

Company no: 02621654

VIRGIN BOOKS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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VIRGIN BOOKS LIMITED
STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

The directors present their Strategic Report for the year ended 31 December 2016.

Principal Activities

The Company is a subsidiary of The Random House Group Limited, a Company registered in England and Wales. The Company is UK domiciled and registered in England and Wales. The principal activity of the Company continues to be book publishing.

Review of the business

The results and financial position of the Company are set out in the attached financial statements and in the Report of the Directors. The Company made a profit for the financial year of £1.4m (2015: £2.9m).

Turnover of £7.14m (2015: £9.44m) was down 24%. Operating profit before interest and taxation of £1.39m (2015: £2.98m) was down 53.1%. Operating profit was down on 2015 due to lower sales and higher other operating expenses. Key titles in 2016 included Guy Martin's Worms to Catch and Johanna Basford's Magical Jungle. E-book sales accounted for 10.9% of turnover compared to 11.0% in 2015.

The balance sheet on page 8 of the financial statements shows the Company's financial position at the end of the year.

Key Performance Indicators ("KPI's")

The Company monitors progress and performance during the year and historical trend data is set out in the following KPI's:

- Turnover was £7.1m (2015: £9.4m)
- The number of titles in the Bookscan full year Top 60 sellers listing was 1 (2015: 1)

Principal Risks and Uncertainties

The Company is subject to risk management procedures and an annual risk assessment implemented by the ultimate parent company, Bertelsmann SE & Co KGaA. The Company has procedures in place to make the directors aware of the various risks to the Company's business. The risks are monitored and reported to management. The changing book market and particularly the transition to digital is creating both challenges and opportunities for the Company, notably regarding the latter in terms of new markets and sales channels. The Company is facing increased pressure on margins. Other risks arise from the entry of non-traditional publishers into the market, the decline in retail space in high street bookshops and economic uncertainty.

General

The Company is presenting the financial statements in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

On behalf of the Board



M GARDINER
Director

29 September 2017

VIRGIN BOOKS LIMITED

DIRECTORS' REPORT **FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 2016.

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the Company's current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

Future Developments

Looking ahead, the Company has a strong schedule of titles for publication in 2017 and will continue to seek suitable publishing opportunities to ensure growth. The directors do not anticipate any significant changes in the activities of the Company.

Financial Instruments

It is the Company's policy to implement financial risk management objectives and policies for each major type of transaction. The directors consider the entity's exposure to price risk, credit risk, liquidity risk and cash flow risk as not significant.

Dividends

No dividend was paid during the year (2015: £nil). No final dividend is proposed (2015: £nil).

Directors

The directors and officers who held office during the year and up to the date of signing this report were as follows:

Directors:

M Gardiner
TD Weldon

Secretary:

Helena Peacock (termination 30 June 2016)
Sinead Martin (appointment 30 June 2016)

Post balance sheet events

In the opinion of the directors, there are no post balance sheet events to disclose at the year end.

Employees

The Company systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests.

Employee involvement in the Company is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Company plays a major role in maintaining its prosperity.

The Company encourages the involvement of employees by means of regular meetings with staff and staff representatives to keep them informed of the Company's progress. The Company operates a defined contribution pension scheme for which all employees are eligible.

The Company is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, and disability or material status. The Company gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Company. If members of staff become disabled the Company continues employment, either in the same or an alternative position, with appropriate retraining being given if necessary.

VIRGIN BOOKS LIMITED

DIRECTORS' REPORT **FOR THE YEAR ENDED 31 DECEMBER 2016** (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, 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 101 Reduced Disclosure Framework (FRS 101).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 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 present 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.

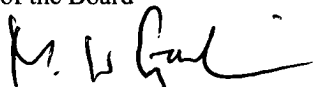
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director 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 appointment will be proposed at the Annual General Meeting.

On behalf of the Board



M GARDINER
Director

20 Vauxhall Bridge Road
LONDON
SW1V 2SA

29 September 2017

Independent auditors' report to the members of Virgin Books Limited

Report on the financial statements

Our opinion

In our opinion, Virgin Books Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 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 December 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Change 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 101 "Reduced Disclosure Framework", 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

Independent auditors' report to the members of Virgin Books Limited (continued)

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 3, 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) ("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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements



Philip Stokes (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2017

VIRGIN BOOKS LIMITED**INCOME STATEMENT**
for the year ended 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|--|-------|-------------------------|-------------------------|
| Turnover | 5 | 7,141,673 | 9,443,128 |
| Cost of sales | | (1,434,399) | (2,425,439) |
| Gross Profit | | <u>5,707,274</u> | <u>7,017,689</u> |
| Other operating expenses | | (4,002,043) | (3,795,211) |
| Personnel costs | 6 | (318,943) | (237,752) |
| Operating profit before interest and taxation | | <u>1,386,288</u> | <u>2,984,726</u> |
| Interest receivable / (payable) and similar income (expense) | 8 | 8,225 | (12,915) |
| Profit on ordinary activities before taxation | | <u>1,394,513</u> | <u>2,971,811</u> |
| Tax on profit on ordinary activities | 9 | 26,935 | (79,761) |
| Profit for the financial year | | <u><u>1,421,448</u></u> | <u><u>2,892,050</u></u> |

The notes on pages 10 to 20 are an integrated part of these financial statements.

VIRGIN BOOKS LIMITED**STATEMENT OF COMPREHENSIVE INCOME**
for the year ended 31 December 2016

| | 2016 £ | 2015 £ |
|--|------------------|------------------|
| Profit for the financial year | 1,421,448 | 2,892,050 |
| Other comprehensive income | - | - |
| Total comprehensive income for the year | 1,421,448 | 2,892,050 |

The notes on pages 10 to 20 are an integrated part of these financial statements.

VIRGIN BOOKS LIMITED**BALANCE SHEET**
As at 31 December 2016

| | Notes | 2016 £ | 2015 £ |
|---|-------|-------------|-------------|
| Fixed Assets | | | |
| Investments | 10 | 2 | 2 |
| Deferred tax asset | 15 | 728,650 | 696,000 |
| | | <hr/> | <hr/> |
| | | 728,652 | 696,002 |
| Current assets | | | |
| Inventories | 11 | 319,874 | 283,721 |
| Advance royalties | | 366,358 | 516,106 |
| Receivables | 12 | 5,487,898 | 5,279,031 |
| | | <hr/> | <hr/> |
| | | 6,174,130 | 6,078,858 |
| Payables: amounts falling due within one year | 13 | (3,074,397) | (4,367,923) |
| | | <hr/> | <hr/> |
| Net current assets | | 3,099,733 | 1,710,935 |
| | | <hr/> | <hr/> |
| Net assets | | 3,828,385 | 2,406,937 |
| | | <hr/> | <hr/> |
| Capital and reserves | | | |
| Called up share capital | 14 | 7,927,566 | 7,927,566 |
| Share premium account | | 3,406,000 | 3,406,000 |
| Retained earnings | | (7,505,181) | (8,926,629) |
| | | <hr/> | <hr/> |
| Total equity | | 3,828,385 | 2,406,937 |
| | | <hr/> | <hr/> |

These financial statements on pages 7 to 20 were authorised for issue by the board of directors on 29 September 2017 and were signed on its behalf by



M GARDINER
Director
Virgin Books Limited
Registered no: 02621654

VIRGIN BOOKS LIMITED**STATEMENT OF CHANGES IN EQUITY**
for the year ended 31 December 2016

| | Called up share capital £ | Share premium account £ | Retained earnings £ | Total equity £ |
|---------------------------------------|---------------------------------|-------------------------------|---------------------------|----------------------|
| Balance as at 1 January 2015 | 7,927,566 | 3,406,000 | (11,818,679) | (485,113) |
| Profit for the financial year | - | - | 2,892,050 | 2,892,050 |
| Balance as at 31 December 2015 | 7,927,566 | 3,406,000 | (8,926,629) | 2,406,937 |
| Profit for the financial year | - | - | 1,421,448 | 1,421,448 |
| Balance as at 31 December 2016 | 7,927,566 | 3,406,000 | (7,505,181) | 3,828,385 |

The notes on pages 10 to 20 are an integrated part of these financial statements.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016

1 GENERAL INFORMATION

Virgin Books Limited is a book publisher. The Company sells its books globally with the majority of the sales in the UK. The Company is a subsidiary of The Random House Group Limited, a Company registered in England and Wales. The Company is UK domiciled and registered in England and Wales. The address of its registered office is 20 Vauxhall Bridge Road, London, SW1V 2SA.

2 STATEMENT OF COMPLIANCE

The individual financial statements of Virgin Books Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006.

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.

Basis of preparation of financial statements

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

The preparation of financial statements in conformity with FRS 101 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. Management has not involved a higher degree of judgement of complexity, or agrees whole assumptions and estimates are significant to the financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IFRS 7, 'Financial instruments: disclosures'
- Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- The following paragraphs of IAS1 'Presentation of financial statements':
 - 10(d) (statement of cash flows)
 - 38A (requirement for minimum of two primary statements, including cash flow statements)
 - 111 (cash flow statement information)
 - 134-136 (capital management disclosures)
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

The Company is a wholly owned subsidiary of its ultimate parent Bertelsmann SE & Co KGaA. It is included in the consolidated financial statements of Bertelsmann SE & Co KGaA which are publicly available. Therefore the Company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about the group.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern

The financial statements are prepared on a going concern basis which the directors believe to be appropriate in light of the Company's current trading performance. This has been considered for at least the next twelve months from the date of approval of these financial statements.

New standards, amendments and IFRIC interpretations

No new accounting standards or amendments to accounting standards or IFRIC interpretations that are effective for the year ended 31 December 2016 have had a material impact on the Company.

Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in sterling, which is also the functional currency of the Company.

Transactions and balances

Transactions in a currency other than the functional currency ('foreign currency') are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement.

Turnover

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax and other sales taxes, rebates, trade marketing costs and discounts. Turnover from the sale of books is recognised when title passes. A provision for anticipated returns is made based primarily on historical return rates. If these estimates do not reflect actual returns in future periods then turnover could be understated or overstated for a particular period. On certain contracts, where the Company acts as agent, only commissions and fees receivable for services rendered are recognised as turnover. Any third party costs incurred on behalf of the principal that are rechargeable under the contractual arrangement are not included in turnover.

Income from sub rights

Fees charged for the use of rights granted by the agreement and related services are recognised as revenue as the rights are used and the right to receive payment is established.

Financial Assets

The Company classifies its financial assets as loans and receivables. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred subsequently all risks and rewards of ownership.

Trade debtors and amounts owed by group undertakings

Trade debtors and amounts owed by group undertakings are stated at amortised cost after provision for bad and doubtful debts and anticipated future sales returns. Provisions are made specifically where there is objective evidence of a dispute or an inability to pay. An additional provision is made based on an analysis of balances by age, previous losses experienced and general economic conditions.

Trade creditors and amounts owed to group undertakings

Trade creditors and amounts owed to group undertakings are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-Employment benefits

The Company accounts for pensions in accordance with IAS 19 "Employee Benefits". The Company's employees are eligible to join the Random House defined contribution pension scheme. In accordance with IAS 19 the company's contributions to the defined contribution schemes are charged to the income statement in the period in which they arise.

Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. 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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investments

Investments in subsidiaries are stated at cost less a provision for impairment. At the year-end management reviewed the investments in order to determine whether there was any objective evidence present that in accordance with IAS 36 would lead to impairment. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date, if there have been favourable events or changes in circumstances, since the impairment loss was recognised that would indicate that the impairment loss no longer exists or might have decreased.

Inventories

Inventories comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. Cost is determined using FIFO method. Cost includes the costs of paper, printing and binding incurred on a title by title basis. Plant costs, which do not vary with the number of copies printed (for example typesetting, origination and illustration), are charged to the income statement in full on publication. Provision is made for obsolete and slow moving stocks. Net realisable value is estimated selling price in the ordinary course of business less applicable variable selling expenses.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2016 (continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Royalty advances

Advances of royalties to authors are recognised once a contract is approved within the royalty system, less any provision required to adjust the advance to its net realisable value. For unpublished titles, the contracts are assessed at key points within the year, to determine whether the value of a title is diminished from its original acquisition value. These titles are reassessed each year until publication occurs. For published titles, the Company assesses the difference between the advance payable and the projected royalty earnings and sub rights income at the point of publication. All titles are reassessed at various times throughout the years following publication. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

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 circumstances.

Key accounting estimates and assumptions

(i) Advances

Advances of royalties to authors are recognised once a contract is approved within the royalty system, less any provision required to adjust the advance to its net realisable value. The realisable value of royalty advances relies on a degree of management judgement in determining the profitability of individual author contracts. If the estimated realisable value of author contracts is overstated then this will have an adverse effect on operating profits as these excess amounts will be written off. The recoverability of royalty advances is based upon an annual detailed management review of the age of the advance, the future sales projections for new authors and prior sales history of repeat authors. The royalty advance is expensed at the contracted or effective royalty rate as the related turnover is earned.

(ii) Provisions

Other provisions include provisions arising in the ordinary course of business, such as provisions relating to LTIP (long-term incentive programme) and legal matters. These provisions are expected to be utilised within 5 years.

(iii) Impairment of trade and other receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the debtor, the ageing profile of receivables and historical experience.

(iv) Inventories Provisioning

The Company publishes books and is subject to changing customer demands. As a result it is necessary to consider the recoverability of the cost of inventories. When calculating the inventories provision, management considers the ageing of the inventories as well as predicted future sales based on historical sales data by publishing imprint.

(v) Returns Provisioning

The Company has agreements in place to allow customers to return books. As a result the Company makes an estimate of future returns based on historic data, the ageing of sales and business experience.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

| | | | |
|---|------------------------------------|-----------------|-----------------|
| 5 | TURNOVER | 2016 £ | 2015 £ |
| | Analysis of turnover by geography: | | |
| | UK and The Republic of Ireland | 5,002,789 | 6,001,184 |
| | Rest of the World | 2,138,884 | 3,441,944 |
| | | <hr/> 7,141,673 | <hr/> 9,443,128 |

6 OPERATING PROFIT

Operating profit is stated after charging:

| | | |
|----------------------------|--------------|--------------|
| | 2016 £ | 2015 £ |
| Personnel costs: | | |
| Wages and salaries | 268,365 | 201,518 |
| Social security costs | 30,426 | 23,202 |
| Group pension scheme costs | <hr/> 20,152 | <hr/> 13,032 |
| | 318,943 | 237,752 |
| Impairment of inventory | (141,210) | 199,212 |

The audit fee for the Company has been borne by its immediate parent company, The Random House Group Limited. Audit fees borne on the Company's behalf amount to £4,927 (2015: £4,927).

7 EMPLOYEES AND DIRECTORS

Employees

The monthly average number of persons employed by the Company during the year was:

| | | |
|-----------|----------------|----------------|
| | 2016 Number | 2015 Number |
| Editorial | <hr/> 5 | <hr/> 5 |

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

7 EMPLOYEES AND DIRECTORS (continued)

| | 2016 | 2015 |
|---|--------|------|
| | £ | £ |
| <u>Directors' remuneration:</u> | | |
| Aggregate emoluments | 22,502 | - |
| Amounts receivable under long term incentives | 3,170 | - |
| Company pension contributions to money purchase schemes | 1,098 | - |

Administration expenses include the above remuneration to directors of the Company in respect of their services to the Company.

| | 2016 | 2015 |
|---|--------|------|
| | £ | £ |
| Highest paid director: | | |
| Emoluments | 15,699 | - |
| Amounts receivable under long term incentives | - | - |
| Defined benefit pension scheme accrued at the end of the year | 126 | - |

Although the directors of the Company have service contracts with Penguin Books Limited and the Random House Group, the proportion of their time and efforts relating to Virgin Books Limited and therefore their emoluments have been included in these financial statements.

One director was paid by Penguin Books Limited and the other director is paid by the Random House Group:

| Director | Paid by |
|-----------------|--------------------------------|
| T Weldon | Penguin Books Limited |
| M Gardiner | The Random House Group Limited |

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

| | | | |
|---|---|-----------|-----------|
| 8 | NET INTEREST | 2016 £ | 2015 £ |
| | Interest receivable / (payable) on cash pooling | 8,225 | (12,915) |
| | | <hr/> | <hr/> |

| | | | |
|-----|--|-----------|-----------|
| 9 | TAX ON PROFIT ON ORDINARY ACTIVITIES | 2016 £ | 2015 £ |
| (a) | Analysis of tax charge for the year | | |
| | Amount payable for group relief and UK corporation tax | | |
| | -current year | - | - |
| | -overseas tax | 5,715 | 3,761 |
| | Deferred tax, origination and reversal of timing differences | | |
| | -current year | (32,650) | 76,000 |
| | | <hr/> | <hr/> |
| | | (26,935) | 79,761 |
| | | <hr/> | <hr/> |

The tax assessment for the year is lower (2015: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 December 2016 of 20% (2015:20.25%). The differences are explained below:

| | | |
|--|-----------|-----------|
| | 2016 £ | 2015 £ |
| (b) Factors affecting the tax charge for the year | | |
| Profit on ordinary activities before taxation | 1,394,513 | 2,971,811 |
| | <hr/> | <hr/> |
| Corporation tax at standard rate of 20% (2015: 20.25%) | 278,903 | 601,792 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 5,000 | - |
| Deferred tax rate difference | (14,195) | - |
| Utilisation of tax losses of earlier years | - | (601,792) |
| Overseas tax | 5,715 | 3,761 |
| Recognition of unrecognised tax losses and temporary differences | (302,358) | 76,000 |
| | <hr/> | <hr/> |
| | (26,935) | 79,761 |
| | <hr/> | <hr/> |

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

9 TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)*Current tax*

The standard rate of corporation tax in the United Kingdom changed from 21% to 20% with effect from 1 April 2015. Accordingly the Company's profits / losses are taxed at an effective rate of 20% (2015: 20.25%).

Deferred tax

During 2016 changes to the UK main corporation tax rate were enacted. The tax rate will fall to 19% with effect from 1 April 2017 and to 17% with effect from 1 April 2020. Accordingly deferred tax has been provided at 19%.

10 INVESTMENTS

Ordinary Shares in group undertakings, at cost

At 1 January 2016 and at 31 December 2016 £2

The investment comprises the entire share capital of the dormant entity, WH Allen General Books Limited. The registered office of WH Allen General Books Limited is 20 Vauxhall Bridge Road, London, United Kingdom, SW1V 2SA.

The directors consider the value of the investment to be not less than that in the balance sheet of the Company.

| 11 INVENTORIES | 2016 | 2015 |
|------------------|---------|---------|
| | £ | £ |
| Work in progress | 121,465 | 82,469 |
| Finished books | 198,409 | 201,252 |
| | <hr/> | <hr/> |
| | 319,874 | 283,721 |
| | <hr/> | <hr/> |

Inventories are stated after provisions for impairment of £ 248,469 (2015: £313,715).

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

| | | | |
|----|------------------------------------|-----------------------|-----------------------|
| 12 | RECEIVABLES | 2016 £ | 2015 £ |
| | Trade debtors | 54,779 | 70,761 |
| | Amounts owed by group undertakings | 5,429,721 | 5,202,829 |
| | Other debtors | 3,054 | 5,155 |
| | Prepayments | 344 | 286 |
| | | <hr/> 5,487,898 <hr/> | <hr/> 5,279,031 <hr/> |

Amounts owed by group undertakings are unsecured, repayable on demand and interest free, included within this is £2.3m (2015: £nil) in respect of the cash pooling agreements with Penguin Random House Limited, the parent entity of The Random House Group, the parent of the Virgin Books Limited.

Included in other debtors is the amount owed in relation to Value Added Tax (VAT) reimbursements.

Receivables are stated after provision for impairment, returns and incentive discounts collectively of £904,348 (2015: £1,344,480).

| | | | |
|----|---|-----------------------|-----------------------|
| 13 | PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR | 2016 £ | 2015 £ |
| | Trade payables | 1,041,059 | 1,467,124 |
| | Amounts owed to group undertakings | 396,796 | 1,706,000 |
| | Provisions for Onerous contracts | 1,330,994 | 386,550 |
| | Other payables | 7,089 | 5,345 |
| | Accruals | 298,459 | 802,904 |
| | | <hr/> 3,074,397 <hr/> | <hr/> 4,367,923 <hr/> |

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. Included within this is £nil (2015: £1.4m) in respect of the cash pooling agreements with Penguin Random House Limited, the parent entity of The Random House Group, the parent of the Virgin Books Limited.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2016
 (continued)

| | | | |
|----|--|-----------|-----------|
| 14 | CALLED UP SHARE CAPITAL | 2016 £ | 2015 £ |
| | Authorised: | | |
| | 73,745,091 Ordinary A shares of 10p each | 7,374,509 | 7,374,509 |
| | 8,193,899 Ordinary B shares of 10p each | 819,390 | 819,390 |
| | | 8,193,899 | 8,193,899 |
| | Allotted, called up and fully paid: | | |
| | 71,348,094 Ordinary A shares of 10p each | 7,134,809 | 7,134,809 |
| | 7,927,566 Ordinary B shares of 10p each | 792,757 | 792,757 |
| | | 7,927,566 | 7,927,566 |
| 15 | DEFERRED TAX ASSET | 2016 £ | 2015 £ |
| | At 1 January 2016 | 696,000 | 219,935 |
| | Increase in the year | 32,650 | 476,065 |
| | at 31 December 2016 | 728,650 | 696,000 |
| | | 2016 £ | 2015 £ |
| | Excess of depreciation charged on fixed assets over capital allowances received and tax losses expected to be utilised within the foreseeable future | 728,650 | 696,000 |

The deferred tax asset arises from temporary differences, which are expected to reverse enabling them to be realised within the foreseeable future, and tax losses, which the directors believe will be utilised within the foreseeable future.

There are £0.5m (2015: £2.1m) of unrecognised tax losses available as at the balance sheet date.

16 **COMMITMENTS**

There were commitments to authors for the payment of royalty advances amounting to £1.9m at 31 December 2016 (2015: £1.7m).

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS **for the year ended 31 December 2016** (continued)

17 CONTROLLING PARTIES

The Company's immediate parent company is The Random House Group Limited ("RHG"). RHG is a wholly owned subsidiary of Penguin Random House Ltd ("PRHL"). At the balance sheet date PRHL was owned by Bertelsmann UK Limited (53%) and Pearson PRH Holdings Limited (47%). The Company's ultimate parent company is Bertelsmann SE & Co KGaA, which is incorporated in Germany. Copies of Bertelsmann SE & Co KGaA's consolidated financial statements (the smallest and largest financial statements in which the company is consolidated) can be obtained from:

Bertelsmann SE & Co KGaA
Corporate Communications
Carl Bertelsmann Strasse 270
33311 Gütersloh
Germany

The Company is wholly-owned by Penguin Random House Limited and, as such, has taken exemptions under the terms of Financial Reporting Standard 101, from disclosing related party transactions with other wholly-owned subsidiaries of Penguin Random House Limited.