

**Egmont UK Limited**

**Annual report and financial statements**

31 December 2019

Registered number 449706

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## **Annual report and financial statements**

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## Strategic Report

### Business Review

Egmont UK Limited is part of the Egmont Group, one of Europe's leading media groups telling stories through books, magazines, film, TV, music, games and mobile telephones in 30 countries. The structure of the group is unique in that the Egmont Group is owned by the Egmont Fonden, a charitable trust based in Denmark whose aim is to bring lasting improvement to the lives of young people.

In the UK, Egmont is the top specialist children's publisher selling 12.8 million books and 5 million magazines for children of all ages, in a mature and fiercely competitive market.

Egmont UK operates through two distinct divisions reflecting its core products: Egmont Books (including licensed character books, fiction, non-fiction and picture books) and Egmont Magazines.

Egmont UK is home to some of the world's best-loved authors, illustrators and licensed characters such as Michael Morpurgo, Andy Stanton, Michael Grant, Julia Donaldson, Winnie-the-Pooh, Star Wars, Tintin, Mr Men, Thomas the Tank Engine, Disney Princess and Minecraft..

### 2019 achievements

In 2019 Egmont UK Limited continued to deliver robust sales in what remains a tough economic environment. Overall UK revenue decreased from £41,660k in 2018 to £37,945k in 2019, a decline of 8.9%, following a trend of decline in retail sales, and largely due to the consolidation of the portfolio and costs associated with new brand launches.

Profit before taxation was £369k (2018: £267k loss). This is despite additional investment in the year in a number of one-off costs including cost associated with moving the UK Head Office.

### The future route

In 2020 we will continue to push ahead with a strategy combining growth in our licensing across books and magazines, together with continuing efficiency and IT projects to reduce costs.

We continue to invest in consumer insight as a critical route to better publishing, and will build on our current portfolio of research with children and their families in order to improve our publishing and our reach with retailers, consumers and licensors.

### Principal risks and uncertainties

The company acknowledges that the competition in both the UK book and magazine market is fierce. The economic climate remains challenging but there is still a strong demand for Children's books and magazines. They are recognised by parents and educators as having educational value and providing engaging and fun content away from screens.

The magazines market has shown a decline in terms of volume and value this year, although average cover prices have increased. Egmont remain committed to working closely with licensors to publish the hottest properties to ensure that we retain a strong market presence. Children's books have a secure position and still offer a special and unique medium for telling stories.

## Strategic Report (continued)

### Principal risks and uncertainties (continued)

The company has exposure to credit risk, foreign currency risk and liquidity risk from its normal course of business.

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations. Management has a credit policy in place and the exposure to risk is monitored on an ongoing basis. Credit checks are performed on all customers requiring credit and a credit insurance policy is in place to minimise exposure to credit risk.

Foreign currency risk arises from transacting in foreign currencies. This exchange rate risk exposure is minimised by the purchase of forward contracts for the main foreign currencies within approved policy parameters.

Liquidity risk is the risk the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk by maintaining adequate reserves, banking facilities and loan facilities by continuously monitoring forecast and actual cash flows.

The company uses financial instruments, including trade receivables and trade payables that arise directly from its operations. There is no significant difference between the carrying amount and fair value of any financial instrument of the company.

The UK left the EU on 31<sup>st</sup> January 2020 and is now in a transition period until the end of 2020 while the UK and the EU negotiate additional arrangements. The Directors of the company continue to monitor and assess the impact on the company during this period, including exit changes, as well as any regulatory or legal changes which may occur.

The spread of the Coronavirus (COVID-19) is an emerging issue. The Directors of the company are following advice from the UK government and the World Health Organisation.

### Governance

The UK management board frequently monitors the company's performance, the market and competitive landscape and the opportunities and risks created by technological development. In particular, we monitor developments in licensing and kids' interests.

Registered Office  
2 Minster Court  
London, EC3R 7BB

Date: 27/04/2020

By order of the board



C Cannon - Director

## **Directors' Report**

The directors present their report and the audited financial statements for the year ended 31st December 2019.

## **Results and dividends**

The profit for the year after taxation is £103k (2018: loss £221k).

The directors do not recommend the payment of a dividend (2018: £nil).

## **Going concern**

The directors believe that preparing the financial statements on the going concern basis is appropriate as the business has adequate resources to meet ongoing operational requirements for the foreseeable future.

On April 1<sup>st</sup>, 2020, it was announced that another publisher intends to acquire Egmont UK Ltd and the book business on 30<sup>th</sup> April 2020. The directors will resign from the company and the magazines business will be carved out into another company which will remain part of the Egmont group. This gives rise to material uncertainty about the future of Egmont UK Ltd and therefore, beyond April 30<sup>th</sup>, the directors are unable to determine whether the entity will continue to be a going concern after the sale as they are not aware of the future owner's intention.

## **Directors**

The following persons have served as directors during the year and up to the date of approval of these financial statements:

A Buss (Maternity leave Jan – Dec 2019)  
C Cannon  
S Kragh  
C Poplak

The company has in place a directors' and officers' liability insurance policy.

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

The directors who were members of the board at the time of approving the directors' report are listed on page 4. Having made enquiries of fellow directors and of the Company's auditor, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information (that is, information needed by the Company's auditor in connection with preparing their report) of which the Company's auditor is unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor are aware of that information.

## **Political and charitable contributions**

The company made no political contributions during the year.

There were no donations made to charities in 2019 (2018: £14,004)

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

### **Creditor payment policy**

The company is committed to meeting the payment terms of suppliers in accordance with any contract agreed with the supplier or as required by law.

Explanation of our payment procedures are communicated to suppliers on a regular basis.

### **Employee involvement**

The directors recognise the importance of human resources and the company's policy is to encourage active involvement of employees in matters affecting employees' interests. This is facilitated through the means of company meetings, e-mail and corporate intranet.

### **Disabled persons**

It is the Group's policy to give fair consideration to the employment needs of disabled people and to comply with current legislation with regard to their employment. Wherever practicable, we continue to employ and promote the careers of existing employees who become disabled and to consider disabled persons for employment, subsequent training, career development and promotion on the basis of their aptitudes and abilities.

### **Auditor**

In accordance with s 485 of Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditor of the company.

Registered Office  
2 Minster Court  
London, EC3R 7BB

By order of the board



C Cannon - Director

Date: 27/04/ 2020

**Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, 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 financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

**Independent auditor's report  
to the members of Egmont UK Limited**

**Opinion**

We have audited the financial statements of Egmont UK Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material uncertainty related to going concern**

We draw attention to Note 25 in the financial statements, which indicates that a publishing company intends to acquire Egmont UK Ltd and its books business on 30<sup>th</sup> of April 2020 and therefore the Directors of Egmont UK cannot be completely certain that the company will continue to retain the same legal structure for the full twelve months period for their going concern assessment nor would they have control over or responsibility for any financial commitments or liabilities it may enter into after this date. These events or conditions, along with other matters as set forth in Note 25, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.



## **Independent auditor's report**

**to the members of Egmont UK Limited (continued)**

### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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 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

**Independent auditor's report**  
**to the members of Egmont UK Limited (continued)**

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

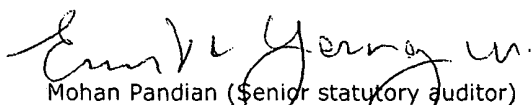
**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

**Use of our report**

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.



Mohan Pandian (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

Date 28 April 2020

**Statement of comprehensive income  
for the year ended 31 December 2019**

	<b>Note</b>	<b>2019 £000</b>	<b>2018 £000</b>
Revenue	2	<b>37,945</b>	41,660
Cost of sales		<b>(20,375)</b>	(23,889)
Gross profit		<b>17,570</b>	17,771
Distribution costs		<b>(9,977)</b>	(11,753)
Administration costs		<b>(6,821)</b>	(6,506)
Other income		<b>27</b>	30
Results from operating activities	3	<b>799</b>	(458)
Finance income	6	<b>241</b>	335
Finance costs	6	<b>(671)</b>	(144)
Net finance (costs)/income		<b>(430)</b>	191
<b>Profit/(Loss) before tax</b>		<b>369</b>	(267)
Income tax	7	<b>(266)</b>	46
<b>Profit/(Loss) for the year</b>		<b>103</b>	(221)
<b>Total comprehensive income for the year attributable to owners of the company</b>		<b>103</b>	(221)

All amounts relate to continuing activities.

The notes on pages 14 to 36 form an integral part of these financial statements.

**Statement of changes in equity  
at 31 December 2019**

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2018	79	1,837	317	29,749	31,982
Disposal of loan	-	-	-	-	-
Total	-	-	-	(221)	(221)
comprehensive income for the year					
Balance at 31 December 2018	79	1,837	317	29,528	31,761
IFRS16 lease adjustment	-	-	-	(37)	(37)
Adjusted balance at 31 December 2018	79	1,837	317	29,491	31,724
Total	-	-	-	103	103
comprehensive income for the year					
<b>Balance at 31 December 2019</b>	<b>79</b>	<b>1,837</b>	<b>317</b>	<b>29,594</b>	<b>31,827</b>

The notes on pages 14 to 36 form an integral part of these financial statements.

**Statement of financial position  
at 31 December 2019**

	Note	2019 £000	2018 £000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, Plant and Equipment	8	356	319
Right of use assets	9	40	-
Intangible assets	10	147	151
Deferred tax asset	11	530	409
		<u>1,073</u>	<u>879</u>
<b>Current assets</b>			
Inventories	12	4,913	6,970
Trade and other receivables	13	16,995	19,633
Income tax assets		22	472
Prepayments		1,779	1,550
Cash and cash equivalents	14	7,139	6,858
Investments	15	20,350	20,145
		<u>51,198</u>	<u>55,628</u>
<b>Total assets</b>		<u>52,271</u>	<u>56,507</u>
<b>Equity</b>			
Share capital	18	79	79
Share premium		1,837	1,837
Revaluation reserve		317	317
Retained earnings		29,594	29,528
<b>Total equity</b>		<u>31,827</u>	<u>31,761</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Lease liabilities	21	27	-
		<u>27</u>	<u>-</u>
Trade and other payables	16	17,659	21,555
Provisions	17	2,615	3,191
Current Tax Liabilities		143	-
		<u>20,417</u>	<u>24,746</u>
<b>Total equity and liabilities</b>		<u>52,271</u>	<u>56,507</u>

The notes on pages 14 to 36 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 27/04/2020 and signed on its behalf by:



C Cannon  
Director

Company registered number - 449706

**Statement of cash flows**  
**for the year ended 31 December 2019**

	Note	2019 £000	2018 £000
<b>Cash flows from operating activities</b>			
Profit/(Loss) for the year		103	(221)
<b>Adjustments for:</b>			
Depreciation and amortisation expense	3	675	101
Net finance income	6	(35)	(30)
Foreign exchange differences – unrealised gain/(loss)	6	367	(123)
Income tax expense	7	266	(46)
Gain on disposal of right to use assets	3	(311)	-
Loss on disposal of intangible assets	3	-	-
		<u>1,065</u>	<u>(319)</u>
<b>Changes in:</b>			
Inventories		2,057	(1,298)
Trade and other receivables		2,638	(649)
Prepayments		(229)	513
Provisions		(549)	(1,320)
Trade and other payables		<u>(3,897)</u>	<u>2,858</u>
<b>Cash generated from/(used in) operating activities</b>		<b>1,085</b>	<b>(215)</b>
Interest paid	6	(206)	(144)
Income tax paid		<u>206</u>	<u>(2)</u>
<b>Net cash generated from / (used in) operating activities</b>		<b>1,085</b>	<b>(361)</b>
<b>Cash flows from investing activities</b>			
Cash invested in short term deposit	15	(205)	-
Interest received	6	241	174
Acquisitions of property and equipment	8	(119)	(65)
Acquisitions of intangible assets	10	(33)	(184)
Acquisitions of right of use assets	9	(595)	-
Disposal of property and equipment	8	311	-
<b>Net cash paid in investing activities</b>		<b>(400)</b>	<b>(75)</b>
<b>Cash flows from financing activities</b>			
Other equity movements		<u>(37)</u>	<u>-</u>
<b>Net cash from financing activities</b>		<b>(37)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>		<b>648</b>	<b>(436)</b>
<b>Effect of exchange rates on cash and cash equivalents</b>		<b>(367)</b>	<b>70</b>
<b>Cash and cash equivalents at 1 January</b>		<b>6,858</b>	<b>7,224</b>
<b>Cash and cash equivalents at 31 December</b>	14	<b>7,139</b>	<b>6,858</b>

The notes on pages 14 to 36 form an integral part of these financial statements.

## **Notes to the financial statements**

### **1 Accounting policies**

Egmont UK Limited (the "Company") is a company incorporated and domiciled in the UK. The company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

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

#### **Measurement convention**

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value:

- Heritage assets which are stated at fair value with movements in valuation being taken to Other Comprehensive Income.

The preparation of financial statements in conformity with Adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements and estimates made by management in the application of Adopted IFRS that have significant effect on the financial statements are discussed in note 24.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Change in accounting policy**

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning on or after 1 January 2019.

Effective for annual periods (and interim periods therein) ending 31 December 2019 and thereafter	Status	Issue date of original standard	Effective date (annual periods beginning on or after)
IFRS 16 Leases	Adopted	January 2017	1 January 2019
IFRIC Interpretation 23 Uncertainty over Income Tax Treatments	Adopted	June 2017	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	Adopted	October 2017	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	Adopted	October 2017	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	Adopted	February 2018	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	Adopted	December 2017	1 January 2019

Egmont has applied IFRS 16 Leases for the first time for the annual reporting period commencing 1 January 2019.

The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

#### **IFRS 16 Leases**

IFRS 16, Leases (endorsed by the EU) has become effective from 1 January 2019 and supersedes IAS 17 Leases and IFRIC 4.

Egmont have chosen to adopt IFRS 16 using the modified retrospective method where comparative figures are not restated. This method implies that the right-of-use asset is calculated as if IFRS 16 was implemented on the commencement date of the lease contracts and depreciated over the lease period. The lease liability is measured at the present value of all lease payments discounted using the incremental borrowing rate at the implementation date and reduced concurrently with the instalments. The difference between the right-of-use asset and the lease liability affects equity negatively at the date of transition.



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

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

#### **IFRS 16 Leases (continued)**

The IFRS 16 standard provides specific transition requirements and practical expedients which has been applied by Egmont Group. Refer to section Leases for the accounting policy beginning at 1 January 2019.

Egmont Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a:

- Lease term of 12 months or less and do not contain a purchase option (short-term leases)
- Lease contracts for which the underlying asset is of low value (low-value assets)

The Group has also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate.

The most significant IFRS 16 judgements and estimates include the determination of lease term when there are extension or termination options, the selection of an appropriate discount rate to calculate the lease liability and the impairment of right of use assets. Management has formed its judgements and assumptions based on historical experience, internal and external data.

The recognized right-of-use assets consists mainly of properties leases (rent of office equipment). The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term – which range from 2-10 years.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Standards issued but not yet effective**

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Effective for annual periods (and interim periods therein) ending 31 December 2020 and thereafter	Status	Issue date of original standard	Effective date (annual periods beginning on or after)
Definition of a Business – Amendments to IFRS 3	May adopt early	October 2018	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	May adopt early	September 2019	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	May adopt early	October 2018	1 January 2020
The Conceptual Framework for Financial Reporting	May adopt early	April 2018	1 January 2020
IFRS 17 Insurance Contracts	May adopt early	May 2017	1 January 2021

The Directors have not evaluated the impact of these standards issued that are not yet mandatory on the company's financial statements for 2020.

The difference between the right-of-use asset and the lease liability affects equity negatively at the date of transition.

#### **Going Concern**

The directors believe that preparing the financial statements on the going concern basis is appropriate as the business has adequate resources to meet ongoing operational requirements for the foreseeable future.

However, on April 1st, 2020, it was announced that another publisher intends to acquire Egmont UK Ltd and the book business on 30th April 2020. The directors will resign from the company and the magazines business will be carved out into another company which will remain part of the Egmont group. This gives rise to material uncertainty about the future of Egmont UK Ltd and therefore, beyond April 30th, the directors are unable to determine whether the entity will continue to be a going concern after the sale as they are not aware of the future owner's intention.

#### **Dividends on shares presented within shareholders' funds**

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 to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Revenue**

Revenue relates to the sale of books and magazines and other associated ancillary income.

The revenue from the sale of books and magazines is represented by the invoiced value of goods supplied (excluding VAT) less an estimate for the expected value of returns made under sale or return arrangements.

Ancillary income includes the invoiced value of royalties from the sale of publishing rights and magazine advertising.

Magazine sales distributed into the market are accrued for in the month of sale, adjusted for the estimate of expected returns, and invoiced in the following month when the sales have been confirmed by the magazine distributor.

Revenue is recognised in the accounting period in which the company makes the sale.

#### **Translation of overseas currencies into sterling**

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction, or if hedged forward at the rate of exchange under the related forward currency contract. 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 income / expenditure for the year.

#### **Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Property, Plant and Equipment**

Depreciation is provided on cost at the following annual rates on a straight-line basis intended to write off the assets over their estimated useful lives.

Furniture and equipment	3 years
Fixtures and fittings	3 years
Book and comic archive	See below
Heritage assets	See below

#### *Book and comic archive assets:*

The company has an archive of books and comics stored at separate locations.

The archive is recognised in the balance sheet at cost and has been fully written down.

#### *Heritage assets:*

The company has a collection of children's character illustrations which are held as part of the culture and history of the Egmont Group. The illustrations are loaned to various museums to increase the public's knowledge and appreciation of these popular works.

The collection of illustrations is reported in the Balance Sheet at fair value. The collection is periodically revalued by an external valuer with any surplus or deficit on revaluation being reported in Other Comprehensive Income. The illustrations are deemed to have indeterminate lives and a high residual value; hence the directors do not consider it appropriate to charge depreciation.

Costs which in the directors' view are required to preserve or clearly prevent further deterioration of items within the collection are recognised in profit or loss when incurred.

#### **Right of use assets**

The company leases office equipment which is depreciated over the term of the lease

#### **Intangible assets**

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation is provided on cost at the following annual rates on a straight-line basis intended to write off the assets over their estimated useful lives.

Software	3 years
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#### **Inventories**

Inventories and work in progress are stated at the lower of cost, including attributable overheads, and estimated net realisable value.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### **Impairment**

The carrying amount of the Company's assets are reviewed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

#### **Reversals of impairment**

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist or there has been a change in the estimates used to determine the recoverable amount.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

#### **Employee benefits**

##### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

#### **Provisions**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### Financing income and expenses

Financing expenses comprise interest payable and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in the statement of comprehensive income as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

### 2 Revenue

	2019 £000	2018 £000
<b>Sales comprised the following:</b>		
Sale of goods	37,144	40,667
Sale of services	105	111
Royalty income	411	546
Other income	285	336
Total revenue	<b>37,945</b>	<b>41,660</b>

### 3 Expenses and auditor's remuneration

	2019 £000	2018 £000
<i>Included in the profit for the year are the following:</i>		
Amounts receivable by auditor and their associates in respect of:		
Audit of these financial statements	50	41
Depreciation and amortisation	675	101
Foreign exchange differences – realised loss	(18)	38
Foreign exchange differences – unrealised gain/(loss)	(367)	123
Rentals payable under operating leases	-	650

## Notes to the financial statements (continued)

### 4 Directors' remuneration

	2019 £000	2018 £000
Directors' emoluments	<u>419</u>	<u>325</u>
Company contributions to group personal pension schemes	<u>43</u>	<u>30</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £232,136 (2018: £221,949), and company pension contributions of £20,228 (2018: £20,229) were made to a group personal scheme on their behalf.

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Group personal pension schemes	<u>3</u>	<u>2</u>

### 5 Staff numbers and costs

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

	2019 No. of employees	2018
Management and administration	25	25
Production, distribution and sales	<u>122</u>	<u>141</u>
	<u>147</u>	<u>166</u>

The aggregate payroll costs of these persons were as follows:

	2019 £000	2018 £000
Wages and salaries	5,775	6,527
Social security costs	558	662
Pension costs	658	630
Severance costs	<u>79</u>	<u>311</u>
	<u>7,070</u>	<u>8,130</u>

## Notes to the financial statements (continued)

### 6 Finance income and costs

	2019 £000	2018 £000
<b>Recognised in profit or loss</b>		
<b>Income</b>		
Interest income on bank accounts	238	173
Interest income from HMRC	3	1
Foreign exchange differences – realised gain	-	38
Foreign exchange differences – unrealised gain	-	123
<b>Finance income</b>	<b>241</b>	<b>335</b>
<b>Costs</b>		
Interest expense on bank accounts	206	144
Interest expense on lease liabilities	80	-
Foreign exchange differences – realised loss/(gain)	18	-
Foreign exchange differences – unrealised loss	367	-
<b>Finance costs</b>	<b>671</b>	<b>144</b>
<b>Net finance income recognised in profit or loss</b>	<b>430</b>	<b>191</b>

### 7 Taxation

#### Recognised in the income statement

	Notes	2019 £000	2018 £000
<i>UK corporation tax</i>			
Current tax on expense for the period		120	(22)
Adjustments in respect of prior periods		268	(36)
<b>Current tax expense</b>		<b>388</b>	<b>(58)</b>
<i>Deferred taxation</i>			
Origination / reversal of timing differences	10	(122)	12
<b>Deferred tax income</b>		<b>(122)</b>	<b>12</b>
<b>Total tax expense</b>		<b>266</b>	<b>(46)</b>



## Notes to the financial statements (continued)

### 7 Taxation (continued)

#### Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit/(loss) for the year	103	(221)
Total tax income/(expense)	(266)	46
Profit excluding taxation	369	(267)
Income tax using the UK corporation tax rate of 19% (2018:19%)	70	(51)
Effects of:		
Expenses not deductible for tax purposes	46	40
Depreciation for the year in excess of capital allowances	3	(11)
Group relief	1	-
Deferred Tax – reassessment of asset on tax losses (Note10)	(122)	12
Adjustment in respect of prior years	268	(36)
Total tax (benefit)/charge (see above)	266	(46)

#### Factors that may affect future tax charges

The UK corporation tax rate is 19% in 2019.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has been calculated based on these rates.

A deferred tax asset of £530,000 (2018: £409,000) has been recognised.

## Notes to the financial statements (continued)

### 8 Property, Plant and Equipment

	Furniture & Equipment £000	Fixtures & Fittings £000	Book & Comic Archive £000	Heritage Assets £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2019	605	845	350	317	2,117
Additions	204	-	-	-	204
Disposal	(479)	(845)	-	-	(1,324)
<b>At 31 December 2019</b>	<b>330</b>	<b>-</b>	<b>350</b>	<b>317</b>	<b>997</b>
<b>Depreciation and impairment</b>					
At 1 January 2019	603	845	350	-	1,798
Disposal	(394)	(845)	-	-	(1,239)
Charge for the year	82	-	-	-	82
<b>At 31 December 2019</b>	<b>291</b>	<b>-</b>	<b>350</b>	<b>-</b>	<b>641</b>
<b>Net Book Value</b>					
At 31 December 2018	2	-	-	317	319
<b>At 31 December 2019</b>	<b>39</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>356</b>

	Furniture & Equipment £000	Fixtures & Fittings £000	Book & Comic Archive £000	Heritage Assets £000	Total £000
<b>Cost or valuation</b>					
At 1 January 2018	539	845	416	317	2,117
Additions	66	-	-	-	66
Revaluation	-	-	(66)	-	(66)
<b>At 31 December 2018</b>	<b>605</b>	<b>845</b>	<b>350</b>	<b>317</b>	<b>2,117</b>
<b>Depreciation and impairment</b>					
At 1 January 2018	537	845	416	-	1,798
Revaluation	-	-	(66)	-	(66)
Charge for the year	66	-	-	-	66
<b>At 31 December 2018</b>	<b>603</b>	<b>845</b>	<b>350</b>	<b>-</b>	<b>1,798</b>
<b>Net Book Value</b>					
At 31 December 2017	2	-	-	317	319
<b>At 31 December 2018</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>317</b>	<b>319</b>

## Notes to the financial statements (continued)

### 8 Property, Plant and Equipment (continued)

#### Heritage assets

Heritage assets are carried at fair value. The Heritage Assets were valued by Bonhams on 01/09/16 based on their open market value by comparison to similar items being traded on the auction market. Bonhams are a recognised valuer and have appropriate qualification and recent experience in the valuation of artwork. Under IFRS 13 this is viewed as a Level 2 classification within the fair value hierarchy. The directors have reviewed the carrying value of the assets and consider it to still be appropriate

At 31 December 2019 had the heritage assets been measured using the cost model (historical cost less accumulated depreciation and impairment losses) their carrying value would have been £nil (2018: £nil).

### 9 Right of use assets

	Land and buildings £000	Other £000	Total £000
<b>Cost or valuation</b>			
At 1 January 2019	-	-	-
Additions	2,002	103	2,105
Disposals	(2,002)	(50)	(2,052)
<b>At 31 December 2019</b>	<b>-</b>	<b>53</b>	<b>53</b>
<b>Amortisation and impairment</b>			
At 1 January 2019	-	-	-
Charge for the year	525	30	555
Disposals	(525)	(17)	(542)
<b>At 31 December 2019</b>	<b>-</b>	<b>13</b>	<b>13</b>
<b>Net book value</b>			
At 31 December 2018	-	-	-
<b>At 31 December 2019</b>	<b>-</b>	<b>-</b>	<b>40</b>

The company has recognised leased office premises which were vacated during the year. The relocation to new premises do not meet the criteria of a right of use asset under IFRS16 and has not been recognised.

The company also leases office equipment which is depreciated over 3 years.

## Notes to the financial statements (continued)

### 10 Intangible assets

	Software £000	Total £000
<b>Cost or valuation</b>		
At 1 January 2019	373	373
Additions	33	33
<b>At 31 December 2019</b>	<b>406</b>	<b>406</b>
<b>Amortisation and impairment</b>		
At 1 January 2019	222	222
Charge for the year	37	37
<b>At 31 December 2019</b>	<b>259</b>	<b>259</b>
<b>Net book value</b>		
At 31 December 2018	151	151
<b>At 31 December 2019</b>	<b>147</b>	<b>147</b>
	Software £000	Total £000
<b>Cost or valuation</b>		
At 1 January 2018	489	489
Adjustment to opening balance	(300)	(300)
Additions	184	184
<b>At 31 December 2018</b>	<b>373</b>	<b>373</b>
<b>Amortisation and impairment</b>		
At 1 January 2018	487	487
Adjustment to opening balance	(300)	(300)
Charge for the year	35	35
<b>At 31 December 2018</b>	<b>222</b>	<b>222</b>
<b>Net book value</b>		
At 31 December 2017	2	2
<b>At 31 December 2018</b>	<b>151</b>	<b>151</b>

The amortisation charge is recognised in the following line items in the income statement:

	2019 £000	2018 £000
Administration costs	3	3

Software is amortised over its useful economic life of 3 years.

## Notes to the financial statements (continued)

### 10 Intangible assets (continued)

Intangible assets are monitored for impairment on an annual basis. A forecast of revenue relating to trademarks and transmedia assets is made to test for the impairment of these assets. Software is assessed for impairment based on its functionality over the estimated economic life of the asset.

### 11 Deferred tax asset

A deferred tax asset is recognised to the extent that the directors' can accurately forecast its utilisation.

	2019 £000	2018 £000
At 1 January	409	421
Utilised during the year	121	(12)
Recognised during the year	-	-
At 31 December	<u>530</u>	<u>409</u>

This deferred tax asset relates to accumulated losses incurred by another UK Egmont trading company now dormant. These losses are available for offset against book profits earned within Egmont UK Limited.

### 12 Inventories

	2019 £000	2018 £000
Raw materials	184	373
Work in progress	1,708	1,660
Finished goods	3,021	4,937
	<u>4,913</u>	<u>6,970</u>

During the year inventory with a cost of £10,244k (2018: £11,335k) was included within cost of sales.

Inventories are shown net of a provision for slow moving and obsolete items.

At 31 December 2019 the stock provision amounted to £1,189k (2018: £1,432k). This provision relates to raw materials (magazine covermount gifts £39k) and to finished goods (books £1,150k).

	2019 £000	2018 £000
At 1 January	1,432	1,803
Provision created/(released) in the year	(243)	(371)
At 31 December	<u>1,189</u>	<u>1,432</u>

## Notes to the financial statements (continued)

### 13 Trade and other receivables

	2019 £000	2018 £000
Trade receivables due from trade customers	8,271	10,647
Trade receivables due from related parties	405	452
Loans due from related parties	7,671	7,671
Other receivables	648	863
Total trade and other receivables	<u>16,995</u>	<u>19,633</u>

The company regularly reviews the ageing profile of the trade receivables and actively seeks to collect any amounts that have fallen outside the defined credit terms. The balances disclosed above are net of appropriate bad debt provisions.

The carrying value set out above in the opinion of the Directors is equal to the fair value.

All loans between Egmont companies are short term, interest free and repayable on demand.

#### Trade receivables

	2019 £000	2018 £000
Receivables from third-party customers	8,727	10,896
Receivables from other related parties	405	452
Total gross receivables	<u>9,132</u>	<u>11,348</u>
Allowance for expected credit loss	<u>(456)</u>	<u>(249)</u>
<b>Trade Receivables</b>	<u><b>8,676</b></u>	<u><b>11,099</b></u>

The age of trade receivables from trade customers at the reporting date was:

	2019 Gross carrying amount £000	2019 Expected credit loss £000	2018 Gross carrying amount £000	2018 Expected credit loss £000
Not past due	7,900	129	9,867	170
Past due 0-30 days	810	145	503	-
Past due 31-90 days	203	111	586	20
More than 90 days	219	71	392	59
	<u>9,132</u>	<u>456</u>	<u>11,348</u>	<u>249</u>

## Notes to the financial statements (continued)

### 13 Trade and other receivables (continued)

#### Expected credit loss

	2019 Rate	2018 Rate
Not past due	2%	2%
Past due 0-30 days	18%	-
Past due 31-90 days	55%	3%
More than 90 days	32%	15%

### 14 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank	7,139	6,858
Total cash and cash equivalents	7,139	6,858

The company has a guarantee in place with the bank of £625k. This comprises a VAT duty deferment guarantee with HMRC in place to cover UK import clearance (£625k) and there is also a guarantee in place of £25k for credit card services with HSBC.

### 15 Investments

	2019 £000	2018 £000
Short term deposit	20,350	20,145
Total investments	20,350	20,145

The short term deposit has a maturity period of a year on a fixed interest rate of 1.6188% per annum (2018:0.8742% per annum).

### 16 Trade and other payables

	2019 £000	2018 £000
Trade payables due to trade suppliers	7,271	11,498
Trade payables due to related parties	4,993	3,675
Loans due to related parties	3,801	3,797
Accrued liabilities	1,350	2,403
Other payables	244	182
Total trade and other payables	17,659	21,555

All loans between Egmont companies are short term, interest free and repayable on demand.

## Notes to the financial statements (continued)

### 16 Trade and other payables (continued)

The age of trade and other payables from trade vendors at the reporting date was:

	2019 £000	2018 £000
Not past due	6,205	10,248
Past due 0-30 days	1,069	611
Past due 31-90 days	81	369
More than 90 days	257	270
	<b>7,612</b>	<b>11,498</b>

### 17 Provision for liabilities

	Returns £000	Total £000
At 1 January 2019	3,191	3,191
Utilised during the year	(12,866)	(12,866)
Provision created/(released)	12,290	12,290
At 31 December 2019	<b>2,615</b>	<b>2,615</b>

All provisions are expected to be utilised within 12 months.

Provisions refer to expected book and magazine sale returns.

The provision for magazine returns is based on an estimate of what the company expects the final net sale to be after the magazine issue ceases to be on sale. The on sale period is a duration of 6-8 weeks which is the period in which all magazines can be returned for credit.

All magazines are sold on a sale or return basis and the estimate is based on recent trends, distribution levels, price, seasonality, etc.

The provision for book returns is calculated by book list based on the pattern of actual book returns made over the past 12 months.

### 18 Share Capital

	Authorised		Issued and fully paid	
	Shares	£000's	Shares	£000's
Ordinary shares of £1 each				
At 31 December 2018	208,000	208	79,480	79
At 31 December 2019	<b>208,000</b>	<b>208</b>	<b>79,480</b>	<b>79</b>



## Notes to the financial statements (continued)

### 19 Financial instruments

The company has exposure to credit risk, foreign currency risk and liquidity risk from its normal course of business.

Liquidity risk is the risk the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk by maintaining adequate reserves, banking facilities and loan facilities by continuously monitoring forecast and actual cash flows.

The company uses financial instruments, including trade receivables and trade payables that arise directly from its operations. There is no significant difference between the carrying amount and fair value of any financial instrument of the company.

#### Credit risk

Credit risk is the risk of financial loss to the company if a customer fails to meet its contractual obligations.

Management has a credit policy in place and the exposure to risk is monitored on an ongoing basis. Credit checks are performed on all customers requiring credit and a credit insurance policy is in place to minimise exposure to credit risk.

#### Foreign currency risk

Foreign currency risk arises from transacting in foreign currencies. This exchange rate risk exposure is minimised by the purchase of forward contracts for the main foreign currencies within approved policy parameters.

The carrying amounts of the company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019	2018	2019	2018
	£000	£000	£000	£000
Australian Dollar	-	-	55	16
Danish Krone	-	-	206	84
Euro	-	-	844	758
Japanese Yen	-	-	65	68
South African Rand	-	-	-	2
United States Dollar	-	-	889	772
	-	-	2,059	1,700

## Notes to the financial statements (continued)

### 19 Financial instruments (continued)

#### Foreign currency sensitivity

The following tables demonstrate the company's sensitivity to a 5% increase and decrease in Sterling against Danish Krone (DKK), United States Dollar (USD), Euro (EUR) and Australian Dollar (AUD) with all other variables held constant. A positive number indicates an increase in profit whereas a negative figure indicates a comparable impact on the profit. The company's exposure to other foreign currency changes is not material.

	Change in DKK	Effect on profit before tax £000	Change in USD	Effect on profit before tax £000	Change in EUR	Effect on profit before tax £000	Change in AUD	Effect on profit before tax £000
2019	+5%	10	+5%	42	+5%	40	+5%	3
	-5%	(11)	-5%	(47)	-5%	(44)	-5%	(3)
2018	+5%	4	+5%	37	+5%	36	+5%	1
	-5%	(4)	-5%	(41)	-5%	(40)	-5%	(1)

### 20 Pension scheme

The company operates a group personal pension scheme. The pension cost charge for the period represents contributions payable by the company to the fund and amounted to £657,583 (2018: £630,284).

There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

## Notes to the financial statements (continued)

### 21 Lease liabilities

The movement in lease liabilities are payable as follows:

Principal Recognised 1 January 2019 following adoption of IFRS16

	Land and buildings £000	Other £000	Total £000
<b>Principal</b>			
Additions	2,397	69	2,466
Disposals	(1,782)	-	(1,782)
Payments	(692)	(45)	(737)
Interest	77	3	80
	<b>-</b>	<b>27</b>	<b>27</b>

	Land and buildings £000	Other £000	Total £000
<b>Lease disclosure IAS17 v IFRS16</b>			
Lease commitments at 31 December 2018	2,568	-	2,568
New lease commitments made in 2019	-	69	69
Differences arising due to discounting	(171)	-	(171)
<b>2019 Lease Additions (IFRS16)</b>	<b>2,397</b>	<b>69</b>	<b>2,466</b>

Leases recognised under IFRS16 relate to office equipment and office premises (disposed of during the year).

During the year £80k was recognized as a lease interest expense in the income statement.

The incremental borrowing rate applied to lease liabilities was 4.19% based on lease contracts and Egmont policy.

Short term lease expenses of £208k were recognised during the year. This expense relates to new office premises from October 2019. There were no other short term leases.

The company's short term lease commitment for the office premises is for a one year term expiring at the end of September 2020.

### 22 Ultimate parent undertaking and parent undertaking

The company is a subsidiary undertaking of Egmont Holding Limited, registered in England and Wales. The ultimate holding company is the Egmont Fonden, registered in Denmark.

A copy of the group accounts can be obtained from the Egmont Fonden, 11 Vognmagergade, DK-1148, Copenhagen K, Denmark.

## Notes to the financial statements (continued)

### 23 Related party disclosures

The company is controlled by Egmont Holding Limited. In the opinion of the directors, the company's ultimate controlling party as at 31 December 2019 was Egmont Fonden, incorporated in Denmark.

Egmont Holding Limited has a 50% investment in Hardie Grant Egmont. Egmont UK Limited sold books to the value of £1,303k (2018: £1,421k) to Hardie Grant Egmont in 2019. The amount owed to Egmont UK Limited at the end of the year was £792k (2018: £859k).

#### Sales of goods and services to other Egmont companies

	Sales value		Receivable	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	4,341	5,517	405	452
	<b>4,341</b>	<b>5,517</b>	<b>405</b>	<b>452</b>

Sales to other Egmont companies comprised books and royalties for the right to publish books.

#### Purchases of goods and services from other Egmont companies

	Purchase value		Payables	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	18,520	18,965	4,985	3,675
	<b>18,520</b>	<b>18,965</b>	<b>4,985</b>	<b>3,675</b>

Costs incurred from other Egmont companies included editorial fees, royalties, marketing costs, IT costs and management fees.

#### Loans between Egmont companies

	Loans payable		Loans receivable	
	2019	2018	2019	2018
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	3,801	3,797	7,671	7,671
	<b>3,801</b>	<b>3,797</b>	<b>7,671</b>	<b>7,671</b>

All loans between Egmont companies are short term and repayable on demand.

Related party transactions stated above are conducted on an arm length basis.

## Notes to the financial statements (continued)

### 24 Accounting estimates and judgments

Management discussed the disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

#### *Key sources of estimation uncertainty*

Notes 8 and 9 provide details of depreciable tangible assets.

Note 10 details intangible assets and amortisation charges.

Provisions have been made for the following:

- Inventories
- Book and magazine returns
- Trade customer receivables

As disclosed in note 12 provision has been made for slow moving and obsolete stock.

Estimates for book and magazine returns are detailed in note 17.

Financial risks are detailed in note 19.

Provisions have been put in place for trade customer receivables that are not collectible or the risk of not collecting has increased.

All provisions are reviewed and updated on a regular basis.

### 25 Subsequent Events

On April 1<sup>st</sup>, 2020, it was announced that another publisher intends to acquire Egmont UK Ltd and the book business on 30<sup>th</sup> April 2020. The directors will resign from the company and the magazines business will be carved out into another company which will remain part of the Egmont group. This gives rise to material uncertainty about the future of Egmont UK Ltd and therefore, beyond April 30<sup>th</sup>, the directors are unable to determine whether the entity will continue to be a going concern after the sale as they are not aware of the future owner's intention.

The Covid-19 Pandemic has had a considerable impact on the Egmont business as normal trading conditions have been disrupted by the closure of many retail outlets across the UK and beyond. Similarly, the supply process has been impacted although to a lesser degree. The Directors of the Company and its management team have implemented a number of measures in order to mitigate the adverse financial and operational impact to the Egmont business during this period. These include but are not limited to: continuously monitoring the cashflow position; reviewing customer and supplier terms; adjusting publishing plans and reviewing our strategic initiatives. The changes in working patterns and locations has resulted in the company directors reviewing how we govern day to day procedures and maintain internal controls. We continue to monitor, evaluate and amend these actions as the situation continues.

Egmont UK Ltd

**Ernst & Young**

**1 More London Place**

**London**

**SE1 2AF**

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United Kingdom

Tel +44 (0)20 3220 0400  
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27/04/2020

**Dear Sirs,**

This letter of representations is provided in connection with your audit of the financial statements of Egmont UK Limited ("the Company") for the year ended 31 December 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Egmont UK Limited as of 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 30 October 2018, for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.
2. We acknowledge, as members of management of the Company, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with International Financial Reporting Standards as adopted by the European Union, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Company, we believe that the Company has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

**B. Non-compliance with laws and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Company's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Company (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Company's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Company's business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

**C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
  3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Company has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  7. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit and up to the date of the representation that could potentially be material to the financial statements.
- D. Liabilities and Contingencies
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
  2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
  3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in notes to the financial statements all guarantees that we have given to third parties.
  4. We confirm that all loans between Egmont companies are short term and repayable on



demand.

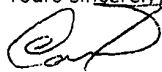
E. Subsequent Events

1. Other than the events described in Note 25 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Yours sincerely,



Chris Cannon  
Chief Financial Officer  
ccannon@euk.egmont.com

Egmont Holding Ltd

**Ernst & Young**

**1 More London Place**

**London**

**SE1 2AF**

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27/04/2020

**Dear Sirs,**

This letter of representations is provided in connection with your audit of the financial statements of Egmont Holding Limited ("the Company") for the year ended 31 December 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Egmont Holding Limited as of 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 30 October 2018, for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.
2. We acknowledge, as members of management of the Company, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with International Financial Reporting Standards as adopted by the European Union, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Company, we believe that the Company has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

**B. Non-compliance with laws and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Company's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Company (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Company's financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Company's business, its ability to continue in business, or to avoid material penalties
- Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

**C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.
  3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Company's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Company has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  7. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit and up to the date of the representation that could potentially be material to the financial statements.
- D. Liabilities and Contingencies**
1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
  2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
  3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in notes to the financial statements all guarantees that we have given to third parties.

4. We confirm that all loans between Egmont companies are short term and repayable on demand.

**E. Subsequent Events**

1. Other than the events described in Note 15 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

**F. Other information**

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

Yours sincerely,



Chris Cannon  
Chief Financial Officer  
ccannon@euk.egmont.com