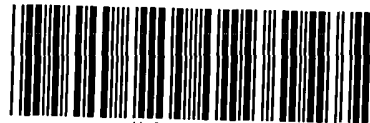


HODDER & STOUGHTON LIMITED

Report and Financial Statements

Year ended 31st December 2016

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HODDER & STOUGHTON LIMITED

REPORT AND FINANCIAL STATEMENTS 2016

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REPORT AND FINANCIAL STATEMENTS 2016

COMPANY INFORMATION

DIRECTORS

T M Hely Hutchinson (Chairman)
P de Cacqueray
J Hodder-Williams
H Murray-Hill
E Tribe

SECRETARY

P de Cacqueray

REGISTERED OFFICE

Carmelite House
50 Victoria Embankment
London
EC4Y 0DZ

COMPANY NUMBER

00651692 (England and Wales)

AUDITOR

Mazars LLP
Chartered Accountants & Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD

STRATEGIC REPORT

The Directors present their strategic report for Hodder & Stoughton Limited for the year ended 31st December 2016.

Review and Analysis of the Business During the Current Year

The Company continued to trade as a book publisher throughout the year.

Key performance indicators

Management use a range of performance measures to monitor and manage the business. The performance measures are set out below:

Revenue, gross profit margin, distribution and administrative expenses as a percentage of revenue, profit before tax, profit after tax, and cash.

Development and financial performance during the year

As reported in the Company's statement of comprehensive income, revenue has increased by 13% from £114,108,227 to £128,408,445 in the current year. This increase is mainly due to an increase in physical sales for the year.

Gross profit margin has increased from 50% in 2015 to 54% in 2016. This increase relates to an improvement in unit costs over 2015.

Distribution costs as a percentage of revenue have increased slightly from 6% in 2015 to 7% in 2016 with a larger number of smaller volume deliveries.

Administrative expenses as a percentage of revenue have increased from 38% in 2015 to 50% in 2016. This is mainly due to the impairment of the investment in Quercus Publishing Limited.

There was a profit before taxation of £14,199,764 for the year ended 31st December 2016 compared with a profit before taxation of £6,219,394 for the year ended 31st December 2015. This is partly due to the increase in revenue in 2016 and due to the dividend received in the year.

Profit after tax has increased from £4,706,512 in 2015 to £12,287,299 in 2016.

Financial position at the reporting date

The statement of financial position shows that the Company's net assets at the year end have increased from £6,123,847 to £13,411,829. This is as a result of the Company's profit after tax combined with dividends received exceeding dividends paid to shareholders for the year. The Company's cash in hand and intercompany balances increased by £6,007,837 in the year mainly as a result of paying dividends in the year and due to timings in cash flows relating to working capital held in stock, debtors and creditors.

Principal Risks and Uncertainties Facing the Business

Hodder & Stoughton Limited is part of the Hachette UK (Holdings) Group.

Treasury Operations and Financial Instruments

The Hachette UK (Holdings) Group operates a centralised treasury function which is responsible for managing the liquidity, interest, credit and foreign currency risks associated with the individual companies' activities.

Liquidity risk

The Group manages its cash and borrowing requirements centrally to maximise interest income and minimise interest expense, whilst ensuring that the Group has sufficient liquid resources to meet the operating needs of its businesses.

Interest rate risk

The Group is exposed to fair value interest rate risk on its fixed rate borrowings and cash flow interest rate risk on floating rate deposits, bank overdrafts and loans. The Group uses interest rate derivatives to manage the mix of fixed and variable rate debt so as to reduce its exposure to changes in interest rates.

Foreign currency risk

The Group's principal foreign currency exposures arise from trading operations in overseas companies. Group policy permits but does not demand that these exposures may be hedged in order to fix the cost in sterling. This hedging activity involves the use of foreign exchange forward contracts.

Credit risk

Investments of cash surpluses, borrowings and derivative instruments are made through banks and companies which must fulfil credit rating criteria approved by the Group Board.

All customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and provision is made for doubtful debts where necessary.

STRATEGIC REPORT (cont.)

High street bookshop chains

Generalist high street bookshop retail chains across the world are facing strong competition from internet retailers, and particularly in the UK, alternate retail outlets such as supermarkets. The Company is not dependent upon any one sales channel or distributor for trade sales. We also anticipate that sales lost to bookshops will be substituted by sales made through other channels, such as internet physical sales, and also growth in e-book sales.

Change in technology

Worldwide sales of personal electronic e-book readers such as Amazon's Kindle and Apple's iPad have grown rapidly. The rising number of consumers owning these devices has driven a strong surge in the demand for downloadable books. The risks include that e-book downloads could substitute printed book purchases, and that authors might be unwilling to sell both the digital and print publishing rights. In addition, there is a risk of piracy, as e-books are sold on sites without payment, or without authority. The Company seeks to mitigate these risks combining e-book rights into all our contracts. The Company also has sales relationships to sell its e-books through robust third party platforms and distributors. The Company has been an early adopter of e-book technology and has developed strategic alliances to ensure it continues to develop business in this area.

Growth of internet retailers

The increasing significance of internet retailers provides opportunities to generate additional revenues by selling a wider range of titles. Marketing must be aligned to the requirements of internet retailers, and the supplier must be able to react quickly to changes in consumer demand. The Company has sales teams who are dedicated to internet outlets. The Company also subcontracts printing of books to world class suppliers who have the capacity to accommodate "on demand" ordering whilst maintaining low costs.

Risk of litigation

The Company ensures all contractual and legal issues are considered fully and employs expert external advisers in this field to ensure that both the interests of the Company and its authors are safeguarded.

Recruitment, development, and retention of a quality team

The Company continues to maintain its positive and vibrant culture and an ethos that helps engender a quality workplace whilst nurturing an entrepreneurial spirit that will enable our staff to meet the challenges ahead. The Company's staff are an integral part of our success story.

Title acquisition

This risk encompasses the payment of advances to authors to acquire new titles that subsequently remain unearned. The risk is mitigated by strong controls when considering the acquisition of rights to new titles which include an initial book contribution evaluation process, carried out and signed off at a senior level. New titles are supported by sales and marketing resources to ensure a successful launch. There is also a system of continuous review, analysis and feedback on title performance to better inform future acquisitions.

Protection of our intellectual property

The advent of e-books increases the existing risk of revenue being undermined by the unauthorised copying and publication of the Company's books by third parties. The protection of intellectual property across all jurisdictions and across different forms of media is a high priority. The Company's management work closely with professional advisors and internet specialists to ensure all intellectual property rights are safeguarded.

Future Developments

The Company will be looking for margin improvement and increased sales revenues in 2017 to generate higher profits over the 2016 performance.

Approved by the Board of Directors and signed on behalf of the Board.



P de Cacqueray
Director

22nd May 2017

DIRECTORS' REPORT

The directors present their Report and Financial Statements for the year ended 31st December 2016.

As permitted by Paragraph 1A of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 certain matters which are required to be disclosed in the Directors' Report have been omitted as they are included in the Strategic Report on pages 2 and 3. These matters relate to the principal activity, business review, and principal risks and uncertainties.

Financial Instruments

The Group's principal financial instruments include derivative financial instruments, the purpose of which is to manage currency risks and interest rate risks arising from the Group's activities, bank overdrafts, loans and corporate bonds. The purpose of these facilities is to raise finance for the Group's operations. In addition, the Group has various other financial assets and liabilities such as trade receivables and trade payables arising directly from its operations. Derivative transactions which the Group enters into principally comprise forward exchange contracts. In accordance with the Group's treasury policy, derivative instruments are not entered into for speculative purposes.

Dividends

The Company paid a dividend in the year ended 31st December 2016 of £4,999,317 (year ended 31st December 2015: £3,500,000). The directors recommend a final dividend to be paid in 2017 of £10,000,000.

Directors

The names of the directors who have held office since 1 January 2016, are shown on page 1.

Directors' Indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for directors and officers of the Company in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liabilities relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company.

Appropriate directors' and officers' liability insurance cover is in place in respect of all of the Company's directors.

Statement as to Disclosure of Information to Auditor

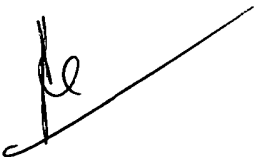
The directors who held office at the date of approval of this report confirm that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of this information.

Reappointment of Auditor

Mazars LLP will continue in office as auditor in accordance with section 487(2) of the Companies Act 2006.

Approved by the Board of directors and signed on behalf of the Board.



P de Cacqueray
Director

22nd May 2017

STATEMENT OF 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 financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. 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 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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.

INDEPENDENT AUDITOR'S REPORT

To the member of Hodder & Stoughton Limited

We have audited the financial statements of Hodder & Stoughton Limited for the year ended 31st December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report is made solely to the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 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 where 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.



Samantha Russell (Senior statutory auditor)

for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way,
London, E1W 1DD

25 May 2017

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31st December 2016

	Notes	Year ended 31st December 2016	Restated Year ended 31st December 2015
		£	£
REVENUE	3	128,408,445	114,108,227
Cost of sales		(59,007,630)	(57,321,479)
GROSS PROFIT		69,400,815	56,786,748
Distribution costs		(8,521,252)	(7,266,293)
Administrative expenses		(64,135,651)	(43,286,417)
OPERATING (LOSS) / PROFIT	6	(3,256,088)	6,234,038
Income from investments in subsidiary undertakings	5	17,544,525	-
Finance income	5	302,873	341,279
Finance costs	5	(391,546)	(355,923)
PROFIT BEFORE TAXATION		14,199,764	6,219,394
Taxation	7	(1,912,465)	(1,512,882)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,287,299	4,706,512

All results are derived from continuing operations.

The notes on pages 10 to 17 form an integral part of the financial statements.

HODDER & STOUGHTON LIMITED

STATEMENT OF FINANCIAL POSITION 31st December 2016

	Notes	As at 31st December 2016	As at 31st December 2015
		£	£
NON-CURRENT ASSETS			
Intangible assets	9	29,415,770	16,728,005
Investments in subsidiary undertakings	10	763,052	13,396,558
Deferred tax	7	3,787	3,986
		<u>30,182,609</u>	<u>30,128,549</u>
CURRENT ASSETS			
Inventories	11	12,472,457	11,759,230
Trade and other receivables	12	64,403,844	53,025,345
Cash and cash equivalents		<u>22,813</u>	<u>2,215</u>
		<u>76,899,114</u>	<u>64,786,790</u>
TOTAL ASSETS		<u>107,081,723</u>	<u>94,915,339</u>
CURRENT LIABILITIES			
Trade and other payables	13	(60,298,309)	(68,262,307)
Current tax liabilities		(3,656,983)	(2,547,599)
NON-CURRENT LIABILITIES			
Trade and other payables	13	(29,714,602)	(17,981,586)
TOTAL LIABILITIES		<u>(93,669,894)</u>	<u>(88,791,492)</u>
NET ASSETS		<u>13,411,829</u>	<u>6,123,847</u>
CAPITAL AND RESERVES			
Called up equity share capital	15	25,000	25,000
Capital contribution		1,808,299	1,808,299
Retained earnings		11,578,530	4,290,548
EQUITY SHAREHOLDER'S FUNDS		<u>13,411,829</u>	<u>6,123,847</u>

The notes on pages 10 to 17 form an integral part of the financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 22nd May 2017.

Signed on behalf of the Board of Directors.



P de Cacqueray
Director

STATEMENT OF CHANGES IN EQUITY
31st December 2016

	Share capital £	Capital contribution £	Retained earnings £	Total equity £
At 1st January 2015	25,000	1,808,299	3,084,036	4,917,335
Profit for the year	-	-	4,706,512	4,706,512
Total comprehensive income	-	-	4,706,512	4,706,512
Dividends paid	-	-	(3,500,000)	(3,500,000)
At 31st December 2015	25,000	1,808,299	4,290,548	6,123,847
Profit for the year	-	-	12,287,299	12,287,299
Total comprehensive income	-	-	12,287,299	12,287,299
Dividends paid	-	-	(4,999,317)	(4,999,317)
At 31st December 2016	25,000	1,808,299	11,578,530	13,411,829

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

1 CORPORATE INFORMATION

Hodder & Stoughton Limited is a Company incorporated in the United Kingdom. The registered address of the Company is given on page 1. The principal operations of the Company are included in the strategic report on page 2.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with the applicable provisions of the Companies Act 2006. Except for certain disclosure exemptions detailed below, the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU (EU-adopted IFRSs) have been applied to these financial statements and, where necessary, amendments have been made in order to comply with the Companies Act 2006 and The Large and Medium-sized Companies and Groups Regulations 2008/410 ('Regulations').

IFRS 1 permits the Company to take advantage of certain exemptions from applying the requirements on a fully retrospective basis as at the date of transition in certain instances. The Company has chosen to apply the following exemptions which are permitted under IFRS 1.

Disclosure exemptions applied

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101 paragraph 8:

- a) The requirement of IFRS 7 'Financial Instruments: Disclosures' relating to the disclosure of financial instruments and the nature and extent of risks arising from such instruments;
- b) The requirement of IFRS 13 'Fair Value Measurement' paragraphs 91 to 99 relating to the fair value measurement disclosures of financial assets and financial liabilities that are measured at fair value, such as the available for sale investments and derivative financial instruments;
- c) The applicable requirements of IAS 36 'Impairment of Assets' relating to the disclosures of estimates used to measure recoverable amounts;
- d) The applicable requirements of IAS 1 'Presentation of Financial Statements' relating to the disclosure of comparative information in respect of the number of shares outstanding at the beginning and end of the year (IAS 1.79(a)(iv)), the reconciliation of the carrying amount of property, plant and equipment (IAS 16.73 (e)) and the reconciliation of the carrying amount of intangible assets (IAS 18 (18)(e));
- e) The requirement of IAS 1 'Presentation of Financial Statements' paragraphs 134 to 136 relating to disclosure of capital management policies and objectives;
- f) The requirements of IAS 7 'Statement of Cash Flows' and IAS 1 'Presentation of Financial Statements' paragraph 10(d), 111 relating to the presentation of a Cash Flow Statement;
- g) The requirements of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' paragraphs 30 and 31 relating to the disclosure of standards, amendments and interpretations in issue but not yet effective; and
- h) The requirement of IAS 24 'Related Party Disclosures' paragraph 17 relating to the disclosure of key management personnel compensation and relating to the disclosure of related party transactions entered into between the Company and other wholly-owned subsidiaries of the group.

For the disclosure exemptions listed in points a) and c), the equivalent disclosures are included in the consolidated financial statements of the group, Lagadere SCA which the Company is consolidated into.

Basis of measurement

The financial statements have been prepared on the historical cost basis.

Consolidated financial statements

The Company is exempt from the requirement to prepare consolidated financial statements under Section 400 of the Companies Act 2006. Consolidated financial statements are prepared by Lagadere SCA, the ultimate parent undertaking, incorporated in France and are available from the address set out in Note 18. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they have continued to adopt the going concern basis of accounting in preparing the financial statements.

Functional and presentational currency

The Company's functional currency is GBP Sterling, as this is the currency of the primary economic environment of that which the Company operates. The financial statements are presented in GBP Sterling.

Use of estimates and judgements

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

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 and in any future periods affected.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

2 ACCOUNTING POLICIES (continued)

2.2 Foreign currency

Transactions denominated in foreign currencies are recorded at the spot exchange rates at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at each reporting date are translated into the functional currency at the spot exchange rates at that date. Foreign currency translation differences arising on translation are recognised in the income statement.

2.3 Revenue

Revenue comprises the gross value of goods supplied, exclusive of VAT, after deduction of provisions for returns. Revenue is recognised to the extent that it is probable that economic benefits will flow to the company and the revenue can be measured reliably.

2.4 Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provision for any impairment.

2.5 Financial instruments

Financial assets carried at amortised cost

Financial assets are recognised on the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus directly attributable transaction costs.

Financial assets carried at amortised cost are classified as loans and receivables and comprise trade and other receivables and cash and cash equivalents. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial.

If there is objective evidence that there is an impairment loss on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimates future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

Financial liabilities carried at amortised cost

These financial liabilities include trade and other payables and interest bearing loans and borrowings.

Financial liabilities are initially recognised at fair value adjusted for any directly attributable transaction costs.

After initial recognition, financial liabilities are measured at amortised costs using the effective interest method, with interest-related charges recognised as an expense in finance costs. Discounting is omitted where the effect of discounting is immaterial.

A financial liability is derecognised only when the contractual obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.

2.6 Goodwill

Goodwill represents the future economic benefits arising from other assets acquired that are not individually identifiable and separately recognised. Goodwill is initially measured at cost, being the excess of the consideration transferred over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less accumulated impairment losses.

2.7 Intangible assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are recognised at cost less any accumulated amortisation and any accumulated impairment losses.

The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. Amortisation begins when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for intangible assets with a finite useful life is reviewed at least each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period is changed accordingly.

Amortisation is provided at rates calculated to write down the costs of assets, less estimated residual value, over their expected useful lives.

Intellectual property purchased from other publishers for previously published titles are amortised on a straight-line basis from the month of the first company publication over the expected revenue-earning period of each licence.

NOTES TO THE FINANCIAL STATEMENTS**Year ended 31st December 2016****2 ACCOUNTING POLICIES (continued)****2.8 Income tax**

Current income tax assets and/or liabilities comprise obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid/due at the reporting date. Current tax is payable on taxable profits, which may differ from profit or loss in the financial statements. Calculation of current tax is based on the tax rates and tax laws that have been enacted or substantively enacted at the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). However, for deductible temporary differences associated with investments in subsidiaries a deferred tax asset is recognised when the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that and tax laws that have been enacted or substantively enacted by the end of the reporting period.

2.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Cost of inventories comprises all costs incurred in bringing each product to its present location and condition, as follows:

Goods for resale	- purchase cost
Work in progress and finished goods	- cost of direct materials and labour

Cost is determined on a first-in, first-out ("FIFO") basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.10 Pension costs

The Company participates in a defined benefit scheme operated by Hachette UK Limited and a number of defined contribution schemes for certain of its employees.

As the defined benefit scheme is accounted for in other group companies, the costs in respect of the defined benefit scheme are charged to the statement of comprehensive income on a contribution basis as contributions become payable.

2.11 Leased assets**Operating leases**

Where the Company is a lessee, payments on operating lease arrangements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

2.12 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

2.13 Significant management judgments in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on the recognition of assets, liabilities, income and expenses is provided below.

Impairment of goodwill and other non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and where applicable, using an interest rate to discount them. Estimation uncertainty relates to the assumptions about future operating results and the determination of a suitable discount rate.

Royalty advances

Unearned royalty advances are written down to the extent that they are not expected to be covered by estimated future earnings.

Returns

The company sells books on a sale or return basis. Other creditors includes an estimate for returns expected to be received after the year end.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

2 ACCOUNTING POLICIES (continued)

2.14 Adoption of new and revised standards

The following standards and interpretations have been adopted in the financial statements as they are mandatory for the year ended 31st December 2016:

	EU effective date Periods beginning on or after
Annual Improvements to IFRSs (2010 – 2012) Cycle: - IFRS 2 'Share – based payments', IFRS 3 'Business Combinations', - IFRS 8 'Operating Segments', IFRS 13 'Fair Value Measurement', - IAS 16 'Property Plant and Equipment', IAS 38 'Intangible Assets', - IAS 24 'Related Party Disclosures'	1st February 2015
Annual Improvements to IFRSs (2014 Cycle): - IFRS 5 'Non-current Assets Held for Resale', - IFRS 7 'Financial Instruments', - IAS 19 'Employee Benefits'	1st January 2016
Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets:	1st January 2016
Amendment to IFRS10 and IAS28 - consolidation exception	1st January 2016
Amendment to IAS1 'Presentation of financial statements'	1st January 2016
Amendment to IAS 19 'Employee Benefits'	1st February 2015

The adoption of the standards and interpretations above has not had a material impact on the Company's financial statements.

3 REVENUE

Analysis by geographical area:

	Year ended 31st December 2016 £	Restated Year ended 31st December 2015 £
Total revenue from the sale of goods - continuing operations		
United Kingdom	97,174,667	87,224,090
Australia and New Zealand	6,065,729	6,169,798
Continental Europe	5,960,961	6,341,373
North America	1,152,713	529,019
Asia	4,309,093	3,978,479
Rest of World	13,745,282	9,865,468
Total revenue from sale of goods	128,408,445	114,108,227

The Directors consider the Company to have one class of business, consumer publishing, and thus no analysis of turnover by class of business is provided.

4 INFORMATION REGARDING EMPLOYEES AND DIRECTORS

The average monthly number of persons (including Directors) employed by the Company during the year was:

	Year ended 31st December 2016 Number	Year ended 31st December 2015 Number
Consumer Publishing	239	251
Educational, Academic & Professional Publishing	150	139
	389	390
Staff costs (for the above persons)	£	£
Wages and salaries	15,573,106	15,564,995
Social security costs	2,040,407	1,723,572
Other pension costs	3,210,800	3,303,241
	20,824,313	20,591,808

The directors are also directors of either Hachette UK Limited or Hachette UK (Holdings) Limited. Their emoluments cannot be allocated between the companies and have therefore been disclosed in the financial statements of Hachette UK Limited or Hachette UK (Holdings) Limited as appropriate.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

5 FINANCE INCOME AND COSTS

	Year ended 31st December 2016 £	Year ended 31st December 2015 £
Investment income:		
Income from investments in subsidiary undertakings	<u>17,544,525</u>	<u>250,000</u>
Finance income:		
Interest receivable from group undertakings	<u>302,873</u>	<u>91,279</u>
Finance costs:		
Interest payable to group undertakings	<u>(391,546)</u>	<u>(355,923)</u>

6 OPERATING (LOSS) / PROFIT

	Year ended 31st December 2016 £	Year ended 31st December 2015 £
Operating (loss) / profit is stated after charging:		
Amortisation:		
Intellectual property	906,146	1,043,487
Rentals under operating leases:		
Other operating leases	<u>307,131</u>	<u>302,382</u>

The audit fee of £56,067 (2015: £62,372) was borne by the Company's parent, Hachette UK Limited, and has been incorporated into group recharges.

7 INCOME TAX

	Year ended 31st December 2016 £	Year ended 31st December 2015 £
Current income tax:		
Tax for the current year	1,912,664	1,274,233
Foreign tax suffered at source	<u>-</u>	<u>238,239</u>
	<u>1,912,664</u>	<u>1,512,472</u>
Deferred tax:		
Origination and reversal of temporary differences	(199)	410
Total tax expense	<u>1,912,465</u>	<u>1,512,882</u>
Reconciliation of tax charge:		
Tax on profits at UK standard rate of corporation tax - 20% (2015: 20.25%)	2,839,953	1,259,214
Expenses not deductible for taxation purposes	2,642,191	95,778
Non-taxable income	(3,569,480)	-
Unrelieved foreign tax	-	157,894
Change in the rate of UK taxation	(199)	(4)
Total tax expense	<u>1,912,465</u>	<u>1,512,882</u>
	<u>31st December 2016 £</u>	<u>31st December 2015 £</u>
The deferred tax included in the statement of financial position is as follows	<u>3,787</u>	<u>3,986</u>
Accelerated depreciation	2,274	2,274
Temporary differences	<u>1,513</u>	<u>1,712</u>
	<u>3,787</u>	<u>3,986</u>
Deferred tax asset at the start of the year	3,986	4,396
Deferred tax charge in the statement of comprehensive income for the year	(199)	(410)
Deferred tax asset at the end of the year	<u>3,787</u>	<u>3,986</u>

Deferred tax has been provided at 19% (2015: 20%) which is the rate enacted to apply from 1 April 2017.

8 DIVIDENDS

	Year ended 31st December 2016 £	Year ended 31st December 2015 £
Amounts recognised as distributions to equity holders in the year:		
Dividends paid in the year	<u>4,999,317</u>	<u>3,500,000</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

9 INTANGIBLE ASSETS

	Goodwill £	Intellectual property £	Total £
Cost :			
At 1st January 2016	3,451,798	15,406,261	18,858,059
Additions	13,593,911	-	13,593,911
Transfers	(115,526)	115,526	-
At 31st December 2016	<u>16,930,183</u>	<u>15,521,787</u>	<u>32,451,970</u>
Accumulated amortisation :			
At 1st January 2016	-	2,130,054	2,130,054
Charge for the year	-	906,146	906,146
At 31st December 2016	<u>-</u>	<u>3,036,200</u>	<u>3,036,200</u>
Net book value :			
At 31st December 2016	<u>16,930,183</u>	<u>12,485,587</u>	<u>29,415,770</u>
At 31st December 2015	<u>3,451,798</u>	<u>13,276,207</u>	<u>16,728,005</u>

The Company acquired the trade and assets of Philip Allan Publishers Limited, a fellow group company, as at 1st January 2016 giving rise to additional goodwill of £13,593,911.

10 INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£
Cost :	
At 1st January 2016 and 31st December 2016	<u>17,953,784</u>
Impairment :	
At 1st January 2016	4,557,226
Accumulated depreciation on disposals	12,633,506
At 31st December 2016	<u>17,190,732</u>
Net book value :	
At 31st December 2016	<u>763,052</u>
At 31st December 2015	<u>13,396,558</u>

	Country of incorporation and operation	Proportion of nominal value of issued shares held	Registered in	Principal activity
New English Library Limited	Great Britain	100%	England and Wales	Dormant
Edward Arnold (Publishers) Limited	Great Britain	100%	England and Wales	Dormant
Chambers Publishing Limited	Great Britain	100%	Scotland	Book publishing
Quercus Publishing Limited	Great Britain	100%	England and Wales	Dormant
Quercus Books Limited	Great Britain	100%	England and Wales	Dormant
Hodder & Stoughton Educational Limited	Great Britain	100%	England and Wales	Dormant

During the year Quercus Publishing Limited sold its investment in Quercus Editions Limited to another group company for consideration of £12,633,506. Subsequently the investment in Quercus Publishing Limited has been fully impaired due to the company becoming dormant.

11 INVENTORIES

	31st December 2016 £	31st December 2015 £
Work in progress	2,419,949	2,082,017
Finished goods and goods for sale	<u>10,052,508</u>	<u>9,677,213</u>
	<u>12,472,457</u>	<u>11,759,230</u>

There is no material difference between the carrying value of inventories and replacement costs.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

12 TRADE AND OTHER RECEIVABLES

	31st December 2016 £	31st December 2015 £
Trade debtors	35,808,881	28,690,450
Amounts owed by group undertakings	9,829,371	2,875,315
Other debtors	15,216,357	18,605,902
Prepayments and accrued income	3,549,235	2,853,678
	<u>64,403,844</u>	<u>53,025,345</u>

Other debtors include royalty advances paid to authors.

13 TRADE AND OTHER PAYABLES

	31st December 2016 £	31st December 2015 £
CURRENT TRADE AND OTHER PAYABLES:		
Bank loans and overdrafts	-	-
Trade creditors	7,084,232	6,286,926
Other taxation and social security	628,865	-
Other creditors	12,431,168	11,448,354
Accruals and deferred income	9,636,168	9,392,065
Amounts owed to group undertakings	30,517,876	41,134,962
	<u>60,298,309</u>	<u>68,262,307</u>
NON-CURRENT TRADE AND OTHER PAYABLES:		
Amounts owed to group undertakings	29,714,602	17,981,586

Intercompany loans are repayable on demand but, in practice, these non-current balances will tend to remain in place over a longer period than one year.

Interest is chargeable on the loan at LIBOR plus 0.2 percentage points.

14 RETIREMENT BENEFIT OBLIGATIONS

Pension Obligations

The Company participates in a defined benefit pension scheme for the Hachette UK Limited Group and a number of defined contribution schemes for certain of its employees and, for others, makes contributions to their personal pension schemes.

a) Net defined benefit asset

The Company participates in the Hodder Headline Staff Retirement Benefits Plan providing benefits based on final pensionable earnings for UK employees who are members. The assets and liabilities of the Scheme are recognised in fellow subsidiary companies, Hachette UK Limited and Bookpoint Limited. The risks, actuarial assumptions and reconciliations for the plan assets and obligations are disclosed in the financial statements of these companies. During the year, the Company has contributed £1,968,862 (31st December 2015: £1,968,862) to the scheme.

b) Other schemes

The pension contributions payable by the Company in respect of defined contribution schemes and personal pension schemes amounted to £1,240,723 (year ended 31st December 2015: £1,334,379).

15 CALLED UP SHARE CAPITAL

	31st December 2016 and 31st December 2015
	Number £
Allotted, called up and fully paid	
£1 ordinary shares	<u>25,000 25,000</u>

16 FINANCIAL COMMITMENTS

At 31st December 2016, the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases (all non property related):

	31st December 2016 £	31st December 2015 £
Leases which expire:		
Within one year	235,853	220,537
Within two to five years	309,174	368,407
	<u>545,026</u>	<u>588,944</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st December 2016

17 RELATED PARTIES

The Company has taken advantage of the exemption offered by FRS 101 from the requirements of paragraph 17 of IAS 24 'Related Party Disclosures' not to disclose key management personnel compensation and from the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group.

18 ULTIMATE AND IMMEDIATE PARENT COMPANIES

The Company's immediate parent company is Hachette UK Limited, a company registered in England and Wales.

The ultimate parent company is Lagardere SCA, a company incorporated in France. This is also both the largest and smallest group which includes the company and for which consolidated accounts are prepared. Copies of the group accounts of Lagardere SCA are available from 4 Rue de Presbourg, 75116, Paris 16, France.

19 RESTATEMENT OF COMPARABLE INFORMATION

The directors have reviewed the approach of including the author share of sub-rights income as a deduction to revenue and decided that the amounts would be better classified as a cost of sales. Accordingly, there has been a reclassification of the prior year figures, increasing revenue and increasing cost of sales by £3,093,819 to reflect this.