Financial risk management

The Group operates a centralised treasury management which is responsible for managing the credit, liquidity, interest and foreign currency risk.

## Notes to the financial statements *(continued)*

### 17 Financial instruments *(continued)*

#### *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's credit risk arises from bank balances and trade debtors from customers. At 31 December 2020, the maximum exposure is represented by the carrying value of each financial asset in the balance sheet. The bulk of the Group's business is conducted with large companies which have strong credit ratings. The Group also holds credit insurance to cover certain trade debtors. Management is of the opinion that adequate provision currently exists in respect of trade debtors.

#### *Foreign currency risk*

Foreign currency risk refers to the risk that unfavourable movement in exchange rates may cause financial loss to the Group. Foreign currency risk is monitored on a regular basis. Forward contracts may be used to mitigate the risk of adverse exchange rate movements.

#### *Interest rate risk*

Interest rate risk refers to the likelihood that changes in interest rates will result in fluctuations of the value of balance sheet items or changes in interest income or expenses. Where required and appropriate, the Group will manage the risk relating to interest rate fluctuations.

#### *Liquidity risk*

The Group principally uses operating cashflows to fund working capital and capital investment, together with deficit funding for its defined benefit pension scheme. To manage seasonal cash flows an overdraft facility is available.

#### *Hedge accounting and derivative financial instruments*

Hedge accounting was adopted in respect of forward currency derivative financial instruments during the current and prior year. Derivative financial instruments are presented within debtors or creditors.

At 31 December 2020, the group had entered into forward currency contracts to sell GBP and buy USD, in order to hedge the future purchase of raw materials in USD. This included the purchase of \$3,000,000 through four forward currency contracts, with execution dates falling between March and June 2021. The average exchange rate of these contracts is \$1.309. The fair value of these financial instruments at 31 December 2020 was a liability of £97,000.

At 31 December 2019 the group had entered into forward contracts which had a fair value liability at that date of £339,000. These forward contracts were all fully settled during the current financial year.

The net change in fair value of hedging instruments recognised in other comprehensive income during the year was a profit of £242,000 (being the difference between the fair value liability at the end of the prior year of £339,000 and the fair value liability at the end of the current year of £97,000).



## Notes to the financial statements (continued)

### 18 Net funds

The below is an analysis of changes in net funds of the Group from the beginning to the end of the current reporting period:

	Borrowings due in more than one year £000	Borrowings due within one year £000	Cash and cash equivalents £000	Net debt £000
Balance at 1 January 2020	-	(339)	7,067	6,728
Cashflows	(10,000)	-	12,135	2,135
Change in fair value	-	242	-	242
Effect of movements in foreign exchange	-	-	(15)	(15)
Balance at 31 December 2020	(10,000)	(97)	19,187	9,090

The borrowings due within one year is comprised of the fair value of the derivative financial instruments (note 17).

### 19 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 is closed to future accrual for current employees. 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	
	2020	2019
	£000	£000
Present value of funded defined benefit obligations	(85,245)	(77,313)
Fair value of plan assets	86,344	78,026
Restriction on recognition of defined benefit plan surplus	(1,099)	(713)
Recognised asset for defined benefit obligations	-	-

The defined benefit scheme surplus under FRS 102 at 31 December 2020 has not been recognised as the directors consider that the company does not have the right to the benefit of such a surplus, should a surplus arise at the time of a future winding up of the scheme after all benefits to employees have been settled.

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

	Group and company	
	2020	2019
	£000	£000
At 1 January	77,313	75,195
Interest cost	1,553	2,120
Loss on changes	30	-
Actuarial losses	9,478	4,215
Benefits paid	(3,129)	(4,217)
At 31 December	85,245	77,313

## Notes to the financial statements (continued)

### 19 Pension commitments (continued)

	Group and company	
	2020	2019
	£000	£000
<i>Movements in fair value of plan assets</i>		
At 1 January	78,026	69,932
Interest income	1,572	1,980
Return on plan assets	8,475	8,331
Contributions by employer	1,400	2,000
Benefits paid	(3,129)	(4,217)
	<hr/>	<hr/>
At 31 December	86,344	78,026
	<hr/>	<hr/>

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

	Group and company	
	2020	2019
	£000	£000
Net interest on net defined benefit pension liability	11	140
	<hr/>	<hr/>

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

	Group and company	
	2020	2019
	£000	£000
Interest payable and similar expenses	11	140
	<hr/>	<hr/>

The total amount recognised in the consolidated statement of comprehensive income in respect of actuarial gains and losses are losses of £1,389,000 (2019: gains of £3,403,000). Cumulative actuarial gains/losses reported in the consolidated statement of comprehensive income for accounting periods ending on or after 22 June 2002 are losses of £9,987,000 (2019: £8,598,000).

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

	Fair value	Fair value
	2020	2019
	£000	£000
Equities	12,710	19,360
Bonds	40,677	33,571
Diversified growth funds	24,984	23,206
Insured assets	1,667	1,593
Cash and cash equivalents	1,330	296
Liability driven investment	4,976	-
	<hr/>	<hr/>
Total	86,344	78,026
	<hr/>	<hr/>

## Notes to the financial statements (continued)

### 19 Pension commitments (continued)

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

	2020	2019
Discount rate	1.40%	2.05%
RPI inflation	2.90%	2.90%
Deferred revaluation (CPI inflation)	2.10%	2.00%
Pension increases - RPI inflation max 5%	2.75%	2.80%
- RPI inflation max 2.5%	1.95%	2.00%
- CPI inflation max 3%	2.05%	1.75%

Historically, there has been no reliable indicator for market expectations of CPI inflation. In 2019 assumption for CPI was based on being 0.9% lower than RPI, which was based on analysis published by the Office for National Statistics on the expected long term gap between RPI and CPI.

Following a recent consultation on proposed reforms to the RPI index, the government announced on 25 November 2020 that from 2030 RPI will be aligned with CPIH. CPIH is a variant of CPI which includes allowance for owner occupied housing costs. Over long periods and economic cycles, the difference between CPIH and CPI is expected to be at or close to zero. Accordingly, in the current year we have adjusted the assumed gap between CPI and RPI to be an average of 0.8% for deferred revaluation and 0.4% for CPI linked pension increases in payment. This broadly reflects an assumed 1% gap before 2030 and a 0% gap thereafter, suitably weighted to reflect the scheme's liability profile and exposure to CPI liabilities. The impact of the change in this assumption is an increase of around £850,000 in the defined benefit obligation.

	2020 £000	2019 £000
Expected return on plan assets	1,572	1,980
Gains on plan assets	8,475	8,331
Total	10,047	10,311

The last full actuarial valuation was performed as at 5 April 2019 and was completed in November 2019. To measure the defined benefit obligation as at 31 December 2020, the Company projected the results of the 5 April 2019 valuation allowing for interest on the liabilities, the actual benefit payments paid and an estimate of the effect of changes in the actuarial assumptions. All other experience was assumed to be in line with assumptions.

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: 21.4 years (male), 23.5 years (female) (2019: 21.4 years (male), 23.5 years (female)).
- Future retiree, currently aged 45, upon reaching 65: 22.9 years (male), 25.0 years (female) (2019: 22.9 years (male), 25.0 years (female)).

A decrease or increase in the discount rate by 0.25% (all other assumptions unchanged) would result in a net defined benefit liability of £2.8m or a net defined benefit asset of £4.8m respectively. An additional 1 year mortality age rating (all other assumptions unchanged) would result in a net defined benefit liability of £3.0m.

The group expects to contribute £1,400,000 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 £1,128,000 (2019: £1,149,000).

## Notes to the financial statements (continued)

### 20 Called up share capital

	2020 £000	2019 £000
<i>Allotted, called up and fully paid</i>		
779,700 (2019: 779,700) Ordinary shares of £1 each	780	780

### 21 Reserves

#### *Share premium account*

This reserve records the amount above the nominal value received for shares sold, less transaction costs.

#### *Cash flow hedging reserve*

The hedging reserve comprises the effective position of the cumulative net change in the fair value of cash flow hedging instruments related to hedge transactions that have not yet occurred.

#### *Capital redemption reserve*

This reserve records the nominal value of shares repurchased and cancelled by the company.

### 22 Capital commitments

Amounts contracted for but not provided for in the financial statements amounted to £480,000 for the Group and the Company (2019: £220,000).

### 23 Leasing commitments

Non-cancellable operating lease rentals are payable as follows:

	Group and company Land and buildings	
	2020 £000	2019 £000
Amounts payable:		
Less than one year	665	698
Between one and five years	2,330	2,350
More than five years	783	1,170
Total lease commitment	3,778	4,218
	Motor vehicles	
	2020 £000	2019 £000
Amounts payable:		
Less than one year	41	65
Between one and five years	41	64
Total lease commitment	82	129

### 24 Ultimate parent company

The Company is controlled by its shareholders. No other group financial statements include the results of the Company.