Phaidon Press Limited

Annual report and financial statements

For the year ended 30 June 2020

Registered number 02525791

Phaidon Press Limited
Annual report and financial statements
For the year ended 30 June 2020

Contents

Directors:	K Fox P Ruppel J H Booth-Clibborn B J Wechsler B Cohen B Black
Registered office:	2 Cooperage Yard, London, E15 2QR
Company number:	02525791
Auditors:	BDO LLP, 55 Baker Street, London, W1U 7EU

The directors present their strategic report together with the audited financial statements for the year ended 30 June 2020.

Principal activities

The Company and Group are engaged in the publishing and sale of books and digital products on the visual arts, lifestyle and culture throughout the world. There has been no change in the Company's and Group's principal activities in the year under review.

Review of the business

The consolidated statement of profit and loss is set out on page 8 and shows turnover for the year of £25.7m (2019 - £27.0m) and an operating loss for the year of £1.3m (2019 - £1.0m). The gross profit margin for the year was 43% (2019 – 46%).

The operating loss increased to £1.3m (2019 - £1.0m) and the loss before tax increased to £2.1m (2019 - £1.6m). The results for the year ended June 2020 were impacted by the adverse effects of national lockdowns during the coronavirus pandemic.

On 31 January 2020 the Group concluded an asset purchase agreement to acquire specific assets and liabilities of The Monacelli Press LLC, a company whose principal activity is the publishing of illustrative books. The principle reason for this acquisition was to secure the rights to the publications of The Monacelli Press LLC (see note 21).

Future outlook

During 2020/21 the Group will continue to publish its high quality books under its own imprint in English and other languages. The business objectives are to build long-term relationships with authors, continue driving future revenue growth with a strong focus on costs and efficiencies within the business.

Principal risks and uncertainties

The Group seeks to manage its exposure to any market and market channel by ensuring that its product range is diverse and that its books are sold in multiple markets and market channels around the world. As a market leader in niche subject areas the directors believe it is as well positioned as it can be to react effectively to economic conditions.

Sales to markets around the world are predominantly made in the local currency leaving the group exposed to currency shifts, predominantly Sterling to Euros and US Dollar exchange rates. The exposure is managed through natural hedges whereby the printing of books and other costs are matched by currency as closely as possible with expected inflows.

The Group's credit risk is primarily attributable to its trade debtors. Credit risk is managed through maintaining credit limits on all primary customers, dealing predominantly with major distributors worldwide and monitoring payments against contractual agreements.

The coronavirus pandemic and the imposition of Government lockdowns continues to have an impact on our key markets. At the date of signing these financial statements, it has been a year since the beginning of the pandemic and the restrictions that Governments imposed on retail outlets. The Group has continued to trade throughout this period with warehouses remaining open and supplying customers.

The financial impact of the pandemic and retail closures on the Group's performance has been mitigated by strong growth in our online channel and a reduction in operating costs.

Principal risks and uncertainties *(continued)*

There remains some uncertainty in relation to the ongoing impact from the coronavirus pandemic. Specific risks and uncertainties include:

- Trading: There has been an impact on trading as key customers have temporarily closed their retail outlets in line with local Government guidance. Certain countries are slowly lifting restrictions as the coronavirus vaccines are distributed but there is still uncertainty in relation to the timing of restrictions being eased.
- Supply Chain: The Group works with a number of international suppliers, some based in Europe and China. The virus temporarily delayed the printing and distribution of some publications. At the date of signing these financial statements, our overseas printers are back to full capacity and future publications are expected to be published as planned.
- Cash: The Directors have modelled the impact of reduced sales and have also implemented mitigating actions to reduce costs.

The Group monitors cash flow as part of its day-to-day control procedures. The Board considers cash flow forecasts on a monthly basis and ensures that appropriate facilities are available to be drawn upon where necessary.

Key performance indicators

The board utilises a number of key performance indicators to enable a consistent method of analysing performance and to assist in developing strategy.

The main financial KPI used by management is the gross profit margin as it is a strong indicator that the Group's overall pricing strategy is correct and that it is also maintaining strong cost controls in relation to the development and production of its products. The gross profit margin for the year ended 30 June 2020 was 43% (2019 – 46%).

The inventory turnover ratio is an indicator of effective working capital management within the Group. The inventory turnover ratio is an efficiency ratio that measures how many times the average inventory held by the Group is sold during the year. The ratio is calculated using the cost of inventory sold in the year (note 5), divided by the value of inventory for re-sale at the year-end date (note 15). The stock turnover ratio for 2020 was 0.82 (2019 - 0.88).

Approval

This strategic report was approved on behalf of the Board.

Keith Fox
Chief Executive Officer

Date: 28/06/2021

The directors present their report together with the audited financial statements for the year ended 30 June 2020.

Directors

The current directors, who served during the year and those in office at 30 June 2020, were:

K L Fox
J H Booth-Clibborn
P Ruppel
B J Wechsler
B Cohen
B Black

Directors' interests

As at 30 June 2020, B J Wechsler owns 100% interest in EFS Member LLC which is the ultimate controlling company of Phaidon Press Limited.

Dividends

The directors do not recommend payment of a dividend (2019 - £Nil).

Strategic Report

The Strategic report on the preceding pages provides information regarding the future developments of the Group, risks and uncertainties and key performance indicators.

Directors' responsibilities

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 the directors have elected to prepare the Group and Company financial statements in accordance with International Accounting Standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Accounting Standards; 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Employment policies

It is the policy of the Company that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled every practical effort will be made to provide continued employment.

The directors are committed to maintain and develop communication and consultation procedures with employees, who in turn are encouraged to become aware of and involve themselves in the performance of the Company.

Going concern

The directors prepare detailed cash flow projections to support their assessment of the Company's going concern.

The directors have reviewed the Group's cash flow forecasts for the period to June 2022 (see note 1). Phaidon Press Limited has sufficient funds and facilities in place to finance the business. JMWT LLC, a related party, has indicated that it will support the Group for a period of at least 12 months from the date the financial statements for the year ended 30 June 2020 are signed. As a result, the directors consider the business to have adequate access to finance, and consider the business to be a going concern.

Following the year end, the Group received further borrowings from JMWT LLC on 15 July 2020 of USD$1,250,000 (£1,016,260).

Auditors

All of the current directors as at the date of this report have taken all the steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The directors are not aware of any relevant audit information of which the auditor is not aware.

BDO LLP has expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board

Keith Fox
Chief Executive Officer

Date: 28/06/2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS PHAIDON PRESS LIMITED

Qualified Opinion

We have audited the financial statements of Phaidon Press Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 30 June 2020 which comprise the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the company statement of financial position, the company statement of changes in equity and the company statement of cash flows, and the notes to the financial statements, 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, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, except for the matter described in the basis for qualified opinion section in our report:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 June 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for qualified opinion

With respect to inventory having a carrying value of £11,881,000 in the consolidated statement of financial position and £11,488,000 in the company statement of financial position, the audit evidence available to us was limited because, given the global COVID-19 pandemic and the restrictions imposed by local governments, no inventory count was undertaken and we did not observe the physical count as at 30 June 2020. As a result, we were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

In addition, were any adjustment to the inventory balance be required, the strategic report would also need to be amended.

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. We are independent of the Group and the Parent 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 qualified 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 Group or Parent 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.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 this other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to satisfy ourselves concerning the inventory quantities held at 30 June 2020. We have concluded that where the other information relates to the inventory balance or related balances such as cost of sales, it may be materially misstated for the same reason.

Opinions on other matters prescribed by the Companies Act 2006

Except for the possible effects of the matter described is the basis for qualified opinion section of our report, in our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and 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

Except for the possible effects of the matter described in the basis for qualified opinion section of our report, in the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

In respect solely of the limitation on our work relating to inventory, described above:

- we have not obtained all the information and explanations that we considered necessary for the purposes of our audit; and
- we were unable to determine whether adequate accounting records had been kept by the Parent Company.

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:

- returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made.

Responsibilities of Directors

As explained more fully in the Statement of Directors Responsibilities, 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 Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities 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 Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for

DocuSigned by:
Tom Laird
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Tom Laird (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK

Date: 29 June 2021

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Phaidon Press Limited
Consolidated statement of profit and loss and other comprehensive income
For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Revenue	4	**25,730**	27,009
Cost of sales	5	**(14,742)**	(14,708)
Gross profit		**10,988**	12,301
Distribution costs	6	**(7,019)**	(7,743)
Administrative expenses	7	**(5,480)**	(5,560)
Foreign exchange gains	8	**191**	14
Operating loss		**(1,320)**	(988)
Finance expense	9	**(774)**	(633)
Finance income	9	**1**	2
Net finance income/(cost)		**(773)**	(631)
Loss before tax		**(2,093)**	(1,619)
Tax expense	13	**(108)**	(191)
Loss for the year		**(2,201)**	(1,810)
Items that will or may be reclassified to profit or loss:			
Exchange (losses)/gains arising on translation of foreign operations		**(126)**	(191)
Total comprehensive income for the year attributable to the owners of the Company		**(2,327)**	(2,001)

Turnover and operating loss derive entirely from continuing operations.

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Consolidated statement of financial position
For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Assets			
Inventories	15	**11,881**	11,719
Trade and other receivables	16	**6,556**	7,736
Cash and cash equivalents	17	**2,435**	2,016
Total current assets		**20,872**	21,471
Property, plant and equipment	18	**280**	215
Right-of-use assets	19	**1,506**	-
Intangible assets	22	**1,170**	-
Long-term receivables	16	**486**	370
Total non-current assets		**3,442**	585
Total assets		**24,314**	22,056
Liabilities			
Trade and other payables	25	**9,773**	10,515
Income tax payable		**-**	-
Total current liabilities		**9,773**	10,515
Loans and borrowings	26	**6,179**	3,529
Lease liabilities	19	**1,311**	-
Total non-current liabilities		**7,490**	3,529
Total liabilities		**17,263**	14,044
NET ASSETS/(LIABILITIES)		**7,051**	8,012
Issued capital and reserves			
Share capital	27	**60**	60
Share premium		**20,187**	20,187
Shareholder contribution	28	**2,447**	1,300
Foreign exchange reserve		**(793)**	(667)
Retained deficit		**(14,850)**	(12,868)
TOTAL EQUITY		**7,051**	8,012

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

Keith Fox
Chief Executive Officer

Philip Ruppel
Chief Operating Officer

Date: 28/06/2021

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Consolidated statement of changes in equity
For the year ended 30 June 2020

	Share capital	Share premium	Shareholder contribution	Foreign exchange reserve	Retained deficit	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 July 2018	**60**	**20,187**	**873**	**(476)**	**(11,246)**	**9,398**
Comprehensive loss for the year	-	-	-	-	(1,810)	(1,810)
Exchange differences arising on translation of foreign operations	-	-	-	(191)	-	(191)
Shareholder contribution	-	-	615	-	-	615
Capital contribution expense to deficit	-	-	(188)	-	188	-
Balance at 30 June 2019	**60**	**20,187**	**1,300**	**(667)**	**(12,868)**	**8,012**
Comprehensive loss for the year	-	-	-	-	(2,201)	(2,201)
Exchange differences arising on translation of foreign operations	-	-	-	(126)	-	(126)
Shareholder contribution	-	-	1,366	-	-	1,366
Capital contribution expense to deficit	-	-	(219)	-	219	-
Balance at 30 June 2020	**60**	**20,187**	**2,447**	**(793)**	**(14,850)**	**7,051**

The shareholder contribution represents the difference between the cash amount of loans received from related parties and the present value of that amount discounted at the market rate of interest (see note 28).

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Consolidated statement of cash flows
For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Loss for the year		**(2,201)**	(1,810)
Adjustments for:			
Depreciation of property, plant and equipment	18	**63**	82
Amortisation of right of use assets	19	**42**	-
Amortisation of intangible assets	22	**32**	-
Finance cost	9	**524**	391
Finance income	9	**(1)**	(2)
Income tax expense	13	**108**	191
Net increase in stock provision	15	**1,168**	16
Increase/(decrease) in expected credit loss	16	**100**	(100)
(Decrease)/increase in sales returns provision	25	**(460)**	75
Increase in royalty provision	16	**243**	298
Unrealised currency translation (gains)		**(120)**	(4)
		(502)	(863)
(Increase) in inventories	15	**(1,027)**	(525)
Decrease in trade and other receivables	16	**979**	345
(Decrease)/increase in trade and other payables	25	**(1,166)**	799
Cash outflow from operations		**(1,716)**	(244)
Income taxes paid	13	**(108)**	(191)
Net cash flows used in operating activities		**(1,824)**	(435)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(123)**	(22)
Purchase of right-of-use assets	19	**(186)**	-
Purchase of Monacelli net assets	21	**(827)**	-
Net cash used in investing activities		**(1,136)**	(22)
Financing activities			
Bank interest received	9	**1**	2
Increase in shareholder loan	26	**3,369**	1,683
Net cash from financing activities		**3,370**	1,685
Net increase in cash and cash equivalents		**410**	1,228
Cash and cash equivalents at beginning of year		**2,016**	826
Exchange gains/(losses) on cash and cash equivalents		**9**	(38)
Cash and cash equivalents at the year end		**2,435**	2,016

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Company statement of financial position
For the year ended 30 June 2020

Company number 02525791	Note	2020 £'000	2019 £'000
Assets			
Inventories	15	**11,488**	11,719
Trade and other receivables	16	**4,991**	4,790
Cash and cash equivalents	17	**1,214**	1,593
Total current assets		**17,693**	18,102
Property, plant and equipment	18	**143**	39
Right-of-use assets	19	**1,506**	-
Investments	20	**101**	101
Long-term receivables	16	**486**	370
Total non-current assets		**2,236**	510
Total assets		**19,929**	18,612
Liabilities			
Trade and other payables	25	**5,419**	6,957
Income tax payable		**-**	-
Total current liabilities		**5,419**	6,957
Loans and borrowings	26	**6,179**	3,529
Lease liabilities	19	**1,311**	-
Total non-current liabilities		**7,490**	3,529
Total liabilities		**12,909**	10,486
NET ASSETS/(LIABILITIES)		**7,020**	8,126
Issued capital and reserves			
Share capital	27	**60**	60
Share premium		**20,187**	20,187
Shareholder contribution	28	**2,447**	1,300
Retained deficit		**(15,674)**	(13,421)
TOTAL EQUITY		**7,020**	8,126

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf by:

Keith Fox - **Chief Executive Officer**

Philip Ruppel - **Chief Operating Officer**

Date: 28/06/2021

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Company statement of changes in equity
For the year ended 30 June 2020

	Share capital £'000	Share premium £'000	Shareholder contribution £'000	Retained deficit £'000	Total equity £'000
Balance at 1 July 2018	**60**	**20,187**	**873**	**(11,224)**	**9,896**
Total comprehensive loss for the year	-	-	-	(2,385)	(2,385)
Shareholder contribution	-	-	615	-	615
Capital contribution expense to deficit	-	-	(188)	188	-
Balance at 30 June 2019	**60**	**20,187**	**1,300**	**(13,421)**	**8,126**
Total comprehensive loss for the year	-	-	-	(2,472)	(2,472)
Shareholder contribution	-	-	1,366	-	1,366
Capital contribution expense to deficit	-	-	(219)	219	-
Balance at 30 June 2020	**60**	**20,187**	**2,447**	**(15,674)**	**7,020**

The shareholder contribution represents the difference between the cash amount of loans received from related parties and the present value of that amount discounted at the market rate of interest (see note 27).

The company has taken advantage of Section 408 of the Companies Act 2006 and has not presented its own income statement in the financial statements. Of the consolidated loss before tax of £2,093,000 (2019 – £1,619,000), a loss of £2,369,000 (2019 – £2,197,000) is attributable to the UK parent company.

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Company statement of cash flows
For the year ended 30 June 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Loss for the year		**(2,472)**	(2,385)
Adjustments for:			
Depreciation of property, plant and equipment	18	**16**	29
Amortisation of right-of-use assets	19	**42**	-
Finance income	9	**(1)**	(2)
Finance expense	9	**524**	391
Income tax expense	13	**108**	191
Net increase in stock provision	15	**1,114**	16
Increase/(decrease) in expected credit loss	16	**100**	(100)
(Decrease)/increase in sales returns provision	25	**(460)**	75
Increase in royalty provision	16	**243**	298
Unrealised currency translation losses		**184**	160
		(602)	(1,327)
(Increase) in inventories	15	**(883)**	(525)
(Increase)/decrease in trade and other receivables	16	**(604)**	707
(Decrease)/increase in trade and other payables	25	**(1,219)**	755
Cash outflow from operations		**(3,308)**	(390)
Income taxes paid	13	**(108)**	(191)
Net cash flows from operating activities		**(3,416)**	(581)
Cash flows from investing activities			
Purchase of property, plant and equipment	18	**(120)**	(8)
Purchase of right-of-use assets	19	**(186)**	-
Net cash used in investing activities		**(306)**	(8)
Financing activities			
Bank interest received	9	**1**	2
Increase in shareholder loan	26	**3,369**	1,683
Net cash from financing activities		**3,370**	1,685
Net (decrease)/increase in cash and cash equivalents		**(352)**	1,096
Cash and cash equivalents at beginning of year		**1,593**	501
Exchange (losses) on cash and cash equivalents		**(27)**	(4)
Cash and cash equivalents at the year end		**1,214**	1,593

The notes on pages 16 to 51 form part of these financial statements.

Phaidon Press Limited
Index to notes forming part of the financial statements
For the year ended 30 June 2020

1. Basis of preparation

Phaidon Press Limited (the "Company") is a Company incorporated and domiciled in the UK.

The Group financial statements comprise the consolidated financial statements of the Company and its subsidiaries which have been consolidated using the acquisition method of accounting.

There is no requirement to prepare consolidated accounts for the Group as they are included in the accounts for the parent company, JMWT Limited. However, the directors believe that the consolidated accounts show a fairer view of the finances of the organisation and provide additional information to the user of the accounts.

The financial statements are presented in pounds Sterling, which is also the Company's functional currency.

Amounts are rounded to the nearest thousand, unless otherwise stated.

The Group financial statements have been prepared in accordance with International Accounting Standards.

The accounting policies adopted in the preparation of the financial statements are set out in note 34. The policies have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in compliance with adopted International Accounting Standards requires the use of certain critical accounting estimates. It also requires Company management to exercise judgement in applying the Company's and Group's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in note 2.

Going concern

The financial statements have been prepared on a going concern basis. In adopting the going concern basis, the Directors have considered the Group's principle risks and uncertainties.

The Directors have carried out an assessment of the Group's ability to continue as a going concern for a period of at least 12 months from the date of the financial statements ("the going concern assessment period"). This detailed assessment has involved the review of cash forecasts to 30 June 2022 based on the Board-approved budget. This includes the ongoing impact of COVID-19 on the Group's operations. These forecasts indicate that the headroom provided by the Group's strong cash position and credit facility currently in place is adequate to support the Group over the going concern assessment period. The Directors have also prepared forecasts to June 2025 to consider the long-term factors and risks.

As part of this assessment, the Directors have performed a reverse stress test to determine the downturn in revenues required, and the subsequent reduction in cash generation, that would result in the Group exhausting its cash reserves and exceeding its current credit facility.

The reverse stress test would require a decline in revenues of approximately 25% compared to forecasts for the year ending June 2022, with no reductions in costs to mitigate the reduction in revenues. As a result of completing this assessment, the Directors considered the likelihood of the reverse stress scenario arising to be remote. In reaching the conclusion of remote, the Directors considered the following:

- Reviewing how the Group has traded since the impact of COVID-19 started, up to the end of May 2021 and in light of the continued easing of global lockdown measures and anticipated economic recovery.

1. **Basis of preparation** *(continued)*

- Revenue is considered the key risk, as this is less within the control of management. Revenue would need to decline by approximately 25% in the year ending 30 June 2022 compared to actual revenues generated in the year to 30 June 2020.
- In the event that results started to trend significantly below those forecasts, additional cost mitigation actions have been identified that would be implemented, which are not factored into the reverse stress test.

JMWT LLC, a related party, has indicated that it will support the Group for a period of at least 12 months from the date the financial statements for the year ended 30 June 2020 are approved.

Based on these assessments, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of no less than 12 months from the date of approval of these financial statements. In addition, in respect of material uncertainty, the Directors consider that this is remote.

Basis of measurement

The financial statements have been prepared on a historical cost basis except for the following items (refer to individual accounting policies for details).

- Related party loans – fair value through profit and loss

Changes in accounting policies

a) New standards, interpretations and amendments effective from 1st July 2019

The following amendments and interpretations were introduced to accounting standards relevant to the Group during the year ended 30 June 2020. The impact of these changes to the Group are summarised below.

IFRS 16 Leases
The Group has adopted IFRS 16 from 1 July 2019 and applied the modified retrospective approach. Under this approach, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings with no restatement of comparative information. The Group did not record any adjustments to retained earnings in the financial statements when adopting IFRS 16.

As a lessee, the Group has recognised a right-of-use asset and lease liability in respect of the lease for the head office in London. The Group has excluded leases of low value and short-term leases with a duration of less than 12 months from the application of IFRS 16, with payments for these leases continuing to be expensed directly to the income statement as operating leases.

The new standard requires a depreciation charge for right-of-use assets to be included within operating costs and the interest expense on the lease liability to be included within the finance costs.

Details of the impact this new standard has had are given in note 19.

1. Basis of preparation *(continued)*

b) New standards, interpretations and amendments not yet adopted

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods. The Company and Group has not early adopted the following new accounting standards that are currently not effective

The following amendments are effective for the period beginning 1 January 2020:

- IAS 1 *Presentation of Financial Statements* (Amendment)
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Amendment)
- IFRS 3 *Business Combinations* (Amendment)

The Group is currently assessing the impact of these new accounting standards and amendments. The Directors do not anticipate the application of these standards and amendments will have a material impact on the Group's consolidated financial statements.

2. Critical accounting estimates and judgements

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgements

- Revenue recognition – provision for the allowable return of books sold on a sale or return basis (see note 4)
- Inventories – provision for slow moving and obsolete inventory (see note 15)
- Trade customer receivables – expected credit loss for trade customer receivables that are not collectible or are at risk of not being collectible (see note 16)
- Royalty advances – provision for royalty advances not being utilised or recoverable (see note 16)
- The determination of the incremental borrowing rate used to measure lease liabilities (see note 19)
- The valuation of separately identified intangible assets on business combination (see note 21)
- Impairment of goodwill – estimate of future cash flows and determination of the discount rate (see note 23)
- Fair value measurement – a number of assets and liabilities included in the financial statements require measurement at, and/or disclosure of, fair value.

  The fair value measurement of the liability utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the "fair value hierarchy").

  - *Level 1:* Quoted prices in the active markets for identical items

  - *Level 2:* Observable direct or indirect inputs other than Level 1 inputs

  - *Level 3:* Unobservable inputs (i.e. not derived from market data)

3. Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Foreign exchange risk
- Liquidity risk
- Market risk

In common with all other business, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Loans as amortised cost

(ii) Financial instruments by category

Financial assets

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Loans and receivables				
Cash and cash equivalents (note 17)	**2,435**	2,016	**1,214**	1,593
Trade and other receivables (note 16)	**5,785**	6,477	**4,423**	3,686
Total financial assets	**8,220**	8,493	**5,637**	5,279

3. Financial instruments – risk management *(continued)*

Financial liabilities

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
At fair value				
Trade and other payables (note 25)	**6,579**	7,707	**4,760**	6,530
Loan and borrowings (note 26)	**6,179**	3,529	**6,179**	3,529
Total financial liabilities	**12,758**	11,236	**10,939**	10,059

(iii) Financial instruments not measured at fair value

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates their fair value.

Credit risk

Credit risk is the risk of financial loss to the Group 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 on-going basis. Credit checks are performed on all new customers requiring credit before entering contracts. A credit insurance policy is in place to minimise exposure to credit risk.

Purchase limits are established for each customer in conjunction with our credit insurer, which represents the maximum open amount without requiring approval from the management of the Company. The credit insurer will inform the Group if there are any changes in a customer's credit status and the appropriate action will be decided by management.

There have been no changes in the Group's exposure or management of credit risk from the previous period.

3. Financial instruments – risk management *(continued)*

Foreign currency risk

The Group has exposure to transactional foreign currency risk from trading in currencies other than the functional currency of individual group entities and also exposure to translational foreign currency risk from the translation of its foreign operations.

The Group aims to reduce the foreign currency risk by minimising its exposure through natural hedges whereby expenses in overseas currencies are matched with expected inflows.

The Group is predominantly exposed to currency risk on the USD loan and purchases made from major suppliers based in Hong Kong.

As of 30 June the Group's net exposure to foreign exchange risk was as follows:

Net foreign currency financial assets/(liabilities)

	2020 £'000	2019 £'000
Euro	**944**	1,423
Australian Dollar (AUD)	**128**	242
United States Dollar (USD)	**(8,133)**	(5,097)
Hong Kong Dollar (HKD)	**(943)**	(2,051)
Total net exposure	**(8,004)**	(5,483)

Foreign currency sensitivity

The following table demonstrates the Group's sensitivity to a 10% strengthening and weakening of Sterling at the reporting date against the main foreign currencies in which the Group has an exposure to risk, assuming all other variables held constant. A positive number indicates an increase in profit whereas a negative figure indicates a comparable impact on profit.

Foreign currency exposure	2020 +10% £'000	2020 -10% £'000	2019 +10% £'000	2019 -10% £'000
Euro	**(86)**	**105**	(129)	158
Australian Dollar (AUD)	**(12)**	**14**	(22)	27
United States Dollar (USD)	**739**	**(904)**	463	(566)
Hong Kong Dollar (HKD)	**86**	**(105)**	186	(228)
Total net exposure	**727**	**(890)**	498	(609)

3. Financial instruments – risk management *(continued)*

Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. Management reviews rolling 12 month cash flow projections on a monthly basis as well as information regarding cash balances. JMWT LLC, a related party, has indicated that it will support the company for the foreseeable future.

The net trade receivables are current and expected to be settled within 3 months. Trade and other payables are current and repaid within 3 months. Cash outflows for the related party loans are equal to their principal amounts plus interest accrued as disclosed in note 26.

Market risk

Market risk arises from the Group's use of variable rate loans for financing (note 26). It is the risk that the fair value of future cash flows will fluctuate because of changes in interest rates.

The impact on the profit and net assets of a 2.0% movement in the applicable rate of interest (being the maximum reasonable expectation of changes in interest rates) would result in an annual increase/decrease in interest payments of £163,000 based on the current loans in place as at 30 June 2020 (2019 – £91,000).

4. Revenue

Group	2020 £'000	2019 £'000
Sale of goods	**25,633**	26,936
Sale of services	**97**	73
	25,730	27,009

Estimates and assumptions

Books are generally sold on a sale or return basis. Revenue is recorded in the financial statements when the books are delivered to the final customer, less an appropriate provision for returns. The provision for returns is based on historical experience. The provision for returns for the year ended 30 June 2020 is £540,000 (2019 – £1,000,000).

5. Cost of sales

	2020 £'000	2019 £'000
Cost of inventory sold in the period	**9,059**	9,127
Royalties payable on sales in the period	**1,405**	2,281
Direct production overheads	**2,890**	2,986
Increase in inventory provisions (note 15)	**1,145**	16
Increase in royalty provision (note 16)	**243**	298
	14,742	14,708

The cost of sales includes the costs of all inventory recorded as a sale in the year, royalties' payable to the authors of the books sold in the period and overheads directly associated with the production of books. Movements in provisions relating to inventory and author royalty advances are recorded as a cost of sale.

6. Distribution costs

	2020 £'000	2019 £'000
Distribution costs	**3,508**	3,759
Marketing costs	**867**	720
Staff costs for sales, marketing and distribution functions	**2,644**	3,264
	7,019	7,743

Distribution costs include the costs of distributing books to customers, all external marketing costs and all staff costs directly related to the sales, marketing and distribution on the books.

7. Administrative expenses

	2020 £'000	2019 £'000
Administration overheads	**3,566**	3,816
Short-term operating lease costs	**957**	1,025
Depreciation of property, plant and equipment (note 18)	**63**	82
Amortisation of right-of-use assets (note 19)	**42**	-
Amortisation of intangible assets (note 22)	**32**	-
Auditors' remuneration		
- statutory audit	**72**	72
- tax services	**27**	25
- other services	**18**	24
Increase/(decrease) in bad debt provision (note 16)	**117**	(101)
Other professional fees	**586**	617
	5,480	5,560

Administration costs include the costs of general management of the Group, the costs of maintaining the administration buildings and all professional fees.

8. Foreign exchange gains - operating

	2020 £'000	2019 £'000
Net foreign exchange gains (note 14)	**191**	14

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement under other gains/(losses), with the exception of foreign exchange gains and losses that relate to borrowings which are presented in the income statement within "finance income or cost" (note 9).

9. Finance income and expense

Recognised in the profit or loss	2020 £'000	2019 £'000
Finance income		
Interest received on bank deposits	**1**	2
Foreign exchange gain from financing activities	**-**	-
Total finance income	1	2
Finance expenses		
Interest expense on lease liabilities (note 19)	**(49)**	-
Interest expense on loans	**(475)**	(391)
Foreign exchange losses from financing activities (note 14)	**(250)**	(242)
Total finance expense	**(774)**	(633)
Net finance (cost) recognised in profit and loss	**(773)**	(631)

10. Employees

	Group 2020	Group 2019	Company 2020	Company 2019
The following numbers were employed at the year ends:				
Book production	**38**	38	**27**	29
Sales and distribution	**34**	32	**19**	18
Administration	**19**	22	**11**	14
	91	92	**57**	61

During the year the Group employed an average of 91 people (2019 – 97). The Company employed an average of 60 people (2019 – 66).

11. Directors' remuneration

The emoluments, excluding pension contributions, of the directors during the year were £1,212,859 (2019 - £1,523,718). Group contributions paid to personal pension schemes totalled £31,023 (2019 - £32,740). Three directors were members of personal pension schemes (2019 – three). Three directors received no emoluments during the year (2019 – three).

The amounts paid in respect of the highest paid director are as follows:

	2020 **£'000**	**2019** **£'000**
Emoluments	**750**	1,006

12. Employee benefit expenses

	Group 2020 £'000	**Group 2019 £'000**	**Company 2020 £'000**	**Company 2019 £'000**
Employee benefit expenses (including directors) comprise:				
Wages and salaries	**5,736**	6,501	**2,653**	3,060
Short-term non-monetary benefits	**276**	265	**49**	50
Social security costs	**614**	663	**290**	326
Pension costs	**248**	252	**121**	121
Severance	**48**	92	**48**	92
	6,922	7,773	**3,161**	3,649

For the year ended 30 June 2020, wages and salaries have been reduced by a net amount of £94,000 (2019: £nil), which represents Government grants received under the UK Coronavirus Job Retention Scheme and similar Government schemes in France and Germany.

13. Taxation

Recognised in the income statement

	2020 £'000	2019 £'000
Current tax expense		
Current tax on profits for the year	-	-
Adjustments in respect of prior periods	-	-
Foreign taxation	108	191
Total tax expense	108	191

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the United Kingdom of 19.00% (2019 – 19.00%). The differences are explained below:

	2020 £'000	2019 £'000
Loss for the year	(2,201)	(1,810)
Income tax expense	108	191
Loss before taxation	(2,093)	(1,619)
Tax at 19.00% (2019 – 19.00%) thereon	(398)	(308)
Expenses not deductible for tax purposes	56	40
UK tax losses carried forward to future periods	247	268
Overseas tax losses carried forward	100	-
Foreign tax expensed	103	183
Other	-	8
Current tax charge for the year	108	191

No deferred tax assets (see note 24) were recognised in relation to the taxable losses incurred in the year ended 30 June 2020 (2019 – Nil).

Changes in tax rates and factors affecting the future tax charge

The effect of any future changes will affect the Company's future tax charges and related assets/liabilities accordingly.

14. Net foreign exchange gains/(losses)

	2020 £'000	2019 £'000
Foreign exchange gains from operating activity (note 8)	**191**	14
Foreign exchange (losses) from financing activities (note 9)	**(250)**	(242)
	(59)	(228)

15. Inventories

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Work in progress	**835**	1,368	**748**	1,368
Finished goods and goods for resale	**11,046**	10,351	**10,740**	10,351
	11,881	11,719	**11,488**	11,719

Inventories are shown net of a provision for slow moving and obsolete items. The provision is based on an estimated net realisable value. The estimate is derived from historical experience and available market information.

At 30 June 2020 the stock provision amounted to £3,896,000 (2019 - £2,728,000). This provision relates wholly to finished goods.

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
At 1 July	**2,728**	2,712	**2,728**	2,712
Provision released in the year	**(373)**	(762)	**(373)**	(762)
Increase in provision in the year	**1,541**	778	**1,487**	778
	3,896	2,728	**3,842**	2,728

The movement in the stock provision is recorded under cost of sales in the income statement (note 5).

The provision for stock is released in the year when the stock items that the provision relates to are sold.

16. Trade and other receivables

Group	2020 £'000	2019 £'000
Trade receivables due from trade customers	**4,850**	5,807
Less: provision for impairment of trade receivables	**(130)**	(30)
Net trade receivables	**4,720**	5,777
Receivables from related parties	**1,065**	700
Total financial assets other than cash and cash equivalents classified as loans and receivables	**5,785**	6,477
Royalty advances	**898**	1,126
Prepayments and accrued income	**359**	503
Total trade and other receivables	**7,042**	8,106
Less: non-current receivables		
Royalty advances	**423**	370
Other receivables	**63**	-
Total non-current receivables	**486**	370
Total current receivables	**6,556**	7,736

The gross royalty advances as at 30 June 2020 are £2,512,000 (2019 - £2,497,000). The provision for royalty advances that will not be utilised as at 30 June 2020 is £1,614,000 (2019 - £1,371,000).

Non-current royalty advances are due within five years from the end of the reporting period. Non-current other receivables are due within 10 years of the reporting date.

16. Trade and other receivables *(continued)*

Company	2020 £'000	2019 £'000
Trade receivables due from trade customers	**3,052**	2,661
Less: provision for impairment of trade receivables	**(130)**	(30)
Net trade receivables	**2,922**	2,631
Receivables from parent company	**233**	187
Receivables from related parties	**1,268**	868
Total financial assets other than cash and cash equivalents classified as loans and receivables	**4,423**	3,686
Royalty advances	**864**	1,126
Prepayments and accrued income	**190**	348
Total trade and other receivables	**5,477**	5,160
Less: non-current receivables		
Royalty advances	**423**	370
Other receivables	**63**	-
Total non-current receivables	**486**	370
Total current receivables	**4,991**	4,790

The gross royalty advances as at 30 June 2020 are £2,478,000 (2019 - £2,497,000). The provision for royalty advances that will not be utilised as at 30 June 2020 is £1,614,000 (2019 - £1,371,000).

Non-current royalty advances are due within five years from the end of the reporting period. Non-current other receivables are due within 10 years of the reporting date.

Expected credit loss of trade receivables

Movements in the expected credit loss for trade receivables are as follows:

Group and Company	2020 £'000	2019 £'000
At 1 July	**30**	131
Increase during the year	**117**	30
Receivable written off during the year as uncollectible	**(17)**	(131)
Unused amounts reversed	**-**	-
	130	30

16. Trade and other receivables *(continued)*

An expected credit loss for trade receivables is made with reference to specific bad debts, past default experience and the current economic environment.

The Group regularly reviews the ageing profile of the trade receivables and actively seeks to collect any amounts that have fallen outside the defined credit terms.

Provision for impairment of royalty advances

Movements in the impairment provision for royalty advances are as follows:

Group and Company	2020 £'000	2019 £'000
At 1 July	**1,371**	1,073
Increase during the year	**243**	298
	1,614	1,371

The royalty advances paid to authors of books are impaired if it is estimated, based on historical sales information, that the advance will not be utilised in the near future. The movement in the royalty provision is recorded under cost of sales in the income statement (see note 5).

17. Cash and cash equivalents

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Cash on hand	**1**	1	**1**	1
Cash at bank	**2,434**	2,015	**1,213**	1,592
	2,435	2,016	**1,214**	1,593

18. Property, plant and equipment

Group	Leasehold improvements	Furniture, fittings and equipment	Total
	£'000	£'000	£'000
Cost or valuation			
At 1 July 2018	161	2,250	2,411
Additions	-	22	22
Disposals	-	(290)	(290)
Foreign exchange movements	6	13	19
At 30 June 2019	167	1,995	2,162
At 1 July 2019	**167**	**1,995**	**2,162**
Additions	**-**	**123**	**123**
Disposals	**-**	**(579)**	**(579)**
Foreign exchange movement	**5**	**13**	**18**
At 30 June 2020	**172**	**1,552**	**1,724**
Accumulated depreciation and impairment			
At 1 July 2018	73	2,071	2,144
Depreciation	18	64	82
Disposals	-	(290)	(290)
Foreign exchange movements	3	8	11
At 30 June 2019	94	1,853	1,947
At 1 July 2019	**94**	**1,853**	**1,947**
Depreciation	**18**	**45**	**63**
Disposals	**-**	**(579)**	**(579)**
Foreign exchange movements	**3**	**10**	**13**
At 30 June 2020	**115**	**1,329**	**1,444**
Net Book Value			
At 30 June 2018	88	179	267
At 30 June 2019	73	142	215
At 30 June 2020	**57**	**223**	**280**

There were no contracted capital commitments at 30 June 2020 and 30 June 2019.

18. Property, plant and equipment *(continued)*

Company	**Furniture, fittings and equipment**
	£'000
Cost or valuation	
At 1 July 2018	1,805
Additions	8
Disposals	(287)
At 30 June 2019	1,526
At 1 July 2019	**1,526**
Additions	**120**
Disposals	**(579)**
At 30 June 2020	**1,067**
Accumulated depreciation and impairment	
At 1 July 2018	1,745
Depreciation	29
Disposals	(287)
At 30 June 2019	1,487
At 1 July 2019	**1,487**
Depreciation	**16**
Disposals	**(579)**
At 30 June 2020	**924**
Net Book Value	
At 30 June 2018	60
At 30 June 2019	39
At 30 June 2020	**143**

There were no contracted capital commitments at 30 June 2020 and 30 June 2019.

19. Leases

IFRS 16 was adopted 1 July 2019 using the modified retrospective transition option. Under this option, the comparative information is not restated.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily available, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term.

The right-of-use assets are initially measured at the amount of the lease liability and increased for:

- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations)

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

The Group entered into a lease for the London head office for a period of 10 years from 24 March 2020. Rental payments are fixed with a rent review on the 5th anniversary of the lease start date. The rent increase on this date is based on the increase in the consumer price index from the commencement of the lease.

Right-of-use assets	**Property**
	£'000
At 1 July 2019	-
Additions	1,548
Amortisation	(42)
At 30 June 2020	**1,506**

At inception, the right-of-use asset is equal to the sum of the lease liability at inception of £1,262,000, the initial direct costs associated with the lease of £186,000 and a provision for expected future dilapidation costs of £100,000.

19. Leases *(continued)*

Lease liabilities	**Property**
	£'000
At 1 July 2019	-
Additions	1,262
Interest expense	49
Lease payments	-
At 30 June 2020	**1,311**

The lease liability at inception was £1,262,000 based on the present value of the lease payments, discounted at the group's incremental borrowing rate of 14%.

No lease payments for the London office were made in the year ending 30 June 2020. The first lease payment is payable on 25 December 2021.

The amounts recognised in the consolidated income statement are as follows:

	2020
	£'000
Depreciation of right-of-use assets	42
Expenses relating to short-term leases	686
Expenses relating to leases of low-value assets	-
Operating profit impact	**728**
Interest on lease liabilities	49
Profit before taxation impact	**777**

19. Leases *(continued)*

The maturities of the Group's lease liabilities are as follows:

	2020 £'000
Less than one year	-
One to five years	1,528
More than five years	1,167
Total undiscounted lease liability	**2,695**
Total lease liabilities included in the balance sheet	**1,311**
Current	-
Non-current	**1,311**

20. Investments

Included in investments of the Company, and consolidated into the Group financial statements using the acquisition method of accounting, are 100% interests in the ordinary share capital of:

Name	Country of incorporation	Nature of business
Phaidon Sarl	France	Sale of books
Phaidon Verlag GmbH	Germany	Sale of books
Phaidon Press Inc.	USA	Sale of books
Phaidon Kabushiki Kaisha	Japan	Sale of books
Phaidon SRL	Italy	Sale of books
Phaidon Pty	Australia	Sale of books
Phaidon Denmark ApS	Denmark	Sale of books
PH Art AG	Switzerland	Design Services
Marylebone Retail Limited	UK	Retail
Phaidon Retail Inc.	USA	Retail

20. Investments *(continued)*

The registered offices of all of the subsidiaries are as follows:

Name	**Registered office address**
Phaidon Sarl	55 Rue Traversiere, 75012 Paris, France
Phaidon Verlag GmbH	Maybachufer 24, 12047 Berlin, Germany
Phaidon Press Inc.	65 Bleecker Street, New York, USA
Phaidon Kabushiki Kaisha	1-5-6, Kudan-Minami Chiyoda-Ku, Tokyo, 102-0074, Japan
Phaidon SRL	Viale Monte Nero 84, 20135 Milano, Italy
Phaidon Press Pty Limited	C/O Grant Thornton, 383 Kent Street, Sydney, NSW 2000, Australia
Phaidon Denmark ApS	C/O BDO, Havneholmen 29, 1561 Kobenhavn V, Denmark
PH Art AG	C/O BDO AG, Industriestrasse 53, 6312 Steinhausen
Marylebone Retail Limited	2 Cooperage Yard, London, E15 2QR
Phaidon Retail Inc.	65 Bleecker Street, New York, USA

	2020	**2019**
	£'000	**£'000**
Cost		
At 1 July	**154**	**154**
At 30 June	**154**	**154**
Provision for impairment		
At 1 July	**53**	**53**
At 30 June	**53**	**53**
Net book value		
At 1 July	101	101
At 30 June	**101**	**101**

The provision for impairment of £53,191 relates to the Company's investment in Phaidon Kabushiki Kaisha, Japan.

21. Business combinations

On 31 January 2020 the Group entered into an asset purchase agreement to acquire certain assets and liabilities of The Monacelli Press LLC, a company whose principal activity was the publishing of illustrative books. The principle reason for this acquisition was to secure the rights to the publications of The Monacelli Press LLC.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Copyrights	-	443	443
Trademark	-	176	176
Inventory	666	(363)	303
Receivables	43	-	43
Payables	(592)	-	(592)
Total net assets	**117**	**256**	**373**

Fair value of consideration paid	£'000
Cash	827
Contingent cash consideration (paid 17 September 2020)	52
Total consideration	879
Goodwill (note 23)	506

As part of the asset purchase agreement, the Group assumed liability for the payables balance of The Monacelli Press LLC. An additional contingent cash consideration would become payable if the business executed contracts for new books to be published in the forthcoming year, as stipulated in the purchase agreement. The additional consideration of £52,000 was paid on 17 September 2020.

The identifiable intangible assets relating to copyrights and trademarks were valued based on the projected cash flows over a 10 year period at a discount rate of 12.2%. The discount rate used was the estimated weighted average cost of capital for the company.

The goodwill arising on acquisition of £506,000 is attributed to the workforce in place and the synergies expected to arise after acquisition.

Acquisition costs incurred of £5,000 as a result of the transaction have been recognised as part of the administrative expenses in the statement of comprehensive income.

Since the acquisition date, the titles of The Monacelli Press LLC have contributed £335,000 to group revenues and generated a loss of £136,000 for the year ended 30 June 2020. It the acquisition had occurred on 1 July 2019, revenues would have been £1,524,000 and operating profit would have been £130,000.

22. Intangible assets

Group	Goodwill	Trademarks and copyrights	Total
	£'000	£'000	£'000
Cost			
At 1 July 2019	-	-	-
Acquired through business combinations	506	619	1,125
Foreign exchange movements	33	39	72
At 30 June 2020	**539**	**658**	**1,197**
Accumulated amortisation and impairment			
At 1 July 2019	-	-	-
Amortisation charge	-	32	32
Foreign exchange movements	-	(5)	(5)
At 30 June 2020	**-**	**27**	**27**
Net Book Value			
At 30 June 2019	-	-	-
At 30 June 2020	**539**	**631**	**1,170**

The Group has no contractual commitments for the acquisition of intangible assets (2019: nil).

23. Goodwill and Impairment

The Group is required to test, on an annual basis, whether the goodwill has suffered any impairment. The recoverable amount is determined based on the value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

The goodwill has been reviewed for impairment and the Directors believe that no impairment is required for the year ended 30 June 2020.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends based on historical data from both internal and external sources.

23. Goodwill and impairment *(continued)*

The key assumptions for calculating the value in use are:

	2020 %	2019 %
Discount rate	**13.0**	11.0
Annual revenue growth rate	**4.0**	5.0
Annual cost inflation rate	**2.5**	2.5

A sensitivity analysis has been performed and management concluded that no reasonably foreseeable change in the key assumptions would result in an impairment of the goodwill.

24. Deferred tax asset

Deferred taxation	**Group 2020 £'000**	**Group 2019 £'000**	**Company 2020 £'000**	**Company 2019 £'000**
Balance brought forward	-	-	-	-
Movement for the year	-	-	-	-
Exchange differences	-	-	-	-
	-	-	-	-

Un-provided deferred tax asset	**Group 2020 £'000**	**Group 2019 £'000**	**Company 2020 £'000**	**Company 2019 £'000**
Capital allowances	**145**	145	**165**	145
Short term timing differences	**4**	4	**4**	4
Unutilised tax losses	**3,303**	2,620	**2,744**	2,219
	3,452	2,769	**2,913**	2,368

Deferred tax assets are recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe that it is probable that these assets will be recovered. The directors believe it to be prudent to recognise the deferred tax asset if it is recoverable within the next three years (2019 – three years).

A deferred tax asset has not been recognised for the year ended June 2020 (June 2019 - Nil) as the Directors do not believe there is sufficient visibility that it will be recovered within a reasonable timeframe. A recoverability test is performed on an annual basis.

25. Trade and other payables

	Group 2020 £'000	Group 2019 £'000	Company 2020 £'000	Company 2019 £'000
Trade payables	**3,392**	4,229	**2,885**	4,050
Royalties payable	**563**	963	**538**	963
Payables to related parties	**77**	-	**235**	135
Accrued liabilities	**2,007**	1,515	**562**	382
Provision for sales returns	**540**	1,000	**540**	1,000
Total financial liabilities, excluding loans and borrowings, classified as financial liabilities measured at amortised cost	**6,579**	7,707	**4,760**	6,530
Short-term loans	**2,439**	2,362	**-**	-
Tax and social security payables	**48**	96	**37**	82
Prepayments received	**526**	216	**451**	216
Other payables	**181**	134	**171**	129
	9,773	10,515	**5,419**	6,957

All trade and other payables are expected to be settled no more than 12 months after the reporting period.

The carrying value of trade and other payables classified as financial liabilities measured at amortised cost approximates fair value

26. Loans and borrowings

Group	Book value 2020 £'000	Fair value 2020 £'000	Book value 2019 £'000	Fair value 2019 £'000
Related party loans	**8,696**	**6,179**	4,828	3,529
	8,696	**6,179**	4,828	3,529

Company	Book value 2020 £'000	Fair value 2020 £'000	Book value 2019 £'000	Fair value 2019 £'000
Related party loans	**8,696**	**6,179**	4,828	3,529
	8,696	**6,179**	4,828	3,529

The fair value of the related party loans are based on cash flows discounted using rates based on borrowing rate of 13.00% (2019 – 11.0%) and are within level 2 of the fair value hierarchy.

26. Loans and borrowings *(continued)*

Related party loans

Maturity date	Provider	Currency	Rate of Interest	2020 £'000	2019 £'000
31 December 2024	Phaidon Global LLC	USD	Libor + 2.5%	**3,251**	3,037
18 December 2024	JMWT LLC	USD	Libor + 2.5%	**5,445**	1,791
	Total related party loans			**8,696**	4,828

The related party loans are denominated in USD and are un-secured.

The movement in the book value of the related party loans is as follows:

Group	Book value 2020 £'000	Book value 2019 £'000
As at 1 July	**4,828**	2,790
Loans received in the year	**3,369**	1,683
Interest charged on loans	**250**	153
Exchange revaluation of USD loans	**249**	202
As at 30 June	**8,696**	4,828

27. Share capital

	Authorised and fully paid			
	2020 Number	2019 Number	2020 £	2019 £
Ordinary A shares of 50p each	**52,500**	52,500	**26,250**	26,250
Ordinary B shares of 50p each	**52,502**	52,502	**26,251**	26,251
Ordinary C shares of 50p each	**15,000**	15,000	**7,500**	7,500
Preference shares of 0.1p each	**7,110**	7,110	**7**	7
	127,112	127,112	**60,008**	60,008

28. Shareholder contribution

The Group has received loans from related parties below the market rate of interest. The shareholder contribution represents the difference between the cash amount of the loans received during the year of £3,369,000 and the present value of that amount discounted at the market rate of interest of 13%.

	£'000
Balance at 1 July 2018	873
Shareholder contribution	615
Capital contribution expense to deficit	(188)
Balance at 30 June 2019	**1,300**
Shareholder contribution	**1,366**
Capital contribution expense to deficit	**(219)**
Balance at 30 June 2020	**2,447**

29. Reserves

The following describes the nature and purpose of each reserve within equity:

Reserve	**Description and purpose**
Share premium	Amount subscribed for share capital in excess of nominal value.
Foreign exchange reserve	Gains/losses arising on retranslating the net assets of overseas operations into pounds sterling.
Shareholder contribution	Amount relating to the benefit received from the shareholder providing loans below the market rate of interest.
Retained earnings/deficit	All other net gains and losses and transactions with owners not recognised elsewhere.

30. Related party transactions

Phaidon Global LLC, a company owned by a trust in which a director of Phaidon Press Limited has a beneficial interest, has provided the Group with an interest bearing loan (see note 26). As at 30 June 2020 the amount repayable on the loan was £2,926,829 (balance owed by the Company at 30 June 2019 - £2,834,646). Interest payable on the loan at 30 June 2020 is £324,495 (30 June 2019 - £202,528). There was no loan repayments in the year ended 30 June 2020.

JMWT LLC, a related party, has provided the Group with an interest bearing loan (see note 26). As at 30 June 2020 the amount repayable on the loan was £5,233,740 (30 June 2019 – £1,722,441). Interest payable on the loan at 30 June 2020 is £210,879 (30 June 2019 - £68,559). There was no loan repayments in the year ended 30 June 2020.

Phaidon Global LLC was charged by the Group an amount of £237,481 (2019 - £148,317) in the year ended 30 June 2020. The charges related to shared administrative costs of the US Office. The outstanding debtor balance as at 30 June 2020 was £682,265 (2019 - £427,583).

Artspace LLC, a company of which a director of Phaidon Press Limited is a Director, was charged by the Group an amount of £232,020 in the year ended 30 June 2020 (2019 - £192,094). The charges related to shared administrative costs of the US office and professional services. The outstanding debtor balance as at 30 June 2020 was £150,062 (2019 - £86,138).

Artspace LLC charged the Group an amount of £76,470 for inventory in the year ended 30 June 2020 (2019 – Nil). The outstanding creditor balance as at 30 June 2020 was £76,470 (2019 – Nil).

Regan Arts LLC, a company previously owned by Phaidon Global LLC, was charged by the Group an amount of £7,366 in the year ended 30 June 2019 in respect of the shared administrative costs of the US office and professional services. There were no charges in the year ended 30 June 2020. The outstanding debtor balance as at 30 June 2020 and 30 June 2019 was £Nil.

Manifold Editions LLP, an entity of which a director of Phaidon Press Limited is a Director, was charged by the Group an amount of £28,969 in the year ended 30 June 2019 in respect of the purchase of books at standard trade terms. There were no charges in the year ended 30 June 2020. The outstanding debtor balance as at 30 June 2020 and 30 June 2019 was £Nil.

JMWT Limited, a company registered in the UK and direct owner of Phaidon Press Limited, was charged £46,188 (2019 - £41,013) in respect of professional fees. The outstanding debtor balance as at 30 June 2020 was £232,808 (2019 - £186,620).

31. Ultimate parent company and controlling party

At 30 June 2020, the company's controlling party was its parent company JMWT Limited, a company registered in the UK which is ultimately controlled by Bradley Wechsler, an individual who controls EFS Member LLC.

At 30 June 2020, the company's ultimate controlling parent company was EFS Member LLC, a company registered in the United States of America, which owns 100% of the share capital of Phaidon LLC, a company also registered in the United States of America, which directly owns 100% of the share capital of JMWT Limited.

At 30 June 2020, the largest group of which the company was a member, and for which group financial statements are prepared and will be filed with the Registrar of Companies in due course, was JMWT Limited, a company registered in the UK.

32. Effects of changes in accounting policies

The following table reconciles the operating lease commitments disclosed in the Group's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019.

	2020 £'000
Operating lease commitments disclosed at 30 June 2019	**2,592**
Less commitments relating to short-term leases	**(2,592)**
Less commitments relating to low value assets	-
Lease liability as of 1 July 2019	-

The operating lease commitments disclosed in the 30 June 2019 annual financial statements related to office leases for the London, New York, Paris and Berlin offices.

The lease for the previous London office ended on 24 March 2020 and the Company relocated to new offices with a 10 year lease agreement commencing on 24 March 2020. The leases for the offices in New York, Paris and Berlin are classified as short-term leases expiring within 12 months.

33. Subsequent events

Following the year end, the Company received borrowings from JMWT LLC on 15 July 2020 of USD$ 1,250,000 (£1,016,260).

34. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Revenue

Most of the group's revenue is derived from selling books with revenue recognised at a point in time when control of the goods has transferred to the customer. This is generally when the goods have been delivered to the customer. However, for export sales, control might also be transferred when delivered either to the port of departure or port of arrival, depending on the specific terms of the contract with the customer.

The revenue is represented by the invoiced value of goods delivered (excluding VAT) less an estimate for the expected value of returns made under sale or return arrangements. A provision is made against sales for the expected future returns of books that have not occurred by the end of an accounting period.The provision for returns is based on historical experience.

IFRS 15 Revenue from Contracts with Customers provides a five-step model to be applied to all sales contracts. It is based on the transfer of control of goods and services to customers. There is a requirement to identify and assess the delivery of each performance obligation in contracts in order for the revenue to be recognised.

Inventories and work in progress

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value.

Cost comprises all external costs of development, production and costs in bringing the inventories to their present location and condition. For the purpose of determining the unit cost of a book, the costs are allocated evenly over each individual book produced in that printing.

Provisions are made for slow-moving and obsolete inventory.

Royalties

Advances of royalties paid to authors are included within current receivables when the advance is paid. The royalty advance is expensed at the contracted royalty rate as the related revenues are earned.

A provision is made against the advances if they are not expected to be fully earned from the expected future revenues of a title.

Finance income and costs

Financing expenses comprises of interest payable on loans, the interest charge on lease liabilities and net foreign exchange losses that are recognised in the income statement. Financing income comprises interest receivable on funds invested and net foreign exchange gains.

Interest income or expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

34. Accounting policies *(continued)*

Foreign currencies

Items included in the financial statements of the Company and the Group are measured using the currency of the primary economic environment in which the Company/Group operates ("the functional currency"). The statements are presented in pounds Sterling.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance income or cost". All other foreign exchange gains and losses are presented in the income statement within "Other gains/ (losses)".

Leases

The Group accounts for a contract as a lease when it conveys the right to use an asset for a period of time in exchange for consideration.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- leases of low value assets; and
- leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. The following policies apply subsequent to the date of initial application on 1 January 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily available, in which case the group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term.

The right-of-use assets are initially measured at the amount of the lease liability and increased for:

- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations)

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

The Company does not have any finance leases.

34. Accounting policies *(continued)*

Business combinations

Business combinations are accounted for using the acquisition method as at the date of acquisition, which is the date that control is transferred to the Group.

The Group measures goodwill at acquisition as the fair value of consideration transferred less the fair value of the identifiable assets and liabilities acquired.

Transaction costs that the Group incurs in connection with the business combination are expensed as incurred.

Employee pension schemes

All employee pension schemes are defined contribution schemes. Contributions to defined contribution pension schemes are charged to the statement of comprehensive loss in the year to which they relate.

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Depreciation is provided on cost on a straight-line basis intended to write off the assets carrying value over their expected useful economic lives. It is provided at the following rates:

Fixtures and fittings	20% per annum straight line
Computer equipment	33% per annum straight line
Leasehold improvements	over the period of the lease

Intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight line basis over their useful economic lives.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of the intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Copyrights	10 years	Estimated discounted cash flow
Trademarks	10 years	Estimated discounted cash flow

34. Accounting policies *(continued)*

Non-derivative financial instruments

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

a) Trade and other receivables

These assets are non-derivative financial assets with fixed or determinable payments. They arise principally through the provision of goods and services to customers (e.g. trade receivables). Due to their short-term nature, the carrying value of these assets approximates their fair value.

Applying IFRS 9 Financial Instruments, provisions for bad and doubtful debts are based on the expected credit loss model

b) Trade and other payables

Trade payables and other short-term monetary liabilities are initially recognised at cost. Due to their short-term nature, the carrying value of these assets approximates their fair value.

c) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

d) Loans and borrowings

Loans and borrowings are recognised at fair value at inception and subsequently carried at amortised cost using the effective interest rate method. The fair value of loans is estimated by discounting the future cash flows at the current market interest rates. The difference between the transaction value and the fair value is recorded as a capital contribution.

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.

Provision for inventory
A provision for slow moving and obsolete inventory is recorded at the year-end date. Any excess inventory, defined as inventory that is not forecast to be sold in the next five years, will be written down to its net realisable value.

Provision for royalties
A provision for royalty advances is recorded at the year-end date. Advances are provided for if it is forecast that the advances paid are not recoverable within five years.

Sales returns provision
Books are generally sold on a sale or return basis. Revenue is recorded in the financial statements when the books are delivered to the final customer, less an appropriate provision for returns. The provision for returns is based on historical experience.

34. Accounting policies *(continued)*

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 as 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 adjustments to tax payable in 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 differences can be utilised.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all conditions attaching to the grant will be complied with. Government grants that compensate the Group for expenses incurred are recognised in the income statement as a deduction against the related expense for which the grant is intended to compensate, over the periods necessary to match the grant with the related costs. Any repayment of grants is charged to the income statement to reverse the deduction against the related expense, at the point when management has taken the decision to repay the amount to the government and the intention to repay has been communicated to the government.

Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset.

Share premium

The share premium is the amount subscribed for share capital in excess of the nominal value.

Shareholder contribution

Gains/losses arising on the fair value adjustment to the shareholder loans.