Scholastic Book Clubs Limited

Report and Financial Statements

31 May 2016

Registered no. 1417383

DIRECTORS
R Robinson
S Thompson
N Dixon
C Moreton

SECRETARY
N Dixon

AUDITORS
Ernst & Young LLP
No 1 Colmore Square
Birmingham
B4 6HQ

BANKERS
HSBC Bank plc
126 The Parade
Leamington Spa
Warwickshire
CV32 4AJ

REGISTERED OFFICE
Westfield Road
Southam
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CV47 0RA

STRATEGIC REPORT

The directors submit their strategic report for the year ended 31 May 2016.

PRINCIPAL ACTIVITIES AND FUTURE PROSPECTS
Scholastic Book Clubs Limited is the UK's single largest school-based book club. The company is part of the Scholastic UK group, which as well as the clubs operation is also a school-based book fair operator and leading publisher of children's and education books and resources.

There have not been any significant changes in the company's principal activities in the year under review. The Directors are not aware, at the date of this report, of any likely major changes in the group's activities in the next year.

PERFORMANCE OF THE BUSINESS DURING THE YEAR
The company experienced a sales decline of 17.6% in the year. Sales in the UK market declined by 17% whilst sales in overseas markets declined by over 18%. Gross margin improved in percentage terms in the year despite the decline in revenue due to better stock utilisation. Both distribution and administration expenses reduced significantly in the year as we looked to optimise our spending on promotional and other costs. Despite the sales decline the margin improvement and expense reductions reduced the absolute operating loss in the year by £479k.

Year to 31 May	**2016** **£'000**	**2015** **£'000**
Turnover	5,796	7,033
Gross Profit	3,595	4,319
Gross Margin	62.0%	61.4%
Operating Loss	(575)	(1,054)
Operating Margin	-9.9%	-15.0%

The loss for the year after taxation was £598,542 (2015 loss: £1,084,730). The Directors do not recommend the payment of a dividend (2015: £nil).

During the year the company has transitioned from existing UK GAAP to Financial Reporting Standard 102. No material adjustments were required to the financial statements as a result of this transition.

PRINCIPAL RISKS AND UNCERTAINTIES
The principal risks and uncertainties facing the company are foreign currency risk, liquidity and interest rate risk.

Foreign currency
The company's principal currency is sterling, although the company does have some suppliers who invoice in US dollars and Euros. The Group seeks to naturally hedge currencies using existing supplier relationships.

Liquidity and interest rate risk
The company benefits from having a mix of businesses with varying standard credit terms, which provide increased liquidity. This is partially offset, however, by the seasonal nature of the company's revenues. The company utilises facilities provided by reputable high street banks within the UK at favourable terms. The company uses its position within the UK Group, and the wider Scholastic global operations, to tightly manage cash flows to minimise interest costs.

By order of the Board

N Dixon
Company Secretary

Date: 26th January 2017

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended 31 May 2016.

DIRECTORS
The current directors are listed on page 1.

The directors that served in the year are:

Director's Name	Residence (if outside the UK)
S Thompson	
R Robinson	*(Resident in the USA)*
N Dixon	
C Moreton	

DIRECTORS' LIABILITIES
As permitted by the Companies Act 2006, the Company has insurance cover for the Directors against liabilities in relation to the Group.

EMPLOYEE INVOLVEMENT
The company has always encouraged employees to present their suggestions with a view to improving the performance of the company.

FUTURE DEVELOPMENTS
The company continues to explore opportunities to engage with schools and parents in order to maximise sales opportunities and build readers.

GOING CONCERN
The financial statements have been prepared under the going concern concept which assumes that the company will be able to meet its liabilities as they fall due for the foreseeable future. In drawing this conclusion the Directors have sought and obtained support from Scholastic UK Limited which itself has obtained support from Scholastic Inc. In addition Scholastic Inc provides a guarantee for the UK overdraft facility. Based on the support structure in place and the ability and willingness of Scholastic Inc to continue to support the UK group the directors have concluded it is appropriate to prepare the accounts under the going concern concept.

AUDITORS
A resolution to re-appoint Ernst & Young LLP as the company's auditor will be put to the forthcoming Annual General Meeting.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
The Directors, as far as they are aware, confirm that there is no relevant information of which the company's auditors are unaware.

The Directors confirm that they have taken all the steps that they ought to as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

N Dixon
Company Secretary

Date: 26th January 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHOLASTIC BOOK CLUBS LIMITED

We have audited the financial statements of Scholastic Book Clubs Limited for the year ended 31 May 2016 which comprise the Income statement, the Balance Sheet, the Statement of changes in equity, and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's 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

As explained more fully in the Statement of Directors' Responsibilities (set out on page 4), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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 Reports and Financial Statements 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 financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 May 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCHOLASTIC BOOK CLUBS LIMITED (continued)

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew Merrick, (Senior statutory auditor)
Ernst & Young LLP, Statutory Auditor
Birmingham

Date: 30.1.17

INCOME STATEMENT
For the year ended 31 May 2016

	Note	2016 £	2015 £
TURNOVER	2	5,796,267	7,032,990
Cost of sales		(2,200,716)	(2,713,818)
GROSS PROFIT		3,595,551	4,319,172
Distribution costs		(3,158,984)	(4,085,412)
Administrative expenses		(1,011,363)	(1,287,329)
OPERATING LOSS	3	(574,796)	(1,053,569)
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		(574,796)	(1,053,569)
Interest payable and similar charges	5	(23,746)	(31,161)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(598,542)	(1,084,730)
Tax on loss on ordinary activities	6	-	-
LOSS FOR THE FINANCIAL YEAR		(598,542)	(1,084,730)

All transactions arose from continuing operations.

There are no items of other comprehensive income (2015: none) such that total comprehensive income comprises solely the retained profit for the financial year.

The notes on pages 10 to 18 form part of these financial statements.

BALANCE SHEET
At 31 May 2016

	Note	2016	2015
		£	£
FIXED ASSETS			
Intangible assets	7	-	-
Tangible assets	8	1,956,263	2,129,148
		1,956,263	2,129,148
CURRENT ASSETS			
Stocks	9	2,401,162	2,431,769
Debtors	10	1,343,511	2,102,490
Cash at bank and in hand		350	350
		3,745,023	4,534,609
CREDITORS: amounts falling due within one year	11	(25,786,624)	(26,150,553)
NET CURRENT LIABILITIES		(22,041,601)	(21,615,944)
NET ASSETS		(20,085,338)	(19,486,796)
CAPITAL AND RESERVES			
Called up share capital	14	539,557	539,557
Capital redemption reserve		8,000	8,000
Profit and loss account		(20,632,895)	(20,034,353)
		(20,085,338)	(19,486,796)

The notes on pages 10 to 18 form part of these financial statements.

Approved by the Board on 26th January 2017

S Thompson
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 May 2016

	Called up capital	Capital reserve	Profit and loss account	Total equity
	£	£	£	£
At 1 June 2014	539,557	8,000	(18,949,623)	(18,402,066)
Loss for the year	-	-	(1,084,730)	(1,084,730)
At 31 May 2015	539,557	8,000	(20,034,353)	(19,486,796)
Loss for the year	-	-	(598,542)	(598,542)
At 31 May 2016	539,557	8,000	(20,632,895)	(20,085,338)

NOTES TO THE ACCOUNTS

At 31 May 2016

1. ACCOUNTING POLICIES

Statement of compliance

Scholastic Book Clubs Limited is a limited liability company incorporated in England. The registered office is Westfield Road, Southam, Warwickshire, CV47 0RA.

The company's financial statements have been prepared in compliance with FRS 102 'The Financial Reporting Standard for the UK and Republic of Ireland' as it applies to the financial statements of the company for the year ended 31 May 2016. The company transitioned from previously extant UK GAAP to FRS 102 as at 1 June 2014. An explanation of how the transition to FRS 102 has affected the reported financial position and financial performance is given in note 18.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards. The financial statements are prepared in sterling which is the functional currency of the company and rounded to the nearest £.

Fundamental accounting concept – Going concern

The financial statements have been prepared under the going concern concept which assumes that the company will be able to meet its liabilities as they fall due for the foreseeable future. In drawing this conclusion the Directors have sought and obtained support from Scholastic UK Limited which itself has obtained support from Scholastic Inc. In addition Scholastic Inc provides a guarantee for the UK overdraft facility. Based on the support structure in place and the ability and willingness of Scholastic Inc to continue to support the UK group the Directors have concluded it is appropriate to prepare the accounts under the going concern concept.

Cash Flow

The company is exempt from the provisions of FRS102, in respect of preparation of a Cash Flow Statement as it is included within the group financial statements of Scholastic Corporation, a US incorporated company. Scholastic Corporation controls more than 90% of the voting rights of the company.

Goodwill

Positive goodwill arising on acquisition since 1 June 2009 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis through the profit and loss account over the directors' estimate of its useful economic life of 20 years. It is reviewed for impairment at the end of each financial year.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates which are calculated to write off the cost of assets by equal annual instalments over their estimated useful lives as follows:

Freehold Buildings	2% - 7%
Equipment, fixtures and fittings	14% - 33%

Depreciation is not provided on freehold land.
The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

NOTES TO THE ACCOUNTS
At 31 May 2016

1. ACCOUNTING POLICIES (continued)

Stock
Stocks have been valued at the lower of cost, including all attributable overheads, or net realisable value. Cost is determined on a weighted average basis.

The stock is considered on a title-by-title basis with respect to its editorial suitability for re-offer (assessed on the nature and the quantity of the book) and anticipated method of disposal. Provisions, based on this, are made to reduce cost to its estimated net realisable value, where appropriate.

Revenue recognition
Revenue is recognised upon despatch of goods to customers.

Deferred taxation
The charge for taxation is based on the results for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred taxation is recognised in respect of all timing differences which are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements, except that:

- 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
Transactions in foreign currencies have been translated at the rate ruling on the date of the transaction. Amounts payable or receivable in foreign currencies have been translated at the exchange rates ruling at the balance sheet date. Gains and losses on foreign exchange are taken to the profit and loss account.

Leasing
Rentals paid under operating leases are charged to the profit and loss account as incurred.

Pension costs
Contributions to defined contribution schemes are recognised in the profit and loss account in the period in which they became payable.

Judgements and key sources of estimation uncertainty
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The key area of judgement impacting these financial statements is in respect of stock provisions.

<u>*Stock provisioning*</u>
Methodology for calculation is based on usage and the model monitored on a regular basis throughout the year. Management exercise judgement on the figures produced on the calculation in order to determine an appropriate figure.

NOTES TO THE ACCOUNTS
At 31 May 2016

2. TURNOVER

Turnover comprises the value of sales (excluding VAT) of books and related products. An analysis of turnover by geographical markets is given below:

	2016	2015
	£	£
United Kingdom	3,471,243	4,186,766
Rest of Europe	569,796	716,523
Asia	1,086,802	1,287,660
Australia	2,810	2,742
North America	220,315	263,032
South America	184,930	247,879
Africa	260,371	328,388
	5,796,267	7,032,990

3. OPERATING LOSS

This is stated after charging:

		Note	2016	2015
			£	£
Depreciation of tangible fixed assets		8	172,885	173,913
Auditors' remuneration	- Audit services*		8,151	9,283
	- Taxation services*		3,135	4,919
Operating lease rentals	- Plant and Machinery		42,399	50,328
	- Land and Building		67,979	63,691
Foreign currency loss			23,746	40,603

* This represents the share on an allocated basis of the global fee paid centrally and recharged across all subsidiaries for this financial year.

NOTES TO THE ACCOUNTS
At 31 May 2016

4. STAFF COSTS

	2016	**2015**
	£	**£**
Wages and salaries	488,994	555,408
Social security costs	39,548	47,377
Other pension costs	18,942	19,414
	546,108	622,199

The staff costs reported above exclude directors' emoluments paid by fellow subsidiaries. There are no prepaid or accrued pension costs as at 31 May 2016 or 31 May 2015. The employees are paid by Scholastic Limited and recharged on a cost basis.

Directors' emoluments

	2016	**2015**
	£	**£**
Emoluments (excluding pension contributions)	76,877	97,447
Pension contributions to money purchase pension schemes	4,864	6,223
	81,741	103,670
Emoluments (excluding pension contributions) of highest paid director	34,127	43,633
Contributions paid to money purchase pension schemes	2,138	2,778

The above represents the proportion of director's salary which is charged to the company. The directors are also directors of other companies within the group.

The average monthly number of employees during the year was made up as follows:

	2016	**2015**
	No.	**No.**
Administration	11	17
Production and warehouse	14	13
	25	30

The company operates a defined contribution pension scheme. The company also pays contributions to a limited number of employees' personal pension plans.

NOTES TO THE ACCOUNTS
At 31 May 2016

5. INTEREST PAYABLE AND SIMILAR CHARGES

	2016	2015
	£	£
Interest payable on bank overdraft	11,901	14,796
Interest payable on other loans	11,814	16,615
Other interest costs/(income)	31	(250)
	23,746	31,161

6. TAX

(a) Tax on loss on ordinary activities

	2016	2015
	£	£
Adjustments in respect of prior periods	-	-
Total tax (note 6b)	-	-

(b) Total tax

	2016	2015
	£	£
Loss on ordinary activities before taxation	(598,542)	(1,084,731)
Loss on ordinary activities multiplied by rate of corporation tax in the UK at the rate of 20% (2015: 20.83%)	(119,708)	(225,949)
Expenses not deductible for tax purposes	11,848	4,210
Decelerated capital allowances – unrecognised	24,892	35,354
Tax losses carried forward - unrecognised	82,968	186,385
Total tax (note 6a)	-	-

(c) Factors affecting tax charge

The standard rate of Corporation Tax in the UK reduced from 21% to 20% with effect from 1 April 2015. Accordingly the Company's profits for the prior accounting period are taxed at an effective rate of 20.83%, but by a standard rate of 20% in the current year. The standard rate will fall further to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. These rates were enacted during the current period and deferred tax balances have been stated at a rate of 18%.

The Budget in March 2016 subsequently announced that the standard rate will fall further to 17% with effect from 1 April 2020. As this rate was not substantively enacted by the balance sheet date it has not been reflected in these financial statements.

NOTES TO THE ACCOUNTS
At 31 May 2016

7. INTANGIBLE ASSETS

	Goodwill £
Cost:	
At 1 June 2015	507,557
At 31 May 2016	507,557
Amortisation:	
At 1 June 2015	507,557
At 31 May 2016	507,557
Net Book Value:	
At 1 June 2015	-
At 31 May 2016	-

8. TANGIBLE FIXED ASSETS

	Freehold Buildings £	Equipment, Fixtures and Fittings £	Total £
Cost:			
At 1 June 2015	2,774,045	834,633	3,608,678
Disposals	-	(49,027)	(49,027)
At 31 May 2016	2,774,045	785,606	3,559,651
Depreciation:			
At 1 June 2015	834,339	645,191	1,479,530
Charge for year	70,935	101,950	172,885
Disposals	-	(49,027)	(49,027)
At 31 May 2016	905,274	698,114	1,603,388
Net Book Values:			
At 31 May 2015	1,939,706	189,442	2,129,148
At 31 May 2016	1,868,771	87,492	1,956,263

NOTES TO THE ACCOUNTS

At 31 May 2016

9. STOCKS

	2016	2015
	£	£
Goods held for resale	2,401,162	2,431,769

10. DEBTORS

	2016	2015
	£	£
Trade debtors	232,462	321,414
Amounts owed by group undertakings	994,351	1,697,936
Prepayments and accrued income	116,698	83,140
	1,343,511	2,102,490

11. CREDITORS: amounts falling due within one year

	2016	2015
	£	£
Bank overdraft	24,449,902	20,900,123
Trade creditors	671,961	1,087,919
Amount due to group undertakings	271,571	3,745,246
Accruals and deferred income	393,190	417,265
	25,786,624	26,150,553

12. DEFERRED TAX

		Provided		Unprovided
	2016	2015	2016	2015
	£	£	£	£
Losses carried forward	-	-	(3,579,016)	(3,895,871)
Accelerated capital allowances			(46,975)	(23,566)
	-	-	(3,625,991)	(3,919,437)

The company has not recognised a deferred tax asset as the directors do not consider that they are able to forecast with any certainty 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. The asset will be recognised as soon as there are taxable profits. The unprovided deferred tax asset is calculated using a rate of 18%.

NOTES TO THE ACCOUNTS

At 31 May 2016

13. OBLIGATIONS UNDER LEASES

Operating Leases

At 31 May 2016 (2015: nil) the company had no commitments under non-cancellable other operating leases.

14. SHARE CAPITAL

	2016	2015
	£	£
Allotted, called up and fully paid:		
Ordinary shares of £1 each	539,557	539,557

15. CONTINGENT LIABILITIES

The company has guaranteed the overdraft of its fellow subsidiary undertaking, Scholastic Limited, which has given similar guarantees in respect of certain of the company's overdrafts. At 31 May 2016 the amount guaranteed totalled £nil (2015: £nil).

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption allowed by FRS 102 paragraph 33 not to disclose related party transactions with other wholly owned companies within the group.

	Sales to related party	Purchases from related party	Amounts owed from related party	Amounts owed to related party
	£	£	£	£
Related party				
Usborne Publishing Limited				
At May 2016	-	27,401	-	-
At May 2015	-	79,200	-	40,066

Usborne Publishing

During the year, Scholastic Book Clubs Limited traded with Usborne Publishing Limited. Scholastic Australia Pty Limited, a company under common ultimate control holds a 26.25% share in Usborne Publishing Limited.

NOTES TO THE ACCOUNTS
At 31 May 2016

17. PARENT UNDERTAKING AND ULTIMATE CONTROLLING PARTY

The company's immediate parent undertaking is Scholastic UK Limited by virtue of it's holding 100% of the share capital of the company.

The smallest and largest group to which the company is a member and for which group accounts are drawn is Scholastic Corporation, a company incorporated in the USA.

The company's ultimate parent undertaking and controlling party is Scholastic Corporation, which is incorporated in the USA. Copies of Scholastic Corporation's financial statements, which include the company, are available from its registered office: 557 Broadway, New York, NY10012.

18. TRANSITION TO FRS 102

For all periods up to and including 31 May 2014, the company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). The financial statements for the year ended 31 May 2016 are the first the company has prepared in accordance with FRS 102 'The Financial Reporting Standard for the UK and Republic of Ireland'. The company's date of transition to FRS 102 is therefore 1 June 2014.

On transition to FRS 102 from previous UK GAAP, the company has taken advantage of transitional relief on business combinations. The company has elected not to apply Section 19 Business Combinations and Goodwill to business combinations that were effected before the date of transition to FRS 102. No adjustment has been made to the carrying value of goodwill and intangible assets subsumed within goodwill have not been separately recognised.

There were no required adjustments made by the Company in restating its balance sheet as at 1 June 2014 prepared under previously extant UK GAAP and its previously published UK GAAP financial statements for the year ended 31 May 2015.