

Company no: 2621654

VIRGIN BOOKS LIMITED

ANNUAL REPORT

31 DECEMBER 2013

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VIRGIN BOOKS LIMITED

STRATEGIC REPORT

The Directors present their Strategic Report for the year ended 31 December 2013.

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.

Results and Dividends

The results and financial position of the Company are set out in the attached financial statements and in the Report of the Directors.

Key Performance Indicators ("KPI's")

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using Key Performance Indicators is not necessary for an understanding of the development, performance or position of the business.

Principal Risks and Uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of The Random House Group Limited and are not managed separately. The principal risks and uncertainties of The Random House Group Limited, which include those of the Company, are also reported in the Report of the Directors on page 2.

On Behalf of the Board



M GARDINER
Secretary

25 September 2014

VIRGIN BOOKS LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and audited financial statements for the year ended 31 December 2013.

Business review

The principal activity of the company continues to be book publishing.

The turnover and results of the company for the year are set out in the attached financial statements.

Sales of £4.95m (2012: £4.42m) were up 12%. Operating profit of £1.15m (2012: £0.94m) was up 22%. Key titles in the year included Sheryl Sandberg's *Lean In*, Portia Da Costa's *Accidental Call Girl* and Richard Branson's *Screw Business as Usual*. Ebook sales accounted for 23.3% of turnover compared to 17.9% in 2012.

Looking ahead, the company has a strong schedule of titles for publication in 2014. These include new titles from Richard Branson, Arianna Huffington and a new edition of Sheryl Sandberg's *Lean In*.

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 the board on a regular basis. The changing book market, particularly the transition to digital and the shift to the agency model, is creating both challenges and opportunities for the company, notably in terms of pricing structures. 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.

On 1 July 2013, having received all the necessary clearances, Bertelsmann SE & Co KGaA and Pearson plc combined their respective book publishing businesses, Random House and Penguin, under the name Penguin Random House. Bertelsmann owns 53% and Pearson 47%.

Going concern

The financial statements have been prepared on a going concern basis in view of the fact that the company is dependent for its working capital on funds provided to it by its parent undertaking, The Random House Group Limited, and its parent has indicated that it will provide sufficient funding to the company to enable it to meet its liabilities as they fall due for at least the next twelve months from the date of approval of these financial statements and, in particular, will not seek repayment of the facilities currently made available. The directors have no reason to believe that the parent company will not be in a position to provide this support and, accordingly, they have prepared these financial statements on a going concern basis.

Dividend

No dividend was paid during the year (2012: £nil). No final dividend is proposed (2012: £nil).

Directors

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

MD Bridge	resigned 6 August 2014
M Gardiner	
F MacIntyre	
GR Rebuck	resigned 1 July 2013
TD Weldon	appointed 1 July 2013

VIRGIN BOOKS LIMITED

REPORT OF THE DIRECTORS

(continued)

Statement of directors' responsibilities

The directors are responsible for preparing 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

By Order of the Board



M GARDINER
Secretary

20 Vauxhall Bridge Road
LONDON
SW1V 2SA

25 September 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VIRGIN BOOKS LIMITED

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Virgin Books Limited, comprise:

- the balance sheet as at 31 December 2013;
- the profit and loss account for the year then ended;
- the reconciliation of movements in shareholders' funds for the year then ended;
- the accounting policies; and the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

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.

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.

**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 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 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.



Neil Proudlove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 September 2014

VIRGIN BOOKS LIMITED

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2013

	Notes	2013 £	2012 £
Turnover	2	4,950,637	4,416,576
Change in stocks of finished goods and in work in progress		(13,683)	(48,992)
Raw materials and consumables		(1,157,667)	(1,120,413)
Other external charges		(2,433,068)	(2,119,180)
Staff costs	4	(193,803)	(184,171)
Operating profit		1,152,416	943,820
Interest receivable		1,263	-
Interest payable	3	(60,066)	(68,986)
Profit on ordinary activities before tax	3	1,093,613	874,834
Tax on profit on ordinary activities	5	187,399	(6,103)
Profit for the financial year		1,281,012	868,731

The results above are all derived from continuing activities.

The company has no recognised gains or losses other than as disclosed in the profit and loss account.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical costs equivalents.

RECONCILIATION OF MOVEMENTS IN DEFICIT OF SHAREHOLDERS' FUNDS

Deficit of shareholders' funds at beginning of year	(3,498,364)	(4,367,095)
Profit for the financial year	1,281,012	868,731
Deficit of shareholders' funds at end of year	(2,217,352)	(3,498,364)

VIRGIN BOOKS LIMITED

Company no. 2621654

BALANCE SHEET As at 31 December 2013

	Notes	2013 £	2012 £
Non-current Assets			
Investments	6	2	2
Advance royalties		306,336	235,583
		<hr/>	<hr/>
		306,338	235,585
Current assets			
Stocks	8	239,506	253,189
Advance royalties		87,888	153,401
Debtors	9	2,590,049	1,748,730
Cash at bank and in hand		-	85,582
		<hr/>	<hr/>
		2,917,443	2,240,902
Creditors: amounts falling due within one year	10	(5,441,133)	(1,774,851)
		<hr/>	<hr/>
Net current (liabilities)/assets		(2,523,690)	466,051
		<hr/>	<hr/>
Total assets less current liabilities		(2,217,352)	701,636
Long term liabilities			
Creditors: amounts falling due after more than one year	11	-	(4,200,000)
		<hr/>	<hr/>
Net liabilities		(2,217,352)	(3,498,364)
		<hr/>	<hr/>
Equity capital and reserves			
Called up share capital	12	7,927,566	7,927,566
Share premium		3,406,000	3,406,000
Profit and loss account	13	(13,550,918)	(14,831,930)
		<hr/>	<hr/>
Deficit of shareholders' funds		(2,217,352)	(3,498,364)
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 25 September 2014 and were signed on its behalf by

M GARDINER
Director



VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

1 ACCOUNTING POLICIES

Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom.

The company is exempt, by virtue of s400 of the Companies Act 2006, from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about the group.

Going concern

The financial statements have been prepared on a going concern basis in view of the fact that the company is dependent for its working capital on funds provided to it by its parent undertaking, The Random House Group Limited, and its parent has indicated that it will provide sufficient funding to the company to enable it to meet its liabilities as they fall due for at least the next twelve months from the date of approval of these financial statements and, in particular, will not seek repayment of the facilities currently made available. The directors have no reason to believe that the parent company will not be in a position to provide this support and, accordingly, they have prepared these financial statements on a going concern basis.

Cash flow statement

The company has taken advantage of the provisions of FRS1 not to publish a cash flow statement as it qualifies as a small company for these purposes.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

Turnover

Turnover comprises the sale of published books, net of returns, and related rights receivable, excluding value added tax.

Stocks

Stocks comprise finished goods and work in progress in respect of books, and are stated at the lower of cost and net realisable value. 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 profit and loss account in full on publication.

Royalties

Royalty advances to authors which are not expected to be earned from future sales of books and rights are charged to the profit and loss account in the year of publication. Royalty advances to authors on unpublished titles are reviewed annually.

Pensions

The company accounts for pensions in accordance with FRS 17 "Retirement Benefits".

The company's employees are eligible to join the Random House defined contribution pension scheme. In accordance with FRS 17 the company's contributions to the defined contribution schemes are charged to the profit and loss account in the period in which they arise.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

1 ACCOUNTING POLICIES - continued

Deferred tax

Deferred tax assets and liabilities are recognised in respect of all material timing differences between the recognition of gains and losses in the financial statements and for tax purposes. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

	2013 £	2012 £
2		
TURNOVER		
The company's turnover arises from its principal activity of book publishing.		
Geographical analysis by destination of turnover:		
UK and The Republic of Ireland	2,691,313	3,131,871
Rest of the World	2,259,324	1,284,705
	<hr/> 4,950,637	<hr/> 4,416,576

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

The profit on ordinary activities before tax is stated after charging the following:

The audit fee for the company has been borne by its immediate parent company, The Random House Group Limited.

Interest payable:

Other	60,066	68,986
	<hr/>	<hr/>

4 EMPLOYEES

Staff costs:

Wages and salaries	165,787	156,355
Social security costs	17,595	18,824
Group pension scheme costs:		
- Random House defined contribution scheme	10,421	8,992
	<hr/> 193,803	<hr/> 184,171

The monthly average number of persons employed by the company, including executive directors, during the year was 4 (2012: 4).

Directors' remuneration

The emoluments of the Directors are paid by the parent Company. Directors' services to this Company and to a number of fellow subsidiaries are of a non-executive nature and his emoluments are deemed to be wholly attributable to his services to the parent Company. Accordingly, the schedule above includes no emoluments in respect of the Directors.

VIRGIN BOOKS LIMITED
NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013
(continued)

	2013	2012
	£	£
5 TAX ON PROFIT ON ORDINARY ACTIVITIES:		
(a) Analysis of tax charge for the year		
Amount payable for group relief and UK corporation tax		
-current year	-	-
-overseas tax	9,611	4,110
Deferred tax, origination and reversal of timing differences		
-current year	(197,010)	2,638
-adjustment of prior years	-	(645)
	<u>(187,399)</u>	<u>6,103</u>

The effective tax rate for the current year is lower (2012: lower) than the average standard rate of corporation tax in the UK. The differences are explained below:

(b) Factors affecting the tax charge for the year		
Profit on ordinary activities before tax	1,093,613	874,834
Corporation tax at standard rate of 23.25% (2012 - 24.5%)	254,265	214,334
Effects of:		
Expenses not deductible for tax purposes	543	297
Other short term timing differences	-	(632)
Overseas tax allowed as an expense	(2,235)	(1,007)
Utilisation of tax losses of earlier years	(252,573)	(212,992)
Overseas tax	9,611	4,110
Current tax charge for year	<u>9,611</u>	<u>4,110</u>

Current tax

The standard rate of Corporation Tax in the United Kingdom changed from 24% to 23% with effect from 1 April 2013. Accordingly the company's profits/(losses) are taxed at an effective rate of 23.25%.

Deferred tax

The company has unutilised losses for tax purposes carried forward at 31 December 2013. The value of these losses, at the tax rate of 20% is £1,992,000 (2012: 23%; £2,540,000). The potential deferred tax asset has been recognised to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the reversal of the underlying timing differences can be deducted.

As a result of changes to the UK main corporation tax rate that were enacted during the year, the relevant deferred tax balances have been re-measured. The tax rate has fallen to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015.

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

6 INVESTMENTS

Shares in group undertakings, at cost

At 1 January 2013 and at 31 December 2013

£2

The investment comprises the entire share capital of WH Allen General Books Limited, a dormant company registered in England.

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

	2013 £	2012 £
7 DEFERRED TAX ASSET		
Excess of depreciation charged on fixed assets over capital allowances received and tax losses expected to be utilised within the foreseeable future	219,935	22,925

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.

8 STOCKS

Work in progress	87,303	57,156
Finished books	152,203	196,033
	<u>239,506</u>	<u>253,189</u>

9 DEBTORS

Trade debtors	15,511	15,860
Amounts owed by group undertakings	2,334,673	1,679,915
Other debtors	7,059	4,118
Deferred tax asset (see note 7)	219,935	22,925
Prepayments	12,871	25,912
	<u>2,590,049</u>	<u>1,748,730</u>

10 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Bank overdraft	35,200	-
Trade creditors	686,451	512,134
Amounts owed to group undertakings	182,578	208,918
Loans from group undertaking, repayable 1 April 2014	3,500,000	-
Other creditors	582,128	631,988
Accruals	454,776	421,811
	<u>5,441,133</u>	<u>1,774,851</u>

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

	2013 £	2012 £
11 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR		
Loans from group undertaking	-	4,200,000
	<hr/>	<hr/>
The loan is from the company's parent company, The Random House Group Limited, bears interest at normal commercial rates and is due for repayment on 1 April 2014.		
12 CALLED UP SHARE CAPITAL		
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
	<hr/>	<hr/>
	8,193,899	8,193,899
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	7,927,566	7,927,566
	<hr/>	<hr/>
13 PROFIT AND LOSS ACCOUNT		
Balance at beginning of year	(14,831,930)	(15,700,661)
Profit for the financial year	1,281,012	868,731
	<hr/>	<hr/>
Balance at end of year	(13,550,918)	(14,831,930)
	<hr/>	<hr/>
14 COMMITMENTS		
There were commitments to authors for the payment of royalty advances amounting to £712,059 at 31 December 2013 (2012: £462,400).		

VIRGIN BOOKS LIMITED

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2013

(continued)

15 RELATED 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"). PRHL is owned by Bertelsmann 53% and Pearson 47%. The company's ultimate parent company is Bertelsmann SE & Co KGaA, which is incorporated in Germany, copies of whose 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
Postfach 111
D-33311 Gütersloh
Germany

During the year the company entered into the following transactions with related parties:

	2013	2012
	£	£
Sales:		
Random House Australia Pty Ltd	208,490	113,798
Random House of Canada Ltd	36,824	15,879
Random House New Zealand Ltd	57,453	45,968
Random House Publishers India Private Ltd	88,976	45,446
Random House Struik (Pty) Ltd	83,398	87,808
Penguin Books SA	2,136	-
Purchases:		
Arvato Ltd	2,362	-
The Random House Group Ltd	198,833	138,391
The Book Service Ltd	419,442	349,935
Interest income:		
The Random House Group Ltd	1,263	-
Interest expense:		
The Random House Group Ltd	60,066	68,986
Debtors:		
The Random House Group Ltd	171,512	-
The Book Service Ltd	2,163,161	1,679,915
Creditors:		
The Random House Group Ltd	178,888	208,744
The Random House Group Limited - loan	3,500,000	4,200,000
The Book Service Ltd	258	133
WH Allen General Books Ltd	2	2
Woodlands Books Ltd	3,430	39