

ANNUAL REPORT AND FINANCIAL
STATEMENTS

FOR THE YEAR ENDED

31 JULY 2020

THE FINE ART SOCIETY
LIMITED

MENZIES

THE FINE ART SOCIETY LIMITED

COMPANY INFORMATION

Directors	A G McIntosh Patrick A Phelps (resigned 4 March 2020) E C Walsh H J Watchorn (resigned 24 June 2020) B Higgins (appointed 4 March 2020) R Morgan-Cox (appointed 10 September 2019)
Company secretary	D A Sinclair
Registered number	00010262
Registered office	Level 13 Broadgate Tower 20 Primrose Street London EC2A 2EW
Independent auditors	Menzies LLP Chartered Accountants & Statutory Auditor 3000a Parkway Whiteley Hampshire PO15 7FX

THE FINE ART SOCIETY LIMITED

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THE FINE ART SOCIETY LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 JULY 2020

Introduction

Despite turbulent and uncertain external factors, the 2019/2020 financial year has been one of development and forward planning for the company.

Business review

Though not reflected in this year's financial results, significant goals have been met:

- i) The appointment of Benny Higgins as the new Chairman of the Board in March. More recently David Sinclair joined the Board as Company Secretary.
- ii) In June we took a 5 year lease (with a 3 year break) on 25 Carnaby Street. The 3 floored gallery space is accessible from ground level but not street facing. It will allow us to expand and contract according to the times we find ourselves in and our exhibition programme.
- iii) We have two full-time staff in the London gallery which, because of the nature of the space, we are able to staff minimally.
- iv) We have completed a successful rebranding which visually marks a new beginning for the company whilst uniting the London and Edinburgh galleries. A new website representing both galleries and a greatly improved digital reach (3D tours, online galleries, social media and digital marketing) have been implemented. In a time of physical restriction on the UK population, our digital presence will be essential to our commercial success.
- v) New administrative systems have been implemented in both London and Edinburgh. Again, this facilitates a closer working relationship between the companies. Lucia Donatellis was hired in January this year, based in Edinburgh, she has now taken over the accounting for both galleries.
- vi) We engaged the services of Sutton PR to manage the press and digital marketing campaign for our relaunch and promote The Fine Art Society in its new home. Also to represent the business as one, the emphasis being on one business in two locations.
- vii) Edinburgh continues to trade well having mobilised itself to trade digitally/online from May onwards. This was to reasonable effect at the start and gathered pace as the summer wore on. Trade since June has been steady.
- viii) The Company has re-registered as a private limited company which will simplify operations and save money in the future given the lighter-touch regulatory environment for private limited companies compared to public limited companies.

Our expectations had been that 2020 would see the resumption of trading in London. However due to the COVID-19 pandemic, our efforts have been curtailed. The signing of the lease, renovations and relaunch of our new London premises were delayed due to lockdown restrictions. Trading has resumed in London but at a far slower pace than anticipated.

The last 6 months has seen an increased spend for the re-launch of the gallery in London. This has now stopped and expenditure will be closely monitored by the Board. At some point in 2021 we will put together a cash raise, in the first instance approaching existing shareholders. We will also talk to new potential shareholders. In addition to this we will approach interested parties for specific projects eg. bank rolling an exhibition where they receive a return on their cash investment.

The pandemic impacted the Edinburgh business through February/March/April. As an ongoing trading entity however, once mobilised, sales returned resulting in a month of notably high turnover in June. Business has continued steadily since then with interest in higher value pictures making up the majority of the sales.

THE FINE ART SOCIETY LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2020

Principal risks and uncertainties

The principal risk is that of uncertainty, both political and economic. Brexit and the potential of a Scottish independence referendum weigh on clients' propensity to spend on artworks. As such, the Board has taken a prudent view on its forward-looking projections.

Poor cash flow is a risk. Whilst the 2019 Balance Sheet shows a cash balance of £240K (£599K across the group), the Board is conscious that the only source of funds available to the business is its revenue.

There is one outstanding legal case as a result of the fire at our storage unit in 2017. The Board is doing what it can to resolve the situation it aims to do so within the current financial year.

Financial key performance indicators

The company monitors and benchmarks performance against the following KPIs:

	2020	2019
Revenue	119,292	1,961,173
Gross profit margin	60%	20%
Operating margin	-242%	1%
Cash position	240,900	671,846

The directors are satisfied with progress made on each KPI given the stage of the business, but are very well aware that there is absolutely no room for complacency and every effort will be made to improve future performance against all of these KPI metrics

Directors' statement of compliance with duty to promote the success of the Company

Section 172 of the Companies Act 2006 requires Directors to take into consideration the interests of stakeholders and other matters in their decision making. The Board of Directors consider that the decisions they have made during the financial year and the way they have acted have promoted the success of the Company for the benefit of its members as a while having regard for the stakeholders and matters set out in s172 (1) (a-f) of the Act.

The Company engages with its employees, customer and suppliers through a variety of means, including:

- Monthly board meetings that ensure that all long-term decision making and strategy is given a sense test.
- Due to the size of the company, sharing information amongst employees is often informal. Weekly staff meetings take place and openness in email correspondence is encouraged. Information shared includes key decisions and developments, support during the recent lockdowns to facilitate working from home as well as Covid secure working conditions on return to the work place.
- The business's reputation depends on good relations with clients. Suppliers are paid on or before time. We strive to maintain high quality relationships with both clients and suppliers.
- The company lends its support to institutions, locally and nationally.

This report was approved by the board and signed on its behalf.

.....
E C Walsh
Director

Date: 25 February 2021

THE FINE ART SOCIETY LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 JULY 2020

The directors present their report and the financial statements for the year ended 31 July 2020.

Directors' responsibilities statement

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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 to 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.

Results and dividends

The loss for the year, after taxation, amounted to £315,178 (2019 - loss £23,800).

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

Directors

The directors who served during the year were:

A G McIntosh Patrick
A Phelps (resigned 4 March 2020)
E C Walsh
H J Watchorn (resigned 24 June 2020)
B Higgins (appointed 4 March 2020)
R Morgan-Cox (appointed 10 September 2019)

Future developments

In accordance with Section 414C (11) of the Companies Act 2006 the information relating to the future developments and financial risk management is included in the Strategic Report.

Greenhouse gas emissions, energy consumption and energy efficiency action

The Company has not disclosed information in respect of greenhouse gas emissions, energy consumption and energy efficiency action as its energy consumption in the United Kingdom for the year is 40,000kWh or lower.

THE FINE ART SOCIETY LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 JULY 2020

Matters covered in the strategic report

The company has chosen in accordance with Section 414C (11) of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 to set out within the company's Strategic Report the Company's Strategic Report Information Required by Schedule 7 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulation 2008. This includes information that would have been included in the business review and details of the principal risks and uncertainties.

The directors are aware of the matters set out in section 172(1)(a) to (f) (duty to promote the success of the company) when performing their duties and do so appropriately.

Disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Under section 487(2) of the Companies Act 2006, Menzies LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf.

.....
E C Walsh

Director

Date: 25 February 2021

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE FINE ART SOCIETY LIMITED

Opinion

We have audited the financial statements of The Fine Art Society Limited (the 'Company') for the year ended 31 July 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 July 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.2 in the financial statements, which indicates that the Company may require further funding within the next financial year as a result of the Covid-19 pandemic. As stated in note 2.2, these events or conditions, along with the other matters as set forth in note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditors' 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.

We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE FINE ART SOCIETY LIMITED (CONTINUED)

Opinion 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 the 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 the 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, 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement on page 3, 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.

Auditors' 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 Auditors' 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: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE FINE ART SOCIETY
LIMITED (CONTINUED)

Use of our report

This report is made solely to the Company's members 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 Auditors' 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 for our audit work, for this report, or for the opinions we have formed.

James Hadfield FCA (Senior Statutory Auditor)

for and on behalf of

Menzies LLP

Chartered Accountants

Statutory Auditor

3000a Parkway

Whiteley

Hampshire

PO15 7FX

25 February 2021

THE FINE ART SOCIETY LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 JULY 2020

	Note	2020 £	2019 £
Turnover	4	119,292	1,961,173
Cost of sales		(48,112)	(1,562,565)
Gross profit		71,180	398,608
Administrative expenses		(363,348)	(387,492)
Other operating income	5	3,000	-
Operating (loss)/profit		(289,168)	11,116
Interest payable and expenses	9	(12,010)	(19,916)
Loss before tax		(301,178)	(8,800)
Tax on loss	10	(14,000)	(15,000)
Loss for the financial year		(315,178)	(23,800)
Other comprehensive income for the year			
Actuarial loss on defined benefit pension scheme		(195,000)	(392,000)
Other comprehensive income for the year		(195,000)	(392,000)
Total comprehensive income for the year		(510,178)	(415,800)

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

REGISTERED NUMBER:00010262

STATEMENT OF FINANCIAL POSITION AS AT 31 JULY 2020

	Note	2020 £	2019 £
Fixed assets			
Tangible assets	11	1,963	483
Investments	12	719,040	719,040
		<u>721,003</u>	<u>719,523</u>
Current assets			
Stocks	13	172,548	248,558
Debtors: amounts falling due within one year	14	188,766	156,608
Cash at bank and in hand		240,900	671,846
		<u>602,214</u>	<u>1,077,012</u>
Creditors: amounts falling due within one year	15	(332,538)	(464,678)
		<u>269,676</u>	<u>612,334</u>
Net current assets			
		<u>990,679</u>	<u>1,331,857</u>
Total assets less current liabilities			
		<u>(787,030)</u>	<u>(618,030)</u>
Net assets		<u>203,649</u>	<u>713,827</u>
Capital and reserves			
Called up share capital	17	1,612,340	1,612,340
Share premium account	18	2,381,356	2,381,356
Profit and loss account	18	(3,790,047)	(3,279,869)
		<u>203,649</u>	<u>713,827</u>

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

.....
E C Walsh
Director

Date: 25 February 2021

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2020

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 August 2019	1,612,340	2,381,356	(3,279,869)	713,827
Comprehensive income for the year				
Loss for the year	-	-	(315,178)	(315,178)
Actuarial loss on defined benefit pension scheme	-	-	(195,000)	(195,000)
Other comprehensive income for the year	-	-	(195,000)	(195,000)
Total comprehensive income for the year	-	-	(510,178)	(510,178)
Total transactions with owners	-	-	-	-
At 31 July 2020	1,612,340	2,381,356	(3,790,047)	203,649

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 JULY 2019

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 August 2018	1,612,340	2,381,356	(2,864,069)	1,129,627
Comprehensive income for the year				
Loss for the year	-	-	(23,800)	(23,800)
Actuarial loss on defined benefit pension scheme	-	-	(392,000)	(392,000)
Other comprehensive income for the year	-	-	(392,000)	(392,000)
Total comprehensive income for the year	-	-	(415,800)	(415,800)
Total transactions with owners	-	-	-	-
At 31 July 2019	1,612,340	2,381,356	(3,279,869)	713,827

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 JULY 2020

	2020 £	2019 £
Cash flows from operating activities		
Loss for the financial year	(315,178)	(23,800)
Adjustments for:		
Depreciation of tangible assets	483	482
Interest paid	12,010	19,916
Taxation charge	14,000	15,000
Decrease in stocks	76,010	1,303,224
(Increase) in debtors	(46,158)	(39,398)
(Decrease) in creditors	(31,251)	(257,854)
(Decrease)/increase in amounts owed to groups	(100,889)	21,527
(Decrease)/increase in net pension assets/liabs	(26,000)	13,500
Net cash generated from operating activities	(416,973)	1,052,597
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,963)	-
Net cash from investing activities	(1,963)	-
Cash flows from financing activities		
Interest paid	(12,010)	(19,916)
Net cash used in financing activities	(12,010)	(19,916)
Net (decrease)/increase in cash and cash equivalents	(430,946)	1,032,681
Cash and cash equivalents at beginning of year	671,846	(360,835)
Cash and cash equivalents at the end of year	240,900	671,846
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	240,900	671,846
	240,900	671,846

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

ANALYSIS OF NET DEBT FOR THE YEAR ENDED 31 JULY 2020

	At 1 August 2019 £	Cash flows £	At 31 July 202
Cash at bank and in hand	671,846	(430,946)	240,900
Debt due within 1 year	-	-	-
	<u>671,846</u>	<u>(430,946)</u>	<u>240,900</u>

The notes on pages 14 to 29 form part of these financial statements.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

1. General information

The Fine Art Society Plc was re-registered as a private limited company by shares on 31st January 2020 under the name of The Fine Art Society Limited and incorporated in England and Wales. The address of the registered office is disclosed on the company information page. The registered address is also the principal place of business.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied:

2.2 Going concern

Management are aware of the risks arising from the Covid-19 crisis and are evaluating potential effects on the budgets and financial status of the company on a regular basis. The new gallery has been opened, however management cannot precisely predict the overall adverse effect of the lockdowns on trade.

Trading conditions are a challenge and even though we expect improvements, it's expected that additional funding may be needed to ensure adequate cashflow. This represents a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

In order to mitigate this uncertainty, over the next twelve months, the Company intends to explore the raising of additional equity funding and early discussions appear positive. We are also utilising government support schemes where available and continue to review all overheads.

As a result management believes that the Company will continue to operate as normal and, accordingly, they consider that the going concern basis of preparation continues to be appropriate.

2.3 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

2. Accounting policies (continued)

2.4 Finance costs

Finance costs are charged to profit or loss over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.5 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in profit or loss when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit pension plan

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Statement of Financial Position in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of plan assets at the reporting date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- a) the increase in net pension benefit liability arising from employee service during the period; and
- b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a 'finance expense'.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

2. Accounting policies (continued)

2.6 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	-	20%
Motor vehicles	-	20%
Office equipment	-	33.3%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

2. Accounting policies (continued)

2.8 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Investments in unlisted Company shares, whose market value can be reliably determined, are remeasured to market value at each balance sheet date. Gains and losses on remeasurement are recognised in the Statement of Comprehensive Income for the period. Where market value cannot be reliably determined, such investments are stated at historic cost less impairment.

Investments in listed company shares are remeasured to market value at each Statement of Financial Position date. Gains and losses on remeasurement are recognised in profit or loss for the period.

2.9 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.10 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to profit or loss in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

2.11 Financial instruments

The Company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in ordinary shares.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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 where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

The following judgements have had the most significant effect on amounts recognised in the financial statements.

The company has an obligation to pay pension benefits to certain past employees. The cost of these benefits and the present value of the obligation depends on a number of factors including life expectancy, inflation increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation on the balance sheet. The assumptions reflect historical experience and current trends.

The company continually reviews the expected selling price of stock held to ensure that it is at the lower of cost and net realisable value. A provision is made where the estimated selling price is less than cost.

4. Turnover

An analysis of turnover by class of business is as follows:

	2020 £	2019 £
Sale of goods and services	119,292	1,856,802
Commission received	-	65,582
Rent received	-	38,789
	<u>119,292</u>	<u>1,961,173</u>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	119,292	1,834,523
Rest of the world	-	126,650
	<u>119,292</u>	<u>1,961,173</u>

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

5. Other operating income

	2020 £	2019 £
Profit on disposal of tangible assets	3,000	-
	<u>3,000</u>	<u>-</u>

6. Auditors' remuneration

	2020 £	2019 £
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	<u>8,750</u>	<u>8,900</u>

7. Employees

Staff costs, including directors' remuneration, were as follows:

	2020 £	2019 £
Wages and salaries	98,011	32,200
Cost of defined contribution scheme	274	-
	<u>98,285</u>	<u>32,200</u>

The average monthly number of employees, including the directors, during the year was as follows:

	2020 No.	2019 No.
Employees (Incl. directors)	<u>2</u>	<u>1</u>

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

8. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	72,518	32,200
Company contributions to defined contribution pension schemes	219	-
	<u>72,737</u>	<u>32,200</u>

9. Interest payable and similar expenses

	2020 £	2019 £
Bank interest payable	10	13,916
Other interest payable	12,000	6,000
	<u>12,010</u>	<u>19,916</u>

10. Taxation

	2020 £	2019 £
	<u>-</u>	<u>-</u>
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	14,000	15,000
	<u>14,000</u>	<u>15,000</u>
Total deferred tax	<u>14,000</u>	<u>15,000</u>
	<u>14,000</u>	<u>15,000</u>
Taxation on profit on ordinary activities	<u>14,000</u>	<u>15,000</u>

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

10. Taxation (continued)

Factors affecting tax charge for the year

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

	2020 £	2019 £
Loss on ordinary activities before tax	<u>(301,178)</u>	<u>(8,800)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	(57,224)	(1,672)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	92	3,760
Capital allowances for year in excess of depreciation	(689)	(671)
Increase or decrease in pension fund prepayment leading to an increase (decrease) in tax	-	(14,820)
Unrelieved tax losses carried forward	57,821	13,403
Other differences leading to an increase (decrease) in the tax charge	14,000	15,000
Total tax charge for the year	<u><u>14,000</u></u>	<u><u>15,000</u></u>

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

11. Tangible fixed assets

	Long-term leasehold property	Motor vehicles	Office equipment	Total
	£	£	£	£
Cost or valuation				
At 1 August 2019	-	19,400	33,443	52,843
Additions	1,574	-	389	1,963
Disposals	-	(19,400)	-	(19,400)
At 31 July 2020	1,574	-	33,832	35,406
Depreciation				
At 1 August 2019	-	19,400	32,960	52,360
Charge for the year on owned assets	-	-	483	483
Disposals	-	(19,400)	-	(19,400)
At 31 July 2020	-	-	33,443	33,443
Net book value				
At 31 July 2020	1,574	-	389	1,963
At 31 July 2019	-	-	483	483

12. Fixed asset investments

	Investments in subsidiary companies £
Cost or valuation	
At 1 August 2019	719,040
At 31 July 2020	719,040

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

Subsidiary undertaking

The following was a subsidiary undertaking of the Company:

Name	Registered office	Class of shares	Holding
FAS Edinburgh Limited	Registered office: 6 Dundas Street, Edinburgh EH3 6HZ	Ordinary	100 %

The aggregate of the share capital and reserves as at 31 July 2020 and the profit or loss for the year ended on that date for the subsidiary undertaking were as follows:

Name	Aggregate of share capital and reserves	Profit/(Loss)
FAS Edinburgh Limited	2,110,577	(42,813)

13. Stocks

	2020 £	2019 £
Finished goods and goods for resale	172,548	248,558
	<u>172,548</u>	<u>248,558</u>

14. Debtors

	2020 £	2019 £
Trade debtors	980	952
Other debtors	38,084	12,083
Prepayments and accrued income	702	26,573
Deferred taxation	149,000	117,000
	<u>188,766</u>	<u>156,608</u>

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

15. Creditors: Amounts falling due within one year

	2020 £	2019 £
Trade creditors	19,434	48,890
Amounts owed to group undertakings	168,586	269,475
Other taxation and social security	-	759
Other creditors	108,806	108,881
Accruals and deferred income	35,712	36,673
	<u>332,538</u>	<u>464,678</u>

16. Deferred taxation

	2020 £	2019 £
At beginning of year	117,000	40,000
Charged to profit or loss	(14,000)	(15,000)
Charged to other comprehensive income	46,000	92,000
At end of year	<u>149,000</u>	<u>117,000</u>

The deferred tax asset is made up as follows:

	2020 £	2019 £
Pension adjustment	149,000	117,000
	<u>149,000</u>	<u>117,000</u>

17. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
1,612,340 (2019 - 1,612,340) Ordinary shares of £1.00 each	<u>1,612,340</u>	<u>1,612,340</u>

The ordinary shares have full voting, dividend and capital distribution rights (including on a winding up); and have no rights of redemption.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

18. Reserves

Share premium account

This reserve records the excess amount received over and above the face value of shares.

Profit and loss account

This reserve records the retained earnings and accumulated losses.

19. Contingent liabilities

A picture held on behalf of a client was destroyed in a fire at the company's warehouse in July 2016. The client has subsequently made a claim against the company for an amount which the directors consider to be in excess of the sale value of the picture. The directors are defending this action and the financial impact of this claim cannot currently be quantified.

The company's insurers have made a payment to the company for the amount for which the picture was insured and the company continues to hold a sum in a separate bank account, awaiting settlement of the client's action.

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

20. Pension commitments

The company operates a defined contributions pension scheme. Defined contribution pension plans are operated for all qualifying employees. The assets of the scheme are held separately from those of the company in an

independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £274 (2019 - £Nil).

The company has a defined benefit pension scheme, which is closed to new members, with assets held in a separately administered fund. The scheme provides retirement benefits based on members' final salaries. The scheme is administered by an independent insurance company which monitors the scheme and advises the trustees as to the sufficiency of funding to meet current and future obligations. The company has agreed to a funding plan with the insurance company, whereby contributions are made into the scheme to reduce the funding deficit where necessary.

Reconciliation of present value of plan liabilities:

	2020 £	2019 £
At the beginning of the year	3,788,030	3,391,000
Interest cost	77,000	95,000
Actuarial gains/losses	147,000	545,000
Benefits paid	(248,000)	(242,970)
At the end of the year	3,764,030	3,788,030

Reconciliation of present value of plan assets:

	2020 £	2019 £
At the beginning of the year	3,170,000	3,178,000
Interest income	65,000	89,000
Actuarial gains/losses	(94,000)	61,000
Contributions	84,000	84,000
Benefits paid	(248,000)	(242,000)
At the end of the year	2,977,000	3,170,000

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

20. Pension commitments (continued)

Composition of plan assets:

	2020 £	2019 £
Equity instruments	833,560	1,014,400
Debt instruments	1,518,270	1,426,500
Property	238,160	285,300
Cash	387,010	443,800
Total plan assets	2,977,000	3,170,000

	2020 £	2019 £
Fair value of plan assets	2,977,000	3,170,000
Present value of plan liabilities	(3,764,030)	(3,788,030)
Net pension scheme liability	(787,030)	(618,030)

The amounts recognised in profit or loss are as follows:

	2020 £	2019 £
Net interest on defined benefit liability	12,000	6,000
Total	12,000	6,000
Actual return on scheme assets	(106,000)	55,000
Calculated interest element	12,000	6,000
Actuarial changes related to obligations	(147,000)	(545,000)
Deferred tax arising on the actuarial valuation	46,000	92,000
	(195,000)	(392,000)

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

20. Pension commitments (continued)

Reconciliation of fair value of plan liabilities were as follows:

	2020 £	2019 £
Opening defined benefit obligation	(618,000)	(213,000)
Interest cost	(12,000)	(6,000)
Company contributions	84,000	84,000
Actuarial gains and (losses)	(241,000)	(483,000)
Closing defined benefit obligation	(787,000)	(618,000)

The cumulative amount of actuarial gains and losses recognised in the Statement of Comprehensive Income was -£29,000 (2019 - £150,000).

The Company expects to contribute £84,000 to its Defined Benefit Pension Scheme in 2021.

Principal actuarial assumptions at the Statement of Financial Position date (expressed as weighted averages):

	2020	2019
	%	%
Discount rate	1.8	2.1
Retail price inflation	3.1	3.3
Consumer price inflation	2.2	2.4
Increase in deferment	2.2	2.4
Increase in payments	3.0	3.0
Mortality rates (years)		
- for a male aged 65 now	22.7	22.7
- at 65 for a male aged 45 now	24.1	24.0
- for a female aged 65 now	25.1	25.0
- at 65 for a female member aged 45 now	26.5	26.4

THE FINE ART SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2020

21. Commitments under operating leases

At 31 July 2020 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2020 £	2019 £
Not later than 1 year	47,250	-
Later than 1 year and not later than 5 years	120,750	-
	<u>168,000</u>	<u>-</u>

22. Related party transactions

In the year ended 31 July 2020 the aggregate of purchases from the company by directors amounted to £Nil (2019: £1,534) and the aggregate of items sold by them to the company amounted to £Nil (2019: £Nil). All transactions were on an arms length basis as clients or suppliers to the gallery.

There were no amounts owed to or by directors at 31 July 2020 (nor were there at 31 July 2019).

Remuneration of key management personnel is set out in note 8. There are no key management personnel apart from the directors.

The company has taken advantage of the exemption available in FRS 102 "Related Party Disclosures" not to disclose transactions with wholly owned group companies.

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