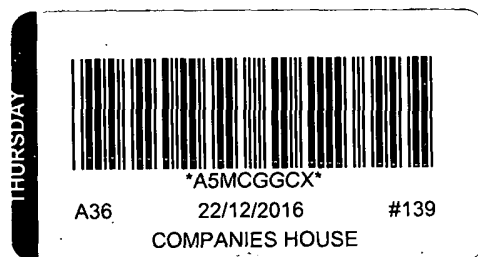


Cengage Learning (EMEA) Limited

Annual report

for the year ended 31 March 2016

Registered number: 00903535



Annual report for the year ended 31 March 2016

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Strategic report

The directors present their strategic report on the company for the year ended 31 March 2016.

Review of the business

The principal activity of the company continued to be the provision of high quality content, innovative print and digital teaching and learning solutions, software and associated educational services, archives and databases in the Europe, Middle East and Africa regions through the adaptation of Cengage Learning (US) products and the publication of content and other learning related products developed with non US authors.

Results and performance

The results for the financial period and financial position are set out on pages 8 and 9 and show total comprehensive income of £3,820,000 (2015 - £4,181,000). The shareholders' funds total £29,867,000 (2015 - £26,025,000).

The year ended 31 March 2016 was a successful one for Cengage Learning (EMEA) Limited ("the company"). Turnover grew 1.7% compared to the prior year. Cost increases have resulted in a small reduction in profits, however, profitability continues at acceptable levels.

The company closely controls overheads and continues to monitor its sales, operational and administration groups to ensure that the most efficient operational structure is maintained, and that new investments are strategically targeted.

Business environment

In the majority of our markets, conditions remained a challenge. University enrolments in core Western Europe markets remain flat and public spend on education and libraries is subject to budgetary pressures. Economic & political difficulties in countries where Cengage maintains material revenue bases continue to provide a challenge to winning new business.

Key performance indicators (KPIs)

The directors use a range of basic key performance indicators to measure the performance of the business. The main KPI's are set out below.

		Year ended 31 March 2016 (12 months)	Year ended 31 March 2015 (12 months)	Period ended 31 March 2014 (9 months)
Turnover	£'000	49,048	48,221	34,075
Gross margin	%	41.9	45.0	55.8
Earnings before interest, tax, depreciation and amortization	£'000	7,803	8,453	9,732
Digital sales % of total sales	%	40.4	30.2	29.1

Digital sales include the sale of E Books, provision of content online and other methods of delivering content other than by traditional printed means. Management are satisfied with progress made on this KPI.

Principal risks and uncertainties

Socio Political risk

The company sells into a broad range of countries and has exposure to significant socio-political issues. To the extent government funding is reduced or becomes inaccessible due to debt or civil unrest, the company's efforts to drive sales will be unfavourably impacted.

Market development risk

A further risk is the acceleration of market demand from print to digital. The company is investing considerable time and resource into creating digital products that will appeal to students, librarians and faculty. This remains an area in transition, for the company and the industry, with new competitors and new expectations.

Strategic report (continued)

Principal risks and uncertainties (continued)

Minimum price risk

Continuing high prices for US-sourced titles due to the International Price Floor are likely to impact turnover unfavourably. To the extent that the company's direct competitors are not subject to such minimum pricing, there is a risk that market share may be lost. The company mitigates this risk by driving the transition from print to digital, negotiating specific Price Floor exemptions and investing in indigenous publishing.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in interest rates, liquidity risk, credit risk and foreign exchange risk. Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The department has its own policy, or refers to Cengage group policies, that set out specific guidelines to manage financial risks.

Interest rate risk

The company pays interest on intercompany borrowings at a rate of interest determined by the group. No financial instruments were used by the company during the year, to manage interest rate costs, and therefore no hedge accounting has been applied.

Liquidity risk

The company maintains a mixture of long-term and short-term finance from a fellow group company that is designed to ensure the company has sufficient available funds for operations and planned expansions.

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before trading takes place and the amount of exposure to any individual counterparty is monitored and reassessed regularly by the company's management.

Foreign exchange risk

The company is exposed to movements in foreign exchange rates as a result of transactions with a number of foreign suppliers and customers. In particular, the company's operations generate turnover primarily in GBP or the applicable local currency of the customer, but inventory is purchased primarily in United States Dollars. If the company does not effectively hedge such foreign currency exposure, the results of the company will be adversely affected by an increase in the value of the United States dollar, or favourably affected by a decrease in the value of the United States dollar.

The company has a policy in place as regards the use of foreign exchange contracts to manage exposure to market risks arising from changes in foreign currency exchange rates, under which exposures are never hedged if they are less than £5 million per annum in aggregate for each foreign currency.

Future developments

The company will continue to invest in its indigenous publishing programme, particularly in digital media and adaptations. It will look to improve profit margins through vendor negotiations, consolidation of systems and processes and the cessation of unprofitable lines of business. There is an ongoing and increasing focus on the ELT (English Language Teaching) and Gale (Library Reference) business units, with an investment in customer-facing staff and market-appropriate content.

On behalf of the board



D L Rae

Director

20 December 2016

Directors' report

The directors present their report and audited financial statements of the company for the year ended 31 March 2016.

Future developments

Likely future developments in the business of the company are discussed in the strategic report.

Dividends

The directors do not recommend the payment of a final dividend (2015 - £nil).

Directors

The directors of the company who held office since 1 April 2015 and up to the date of signing the financial statements are named below:

C M Bonney II
H A Broich
D L Rae

Financial risk management

The company's approach to financial risk management is discussed in the Strategic report.

Overseas branches

The company operates overseas branches in Abu Dhabi and Dubai.

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 prepared 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 (FRS 102).

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, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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.

Directors' report (continued)

Disclosure of information to auditors

Each of the directors, at the date of signing this report, confirms the following:

- (i) as far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (ii) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board



D L Rae

Director

20 December 2016

Registered Office:

Cheriton House, North Way, Andover, Hampshire, SP10 5BE

Independent auditors' report to the members of Cengage Learning (EMEA) Limited

Report on the financial statements

Our opinion

In our opinion, Cengage Learning (EMEA) Limited's financial statements (the "financial statements"):

give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

the Balance sheet as at 31 March 2016;

the Statement of comprehensive income for the year then ended;

the Statement of changes in equity for the year then ended; and

the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, 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.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

we have not received all the information and explanations we require for our audit; or

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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Cengage Learning (EMEA) Limited

Independent auditors' report to the members of Cengage Learning (EMEA) Limited (continued)

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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;

- the reasonableness of significant accounting estimates made by the directors; and

- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Kevin Godfrey (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
20 December 2016

Financial statements for the year ended 31 March 2016

Statement of comprehensive income

	Note	2016 £'000	2015 £'000
Turnover	5	49,048	48,221
Cost of sales		(28,488)	(26,504)
Gross profit		<u>20,560</u>	<u>21,717</u>
Distribution costs		(915)	(853)
Administrative expenses		(15,025)	(15,376)
Operating profit	6	<u>4,620</u>	<u>5,488</u>
Other interest receivable and similar income	9	130	79
Interest payable and similar charges	9	(20)	(18)
Profit on ordinary activities before taxation		<u>4,730</u>	<u>5,549</u>
Tax on profit on ordinary activities	10	(910)	(1,368)
Profit and total comprehensive income for the year		<u>3,820</u>	<u>4,181</u>

All of the above activities relate to continuing operations.

The notes on pages 11 to 26 are an integral part of these financial statements.

Balance sheet

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	11	8,607	7,806
Tangible assets	12	1,617	1,911
		10,224	9,717
Current assets			
Inventories	13	4,110	3,957
Debtors – amounts falling due within one year	14	34,122	27,768
Debtors – amounts falling due after more than one year	15	509	678
Cash at bank and in hand		2,130	3,501
		40,871	35,904
Creditors – amounts falling due within one year	16	(20,543)	(17,059)
Net current assets		20,328	18,845
Total assets less current liabilities		30,552	28,562
Creditors – amounts falling due after more than one year	17	(460)	(2,330)
Provisions for liabilities	18	(225)	(207)
Net assets		29,867	26,025
Capital and reserves			
Called up share capital	21	-	-
Share premium account		7,728	7,728
Capital contribution reserve		7,852	7,830
Retained earnings		14,287	10,467
Total shareholders' funds		29,867	26,025

The notes on pages 11 to 26 are an integral part of these financial statements.

The financial statements on pages 8 to 26 were approved by the board of directors on 20 December 2016 and were signed on its behalf by:



D L Rae
Director

Statement of changes in equity

	Note	Called-up share capital £'000	Share premium account £'000	Capital contribution reserve £'000	Retained Earnings £'000	Total shareholders' funds £'000
Balance as at 1 April 2014	25	-	7,728	7,808	6,286	21,822
Total comprehensive income for the year		-	-	-	4,181	4,181
Credit relating to equity settled share based payments	8	-	-	22	-	22
Total transactions with owners recognised, recognised directly in equity		-	-	22	-	22
Balance at 31 March 2015	25	-	7,728	7,830	10,467	26,025
Balance at 1 April 2015		-	7,728	7,830	10,467	26,025
Total comprehensive income for the year		-	-	-	3,820	3,820
Credit relating to equity settled share based payments	8	-	-	22	-	22
Total transactions with owners recognised, recognised directly in equity		-	-	22	-	22
Balance at 31 March 2016		-	7,728	7,852	14,287	29,867

The notes on pages 11 to 26 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Cengage Learning (EMEA) Limited ("the company") provides high quality content, innovative print and digital teaching and learning solutions, software and associated educational services in the Europe, Middle East and Africa regions through the adaptation of Cengage Learning (US) products and the publication of content and other learning related products developed with non US authors.

The company is a private company limited by shares, incorporated and domiciled in England. The address of its registered office is Cheriton House, North Way, Andover, Hampshire.

2. Statement of compliance

The individual financial statements of Cengage Learning (EMEA) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 26.

Basis of preparation

The financial statements are prepared on the going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Going concern

The company meets its day-to-day working capital requirements through its group financing facilities. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Exemptions for qualifying entities under FRS102

The company has taken advantage of the exemption, under FRS 102 paragraph 1.12(b), from preparing a statement of cash flows, under FRS 102 paragraph 1.12(c), from certain financial instrument disclosures, under FRS 102 paragraph 1.12(d) from certain disclosure requirements in respect of share based payments and under FRS 102 paragraph 1.12(e) from disclosure of key management personnel compensation on the basis that its ultimate parent company, Cengage Learning Holdings II Inc, includes equivalent disclosures in its own consolidated financial statements.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the company and value added taxes.

The company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to the each of company's sales channels have been met, as described below.

Sale of goods

Revenue is recognised either on despatch of goods in the case of one-off product sales such as books, or proportionately over the subscription period for products sold through a subscription. The subscription revenue for certain print publications is recognised on an issue-by-issue basis, where each issue is of equal and determinable value.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

Exceptional items

The company classifies charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

i. Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii. 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 when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

iii. Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

iv. Share based payments

The company participates in a share-based payment arrangement established by a group company and the company takes advantage of the alternative treatment allowed under Section 26 of FRS 102. The company recognises the share-based payment expense based on an allocation of its share of the group's total expense, calculated in proportion to the number of participating employees. The corresponding credit is recognised in retained earnings as a component of equity.

Foreign currency translation

The company's functional and preparation currency is the pound sterling.

Trading activities denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at year end rates of exchange. Currency gains or losses arising from translation are included in the profit and loss account.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i. Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii. Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Intangible assets

Intangible fixed assets are stated at cost less accumulated amortisation as detailed below. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Capitalised plate costs are amortised over the shorter of their useful economic life and 5 years. Amortisation is charged between 4 or 5 years, either on a straight-line basis or on a 40:20:20:20 basis for certain assets. Useful economic life is estimated based on the life of similar assets held in the past at between 4 to 5 years.

Publishing rights and customer relations are amortised over the shorter of their useful economic life and 10 years. Amortisation is charged over 10 years on a straight-line basis. Useful economic life is estimated based on the life of similar assets held in the past at 10 years.

Goodwill represents the excess of the cost of the investment in acquired businesses over values attributed to underlying net tangible assets and publishing rights. Goodwill is amortised over the shorter of its useful economic life and 10 years. Amortisation is charged over 10 years on a straight-line basis. Useful economic life is estimated based on the life of similar assets held in the past at 10 years.

The company capitalises intangible fixed asset costs incurred in acquiring and developing computer software for internal use where the software supports a significant business system and the expenditure leads to the creation of a durable asset, which is amortised over 3 years on a straight-line basis.

Software development costs include the following:

- External direct costs of materials and services consumed in developing or obtaining internal-use computer software.
- Payroll and payroll-related costs for employees who are directly associated with the computer software project.
- Upgrades and enhancements to the extent that they result in additional functionality.

Capitalised expenditures relating to computer software development projects are deemed to begin their useful economic life upon completion of the project. Useful economic life is estimated based on the life of similar assets held in the past at 3 years.

Where factors, such as changes in market price or declining sales, indicate that residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired.

Amortisation for capitalised plate is recognised in Cost of sales in the Statement of Comprehensive income. All other amortisation is recognised in Administrative expenses.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical purchase cost less accumulated depreciation and are depreciated on a straight line basis over their useful economic lives. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

i. Freehold buildings

Freehold buildings include a freehold warehouses and offices. Freehold buildings are stated at cost less accumulated depreciation and accumulated impairment losses.

ii. Equipment and motor vehicles

Equipment and motor vehicles are stated at cost less accumulated depreciation.

iii. Depreciation

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Freehold buildings	50 years
Equipment and motor vehicles	3 - 7 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

iv. Subsequent additions and major components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

v. Assets in the course of construction

Assets in the course of construction are stated at cost. These assets are not depreciated until it is available for use.

vi. Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

Leased assets

At inception the company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i. Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

The company has no lease agreements that are not considered to be operating leases.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's (or asset's cash generating unit) continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reverses, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Inventories

Inventories are stated at the lower of historical cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

Cost comprises the invoiced cost of bought in titles or the external production cost of paper, printing, binding and other direct costs. The method of determining cost is the weighted average method.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Provisions and contingencies

i. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular:

- The company recognises the anticipated cost of significant re-instatement of leasehold properties at the end of the lease term. This anticipated cost is capitalised on a present value basis and the unwinding of the discount is charged to the profit and loss account over the period of the lease. The associated asset is capitalised within tangible fixed assets, and depreciated in accordance with the accounting policy for the related asset.
- Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring; and
- Provision is not made for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Notes to the financial statements (continued)

3. Summary of significant accounting policies (continued)

ii. Contingencies

Contingent liabilities, arising as a result of past events, are not recognised when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the company's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Financial instruments

The company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price.

Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii. Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which result in fixed returns to the holder or are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as interest expense.

Notes to the financial statements (continued)

3. Accounting policies (continued)

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii. Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle to liability simultaneously.

Share capital

Ordinary shares are classified as equity.

Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. Under FRS 102 paragraph 1.12(e), it does not disclose transactions with members of the same group that are wholly owned.

4. Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical judgements in applying the entity's accounting policies

i. Share based payments

Certain company employees have been granted share options by the ultimate parent company, Cengage Learning Holdings II Inc. The company makes use of the exemption in Section 26 of FRS 102 to account for the expense based on a reasonable allocation of the parent company's total expense. The company has calculated its allocation of the parent company's total expense based on the number of participating employees in the company compared to the number of participating employees in the group.

b. Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i. Useful economic life of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property plant and equipment, and note 3 for the useful economic lives for each class of assets.

Notes to the financial statements (continued)

4 Critical accounting judgements and estimation uncertainty(continued)

ii. Useful economic life of intangible assets

The annual amortisation charge for intangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, and economic utilisation. See note 11 for the carrying amount of intangible assets and note 3 for the useful economic lives for each class of assets.

iii. Inventory provisioning

The company publishes printed learning solutions and materials is subject to changing customer demands and their budgetary constraints. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished. See note 13 for the net carrying amount of the inventory and associated provision.

iv. Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management considers factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience. See note 14 for the net carrying amount of the debtors and associated impairment provisions.

v. Sales returns provision

The company sells printed learning solutions and materials, some of which are returnable according to terms and conditions of specific contracts. As a result, it is necessary to consider the potential level of future returns and the associated provisioning required. When calculating the sales returns provision, management considers the history of prior sales and returns for a specific period, as well as applying assumptions around anticipated future returns. See note 14 for the net carrying amount of the debtors and associated provisions.

5. Turnover

The company's turnover arises principally in the United Kingdom and in one class of business.

	2016 £'000	2015 £'000
Turnover by destination		
United Kingdom	16,008	14,964
Rest of Europe	10,537	11,876
Africa, Middle East and Arab States	17,900	14,844
Rest of the World	4,603	6,537
	49,048	48,221

Notes to the financial statements (continued)

6. Operating profit

Operating profit is stated after charging / (crediting):

	Note	2016 £'000	2015 £'000
Wages and salaries		8,162	8,944
Social security costs		870	930
Other pension costs	20	323	331
Staff costs		<u>9,355</u>	<u>10,205</u>
Profit on disposal of tangible assets		5	-
Impairment of trade receivables		347	218
Impairment of intangible assets (included in cost of sales)		452	-
Inventory recognised as expense		13,756	10,853
Impairment of inventory included in cost of sales		58	211
Operating lease charges		243	184
Foreign exchange gains		(566)	(330)
Audit fees payable to the company's auditors		55	45
Non-audit fees payable to the company's auditors		39	18
		<u></u>	<u></u>

7. Employees and directors

Employees

The average monthly number of employees (including executive directors) employed by the company during the year was:

	2016 Number	2015 Number
By activity		
Sales and marketing	84	72
Administration	36	40
Editorial and production	51	39
Warehouse	17	16
	<u>188</u>	<u>167</u>

Directors

The directors' emoluments were as follows

	2016		2015	
	Total	Highest paid director	Total	Highest paid director
	£'000	£'000	£'000	£'000
Aggregate emoluments	213	213	257	120
Pension contributions (defined contribution)	29	29	19	4
	<u>242</u>	<u>242</u>	<u>276</u>	<u>124</u>

During the year, there was 1 director (2015 – 3) to whom retirement benefits were accrued under a defined contribution scheme. No directors (2015 – nil) exercised share options during the year. No directors (2015 – nil) are accruing benefits under a long-term incentive scheme.

Notes to the financial statements (continued)

8. Equity based compensation

Certain employees of the company were granted share options and restricted stock in Cengage Learning Holdings II Inc. as compensation for services rendered or to be rendered to the company ("Equity Incentive Plan"). In accordance with FRS 102, the company accounts for the expense based on a reasonable allocation of the parent company's total expense. The company has calculated its allocation of the parent company's total expense based on the number of participating employees in the company compared to the number of participating employees in the group. The related compensation expense is incurred by the company since the grantees are employees of the company. The share options are issued for no consideration and vest in 25% increments annually over four years. The restricted stock is issued for no consideration and vests in 20% increments annually over five years.

Further disclosure is not provided on the grounds of materiality.

9. Net interest income

a. Other interest receivable and similar income	Note	2016 £'000	2015 £'000
Interest receivable from fellow group undertakings		129	78
Interest receivable on bank deposits		1	1
Total interest receivable and similar income		130	79
b. Interest payable and similar charges		2016 £'000	2015 £'000
Unwinding of discount in provision	18	(18)	(18)
Other interest payable		(2)	-
Total interest payable and similar charges		(20)	(18)
c. Net interest income		2016 £'000	2015 £'000
Other interest receivable and similar income		130	79
Interest payable and similar charges		(20)	(18)
Net interest income		110	61

Notes to the financial statements (continued)**10. Tax on profit on ordinary activities****a. Tax expense included in statement of comprehensive income**

	2016 £'000	2015 £'000
Current tax:		
- UK corporation tax on profits of the year	889	1,131
- Adjustments in respect of prior years	(120)	126
Total current tax	769	1,257
Deferred tax		
- origination and reversal of timing differences	85	103
- Impact of change in tax rate	58	-
- Adjustments to previously estimated recoverable amounts	(2)	8
Total deferred tax	141	111
Tax charge on comprehensive income	910	1,368

b. Reconciliation of tax charge

Tax assessed for the year is lower (2015: higher) than the standard rate of corporation tax in the UK of 20% (2015: 21%). The differences are explained below:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	4,730	5,549
Profit multiplied by the standard rate of tax in the UK of 20% (2015 – 21%)	946	1,165
Effects of:		
Non-deductible amortisation	95	108
Other non-deductible charges	28	56
Group loss relief utilised	(95)	(95)
Adjustments in respect of prior years	(122)	134
Impact of change in tax rate	58	-
Tax charge for the year	910	1,368

c. Tax rate changes

The tax rate for the current year is lower than the prior year due to changes in the UK Corporation tax rate which decreased from 21% to 20% from 1 April 2015.

Further reductions to the UK Corporation tax rates were substantively enacted as part of the Finance No.2 Bill 2015 on 26 October 2015. These reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. The deferred tax assets and liabilities reflect these rates. The Finance Bill 2016 proposes a reduction of the main rate to 17% from 1 April 2020, replacing the rate set for Financial Year 2020 in the Finance (No. 2) Act 2015. The Finance Bill 2016 has not yet been enacted.

Notes to the financial statements (continued)**11. Intangible assets**

	Capitalised plate cost £'000	Publishing rights £'000	Customer relations £'000	Goodwill £'000	Software	Total £'000
Cost						
At 1 April 2015	23,889	5,721	79	9,871	4,215	43,775
Additions	3,479	-	-	-	43	3,522
Disposals and impairments	(25)	-	-	-	(37)	(62)
At 31 March 2016	27,343	5,721	79	9,871	4,221	47,235
Accumulated amortisation						
At 1 April 2015	(18,507)	(4,517)	(29)	(8,713)	(4,203)	(35,969)
Charge for the year	(1,706)	(195)	(5)	(302)	(52)	(2,260)
Impairment	(452)	-	-	-	-	(452)
Disposals	16	-	-	-	37	53
At 31 March 2016	(20,649)	(4,712)	(34)	(9,015)	(4,218)	(38,628)
Net book amount at 31 March 2016	6,694	1,009	45	856	3	8,607
Net book amount at 31 March 2015	5,382	1,204	50	1,158	12	7,806

Certain capitalised plate assets were impaired on the basis that future revenues were estimated not to recover the total investment.

12. Tangible assets

	Freehold buildings £'000	Equipment and motor vehicles £'000	Total £'000
Cost			
At 1 April 2015	3,832	3,512	7,344
Additions	-	192	192
Disposals	-	(282)	(282)
At 31 March 2016	3,832	3,422	7,254
Accumulated depreciation			
At 1 April 2015	(2,595)	(2,838)	(5,433)
Charge for the year	(142)	(329)	(471)
Disposals	-	267	267
At 31 March 2016	(2,737)	(2,900)	(5,637)
Net book amount at 31 March 2016	1,095	522	1,617
Net book amount at 31 March 2015	1,237	674	1,911

Notes to the financial statements (continued)**13. Inventories**

	2016 £'000	2015 £'000
Raw materials and consumables	57	39
Finished goods	4,053	3,918
	4,110	3,957

There is no significant difference between the replacement cost of raw materials and consumables or finished goods and their carrying amounts.

Inventories are stated after provisions for impairment for obsolete inventory of £3,208,000 (2015: £3,347,000).

14. Debtors – amounts falling due within one year

	2016 £'000	2015 £'000
Trade debtors	11,143	9,170
Amounts owed by group undertakings	20,807	17,091
Corporation tax	1,096	20
Prepayments and accrued income	1,076	1,487
	34,122	27,768

Amounts owed by group undertakings are unsecured and payable on demand. One of the accounts with a group company amounting to £1,368,000 at the year end (2015 - £927,000) bears interest at 6.625% above LIBOR, with a LIBOR floor of 1%. Another account with a group company amounting to £17,289,000 (2015 - £14,534,000) bears interest at LIBOR less 0.25%. The remaining balance is interest free.

Trade debtors are stated after provisions for impairment and returns of £3,646,000 (2015: £2,645,000).

15. Debtors – amounts falling due after more than one year

	2016 £'000	2015 £'000
Deferred taxation (note 19)	440	581
Prepayments and accrued income	69	97
	509	678

16. Creditors – amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	2,041	3,247
Amounts owed to group undertakings	10,147	6,149
Other taxation and social security	166	106
Other creditors	2,224	2,079
Accruals and deferred income	5,965	5,478
	20,543	17,059

Amounts owed to group undertakings are unsecured and repayable on demand and interest free.

Notes to the financial statements (continued)**17. Creditors – amounts falling due after more than one year**

	2016 £'000	2015 £'000
Accrued and deferred income	460	2,330

18. Provisions for liabilities

The company had the following provision during the year

	Asset retirement obligation £'000
At 1 April 2015	207
Amortisation of discount (note 9)	18
At 31 March 2016	225

Asset retirement obligation provision is made over the life of leases for the estimated cost of decommissioning leasehold improvements. This provision is expected to be utilised in more than one year after the balance sheet date.

19. Deferred taxation

Deferred tax is provided for in full on certain timing differences.

The directors consider that it is probable that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements.

The company had the following deferred tax asset during the year

	£'000
At 1 April 2015	581
Additions dealt with in profit or loss	(141)
At 31 March 2016	440

The deferred tax asset consists of the following deferred tax assets:

	2016 £'000	2015 £'000
Accelerated capital allowances	440	581
Deferred tax asset (note 15)	440	581

There are no unused tax losses or tax credits.

The net deferred tax asset expected to reverse in 2017 is £85,000. This primarily relates to the reversal of timing differences on capital allowances.

Notes to the financial statements (continued)

20. Post-employment benefits

Defined contribution scheme

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amounts charged against profits represent the contributions payable to the scheme in respect of the accounting year.

The total defined contribution pension cost for the company was £322,971 (2015 - £330,713). There were no contributions outstanding at the year end (2015 - £ nil).

21. Called up share capital

	2016 £	2015 £
Issued and fully paid:		
At 1 April 2015 and 1 April 2014 172 ordinary shares of £1 each	172	172
At 31 March 2016 and 31 March 2015 172 ordinary shares of £1 each	172	172

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

22. Capital and other commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

	2016 £'000	2015 £'000
Not later than one year	233	160
Later than one year and not later than five years	648	627
Later than five years	7,088	7,245
	7,969	8,032

23. Related parties

The company is exempt from disclosing related party transactions as they are with other companies that are wholly owned within the Group.

There were no other transactions with related parties during the year other than those with such entities as described above.

Notes to the financial statements (continued)

24. Controlling parties

The immediate parent undertaking is Cengage Learning UK Holdings Limited ("CLUKH").

The ultimate parent undertaking is Cengage Learning Holdings II Inc. ("CLII") and is the parent undertaking of the smallest and largest group to consolidate these financial statements. CLII is a Delaware, USA Corporation.

Copies of the CLII annual report are available from the Cengage website at www.cengage.com/investor.

25. Transition to FRS 102

This is the first year that the company has presented its results under FRS 102. The last financial statements under the UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Comprehensive income for the year

	2015	
	£'000	£'000
UK GAAP as previously reported		4,183
Amortisation of intangible assets	A (2)	
Total adjustments to comprehensive income for the financial year		(2)
FRS 102		<u>4,181</u>

Total equity

	1 April 2014	31 March 2015
	£'000	£'000
UK GAAP as previously reported	21,822	26,027
Amortisation of intangible assets	A -	(2)
FRS 102	<u>21,822</u>	<u>26,025</u>

A. Amortisation of intangible assets

Under previous UK GAAP there was an assumption that the life of intangible assets would not exceed 20 years. FRS 102 requires that the life of intangible assets shall not exceed 10 years. Accordingly an additional charge of £2,000 has been recognized in the comprehensive income for the year to 31 March 2015 and a similar reduction of £2,000 has been recognized in intangible assets at 31 March 2015.

Other Adjustments arising on transition to FRS 102

Computer software, with a net book value of £78,000 at 1 April 2014, has been reclassified from tangible to intangible assets as required under FRS 102. This has no effect on the company's net assets nor on the profit for the year, except that the previous depreciation charge is now described as amortisation.