

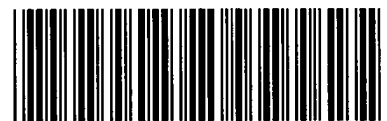
Egmont Books UK Limited

Annual report and financial statements

30 June 2020

Registered number 449706

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Annual report and financial statements

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Strategic Report

Business Review

On the 30th April 2020 the Company was acquired by HarperCollins Publishers Limited. Prior to the acquisition the Magazine assets were carved out into a separate Company, leaving the Book assets in the Company. The Company also changed its name to Egmont Books UK Limited to reflect the changed nature of the business.

Previous to the acquisition, Egmont Books UK Limited was 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.

Post the acquisition, Egmont Books UK Limited is part of HarperCollins Publishers Ltd. HarperCollins Publishers are the second largest consumer book publisher in the world, with operations in 17 countries. With more than 120 branded imprints around the world, HarperCollins publishes approximately 10,000 new books every year in 17 languages and has a print and digital catalogue of more than 200,000 titles.

In the UK, Egmont is the top specialist children's publisher selling 12.8 million books. Primarily in physical format the Company also publishes in ebook and audio formats.

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.

To align the financial year end with its new parent Company, these financial statements have been produced for the six months ending June 30th 2020, and therefore any comparisons to the prior period are not consistent for the Income Statement and Statement of Cash Flows. As well as the different period lengths, with the Magazine assets carved out at the end of April 2020, the six months trading only includes four months.

2020 achievements

In 2020 Egmont Books UK Limited continued to deliver robust sales in what remains a tough economic environment. Overall UK revenue decreased from £37,945k in 2019 to £11,395k in 2020, a decline of 70%. However, as mentioned above this does not reflect actual trading in the Books market and the Company had a strong performance during the period and saw a good uplift in sales during the Covid-19 pandemic as Children's books sold strongly through the online retailers and supermarkets.

Loss before taxation was £1,921k (2019: £369k gain). The underlying books business was profitable for the period, however losses from the magazine business and changes in accounting treatment for internally capitalised labour costs drove the overall loss for the period.

Publishing highlights in the year include Amelia Fang and the Bookworm Gang by Laura Ellen Anderson selling 168,000 copies as a World Book Day title. Good Girl, Bad Blood, Holly Jackson reaching number 2 in Children's & YA charts. Thank You, Baked Potato, Matt Lucas (May) – signed up, created and published during first lockdown – reaching number 3 in Pre-

Strategic Report (continued)

school and Picture Books chart, number 4 Sunday Times Children's Chart. Thomas-the-Tank Engine's 75th anniversary with highlight being Prince Harry reading the brand new title The Royal Engine. On top of this A Good Girl's Guide to Murder by Holly Jackson won the Nibbies Children's Book of the Year.

The future route

The Company will effectively become a trading division for HarperCollins Publishers Limited going forward and operate alongside the already established divisions within the wider Company. All invoicing, payroll, systems, group support functions will be operated by HarperCollins Publishers Limited and it is the intention of the Directors to hive up the remaining assets within Egmont Books UK Limited into HarperCollins Publishers Limited during the next financial year.

Principal risks and uncertainties

The company acknowledges that the competition in the UK book 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 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 31st 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.

In January 2020, an outbreak of a new strain of coronavirus, COVID-19, was identified in Wuhan, China. The virus has spread globally including to the UK and Europe and the World Health Organization (WHO) declared COVID-19 a pandemic on 11 March 2020. Governments, the UK government among them, have imposed restrictions to reduce the risk of further spread of the disease - closing borders, ordering home quarantine and cancelling public events. To date the impact on Company revenues has not been significant, and the business has continued to operate productively with all office staff working from home and the

Strategic Report (continued)

warehouse remaining open albeit with significant changes to the ways of working to ensure social distancing and safety of the staff. By ensuring appropriate health and safety measures have taken place the Company has enabled its Distribution Centre in Glasgow to remain open during the pandemic and with its key customers remaining open, the operational impact has been minimal.

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
1 London Bridge Street
London, SE1 9GF

By order of the board



D Alford - Director

Date: 1st April 2021

Directors' Report

The directors present their report and the audited financial statements for the six months ended 30 June 2020.

Results and dividends

The loss for the year after taxation is £2,614k (2019: profit £103k).

The directors recommend the payment of a £22,118k dividend (2019: £nil).

Going concern

Despite the business performing strongly during the Covid-19 pandemic, and the underlying strength of its trading and the sector as a whole, given the intention to hive up the business assets into its parent Company, HarperCollins Publishers Limited during the next financial year, the Directors believe that the accounts should not be prepared as a going concern and as such the Primary Statements and the Notes to the Financial Statements have been prepared on that basis. The company will then become dormant with non-trading activity.

Directors

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

A Buss - resigned 30th April 2020
C Cannon - resigned 30th April 2020
S Kragh - resigned 30th April 2020
C Poplak - resigned 1st May 2020
D Alford - appointed 30th April 2020
C Redmayne - appointed 30th April 2020
S Dowson-Collins - appointed 30th April 2020

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 5. 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 2020 (2019: £nil)

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 company'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
1 London Bridge Street
London, SE1 9GF

By order of the board



Date: 1st April 2021

D Alford - 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 International Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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 Books UK Limited**

Opinion

We have audited the financial statements of Egmont Books UK Limited for the year ended 30 June 2020 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 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 30 June 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; 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.

Emphasis of Matter – financial statements prepared on a basis other than going concern

We draw attention to the Going Concern paragraph under note 1 which indicates that the directors intend to hive up the business assets to its immediate parent company, HarperCollins Publishers Limited during the next financial year. Therefore, the directors do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in note 1.

Our opinion is not modified in respect of this matter.

Independent auditor's report

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 7, 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.

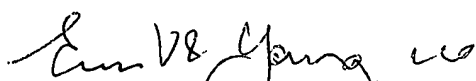
Auditor's responsibilities for the audit of the financial statements

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 1 April 2021

Statement of comprehensive income
for the period ended 30 June 2020

	Note	6 mths 2020 £000	12 mths 2019 £000
Revenue	2,3	11,395	37,945
Cost of sales		(6,178)	(20,375)
Gross profit		5,217	17,570
Distribution costs		(4,380)	(9,977)
Administration costs		(3,059)	(6,821)
Other income		5	27
Results from operating activities	2,4	(2,217)	799
Finance income	7	331	241
Finance costs	7	(35)	(671)
Net finance (costs)/income		296	(430)
(Loss)/Profit before tax		(1,921)	369
Income tax	8	(693)	(266)
(Loss)/Profit for the year		(2,614)	103
Total comprehensive (loss) / income for the year attributable to owners of the company		(2,614)	103

The Magazine business was carved out and constitutes as a discontinued operation as described in note 2 to these financial statements.

The notes on pages 15 to 36 form an integral part of these financial statements.

**Statement of changes in equity
at 30 June 2020**

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2020	79	1,837	317	29,594	31,827
Total comprehensive income for the year	-	-	-	(2,614)	(2,614)
Dividend	-	-	-	(22,118)	(22,118)
Balance at 30 June 2020	79	1,837	317	4,862	7,095

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total Equity
	£000	£000	£000	£000	£000
Balance at 1 January 2019	79	1,837	317	29,491	31,724
Total comprehensive income for the year	-	-	-	103	103
Balance at 31 December 2019	79	1,837	317	29,594	31,827

The notes on pages 15 to 36 form an integral part of these financial statements.

Statement of financial position
at 30 June 2020

	Note	2020 £000	2019 £000
Assets			
Non-current assets			
Property, Plant and Equipment	10	-	356
Right of use assets	11	-	40
Intangible assets	12	-	147
Deferred tax asset	13	-	530
		<u>-</u>	<u>1,073</u>
Current assets			
Inventories	14	4,776	4,913
Heritage assets		317	-
Trade and other receivables	15	7,273	16,995
Income tax assets		-	22
Prepayments		1,299	1,779
Cash and cash equivalents	16	29	7,139
Investments	17	-	20,350
		<u>13,694</u>	<u>51,198</u>
Total assets		<u>13,694</u>	<u>52,271</u>
Equity			
Share capital	20	79	79
Share premium		1,837	1,837
Revaluation reserve		317	317
Retained earnings		4,862	29,594
Total equity		<u>7,095</u>	<u>31,827</u>
Liabilities			
Non-current liabilities			
Lease liabilities	23	<u>1</u>	<u>27</u>
		<u>1</u>	<u>27</u>
Trade and other payables	18	5,391	17,659
Provisions	19	1,004	2,615
Current Tax Liabilities		203	143
		<u>6,598</u>	<u>20,417</u>
Total equity and liabilities		<u>13,694</u>	<u>52,271</u>

The notes on pages 15 to 36 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 1st April 2021
and signed on its behalf by:

Dalford

D Alford
Director

Company registered number - 449706

Statement of cash flows

for the year ended 30 June 2020

	Note	2020 £000	2019 £000
Cash flows from operating activities			
(Loss)/Profit for the year		(2,614)	103
Adjustments for:			
Depreciation and amortisation expense	4	45	675
Net finance income	7	(20)	(35)
Foreign exchange differences – unrealised	7	(271)	367
Income tax expense	8	693	266
Gain on disposal of right to use assets	4	(1)	(311)
Loss on disposal of intangible assets	4	123	-
Transfer to current assets		317	-
		(1,728)	1,065
Changes in:			
Inventories		137	2,057
Heritage assets		317	-
Trade and other receivables		9,901	2,638
Prepayments		480	(229)
Provisions		(1,637)	(549)
Trade and other payables		(12,451)	(3,897)
Cash generated from/ (used in) operating activities		(4,981)	1,085
Interest paid	7	(35)	(206)
Income tax paid		(81)	206
Net cash generated from / (used in) operating activities		(5,097)	1,085
Cash flows from investing activities			
Cash invested in short term deposit	17	20,350	(205)
Interest received	7	55	241
Acquisitions of property and equipment	10	29	(119)
Acquisitions of intangible assets	12	-	(33)
Acquisitions of right of use assets	11	31	(595)
Disposal of property and equipment	10	-	311
Net cash paid in investing activities		20,465	(400)
Cash flows from financing activities			
Dividends paid	9	(22,118)	-
Other equity movements		-	(37)
Net cash from financing activities		(22,118)	(37)
Net decrease in cash and cash equivalents		(6,750)	648
Effect of exchange rates on cash and cash equivalents		(360)	(367)
Cash and cash equivalents at 1 January		7,139	6,858
Cash and cash equivalents at 30 June	16	29	7,139

The notes on pages 15 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 Accounting Standards in conformity with the requirements of the Companies Act 2006.

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 IAS 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 IAS that have significant effect on the financial statements are discussed in note 26.

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 2020.

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	Adopted	October 2018	1 January 2020
Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7	Adopted	September 2019	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	Adopted	October 2018	1 January 2020
The Conceptual Framework for Financial Reporting	Adopted	April 2018	1 January 2020
Covid-19-Related Rent Concessions – Amendment to IFRS 16	Adopted	May 2020	1 June 2020

The company 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 financial statements of the company. The company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 Leases

IFRS 16 Leases, became effective from 1 January 2019 and superseded IAS 17 Leases and IFRIC 4.

The company chose 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 the company. Refer to section Leases for the accounting policy beginning at 1 January 2019.

The company 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 company 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.

There were no contracts during 2020 that fell within the scope of IFRS 16.

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:

Effective for annual periods (and interim periods therein) ending 31 December 2021 and thereafter	Status	Issue date of original standard	Effective date (annual periods beginning on or after)
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	May adopt early	September 2019	1 January 2021
Reference to the Conceptual Framework – Amendments to IFRS 3	May adopt early	April 2018	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	May adopt early	May 2020	1 January 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	May adopt early	May 2020	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – <i>Subsidiary as a first-time adopter</i>	May adopt early	May 2016	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for de-recognition of financial liabilities	May adopt early	May 2016	1 January 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	May adopt early	December 2000	1 January 2022
IFRS 17 Insurance Contracts	May adopt early	May 2017	1 January 2023
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	May adopt early	January 2020	1 January 2023
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	May adopt early	September 2019	1 January 2021
Reference to the Conceptual Framework – Amendments to IFRS 3	May adopt early	April 2018	1 January 2022

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

Going Concern

Despite the business performing strongly during the Covid-19 pandemic, and the underlying strength of its trading and the sector as a whole, given the intention to hive up the business assets into its parent Company, HarperCollins Publishers Limited during the next financial year, the Directors believe that the accounts should not be prepared as a going concern and as such the Primary Statements and the Notes to the Financial Statements have been prepared on that 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.

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.

Notes to the financial statements (continued)

1 Accounting policies (continued)

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 archive assets:

The company has an archive of books 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

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.

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 Discontinued Operation

At the end of April 2020, the company disposed of the Magazine business. This disposal was based on book value and therefore no gain or loss has been recognized. The comparative results relating to this were as follows:

	2020 £000	2019 £000
Revenue	4,219	13,780
Cost of sales	(2,202)	(4,955)
Gross profit	2,017	8,825
Distributions costs	(2,858)	(6,065)
Administration costs	(854)	(2,426)
Other income	22	61
Profit/(Loss) from discontinued operations	(1,673)	395

Due to the change in ownership, the Directors do not have access to the pre-acquisition records that would enable a split of cash flow information attributable to the discontinued operation.

Notes to the financial statements (continued)

3 Revenue

	2020 £000	2019 £000
<i>Sales comprised the following:</i>		
Sale of goods	10,914	37,144
Sale of services	43	105
Royalty income	282	411
Other income	156	285
Total revenue	11,395	37,945

4 Expenses and auditor's remuneration

	2020 £000	2019 £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	80	50
Depreciation and amortisation	45	675
Foreign exchange differences – realised loss	5	(18)
Foreign exchange differences – unrealised gain/(loss)	271	(367)
Rentals payable under operating leases	-	-

5 Directors' remuneration

	2020 £000	2019 £000
Directors' emoluments	258	419
Company contributions to group personal pension schemes	15	43

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £138,374 (2019: £232,136), and company pension contributions of £6,844 (2019: £20,228) were made to a group personal scheme on their behalf.

	Number of directors 2020	2019
Retirement benefits are accruing to the following number of directors under:		
Group personal pension schemes	3	3

Notes to the financial statements (continued)

6 Staff numbers and costs

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

	2020	2019
	No. of employees	
Management and administration	20	25
Production, distribution and sales	98	122
	118	147

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Wages and salaries	2,491	5,775
Social security costs	282	558
Pension costs	240	658
Severance costs	52	79
	3,065	7,070

7 Finance income and costs

	2020	2019
	£000	£000
Recognised in profit or loss		
Income		
Interest income on bank accounts	55	238
Interest income from HMRC	-	3
Foreign exchange differences – realised gain	5	-
Foreign exchange differences – unrealised gain	271	-
Finance income	331	241
Costs		
Interest expense on bank accounts	35	206
Interest expense on lease liabilities	-	80
Foreign exchange differences – realised loss	-	18
Foreign exchange differences – unrealised loss	-	367
Finance costs	35	671
Net finance income recognised in profit or loss	296	(430)

Notes to the financial statements (continued)

8 Taxation

Recognised in the income statement

	Notes	2020 £000	2019 £000
<i>UK corporation tax</i>			
Current tax on expense for the period		36	120
Adjustments in respect of prior periods		127	268
Current tax expense		163	388
<i>Deferred taxation</i>			
Origination / reversal of timing differences	12	432	(122)
Adjustments in respect of prior periods		98	-
Deferred tax income		530	(122)
Total tax expense		693	266

Reconciliation of effective tax rate

	2020 £000	2019 £000
(Loss)/profit for the year	(2,614)	103
Total tax expense	(693)	(266)
(Loss)/profit excluding taxation	(1,921)	369
Income tax using the UK corporation tax rate of 19% (2019:19%)	(365)	70
<i>Effects of:</i>		
Expenses not deductible for tax purposes	46	46
Depreciation for the year in excess of capital allowances	355	3
Group relief	-	1
Deferred Tax – reassessment of asset on tax losses (Note 13)	432	(122)
Adjustment in respect of prior years	225	268
Total tax (benefit)/charge (see above)	693	266

Factors that may affect future tax charges

The UK corporation tax rate is 19% in 2020.

A UK corporation tax rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the company's future current tax charge accordingly.

A deferred tax asset of £nil (2019: £530,000) has been recognised.

Notes to the financial statements (continued)

9 Dividends paid

During the year, the company declared and paid dividends of £22,118k (2019: £nil).

10 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 2020	330	-	350	317	997
Additions	7	-	-	-	7
Disposal	(46)	-	-	-	(46)
Transfer to current asset	-	-	-	(317)	(317)
At 30 June 2020	291	-	350	-	641

Depreciation and impairment

At 1 January 2020	291	-	350	-	641
Disposal	(10)	-	-	-	(10)
Charge for the year	10	-	-	-	10
At 30 June 2020	291	-	350	-	641

Net Book Value

At 31 December 2019	39	-	-	317	356
At 30 June 2020	-	-	-	-	-

	Furniture & Equipment £000	Fixtures & Fittings £000	Book & Comic Archive £000	Heritage Assets £000	Total £000
Cost or valuation					
At 1 January 2019	605	845	350	317	2,117
Additions	204	-	-	-	204
Disposals	(479)	(845)	-	-	(1,324)
At 31 December 2019	330	-	350	317	997

Depreciation and impairment

At 1 January 2019	603	845	350	-	1,798
Revaluation	(394)	(845)	-	-	(1,239)
Charge for the year	82	-	-	-	82
At 31 December 2019	291	-	350	-	641

Net Book Value

At 31 December 2019	39	-	-	317	356
At 30 June 2020	-	-	-	-	-

Notes to the financial statements (continued)

10 Property, Plant and Equipment (continued)

Heritage assets

The Heritage assets have been transferred to current assets, in line with the accounts being prepared on the basis that the company is no longer trading as a going concern. They have been transferred at the opening balance sheet value which is the same as the valuation by Bonhams on 01/09/16 and reflects their open market value. The Directors are confident that this value could be recognised in the event the that items were auctioned.

11 Right of use assets

	Land and buildings £000	Other £000	Total £000
Cost or valuation			
At 1 January 2020	-	53	53
Additions	-	-	-
Disposals	-	(53)	(53)
At 30 June 2020	-	-	-
Amortisation and impairment			
At 1 January 2020	-	11	11
Charge for the year	-	11	11
Disposals	-	(22)	(22)
At 30 June 2020	-	-	-
Net book value			
At 31 December 2019	-	42	42
At 30 June 2020	-	-	-

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)

12 Intangible assets

	Software £000	Total £000
Cost or valuation		
At 1 January 2020	406	406
At 30 June 2020	406	406
Amortisation and impairment		
At 1 January 2020	259	259
Charge for the year	24	24
Disposals	123	123
At 30 June 2020	406	406
Net book value		
At 31 December 2019	147	147
At 30 June 2020	-	-
	Software £000	Total £000
Cost or valuation		
At 1 January 2019	373	373
Additions	33	33
At 31 December 2019	406	406
Amortisation and impairment		
At 1 January 2019	222	222
Charge for the year	37	37
At 31 December 2019	259	259
Net book value		
At 31 December 2018	151	151
At 31 December 2019	147	147

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

	2020 £000	2019 £000
Administration costs	3	3

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

Notes to the financial statements (continued)

12 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.

13 Deferred tax asset

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

	2020	2019
	£000	£000
At 1 January	530	409
Utilised during the year	(530)	121
Recognised during the year	-	-
At 30 June	-	530

This deferred tax asset relates to accumulated losses incurred by another UK Egmont trading company now dormant. Under the new group structure, the Directors have assessed that this no longer has any value and has been written off accordingly.

14 Inventories

	2020	2019
	£000	£000
Raw materials	-	184
Work in progress	196	1,708
Finished goods	4,580	3,021
	4,776	4,913

During the year inventory with a cost of £3,174k (2019: £10,244k) was included within cost of sales.

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

At 30 June 2020 the stock provision amounted to £1,006k (2019: £1,189k). This provision relates to finished goods (books £1,006k).

	2020	2019
	£000	£000
At 1 January	1,189	1,432
Provision created/(released) in the year	(183)	(243)
At 30 June	1,006	1,189

Notes to the financial statements (continued)

15 Trade and other receivables

	2020 £000	2019 £000
Trade receivables due from trade customers	6,797	8,271
Trade receivables due from related parties	-	405
Loans due from related parties	221	7,671
Other receivables	255	648
Total trade and other receivables	<u>7,273</u>	<u>16,995</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

	2020 £000	2019 £000
Receivables from third-party customers	6,797	8,727
Receivables from other related parties	-	405
Total gross receivables	<u>6,797</u>	<u>9,132</u>
Allowance for expected credit loss	<u>(312)</u>	<u>(456)</u>
Trade Receivables	<u>6,485</u>	<u>8,676</u>

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

	2020 Gross carrying amount £000	2020 Expected credit loss £000	2019 Gross carrying amount £000	2019 Expected credit loss £000
Not past due	6,257	-	7,900	129
Past due 0-30 days	188	-	810	145
Past due 31-90 days	108	68	203	111
More than 90 days	244	244	219	71
	<u>6,797</u>	<u>312</u>	<u>9,132</u>	<u>456</u>

Notes to the financial statements (continued)

15 Trade and other receivables (continued)

Expected credit loss

	2020 Rate	2019 Rate
Not past due	0%	2%
Past due 0-30 days	0%	18%
Past due 31-90 days	63%	55%
More than 90 days	100%	32%

16 Cash and cash equivalents

	2020 £000	2019 £000
Cash at bank	29	7,139
Total cash and cash equivalents	29	7,139

17 Investments

	2020 £000	2019 £000
Short term deposit	-	20,350
Total investments	-	20,350

The short term deposit had a maturity period of a year (expired March 2020) on a fixed interest rate and was not renewed (2019: 1.6188% per annum).

18 Trade and other payables

	2020 £000	2019 £000
Trade payables due to trade suppliers	4,359	7,271
Trade payables due to related parties	-	4,993
Loans due to related parties	-	3,801
Accrued liabilities	600	1,350
Other payables	432	244
Total trade and other payables	5,391	17,659

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

Notes to the financial statements (continued)

18 Trade and other payables (continued)

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

	2020 £000	2019 £000
Not past due	3,773	6,205
Past due 0-30 days	194	1,069
Past due 31-90 days	3	81
More than 90 days	389	257
	4,359	7,612

19 Provision for liabilities

	Returns £000	Total £000
At 1 January 2020	2,615	2,615
Utilised during the year	(1,699)	(1,699)
Provision created/(released)	88	88
At 30 June 2020	1,004	1,004

All provisions are expected to be utilised within 12 months.

Provisions refer to expected book sale returns.

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

20 Share Capital

	Authorised		Issued and fully paid	
	Shares	£000's	Shares	£000's
Ordinary shares of £1 each				
At 31 December 2019	208,000	208	79,480	79
At 30 June 2020	208,000	208	79,480	79

Notes to the financial statements (continued)

21 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	
	2020	2019	2020	2019
	£000	£000	£000	£000
Australian Dollar	18	-	-	55
Danish Krone	-	-	-	206
Euro	-	-	61	844
Japanese Yen	-	-	-	65
South African Rand	-	-	-	-
United States Dollar	-	-	8	889
	18	-	69	2,059

Notes to the financial statements (continued)

21 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
2020	+5%	-	+5%	-	+5%	3	+5%	1
	-5%	-	-5%	-	-5%	(3)	-5%	(1)
2019	+5%	10	+5%	42	+5%	40	+5%	3
	-5%	(11)	-5%	(47)	-5%	(44)	-5%	(3)

22 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 £240,461 (2019: £657,583).

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

Notes to the financial statements (continued)

23 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
Principal			
At 1 January 2020	-	27	27
Disposals	-	(26)	(26)
Payments	-	-	-
Interest	-	-	-
	-	1	1

24 Ultimate parent undertaking and parent undertaking

The company's immediate parent is HarperCollins Publishers Limited, a company incorporated in Scotland. The ultimate parent is News Corporation, a company incorporated in Delaware in the United States. The smallest and largest group in which the results of the company are consolidated is that headed by News Corporation, whose principal place of business is at 1211 Avenue of the Americas, New York, NY 10036. The consolidated financial statements are available to the public and may be obtained from 1 London Bridge Street, London, SE1 9GF.

25 Related party disclosures

The company is controlled by HarperCollins Publishers Limited. As the company was acquired during the financial year the current year disclosures are with HarperCollins Publishers Limited and its fellow subsidiaries. The prior year related party disclosures stated below are balances with fellow subsidiaries of Egmont Foden.

	2020 £000	2019 £000
Amounts due from parent undertakings	221	-
Amounts due from fellow subsidiary undertakings	2	405
	223	405
	2020 £000	2019 £000
Amounts due to fellow subsidiary undertakings	-	4,985
	-	4,985

Notes to the financial statements (continued)

26 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 10 and 11 provide details of depreciable tangible assets.

Note 12 details intangible assets and amortisation charges.

Provisions have been made for the following:

- Inventories
- Book returns
- Trade customer receivables

As disclosed in note 14 provision has been made for slow moving and obsolete stock.

Estimates for book returns are detailed in note 19.

Financial risks are detailed in note 21.

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.

27 Subsequent Events

There are no subsequent events that require disclosure.