SC27389

HARPERCOLLINS PUBLISHERS LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2007

HARPERCOLLINS PUBLISHERS LIMITED

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CONTENTS | **PAGE**

HARPERCOLLINS PUBLISHERS LIMITED

DIRECTORS AND OFFICERS

CHAIRMAN:	K R Murdoch
DIRECTORS:	V Barnsley D F DeVoe G D'Agnes J Friedman J Gervasio E Kielbasiewicz K Mullock
SECRETARY:	P Duffy
REGISTERED OFFICE:	Westerhill Road Bishopbriggs GLASGOW G64 2QT
AUDITORS:	Ernst & Young LLP
COMPANY NUMBER:	27389

HARPERCOLLINS PUBLISHERS LIMITED **[COMPANY NO: 27389]**

REPORT OF THE DIRECTORS

The dırectors present theır annual report together wıth the audıted accounts of the company for the year ended 30 June 2007

1. Profit and loss account

Operatıng profit rose to £14,036,000 from £13,526,000 ın the prevıous year

The profit on ordınary actıvıtıes after taxatıon ıs £12,126,000 (2006 profit of £9,030,000) whıch ıs added to reserves

The dırectors do not recommend the payment of a final dıvıdend (2006 Nıl)

2. Principal activities

The prıncıpal actıvıty of the company ıs the publıshıng of books wıthın the Unıted Kıngdom along wıth the ancıllary servıces of warehousıng and dıstrıbutıon

The company ıs ınvolved ın a broad range of publıshıng actıvıtıes ıncludıng Adult Trade, Chıldrens, Educatıonal, Relıgıous, Dıctıonarıes, General Reference, Mınd Body and Spırıt and Maps & Atlases and dıstrıbutıng these products ın the UK and ınternatıonally through a combınatıon of ın house subsıdıarıes and marketıng teams as well as thırd party dıstrıbutors

3. Business review and future developments

The last financıal year saw the company delıver strong growth ın revenues and a further ımprovement ın operatıng profit Revenues grew £3 9m (2 2%) whıch was an exceptıonal performance comıng as ıt dıd on the back of a strong prevıous year drıven by the ımpact of Narnıa sales followıng the film release of "The Lıon, The Wıtch and The Wardrobe" The hıghlıght of the year was the performance of "The Dangerous Book for Boys" by Conn and Hal Iggulden whıch sold almost 700,000 copıes Operatıng profit rose £0 5m (3 8%) largely as a result of the ıncrease ın revenues Whıle the book publıshıng market remaıns challengıng, the dırectors belıeve the company wıll contınue to delıver strong revenues and profits ın the comıng year

HarperCollıns ıs one of the top book publıshıng groups ın the country It publıshes a wıder range of books than any other publısher, from cuttıng-edge contemporary fictıon to endurıng classıcs, from chıldren's books to block bustıng thrıllers It also publıshes an ımpressıve range of non fictıon, ıncludıng hıstory, celebrıty and ınspıratıonal memoırs, popular scıence, dıctıonarıes, reference tıtles and educatıon text books

It ıs home to many award wınnıng and ınternatıonal best sellıng authors ıncludıng Mıchael Crıchton, Bernard Cornwell, Paulo Coelho, Josephıne Cox, Cathy Kelly, Cecelıa Ahern, Frank McCourt, Tony Parsons, Val McDermıd, Conn Iggulden, Nıgel Slater, Barbara Taylor Bradford and Dean Koontz In addıtıon, ıt publıshes the works of Agatha Chrıstıe, J R R Tolkıen and C S Lewıs 2007 saw the company's publıshıng programme enjoy a record breakıng year wıth an unprecedented 61 top ten tıtles ın the Sunday Tımes bestseller lısts, ıncludıng 14 number ones Prıze wınners ın the year ıncluded Conn & Hal Iggulden who pıcked up Book of the Year at the Galaxy Brıtısh Book Awards for "The Dangerous Book for Boys" and Chımamanda Ngozı Adıchıe who won the Orange Prıze for Fıctıon wıth "Half Of A Yellow Sun"

3. **Business review and future developments** (continued)

The Directors aim to place HarperCollins consistently at the forefront of innovation and technological advancement During the year it was the first publisher to digitise its content and create a global digital warehouse for its authors enabling it to distribute digital content to retail, search, community and other on line partners The company also leads the industry in environmental initiatives and subsequent to the year end announced that it will print its entire mass market paperback list on FSC paper from October 2007 As a result, over 55% of all HarperCollins books will be produced on environmentally friendly paper, a significantly higher proportion than any other UK book publisher

During the year, the company adopted FRS 20 'Share based Payment' The main impact of this accounting standard is to recognise the fair value of options as an expense in the profit and loss account over the vesting period The prior year results have been restated where indicated to ensure the 2006 balances also fully reflect the requirements of FRS 20

4. **Directors and their interests**

The names of the directors who held office during the year appear on page 1

5. **Statement of directors' responsibilities**

Company law requires the directors to prepare accounts for each financial year which 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 those accounts the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, and prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985 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

6. Employee involvement

The company places considerable importance upon and is committed to effective communications and consultation procedures covering employees at all levels Information on matters of concern to all employees is given through a company intranet, staff presentations, regular meetings, notice board bulletins and circulars

The Forum, made up of elected members of staff and representatives of senior management, exists to provide a communications channel between management and staff Representatives of employees also play an active part on health and safety committees and pension scheme bodies and there is a frequent dialogue with recognised trade unions

7. Disabled persons

It is the company's policy that disabled persons are given full and fair consideration for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities Where the disability occurs during the period of employment, every effort is made to continue to provide suitable employment with the provision of appropriate training

8. Charitable donations

During the year ended 30 June 2007, the company made donations in the United Kingdom for charitable purposes of £25,001 (2006 £22,133) No political donations were made

9. Environmental responsibility

The company takes its environmental responsibilities very seriously and amongst other initiatives is leading the industry by printing more books on FSC (Forest Stewardship Council) approved and recycled paper than any other UK publisher

10. Disclosure to auditors

None of the directors in office at the time these accounts are approved are aware of any relevant audit information of which the company's auditors are unaware All of the directors have taken all the necessary steps as directors to make themselves aware of any relevant audit information and to establish that the company's auditors are made aware of that information

11. Financial risk management objectives and policies

The company's policy does not permit trading in any financial instruments The company's principal financial instruments comprise of cash, short term deposits and/or borrowings and forward currency contracts, the main purpose of which is to provide finance for its normal trading operations and to reduce the impact of currency exchange rate movements on trading results

The company has various other financial instruments such as trade debtors and creditors that arise directly from its trading operations

The main risks arising from the company's financial instruments are liquidity and foreign currency risks The company has clear policies for managing each of these risks, as summarised below

a) Liquidity risk

The company aims to mitigate liquidity risk by managing cash generation by its operations and applying cash collection targets Investment is carefully controlled with authorisation limits operating at different levels up to group board level and with hurdle rates of return and cash payback periods applied as part of the investment appraisal process

b) Foreign currency risk

The company buys and sells goods and services denominated in currencies other than sterling The company manages such receipts and payments through the operation of other denominated currency bank accounts and sterling settlement of foreign exchange contracts As a result of the value of the company's non sterling revenues, purchases, financial assets and liabilities, cash flows can be affected significantly by movements in exchange rates

The company seeks to mitigate its exposure to currency movements by entering into forward currency contracts, denominated in the same currency as the operating funds flow, to match the exposures anticipated in the business The forward contracts are entered into on the basis of new orders and regularly updated forecast information on the level of trading in each denominated currency The company will seek to have all material current exposures matched to forward contracts, with a significant percentage of non current exposures matched for up to one year ahead and selectively beyond this

c) Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company provides goods and services on deferred credit terms

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures Individual exposures are monitored with customers subject to credit limits to ensure the company's exposure to bad debts is not significant Goods may be sold on a cash with order basis or subject to guaranteed letters of credit to mitigate credit risk Credit insurance is also operated on a selective customer basis

11. Financial risk management objectives and policies (continued)

c) Credit risk (continued)

In agreeing annual budgets, the company sets limits for debtors' days and doubtful debt expense against which performance is monitored and reported to senior management in order to reduce the likelihood of an unmanaged concentration of credit risk

d) Price risk

Exposures to changes in raw materials prices are not significant in relation to the overall nature of the business

By order of the Board

Patric Duffy
Secretary

Westerhill Road
Bishopbriggs
GLASGOW
G64 2QT

28 March 2008

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF HARPERCOLLINS PUBLISHERS LIMITED

We have audited the company's financial statements for the year ended 30 June 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes 1 to 26 These financial statements have been prepared under the accounting policies set out therein

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the Directors' Report and consider the implications for our report if we become aware of any apparent mis statements within it

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of company's affairs as at 30 June 2007 and of its profit for the year then ended,
- The financial statements have been properly prepared in accordance with the Companies Act 1985, and
- The information given in the directors' report is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Glasgow
31 March 2008

HARPERCOLLINS PUBLISHERS LIMITED

ACCOUNTING POLICIES

Accounting convention

The accounts have been prepared under the historical cost convention modified to include the revaluation of investments in subsidiary undertakings The accounts are prepared in accordance with applicable accounting standards

Changes in accounting policy

In preparing the financial statements for the current year, the company has adopted Financial Reporting Standard 20 'Share based Payment' which became mandatory for all accounting periods beginning on 1 January 2006 The adoption of Financial Reporting Standard 20 has resulted in a change in accounting policy for share based payment transactions The impact of adopting the Financial Reporting Standard 20 standard has been reflected throughout the financial statements and comparatives have been restated where appropriate The impact is summarised in Note 23

Group accounts

The company is a wholly owned subsidiary of William Collins Holdings Limited registered in England and Wales In accordance with the exemption provided by Section 228 of the Companies Act 1985, group accounts for the company and its subsidiary undertakings have not been prepared

The company's results are included in the consolidated accounts of Newscorp Investments which is registered in England and Wales

Publishing rights

Publishing rights represent the value assigned to rights to titles in print on the acquisition of a business or a publishing list The company's policy for calculating the value of publishing rights complies with the requirements of Financial Reporting Standard 10 "Goodwill and Intangible Assets" Publishing rights are amortised on a straight line basis over a period of between five and ten years

HARPERCOLLINS PUBLISHERS LIMITED

ACCOUNTING POLICIES (Continued)

Depreciation of tangible assets

Freehold land is not depreciated Other tangible assets are depreciated evenly over their estimated useful lives as follows

Short leasehold land and buildings	Term of lease
Plant and machinery	
General plant and machinery	10 years maximum
Motor vehicles	5 years maximum

The useful lives of plant and machinery are subject to periodic appraisal and depreciation is revised accordingly and spread over the remaining revised useful life

Investments

Investments in subsidiary undertakings are stated at cost subject to any impairment reviews as required Surpluses on valuation are credited to the revaluation reserve and deficits on valuation, to the extent that they are not covered by previous revaluation surpluses, are charged to the profit and loss account

Stocks

Stocks are valued at the lower of cost and net realisable value Cost consists of the purchase price of direct materials or completed books Provision is made for slow moving, obsolete or damaged items where appropriate

Advances

Advances are written down to the extent that they are not expected to become earned in the future

Share based payments

The company issues equity settled share based payments to certain employees which must be measured at fair value and recognised as an expense in the income statement with a corresponding increase in equity The fair values of these payments are measured at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted The fair value is recognised over the period during which employees become unconditionally entitled to the awards, subject to the company's estimate of the number of awards which will lapse due to employees leaving the company prior to vesting The company reimburses its ultimate parent company for executive company options exercised during the year

The company has taken advantage of the transitional provisions of Financial Reporting Standard 20 in respect of equity awards so as to apply Financial Reporting Standard 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2006

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception

> Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into Sterling at rates ruling at the balance sheet date Foreign currency transactions are recorded at rates ruling at the date of the transactions All differences are taken to net operating expenses with the exception of

1) differences on foreign currency investments made by means of long term loans or inter company deferred trading balances, and

2) differences in long term loans to the extent that they provide a hedge against the above foreign currency investments

which are taken to profit and loss account reserve

HARPERCOLLINS PUBLISHERS LIMITED

ACCOUNTING POLICIES (Continued)

Leasing

Assets obtained under finance leases are capitalised in the balance sheet and are depreciated over the shorter of the term of the lease or their useful lives The interest element of the rental obligations is charged to profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding

Operating lease rentals are charged to net operating expenses on a straight line basis over the term of the lease

Pensions

The company operates two defined benefit schemes Contributions to the schemes are charged to operating expenses so as to spread the cost of pensions over the employees' working lives within the company The Schemes have been closed to new entrants since April 2002 except that some tiers of the HarperCollins Executive Pension Scheme remains open to new entrants in exceptional circumstances

The company also operates a defined contribution pension scheme for relevant employees The assets of the scheme are held separately from those of the company in an independently administered fund

Cash flow statement

The company is exempt from the requirements of Financial Reporting Standard 1 (Revised) to include a cash flow statement as part of its financial statements because it is a wholly owned subsidiary undertaking of Newscorp Investments which will produce a consolidated cash flow statement The accounts of this company are publicly available

Related party transactions

As a subsidiary undertaking of News Corporation, the Company has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose transactions with other members of the Group headed by News Corporation

HARPERCOLLINS PUBLISHERS LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2007

	Notes	2007 £000	Restated 2006 £000
Turnover			
Continuing operations	1	177,259	173,379
Net operating expenses	2	(163,223)	(159,853)
Operating profit		14,036	13,526
Income from fixed asset investments	3	1,045	1,039
Interest receivable	4	948	783
Interest payable	5	(1,037)	(1,011)
Other finance income/(charges)	6	684	(955)
Profit on ordinary activities before taxation		15,676	13,382
Tax on profit on ordinary activities	9	(3,550)	(4,352)
Retained profit for the financial year	21	12,126	9,030

The accompanying notes are an integral part of this profit and loss account

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30 JUNE 2007

		2007 £000	Restated 2006 £000
Profit for the financial year		12,126	9,030
Actuarial gain on pension schemes		10,488	15,153
Tax thereon		(3,146)	(4,546)
Currency translation differences on foreign currency loans and deferred trading balances		291	(316)
Total gains and losses relating to the year		19,759	19,321
Prior year adjustment	23	(512)	
Total gains and losses recognised since last report and accounts		19,247	

The profit on ordinary activities for the year is also the historical cost profit on ordinary activities

HARPERCOLLINS PUBLISHERS LIMITED

BALANCE SHEET
AT 30 JUNE 2007

	Notes	2007 £000	Restated 2006 £000
Fixed Assets			
Publishing rights	10	1,199	1,560
Tangible assets	11	12,344	11,475
Investments – shares	12	25,465	25,465
Investments – loans	13	10,000	10,000
		49,008	48,500
Current Assets			
Stocks	14	23,704	24,802
Debtors	15	329,030	325,790
Cash at bank and in hand		24,490	16,246
		377,224	366,838
Creditors amounts falling due within one year	16	(88,265)	(83,623)
Net current assets		288,959	283,215
Total assets less current liabilities		337,967	331,715
Provisions for liabilities and charges	17	(17,599)	(18,042)
Net assets excluding retirement benefits		320,368	313,673
Retirement benefits – asset/(liability)	24	2,468	(10,195)
		322,836	303,478
Equity capital and reserves			
Called up share capital	20	13,245	13,245
Share premium account	21	23,782	23,782
Revaluation reserve	21	2,188	2,188
Equity share based payment	21	331	732
Other reserves	21	(72,486)	(72,486)
Profit and loss account	21	355,776	336,017
Equity shareholders' funds		322,836	303,478

The accompanying notes are an integral part of this balance sheet

The accounts were approved by the Board of Directors on 28 March 2008 and signed on their behalf by

V BARNSLEY DIRECTOR

E KIELBASIEWICZ DIRECTOR

HARPERCOLLINS PUBLISHERS LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007

1. Turnover

Turnover is the total of goods and services invoiced to customers and is exclusive of value added tax and trade discounts

The turnover and operating profit is attributable to book publishing and related activities

The geographical analysis of turnover was as follows

	2007 £000	2006 £000
Australia	10,005	11,281
North America	5,702	6,313
Africa	2,056	2,167
New Zealand	2,045	2,241
Europe	8,516	9,800
Other export markets	6,683	5,652
Total overseas	35,007	37,454
United Kingdom	142,252	135,925
Total	177,259	173,379

2. Net operating expenses

	2007 £000	Restated 2006 £000
Change in stocks of finished goods and work in progress	424	(1,015)
Other external charges	89,001	87,988
Staff costs (note 7)	43,121	41,442
Amortisation of publishing rights	361	361
Depreciation of owned assets	1,788	1,495
Other operating charges	35,552	35,870
	170,247	166,141
Other operating income	(7,024)	(6,288)
Net operating expenses	163,223	159,853

2. Net operating expenses (continued)

	2007 £000	2006 £000
Operating profit is stated after charging or (crediting) the following		
Auditors' remuneration		
Audit fees	84	91
Other	3	3
Operating lease rentals – plant and machinery	422	592
Operating lease rentals – land and buildings	8,815	7,469
Exchange gains	(602)	(358)
Loss/(gain) on sale of fixed assets	1	(64)

3. Income from fixed asset investments

	2007 £000	2006 £000
Interest on loans to group undertakings	1,045	1,039

4. Interest receivable

	2007 £000	2006 £000
Bank interest	58	58
Interest from fellow subsidiary undertaking	890	725
	948	783

HARPERCOLLINS PUBLISHERS LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007 (Continued)

5. Interest payable

	2007 £000	2006 £000
Interest on loans from subsidiary undertakings	1,000	1,000
Other interest	37	11
	1,037	1,011

6. Other finance income/(charges)

	2007 £000	2006 £000
Unwinding of discount on surplus property provisions	(1,349)	(1,383)
FRS 17 net finance income	2,033	428
	684	(955)

7. Directors and employees

	2007 £000	2006 £000
Wages and salaries	31,494	31,840
Social security costs	2,777	2,790
Other pension costs	2,954	3,306
Exercise of share options granted before 7 November 2002	1,153	
Cost of employee share schemes (note 8)	447	381
Other staff costs	4,296	3,125
	43,121	41,442

Directors' remuneration:

	2007 £000	2006 £000
Emoluments	1,101	1,132

7. Directors and employees (continued)

Pensions	**2007 Number**	**2006 Number**
The number of directors who were members of pension schemes was as follows		
Defined benefit schemes	4	4

Highest paid director

	2007 £000	**2006 £000**
The above amounts for remuneration include the following in respect of the highest paid director		
Emoluments	656	629

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 30 June 2007 was £87,452 (2006 £69,960)

The average number of persons employed by the company during the year was

	2007 Number	**2006 Number**
Publishing	307	332
Distribution	331	372
Selling	94	110
Administration	206	219
	938	1,033

8. Share-based payments

Executive share plan
The share options were granted on 11 August 2003 and were issued under the News Corporation 2004 Stock Option Plan Eligible employees received a number of options over News Corporation Class A Common Stock 25% vest annually on the anniversary of the grant date and will lapse after 10 years or if the employee leaves employment of the News Corporation Group

Restricted stock units
The restricted stock units were granted on 3 October 2005 and were issued under the News Corporation 2005 Long Term Incentive Plan Eligible employees received a number of restricted stock units which vest 25% each year on 15 August Upon vesting the restricted stock units will be awarded as News Corporation Class A Common Stock The restricted stock units lapse on leaving the employment of the News Corporation Group

Financial impact
The expense recognised for share based payments in respect of employee services received during the year to 30 June 2007 is £447,000 (2006 £381,000)

The portion of that expense arising from equity settled share based payment transactions is £447,000 (2006 £381,000)

The following table summarises information about the company's stock option transactions for all the company's stock option plans

	2007		2006	
	Options	**WAEP (US$)**	**Options**	**WAEP (US$)**
Outstanding as at 1 July	354,180	8 51	232,450	12 96
Granted during the year			121,730	0 01
Exercised during the year	(186,027)	10 85		
Outstanding as at 30 June	168,153	5 93	354,180	8 51
Exercisable as at 30 June	76,850		232,450	

WAEP Weighted Average Exercise Price

The range of exercise prices for options outstanding at the end of the year was $0 01 $12 96 (2006 $0 01 $12 96)

The fair value of each share option granted is estimated on the date of grant using the Black Scholes option pricing model with the following assumptions used for grants in fiscal years ending 30 June

	2006	2004	2003
Weighted average risk free interest rate	4 94%	5 60%	5 72%
Dividend yield	0 7%	0 9%	1 5%
Expected volatility	29 52%	41 83%	43 40%
Expected life of options	4 years	3 7 years	3 7 years
Weighted average share price	$8 98	$8 96	$8 32

No options were granted in either 2007 or 2005

The assumptions are derived as follows

The expected volatility was based on the historical volatility of News Corporations Class A Common Stock, the Weighted average risk free rate is an average of the interest rates of government bonds with similar lives on the dates of the share option grants and the dividend yield is calculated as an average of a ten year history of the company's yearly dividend divided by the financial year's closing share price

9. Tax on profit on ordinary activities

The tax charge is made up as follows

	2007 £000	Restated 2006 £000
Current tax:		
Overseas Withholding Tax	364	
Deferred tax:		
Effect of decreased rate on opening position	688	
Current year movement at 30%	2,213	4,352
Current year movement rate change effect	285	
Tax on profit on ordinary activities	3,550	4,352

Factors affecting current tax charge:
The tax assessed on the profit on ordinary activities for the year is £364,000 (2006 £Nil) The difference between the tax assessed and the standard rate of corporation tax in the UK of 30% (2006 30%) is reconciled below

	2007 £000	Restated 2006 £000
Profit on ordinary activities before tax	15,676	13,382
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	4,703	4,015
Expenses not deductible for tax purposes	365	305
Trading losses brought forward utilised in the current year	(1,014)	(849)
Pensions contributions in excess of pensions charge	(2,104)	(3,415)
Accelerated capital allowances	(25)	(121)
Net costs deductible for tax purposes charged against general provisions	(59)	(64)
Transfer pricing adjustment on intercompany balance	3,295	2,787
Other timing differences share based payments	134	114
Exercise of stock options	(254)	
Group relief claimed	(4,677)	(2,772)
Total current tax	364	

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK corporation tax will reduce from 30% to 28%

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse

The group has no tax losses arising in the UK (2006 £886,000) that are available indefinitely for offset against future taxable profits

10. Publishing rights

	£000
At 1 July 2006	1,560
Amortisation	(361)
At 30 June 2007	1,199

11. Tangible fixed assets

	Freehold Land £000	Short Leasehold Land and Buildings £000	Plant and Machinery £000	Total £000
Cost				
At 1 July 2006	384	11,905	18,892	31,181
Additions			2,658	2,658
Transfers		474	(474)	
Disposals			(21)	(21)
At 30 June 2007	384	12,379	21,055	33,818
Depreciation				
At 1 July 2006		4,699	15,007	19,706
Charge for the year		547	1,241	1,788
Disposals			(20)	(20)
At 30 June 2007		5,246	16,228	21,474
Net book value at 30 June 2007	384	7,133	4,827	12,344
Net book value at 30 June 2006	384	7,206	3,885	11,475

Included in plant and machinery are the following amounts relating to leased assets

	Cost £000	Depreciation £000	Net Book Value £000
At 1 July 2006 and 30 June 2007	548	(548)	

There were no capital commitments at 30 June 2007 (2006 £84,000)

12. Investments – shares

	Subsidiary undertakings £000
At 1 July 2006 and 30 June 2007	25,465

Name of Company	Holding	Proportion of voting rights and shares held	Nature of Business
HarperCollins Publishers India Pvt (India)	Ordinary shares	40%	Publishers
Fourth Estate Limited (England and Wales)	Ordinary shares	100%	Non Trading
William Collins Sons & Company Limited (Scotland)	Ordinary shares	100%	Non Trading
William Collins International Limited (England and Wales)	Ordinary shares	100%	Non Trading

The country of principal operation and registration/incorporation is stated after the company

The unlisted associated undertakings have been written down to £nil in previous years

13. Investments – loans to group undertakings

	2007 £000	2006 £000
Loan note to a subsidiary undertaking	10,000	10,000

14. Stocks

	2007 £000	2006 £000
Raw materials and consumables	2,039	1,079
Work in progress	1,175	1,956
Finished goods	7,491	7,134
Publishing plant	12,999	14,633
	23,704	24,802

15. Debtors

	2007 £000	Restated 2006 £000
Trade debtors	40,422	34,024
Advances	21,591	22,765
Amounts due by parent undertakings	172,972	172,927
Amounts due by subsidiary undertakings	84,760	83,910
Amounts due by fellow subsidiary undertakings	1,726	1,934
Other debtors	873	1,087
Prepayments	1,738	3,193
Deferred tax (note 19)	4,948	5,950
	329,030	325,790

16. Creditors: amounts falling due within one year

	2007 £000	2006 £000
Bank loans and overdrafts	103	344
Trade creditors	7,018	4,839
Amounts due to parent undertaking	1,000	1,000
Amounts due to subsidiary undertakings	33,759	33,733
Amounts due to fellow subsidiary undertakings	5,650	4,812
Sterling short term loans due to parent undertaking	4,000	4,000
Other taxes and social security costs	947	932
Other creditors	13,158	13,375
Accruals	22,630	20,588
	88,265	83,623

17. Provisions for liabilities and charges

	2007 £000	2006 £000
Provision for property costs	17,599	18,042

The movement in the above provisions are as follows

	Surplus Property £000
At 1 July 2006	18,042
Unwinding of discount on surplus property provision	1,349
Utilised in year	(1,792)
At 30 June 2007	17,599

The property provision relates to various London properties and the company's Glasgow site The London properties are surplus to the requirements of the company and are substantially sub let The provision relating to these properties represents the expected shortfall between the future obligations of the company and the likely income that will be generated from sub letting The provision in respect of the Glasgow site reflects future rental costs in excess of market levels to the extent the full cost would make activities operated from the premises uneconomic The utilisation in the year of £1,792,000 is the difference between income and cost for the London properties and excess rent for the Glasgow property for the year to 30 June 2007 In the opinion of the directors, it is expected that the economic benefits of this provision will be realised over future accounting periods

18. Lease obligations

	Land and Buildings 2007 £000	Land and Buildings 2006 £000	Other 2007 £000	Other 2006 £000
At 30 June 2007, the company was committed to making the following payments during the next year in respect of operating leases which expire				
Within one year			132	44
Within two to five years	70	66	187	226
Outwith five years	8,745	8,745	103	185
	8,815	8,811	422	455

19. Deferred taxation

Deferred tax asset is provided at 28% (2006 30%) as follows

	2007 £000	Restated 2006 £000
Accelerated capital allowances	(1,868)	(2,000)
Tax losses carried forward		886
Other timing differences	6,486	6,844
Share based payments	330	220
Included in debtors (note 15)	4,948	5,950
Netted off against pension scheme asset/liability (note 24)	(960)	4,370
Deferred tax asset	3,988	10,320

On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK corporation tax will reduce from 30% to 28% The reduced rate was included in the Finance Bill 2007 The Finance Bill passed through the House of Commons on 27 June 2007 and is therefore considered substantively enacted by the Balance Sheet date

	£000
At 1 July 2006	10,100
Prior year adjustment	220
Restated at 1 July 2006	10,320
Deferred tax charge in profit and loss account	
Effect of decreased tax rate on opening balance	(688)
Current year movement	(2,498)
Deferred tax on actuarial gain	(3,146)
At 30 June 2007	3,988

20. Equity called up share capital

	2007 Number	2007 Value £000	2006 Number	2006 Value £000
Authorised				
Ordinary shares of 25 pence	15,978,482	3,995	15,978,482	3,995
Ordinary 'A' shares of 25 pence	37,001,102	9,250	37,001,102	9,250
Unclassified shares of 25 pence	15,020,416	3,755	15,020,416	3,755
	68,000,000	17,000	68,000,000	17,000
Allotted, issued and fully paid				
Ordinary shares of 25 pence	15,978,482	3,995	15,978,482	3,995
Ordinary 'A' shares of 25 pence	37,001,102	9,250	37,001,102	9,250
	52,979,584	13,245	52,979,584	13,245

21. Reserves

	Share Premium Account £000	Revaluation Reserve £000	Equity Share Based Payment £000	Other Reserves £000	Profit and Loss Account £000	Total £000
At 1 July 2006	23,782	2,188		(72,486)	336,529	290,013
Prior year adjustment			732		(512)	220
As restated 1 July 2006	23,782	2,188	732	(72,486)	336,017	290,233
Transfer from profit and loss account for the year					12,126	12,126
Equity settled share based payments			447			447
Cash settlement of equity settled share based payments			(848)			(848)
Actuarial gain on pension schemes net of tax					7,342	7,342
Currency translation differences on foreign currency loans and deferred trading balances					291	291
At 30 June 2007	23,782	2,188	331	(72,486)	355,776	309,591

22. Reconciliation of movements in shareholders' funds

	2007 £000	Restated 2006 £000
Reported surplus on ordinary activities	12,126	9,030
Equity settled share based payment	447	381
Cash settlement of equity settled share based payments	(848)	
Actuarial gain recognised in STRGL	10,488	15,153
Tax thereon recognised in STRGL	(3,146)	(4,546)
Other surpluses and deficits	291	(316)
Net addition to reserves	19,358	19,702
Opening shareholders' funds	303,478	283,776
Closing shareholders' funds	322,836	303,478

Shareholders' funds are entirely attributable to equity interest

Revenue reserve

	2007 £000	Restated 2006 £000
Revenue reserve excluding pension asset/(liability)	353,308	346,212
Pension asset/(liability)	2,468	(10,195)
Revenue reserve	355,776	336,017

23. Prior year adjustment

The prior year adjustment relates to the adoption of Financial Reporting Standard 20 'Share based Payment'

The adoption of Financial Reporting Standard 20 'Share based Payment' has resulted in an increase of staff costs of £447,000 (2006 £381,000) which decreased the tax charge by £125,000 (2006 £114,000) This resulted in a decrease in retained profit for the year of £322,000 (2006 £267,000) and a decrease in total recognised gains and losses of £512,000 (2006 £Nil) representing increases in staff costs of £732,000 and a deferred tax asset of £220,000

The adoption of Financial Reporting Standard 20 had the following effects on the balance sheet Equity settled transactions have increased shareholders' funds by £447,000 (2006 £381,000) As a result a cumulative deferred tax asset of £330,000 (2006 £220,000) has been recognised

24. Pension commitments

Composition of the scheme

The group operates two define benefit schemes in the UK – the HarperCollins Pension & Life Assurance Scheme (the "Staff Scheme") and the HarperCollins Executive Pension & Life Assurance Scheme (the "Executive Scheme") Both Schemes closed to new entrants with effect from 6 April 2002 with the exception that the "Executive Scheme" is open to new entrants in exceptional circumstances and with the approval of the Trustees This means that, under the Projected Unit Method, the service cost will increase as the remaining members approach retirement

Contributions are currently paid at a rate between 23 2% and 32 0% of pensionable salaries plus the costs of insuring the death in service benefits This rate includes members' contributions at a rate between 2% and 8% of pensionable salaries

The Executive Scheme figures below also include the William Collins & Sons (Holdings) Limited Retirement Benefit Scheme A full actuarial valuation was carried out as at 31 March 2005 for both the Staff Scheme and the Executive Scheme and updated to 30 June 2007 by a qualified independent actuary The major assumptions used by the actuary were

	At 30 June 2007 %	At 30 June 2006 %
Rate of increase in salaries	4 50	4 25
Rate of increase of pensions in payment	* 3 25	* 3 00
Rate of increase of deferred pensions	3 25	3 00
Discount rate	5 75	5 25
Inflation assumption	3 25	3 00

* for LP1 otherwise fixed rates

The assets in the scheme and the expected rate of return were

	Long term rate of return expected at 30 June 2007 %	Staff Scheme £m	Executive Scheme £m	Combined Value at 30 June 2007 £m
Equities	8 00	53 8	54 4	108 2
Bonds / annuities	5 25	31 2	35 6	66 8
Other	4 75		0 6	0 6
Total market value of assets		**85 0**	**90.6**	**175.6**
Present value of scheme liabilities		**83.5**	**88.7**	**172.2**
Surplus in the scheme		**1.5**	**1.9**	**3.4**
Related deferred tax liability				**(0.9)**
Net pension surplus				**2 5**

24. Pension commitments (continued)

Composition of the scheme (continued)

The assets in the scheme and the expected rate of return were (continued)

	Long term rate of return expected at 30 June 2006 %	Staff Scheme £m	Executive Scheme £m	Combined Value at 30 June 2006 £m
Equities	8 00	48 0	47 8	95 8
Bonds / annuities	5 25	28 5	31 4	59 9
Other	4 75	1 3	1 3	2 6
Total market value of assets		**77.8**	**80.5**	**158.3**
Present value of scheme liabilities		**84.5**	**88.3**	**172.8**
Deficit in the scheme		**(6.7)**	**(7.8)**	**(14.5)**
Related deferred tax asset				**4.4**
Net pension liability				**10.1**

Movements in deficit during the year

	Staff Scheme £m	Executive Scheme £m	Combined for year ended 30 June 2007 £m
Deficit in scheme at the beginning of the year	(6 7)	(7 8)	(14 5)
Movement in year			
Current service cost	(1 2)	(1 2)	(2 4)
Contributions	3 1	4 6	7 7
Other finance income	1 1	1 0	2 1
Actuarial gain	5 3	5 2	10 5
Surplus in scheme at the end of the year	1 5	1 9	3 4

24. Pension commitments (continued)

Analysis of amount charged to operating profit

	Staff Scheme £m	Executive Scheme £m	Combined for year ended 30 June 2007 £m
Current service cost	1 2	1 2	2 4
Total operating charge	1 2	1 2	2 4

Analysis of amount credited to other financial income

	Staff Scheme £m	Executive Scheme £m	Combined for year ended 30 June 2007 £m
Expected return on pension scheme assets	5 4	5 7	11 1
Interest cost	(4 3)	(4 7)	(9 0)
Net return	1 1	1 0	2 1

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	Staff Scheme £m	Executive Scheme £m	Combined for year ended 30 June 2007 £m
Actual return less expected return on pension scheme assets	2 6	3 2	5 8
Experience gains and losses arising on the scheme liabilities	(1 3)	(0 6)	(1 9)
Changes in financial assumptions underlying the scheme liabilities	4 0	2 6	6 6
Actuarial gain recognised in STRGL	5 3	5 2	10 5

24. Pension commitments (continued)

History of experience gains and losses

	2007 £000	2006 £000	2005 £000
Difference between expected and actual return on scheme assets			
Amount	5 8	6 1	7 9
Percentage of scheme assets	3 3%	3 9%	5 9%
Experience gains/(losses) on scheme liabilities			
Amount	(1 9)	(0 4)	3 1
Percentage of scheme liabilities	(1 1)%	(0 2)%	1 8%
Total amount recognised in STRGL			
Amount	10 5	15 2	(12 2)
Percentage of scheme liabilities	6 1%	8 8%	(6 9)%

We have also derived the pension cost for 2007/08 This is as shown below

	Staff Scheme £m	Executive Scheme £m	Combined for year ended 30 June 2008 £m
Service cost	1 1	0 9	2 0
Interest cost	4 7	5 1	9 8
Return on assets	(5 9)	(6 3)	(12 2)
Amortisation of transition gain	(0 2)	(0 1)	(0 3)
Net gain	0 6	0 7	0 7
Total pension cost	0 3	0 3	0 6

The company also operates a defined contribution scheme, the HarperCollins Publishers Stakeholder Pension Plan for employees The assets of this scheme are held separately from those of the company and in an independently administered fund Unpaid contributions at 30 June 2007 included in other creditors (note 16) amounted to £56,471 (2006 £43,872)

HARPERCOLLINS PUBLISHERS LIMITED

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 30 JUNE 2007 (Continued)

25. Contingent liabilities

The company has commitments in respect of a number of leasehold properties which are surplus to requirements The properties are substantially sub let and provision has been made in the accounts for any expected future cost in respect of these properties

As at 30 June 2007 the company had outstanding forward exchange contracts to buy and sell foreign currency to the value of £1,383,000 (2006 £1,194,000) and £756,000 (2006 £682,000) respectively

The company has entered into an Omnibus Guarantee and Set off Agreement with News International Limited and other fellow subsidiary undertakings of News International as guarantors of all monies and liabilities owing or incurred by each of the other parties to Lloyds Bank

26. Ultimate parent company

The ultimate parent company is News Corporation, a company incorporated in Delaware, United States of America

The largest group in which the results of HarperCollins Publishers Limited and its subsidiary undertakings are consolidated is that headed by News Corporation, incorporated in Delaware, United States of America, whose principal place of business is at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 The consolidated accounts of News Corporation are available to the public and may be obtained from PO Box 495, Virginia Street, London, E1 9XY

The smallest group in which they are consolidated is that headed by Newscorp Investments, a company incorporated in England The consolidated accounts of Newscorp Investments are available to the public and may be obtained from News International Limited, PO Box 495, Virginia Street, London, E1 9XY