

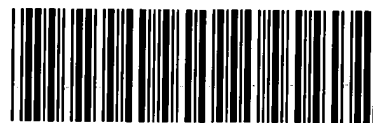
Egmont UK Limited

Annual report and financial statements

31 December 2018

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 14.1 million books and 6.4 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.

2018 achievements

In 2018 Egmont UK Limited continued to deliver robust sales in what remains a tough economic environment. Overall UK Revenue decreased from £49,991k in 2017 to £41,660k in 2018, a decline of 16.7%, due to challenging market conditions in books, evidenced by a shift in consumer spending and a consolidation of the magazine portfolio.

Losses before taxation was £267k (2017: £211k loss), a decline of 27%. This was partly due to the decrease in revenue affecting the bottom line, but also the additional costs of investment in content marketing and an increase in market rates for office leasing.

The future route

In 2019 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 this year, but value remains on par. 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.

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
The Yellow Building
1 Nicholas Road
London, W11 4AN

By order of the board



C Cannon - Director

Date: 8 April 2019

Directors' Report

The directors present their report and the audited financial statements for the year ended 31st December 2018.

Results and dividends

The Loss for the year after taxation is £221k (2017: loss £303k).

The directors do not recommend the payment of a dividend (2017: £nil).

Events since the balance sheet date

There have been no material events, of which the directors are aware, since the balance sheet date.

Going concern.

Egmont UK Limited has incurred losses in 2017 and 2018 in a challenging market. Significant cash balances are held and there are no external borrowings. Having given consideration to the above and forecast trading levels the directors believe it is appropriate to prepare the accounts on a going concern basis.

Directors

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

A Buss (appointed 01/01/18)
C Cannon (appointed 01/12/18)
A Hurcombe (resigned 31/01/18)
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.

Donations made to charities amounted to £14,004.57 (2017: £33,672.83).

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
The Yellow building
1 Nicholas Road
London. W11 4AN

By order of the board



Date: 8/April 2019

C Cannon - Director

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 2018 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 23, 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 2018 and of its loss 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.

Conclusions relating to going concern

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

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

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 26 APR 2019

Statement of comprehensive income
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Revenue	2	41,660	49,991
Cost of sales		<u>(23,889)</u>	<u>(27,852)</u>
Gross profit		17,771	22,139
Distribution costs		(11,753)	(14,491)
Administration costs		(6,506)	(7,748)
Other income		<u>30</u>	<u>(24)</u>
Results from operating activities	3	<u>(458)</u>	<u>(124)</u>
Finance income	6	335	111
Finance costs	6	<u>(144)</u>	<u>(198)</u>
Net finance income/(costs)		<u>191</u>	<u>(87)</u>
Loss before tax		(267)	(211)
Income tax	7	<u>46</u>	<u>(92)</u>
Loss for the year		<u>(221)</u>	<u>(303)</u>
Total comprehensive income for the year attributable to owners of the company		<u>(221)</u>	<u>(303)</u>

All amounts relate to continuing activities.

The notes on pages 14 to 34 form an integral part of these financial statements.

**Statement of changes in equity
at 31 December 2018**

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2017	79	1,837	317	15,166	17,399
Disposal of loan	-	-	-	14,886	14,886
Total comprehensive income for the year	-	-	-	(303)	(303)
Balance at 31 December 2017	79	1,837	317	29,749	31,982
Total comprehensive income for the year	-	-	-	(221)	(221)
Balance at 31 December 2018	79	1,837	317	29,528	31,761

The notes on pages 14 to 34 form an integral part of these financial statements.

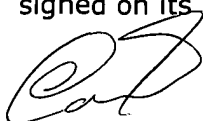
In 2017 a group loan payable to Egmont Book Publishing Limited was waived as part of a restructuring of the UK Egmont companies. This was adjusted within the revaluation reserves of both companies.

Statement of financial position at 31 December 2018

	Note	2018 £000	2017 £000
Assets			
Non-current assets			
Property, Plant and Equipment	8	319	319
Intangible assets	9	151	2
Deferred tax asset	10	409	421
		<u>879</u>	<u>742</u>
Current assets			
Inventories	11	6,970	5,672
Trade and other receivables	12	19,633	20,085
Income tax assets		472	412
Prepayments		1,550	2,064
Cash and cash equivalents	13	6,858	7,224
Investments	14	20,145	19,044
		<u>55,628</u>	<u>54,501</u>
Total assets		<u>56,507</u>	<u>55,243</u>
Equity			
Share capital	17	79	79
Share premium		1,837	1,837
Revaluation reserve		317	317
Retained earnings		29,528	29,749
Total equity		<u>31,761</u>	<u>31,982</u>
Liabilities			
Current liabilities			
Trade and other payables	15	21,555	18,750
Provisions	16	3,191	4,511
Current Tax Liabilities		-	-
		<u>24,746</u>	<u>23,261</u>
Total equity and liabilities		<u>56,507</u>	<u>55,243</u>

The notes on pages 14 to 34 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 6 April 2019 and signed on its behalf by:



C Cannon
Director
Company registered number - 449706

Statement of cash flows
for the year ended 31 December 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the year		(221)	(303)
Adjustments for:			
Depreciation and amortisation expense	3	101	162
Net finance income	6	(30)	(21)
Foreign exchange differences – unrealised gain/(loss)	6	(123)	185
Income tax expense	7	(46)	92
Gain on disposal of property, plant and equipment	3	-	-
Loss on disposal of intangible assets	3	-	-
		<u>(319)</u>	<u>115</u>
Changes in:			
Inventories		(1,298)	1,406
Trade and other receivables		(649)	(382)
Prepayments		513	63
Provisions		(1,320)	(143)
Trade and other payables		<u>2,858</u>	<u>51</u>
Cash (used in)/generated from operating activities		<u>(215)</u>	<u>1,110</u>
Interest paid	6	(144)	(90)
Income tax paid		<u>(2)</u>	<u>(472)</u>
Net cash (used in) generated from operating activities		<u>(361)</u>	<u>548</u>
Cash flows from investing activities			
Cash invested in short term deposit	14	-	(1,543)
Interest received	6	174	111
Acquisitions of property and equipment	8	(65)	(50)
Acquisitions of intangible assets	9	(184)	-
Disposal of property and equipment	8	-	-
Net cash paid in investing activities		<u>(75)</u>	<u>(1,482)</u>
Cash flows from financing activities			
Dividends paid		-	-
Net cash from financing activities		<u>-</u>	<u>-</u>
Net decrease in cash and cash equivalents		<u>(436)</u>	<u>(934)</u>
Effect of exchange rates on cash and cash equivalents		70	(201)
Cash and cash equivalents at 1 January		<u>7,224</u>	<u>8,359</u>
Cash and cash equivalents at 31 December	13	<u>6,858</u>	<u>7,224</u>

The notes on pages 14 to 34 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 23.

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 2018.

Effective for annual periods (and interim periods therein) ending 31 December 2018 and thereafter	Status	Issue date of original standard	Effective date (annual periods beginning on or after)
IFRS 9 Financial Instruments	Adopted	24 July 2014	1 January 2018
IFRS 15 Revenue from Contracts with Customers	Adopted	28 May 2014	1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Adopted	8 December 2016	1 January 2018
Clarifications to IFRS 15 'Revenue from Contracts with Customers'	Adopted	12 April 2016	1 January 2018
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	Adopted	20 June 2016	1 January 2018
Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4)	Adopted	12 September 2016	1 January 2018
Transfers of Investment Property (Amendments to IAS 40)	Adopted	8 December 2016	1 January 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle (Amendments to IFRS 1 and IAS 28)	Adopted	8 December 2016	1 January 2018

The classification and measurement requirements of IFRS 9 have not had a significant impact on the Group. The Group continues measuring at fair value all financial assets previously held at fair value under IAS39.

IFRS 15 replaces revenue standards IAS 18 Revenue and IAS 11 Construction Contracts including related interpretations in IFRS, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers.

The Group has adopted IFRS 15 using the modified retrospective method of adoption with relief from restating comparative figures. There are no notable transition adjustments in connection with the application of IFRS 15 as the revenue recognition and measurement in the financial statements complies in all material aspects with the new IFRS 15 standard.

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 2019 and thereafter	Status	Issue date of original standard	Effective date (annual periods beginning on or after)
IFRIC 23 Uncertainty over Income Tax Treatments	May adopt early	June 2017	1 January 2019
IFRS 16 Leases	May adopt early	January 2017	1 January 2019
IFRS 17 Insurance Contracts	May adopt early	May 2017	1 January 2021
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	May adopt early	October 2017	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	May adopt early	October 2017	1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	May adopt early	December 2017	1 January 2019
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	May adopt early	February 2018	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards	May adopt early	March 2018	1 January 2020
Definition of a Business (Amendments to IFRS 3)	May adopt early	October 2018	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	May adopt early	October 2018	1 January 2020

The Directors have evaluated the impact of these standards issued that are not yet mandatory on the company's financial statements for 2018.

IFRS 16, Leases (endorsed by the EU) will become effective from 1 January 2019 and the impact will especially be on the balance sheet where lease contracts will have to be recognised as right-of-use assets with corresponding impact on lease liabilities, thus affecting total assets and equity ratio. In the income statement EBITDA will be impacted by the split of operating lease expenses between a depreciation on right of use assets and interest expense on lease liabilities. This will affect operating margin.

More extensive disclosures than under IAS 17 are also required depending on extent and complexity of the leases in the group.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Standards issued but not yet effective (continued)

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

The Group will use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Going Concern

Egmont UK Limited has incurred losses in 2017 and 2018 in a challenging market. Significant cash balances are held and there are no external borrowings. Having given consideration to the above and forecast trading levels the directors believe it is appropriate to prepare the accounts on a going concern basis.

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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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.

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

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

	2018	2017
	£000	£000
<i>Sales comprised the following:</i>		
Sale of goods	40,667	48,840
Sale of services	111	240
Royalty income	546	631
Other income	336	280
Total revenue	41,660	49,991

Notes to the financial statements (continued)

3 Expenses and auditor's remuneration

	2018 £000	2017 £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	41	38
Services relating to taxation	31	17
Depreciation and amortisation	101	162
Foreign exchange differences – realised loss	38	77
Foreign exchange differences – unrealised gain/(loss)	123	(185)
Rentals payable under operating leases	650	605

4 Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	325	402
Company contributions to group personal pension schemes	30	37

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £221,949 (2017: £223,251), and company pension contributions of £20,229 (2017: £19,832) were made to a group personal scheme on their behalf.

	Number of directors	
	2018	2017
Retirement benefits are accruing to the following number of directors under:		
Group personal pension schemes	2	2

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:

	2018 No. of employees	2017
Management and administration	25	40
Production, distribution and sales	141	129
	166	169

Notes to the financial statements (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	2018 £000	2017 £000
Wages and salaries	6,527	6,837
Social security costs	662	736
Pension costs	630	664
Severance costs	311	300
	8,130	8,537

6 Finance income and costs

	2018 £000	2017 £000
Recognised in profit or loss		
Income		
Interest income on bank accounts	173	110
Interest income from HMRC	1	1
Foreign exchange differences – realised gain	38	-
Foreign exchange differences – unrealised gain	123	-
Finance income	335	111
Costs		
Interest expense on bank accounts	144	90
Foreign exchange differences – realised gain	-	(77)
Foreign exchange differences – unrealised loss	-	185
Finance costs	144	198
Net finance income recognised in profit or loss	191	(87)

7 Taxation

Recognised in the income statement

	Notes	2018 £000	2017 £000
<i>UK corporation tax</i>			
Current tax on expense for the period		(22)	(6)
Adjustments in respect of prior periods		(36)	(47)
Current tax expense		(58)	(53)
<i>Deferred taxation</i>			
Origination / reversal of timing differences	10	12	145
Deferred tax income		12	145
Total tax expense		(46)	92

Notes to the financial statements (continued)

7 Taxation (continued)

Reconciliation of effective tax rate

	2018 £000	2017 £000
Loss for the year	(221)	(303)
Total tax income/(expense)	46	(92)
Profit excluding taxation	(267)	(211)
Income tax using the UK corporation tax rate of 19% (2017:19%)	(51)	(41)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	40	44
Depreciation for the year in excess of capital allowances	(11)	(9)
Group relief	-	-
Deferred Tax – reassessment of asset on tax losses (Note10)	12	145
Adjustment in respect of prior years	(36)	(47)
Total tax (benefit)/charge (see above)	(46)	92

Factors that may affect future tax charges

The UK corporation tax rate is 19% in 2018.

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2018. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2018 has been calculated based on these rates.

A deferred tax asset of £409,000 (2017: £421,000) 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
Cost or valuation					
At 1 January 2018	539	845	416	317	2,117
Additions	66	-	-	-	66
Revaluation	-	-	(66)	-	(66)
At 31 December 2018	605	845	350	317	2,117

Depreciation and impairment					
At 1 January 2018	537	845	416	-	1,798
Revaluation	-	-	(66)	-	(66)
Charge for the year	66	-	-	-	66
At 31 December 2018	603	845	350	-	1,798

Net Book Value					
At 31 December 2017	2	-	-	317	319
At 31 December 2018	2	-	-	317	319

	Furniture & Equipment £000	Fixtures & Fittings £000	Book & Comic Archive £000	Heritage Assets £000	Total £000
Cost or valuation					
At 1 January 2017	489	845	416	317	2,067
Additions	50	-	-	-	50
Disposals	-	-	-	-	-
At 31 December 2017	539	845	416	317	2,117

Depreciation and impairment					
At 1 January 2017	431	792	416	-	1,639
Disposals	-	-	-	-	-
Charge for the year	106	53	-	-	159
At 31 December 2017	537	845	416	-	1,798

Net Book Value					
At 31 December 2016	58	53	-	317	428
At 31 December 2017	2	-	-	317	319

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 2018 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 (2017: £nil).

9 Intangible assets

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

Notes to the financial statements (continued)

9 Intangible assets (continued)

	Software £000	Total £000
Cost or valuation		
At 1 January 2017	489	489
Additions	-	-
Disposals	-	-
At 31 December 2017	489	489
Amortisation and impairment		
At 1 January 2017	484	484
Disposals	-	-
Charge for the year	3	3
At 31 December 2017	487	487
Net book value		
At 31 December 2016	5	5
At 31 December 2017	2	2

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

	2018 £000	2017 £000
Administration costs	3	3

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

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.

An opening balance adjustment of £300k was made in respect of software disposed of in 2017.

Notes to the financial statements (continued)

10 Deferred tax asset

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

	2018	2017
	£000	£000
At 1 January	421	566
Utilised during the year	(12)	(145)
Recognised during the year	-	-
At 31 December	409	421

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.

11 Inventories

	2018	2017
	£000	£000
Raw materials	373	241
Work in progress	1,660	2,068
Finished goods	4,937	3,363
	6,970	5,672

During the year inventory with a cost of £11,335k (2017: £12,127k) was included within cost of sales.

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

At 31 December 2018 the stock provision amounted to £1,432k (2017: £1,803k). This provision relates wholly to finished goods (books).

	2018	2017
	£000	£000
At 1 January	1,803	1,344
Provision created/(released) in the year	(371)	459
At 31 December	1,432	1,803

Notes to the financial statements (continued)

12 Trade and other receivables

	2018	2017
	£000	£000
Trade receivables due from trade customers	10,647	10,200
Trade receivables due from related parties	452	602
Loans due from related parties	7,671	7,671
Other receivables	863	1,612
Total trade and other receivables	19,633	20,085

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.

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

	2018	2017
	£000	£000
Not past due	10,532	9,491
Past due 0-30 days	89	680
Past due 31-90 days	26	29
More than 90 days	-	-
	10,647	10,200

13 Cash and cash equivalents

	2018	2017
	£000	£000
Cash at bank	6,858	7,224
Total cash and cash equivalents	6,858	7,224

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.

Notes to the financial statements (continued)

14 Investments

	2018	2017
	£000	£000
Short term deposit	20,145	19,044
Total investments	20,145	19,044

The short term deposit has a maturity period of six months on a fixed interest rate of 0.87420% per annum.

15 Trade and other payables

	2018	2017
	£000	£000
Trade payables due to trade suppliers	11,498	8,488
Trade payables due to related parties	3,675	3,855
Loans due to related parties	3,797	3,789
Accrued liabilities	2,403	2,408
Other payables	182	210
Total trade and other payables	21,555	18,750

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

15 Trade and other payables

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

	2018	2017
	£000	£000
Not past due	10,248	7,117
Past due 0-30 days	611	614
Past due 31-90 days	369	425
More than 90 days	270	332
	11,498	8,488

16 Provision for liabilities

	Returns	Total
	£000	£000
At 1 January 2018	4,511	4,511
Utilised during the year	(17,322)	(17,322)
Provision created/(released)	16,002	16,002
At 31 December 2018	3,191	3,191

All provisions are expected to be utilised within 12 months.

Notes to the financial statements (continued)

16 Provision for liabilities (continued)

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.

17 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

18 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.

Notes to the financial statements (continued)

18 Financial instruments (continued)

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	
	2018	2017	2018	2017
	£000	£000	£000	£000
Australian Dollar	-	-	16	75
Danish Krone	-	-	84	294
Euro	-	-	758	977
Japanese Yen	-	-	68	62
South African Rand	-	-	2	275
United States Dollar	-	-	772	473
	-	-	1,700	2,156

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
2018	+5%	4	+5%	37	+5%	36	+5%	1
	-5%	(4)	-5%	(41)	-5%	(40)	-5%	(1)
2017	+5%	14	+5%	23	+5%	47	+5%	4
	-5%	(15)	-5%	(25)	-5%	(51)	-5%	(4)

Notes to the financial statements (continued)

19 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 £630,284 (2017: £663,892).

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

20 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2018		2017	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	790	14	685	19
Between one and five years	1,778	-	2,225	14
More than five years	-	-	-	-
Total operating lease commitments	2,568	14	2,910	33

During the year £650k (2017: £605k) was recognized as an expense in the income statement in respect of operating leases.

21 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.

22 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 2018 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 £1,421k (2017: £1,307k) to Hardie Grant Egmont in 2018. The amount owed to Egmont UK Limited at the end of the year was £859k (2017: £758k).

Notes to the financial statements (continued)

22 Related party disclosures (continued)

Sales of goods and services to other Egmont companies

	Sales value		Receivable	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	5,517	6,616	452	602
	5,517	6,616	452	602

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	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	18,965	13,331	3,675	3,855
	18,965	13,331	3,675	3,855

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	
	2018	2017	2018	2017
	£'000	£'000	£'000	£'000
Fellow subsidiaries of Egmont Fonden	3,797	3,789	7,671	7,671
	3,797	3,789	7,671	7,671

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

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

23 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

Note 8 provide details of depreciable tangible assets.

Notes to the financial statements (continued)

23 Accounting estimates and judgments (continued)

Note 9 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 11 provision has been made for slow moving and obsolete stock.

Estimates for book and magazine returns are detailed in note 16.

Financial risks are detailed in note 18.

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.