

Company Registration No. 1015675

The Folio Society Limited

Report and Financial Statements

31 August 2013

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The Folio Society Limited

Report and financial statements 2013

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The Folio Society Limited

Report and financial statements 2013

Officers and professional advisers

Directors

Lord Gavron (Chairman)
C Aris
D Hayden (resigned 13th September 2013)
R Preece
P Scannell
J Whitlock-Blundell
T Hartwell
Jean Marc Rathe (appointed 30th October 2013)

Secretary

R Preece

Registered Office

44 Eagle Street
London
WC1R 4FS

Bankers

National Westminster Bank Plc
63 Piccadilly
London
W1A 2AG

Solicitors

Dechert LLP
160 Queen Victoria Street
London EC4V 4QQ

Auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London
EC4A 3BZ

The Folio Society Limited

Chairman's statement

2013 was a difficult year for the Folio Society. The decline in the effectiveness of traditional direct mail marketing accelerated, while its replacement with brand-led marketing yielded only gradually improving results.

We decided in August 2013 to restructure the company to move more quickly to our new marketing model. The restructure, which focused on changes to the marketing offer and a reduction in the number of books being published, led regrettably to a number of redundancies and was completed in September 2013.

In 2014 the company will further advance its transition to the new marketing model. Accordingly we have planned for a lower turnover and have budgeted to trade profitably with positive cash generation albeit on a modest scale.

Our core membership remains loyal and we have an excellent management team. We are confident that we can remain secure and in due course achieve growth in the challenging market conditions that continue to prevail in our industry.



Lord Gavron

18 December 2013

The Folio Society Limited

Directors' report

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

Business review and principal activities

The principal activity of the company is publishing fine edition books, which are mainly sold to a worldwide membership by way of mail order. During the year the company saw a continued decline in its traditional offer led model. In response to this decline the company has accelerated its change to a business model combining brand with ecommerce and direct marketing. The directors are not aware, at the date of this report, of any likely major changes in the nature of the company's activities in the next year.

As shown in the profit and loss account on page 7, the company's sales have decreased during the year by 10.2% to £19.3m. This decrease contributed to the loss before taxation of £2,768,802 compared with a loss of £973 in the prior year. The company went through a significant restructuring in August 2013 (including redundancies) to shape the business to meet its future needs. The company has budgeted a lower turnover in 2014 and expects to be profitable and generate cash.

During the year the Society's membership decreased from 96,271 at 31 August 2012 to 83,298 at 31 August 2013.

The company's balance sheet on page 8 shows a decrease in cash of £2.1m (2012: £0.4m decrease) and net assets of £6.2m (2012: £9.0m). The company has no borrowings.

Principal risks and uncertainties including financial risk management

The company is exposed to the rising price of oil and its effect on the costs of delivering books to members. Increases in postage prices and paper costs for direct mail campaigns are a continuing risk to the company.

Sales in the United States of America, Canada and Australia are made in the local currency giving an exposure to movements in the pound against the American, Canadian and Australian dollars. Accordingly, the company takes out forward foreign exchange contracts on a twelve month rolling basis.

The company has an exposure to changes in interest rates on its cash balances.

The carrying amounts of cash and bank balances, trade debtors and payables approximate to their respective fair values due to the relatively short-term maturity of these financial instruments.

The trade debtors are distributed in a diversified manner such that credit risk is considered minimal.

The company is dependent upon the postal services for the ordering and distribution of its products and there is therefore a risk of disruption in the event of industrial action. The company is confident that its contingency plans and alternative ordering and distribution methods are sufficient to manage this risk.

Directors

The directors, who served throughout the year, were as follows:

Lórd Gavron (Chairman)

C Aris

D Hayden (resigned 13th September 2013)

R Preece

P Scannell

J Whitlock-Blundell

T Hartwell

Jean Marc Rathe (appointed 30th October 2013)

The Folio Society Limited

Directors' report

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the business review above. The company's financial position, cash flows and borrowing facilities are also set out there.

The company has considerable financial resources and customers and suppliers across different geographic areas. As a consequence, the directors believe that the company is well placed to manage its business risks despite the current uncertain economic climate.

The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Donations

During the year the company made no charitable donations (2012: £nil) or political donations (2012: £nil).

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 August 2013 (2012: £nil).

Audit information

Each of the directors, at the date of this report, confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditor

A resolution to re-appoint Deloitte LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



R Preece
Secretary

18 December 2013

The Folio Society Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 elected to prepare 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 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 The Folio Society Limited

We have audited the financial statements of The Folio Society Limited for the year ended 31 August 2013 which comprise as the profit and loss account, the balance sheet, the cash flow statement, the notes to the cash flow statement and the related notes 1 to 16. 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).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 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 auditor

As explained more fully in the Directors' Responsibilities Statement, 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 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 annual report to identify material inconsistencies with the audited financial statements. 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 August 2013 and of its loss 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.

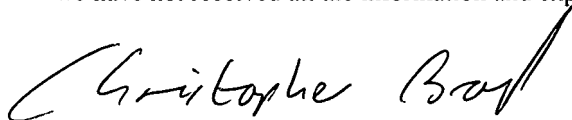
Opinion on other matter prescribed by the Companies Act 2006

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

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.



Christopher Brough (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

19 December 2013

The Folio Society Limited

Profit and loss account Year ended 31 August 2013

	Notes	2013 £	2012 £
Turnover	2	19,294,269	21,488,272
Cost of sales		(5,728,209)	(5,370,712)
Gross profit		13,566,060	16,117,560
Distribution costs		(12,708,218)	(12,810,992)
Administrative expenses		(3,546,577)	(3,359,428)
Other operating (expenditure)/income		(90,129)	20,963
Operating loss	4	(2,778,864)	(31,897)
Profit on disposal of fixed assets		-	15,595
Interest receivable and similar income		10,062	15,329
Loss on ordinary activities before taxation		(2,768,802)	(973)
Tax on loss on ordinary activities	5	11,287	(10,039)
Loss on ordinary activities after taxation	11	(2,757,515)	(11,012)

There are no recognised gains or losses other than the loss for the current year and the gain for the prior year. Accordingly no statement of total recognised gains and losses is presented.

The results in the profit and loss account relate solely to continuing operations.

The Folio Society Limited

Balance sheet 31 August 2013

	Notes	2013 £	2012 £
Fixed assets			
Tangible assets	6	1,111,246	1,117,079
Investments		969	969
		<u>1,112,215</u>	<u>1,118,048</u>
Current assets			
Stocks	7	3,537,717	3,366,192
Debtors	8	2,413,704	3,261,875
Cash at bank and in hand		1,938,355	4,039,227
		<u>7,889,776</u>	<u>10,667,294</u>
Creditors: amounts falling due within one year	9	<u>(2,771,242)</u>	<u>(2,797,078)</u>
Net current assets		<u>5,118,534</u>	<u>7,870,216</u>
Total assets less current liabilities		<u>6,230,749</u>	<u>8,988,264</u>
Capital and reserves			
Called up share capital	10	1,770,000	1,770,000
Profit and loss account		4,460,749	7,218,264
Shareholders' funds	11	<u>6,230,749</u>	<u>8,988,264</u>

The financial statements of The Folio Society Limited registered number 1015675 were approved by the Board of Directors and authorised for issue on 18 December 2013.

Signed on behalf of the Board of Directors



R Preece
Director

The Folio Society Limited

Cash flow statement Year ended 31 August 2013

	Note	2013 £	£	2012 £	£
Net cash outflow from operating activities	A	(2,041,721)		(297,927)	
Returns on investments and servicing of finance					
Interest received		10,062		15,329	
Taxation					
Corporation tax received / (paid)		22,161		(48,253)	
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(91,374)		(68,217)	
Receipts from sale of fixed assets		-		15,595	
Net cash outflow from capital expenditure		(91,374)		(52,622)	
Decrease in cash in the year	B	(2,100,872)		(383,473)	
Reconciliation of net cash flow to movement in net funds:					
Movement in net funds in the year		(2,100,872)		(383,473)	
Opening net funds		4,039,227		4,422,700	
Closing net funds	B	1,938,355		4,039,227	

The Folio Society Limited

Notes to the cash flow statement Year ended 31 August 2013

A. Reconciliation of operating loss to net cash outflow from operating activities

	2013 £	2012 £
Operating loss	(2,778,864)	(31,897)
Depreciation	97,207	115,051
Increase in stocks	(171,525)	(79,606)
Decrease / (increase) in debtors	837,393	(190,842)
Decrease in creditors	(25,932)	(110,633)
Net cash outflow from operating activities	<u>(2,041,721)</u>	<u>(297,927)</u>

B. Analysis of net funds

	31 August 2012 £	Cash flows £	31 August 2013 £
Cash at bank and in hand	<u>4,039,277</u>	<u>(2,100,872)</u>	<u>1,938,355</u>

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

1. Accounting policies

The financial statements are prepared in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted, which are consistent with the prior year, are described below.

The company does not produce group financial statements because the company is itself a wholly owned subsidiary of another company incorporated in Great Britain. Accordingly these financial statements present information about this company as an individual undertaking and not as a group.

Accounting convention

The financial statements are prepared under the historical cost convention.

The accounts are prepared on a going concern basis as described in the directors' report on page 4.

Tangible fixed assets

Fixed assets are stated at cost less provision for depreciation and any impairment. Depreciation is provided on cost in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

Freehold land	No depreciation is provided
Freehold property and improvements	2% - 10%
Computer software and equipment	25% - 33%
Fixtures, fittings and equipment	20%
Motor vehicles	25%

Investments

Investments in subsidiaries are stated at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials and third party invoiced costs of production.

Taxation

The charge for current tax is provided at the rates of taxation ruling for the accounting period.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

1. Accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rates. Differences on exchange are taken to the profit and loss account.

Advertising and promotional costs

The costs of promotions and advertising delivered in the current financial year, which relate to the following year's new membership enrolment, are expensed during the current financial year.

Turnover

Turnover represents sales to members, net of discounts and VAT in the current year. Turnover is recognised when goods are despatched.

Pension costs

The company operates a defined contribution pension scheme. Pension costs comprise contributions paid and are charged to the profit and loss account as incurred.

Derivative financial instruments

The company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes and does not hedge account.

2. Turnover

	2013 £	2012 £
The geographical analysis of turnover by destination is as follows:		
United Kingdom	6,574,128	7,296,763
North America	7,067,116	7,871,852
Australia	3,584,847	4,144,212
Other overseas	2,068,178	2,175,445
	<u>19,294,269</u>	<u>21,488,272</u>

The directors consider that there is only one business segment, publishing, and therefore an analysis of turnover by segment has not been prepared. All turnover is derived from operations based in the United Kingdom.

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

3. Information regarding directors and employees

	2013 £	2012 £
Directors' emoluments:		
Emoluments	711,492	738,984
Pension contributions	85,701	65,569
	<u>797,193</u>	<u>804,553</u>
	No.	No.
Number of directors who are members of defined contribution schemes	<u>6</u>	<u>6</u>
	£	£
Remuneration of the highest paid director	<u>152,700</u>	<u>150,000</u>
Pension contribution for the highest paid director	<u>10,689</u>	<u>11,250</u>
	£	£
Employee costs during the year including directors:		
Wages and salaries	3,657,998	3,737,590
Social security costs	400,382	398,619
Other pension costs	250,047	240,563
	<u>4,308,427</u>	<u>4,376,772</u>
	No.	No.
Average number of persons employed during the year including directors:		
Editorial and production	19	20
Sales and distribution	50	51
Administration	21	22
	<u>90</u>	<u>93</u>

4. Operating loss

	2013 £	2012 £
Is stated after charging:		
Depreciation	97,207	115,051
Fees payable to the company's auditor		
- for the audit of the company's annual accounts	26,000	25,500
- for tax services	3,800	9,327
Pension costs	250,047	240,563
Exchange loss	106,276	136,785
Restructuring costs	<u>357,564</u>	<u>-</u>

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

5. Tax on loss on ordinary activities

(a) Analysis of charge in year

	2013 £	2012 £
Current tax		
United Kingdom corporation tax at 23.59% (2012: 25.24%)	-	-
Adjustment in respect of prior years	(22,065)	(2,120)
Double taxation relief	-	-
Total current tax (note 5(b))	(22,065)	(2,120)
Deferred tax	(14,379)	5,778
Prior year charge	18,667	(71)
Movement due to rate change	6,490	6,452
Total tax (credit)/charge for the year	(11,287)	10,039

(b) Factors affecting tax (credit)/charge for year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 23.59% (2012: 25.24%). The differences are explained below:

	2013 £	2012 £
Loss on ordinary activities before tax	(2,768,802)	(973)
Loss on ordinary activities multiplied by standard rate of corporation tax at 23.59% (2012: 25.24%)	(653,134)	(246)
Effects of:		
Expenses not deductible for tax purposes	1,988	835
Profit on sale of fixed assets	-	(3,936)
Capital allowances in excess of depreciation	17,601	(18,038)
Movement in short term timing differences	(643)	(5,060)
Non-qualifying depreciation	5,589	5,751
Losses not utilised in the period	628,599	20,694
Double taxation relief on foreign income	-	-
Adjustment to the tax charge in respect of previous periods	(22,065)	(2,120)
Current tax credit for year (note 5(a))	(22,065)	(2,120)

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

5. Tax on loss on ordinary activities (continued)

(c) Deferred tax note

	2013 £	2012 £
Movement on deferred tax balance in the year		
Opening balance	68,421	80,580
Credit / (charge) to profit and loss account	14,379	(5,778)
Prior year (credit)/charge	(18,667)	71
Movement due to rate change	(6,490)	(6,452)
Closing balance	<u>57,643</u>	<u>68,421</u>
	2013 £	2012 £
Analysis of deferred tax balance		
Depreciation in excess of capital allowances	49,115	39,130
Provisions	8,528	10,434
Trading losses	-	18,857
	<u>57,643</u>	<u>68,421</u>

Deferred tax has been recognised to the extent that management believe there will be sufficient future taxable profits against which the losses can be utilised.

There was an unrecognised deferred tax asset at the end of the current period of £532,958 (2012: £nil) representing unutilised trading losses.

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

6. Tangible fixed assets

	Freehold property and improve- ments £	Computer software and equipment £	Fixtures, fittings and equipment £	Total £
Cost:				
At 31 August 2012	1,837,283	1,598,040	465,288	3,900,611
Additions	-	87,344	4,030	91,374
Disposals	-	-	-	-
At 31 August 2013	1,837,283	1,685,684	469,318	3,991,985
Accumulated depreciation:				
At 31 August 2012	841,998	1,506,203	435,331	2,783,532
Charge for the year	23,693	63,680	9,834	97,207
Disposals	-	-	-	-
At 31 August 2013	865,691	1,569,883	445,165	2,880,739
Net book value:				
At 31 August 2013	971,592	115,801	24,153	1,111,246
At 31 August 2012	995,285	91,837	29,957	1,117,079

Freehold property and improvements includes land valued at cost in 1994 of £300,000 (2012: £300,000), on which no depreciation is being charged.

7. Stocks

	2013 £	2012 £
Work-in-progress	633,399	736,181
Finished stocks	2,904,318	2,630,011
	<u>3,537,717</u>	<u>3,366,192</u>

There is no material difference between cost and the replacement value of stock.

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

8. Debtors due within one year

	2013 £	2012 £
Trade debtors	1,095,807	1,292,057
Other debtors	167,471	187,426
Amounts due from group undertakings	22,500	30,000
Deferred tax asset	57,643	68,421
Prepayments and accrued income	1,070,283	1,683,971
	<u>2,413,704</u>	<u>3,261,875</u>

9. Creditors: amounts falling due within one year

	2013 £	2012 £
Payments received on account	126,945	264,691
Trade creditors	629,390	653,189
Amounts owed to group undertakings	498,874	513,376
Corporation tax	20,466	6,757
Other creditors including taxation and social security	31,628	138,784
Accruals and deferred income	1,463,939	1,220,281
	<u>2,771,242</u>	<u>2,797,078</u>

10. Called up share capital

	2013 £	2012 £
Authorised, called up, allotted and fully paid: 1,770,000 ordinary shares of £1 each	<u>1,770,000</u>	<u>1,770,000</u>

11. Reconciliation of movements in shareholders' funds

	2013 £	2012 £
Retained loss for the year	<u>(2,757,515)</u>	<u>(11,012)</u>
Net decrease in shareholders' funds	(2,757,515)	(11,012)
Opening shareholders' funds	<u>8,988,264</u>	<u>8,999,276</u>
Closing shareholders' funds	<u>6,230,749</u>	<u>8,988,264</u>

The Folio Society Limited

Notes to the accounts Year ended 31 August 2013

12. Financial commitments

	2013 £'000	2012 £'000
Forward exchange contracts	3,718	3,218

The company is committed to forward foreign exchange contracts taken out to cover a proportion of its forecast foreign currency receipts in the twelve months following the balance sheet date (see note 13). The particulars of the contracts are:

	2013		2012	
	£'000	Rates	£'000	Rates
US Dollars	1,437	1.49-1.60	1,302	1.55-1.60
Canadian Dollars	856	1.56-1.61	720	1.59-1.61
Australian Dollars	1,425	1.52-1.71	1,196	1.53-1.64
	<u>3,718</u>		<u>3,218</u>	

13. Derivatives not included at fair value

The company has derivatives which are not included at fair value in the accounts:

	Principle 2013 £	Fair value 2013 £
Forward foreign exchange contracts	3,717,666	3,544,992

The company uses the derivatives to hedge its exposures to changes in foreign currency exchange rates. The fair values are based on market values of equivalent instruments at the balance sheet date.

14. Post balance sheet event

Following the balance sheet date an Enterprise Management Incentive plan was set up on 17th October 2013 by Folio Holdings Limited for the benefit of key managers of the company.

15. Related party transactions

No charitable donations were paid to The Robert Gavron Charitable Trust during the year (2012: £nil). Lord Gavron, who has direct control of Folio Holdings Limited, the parent company, is also the Settlor and one of the Trustees of The Robert Gavron Charitable Trust, of which Lady Gavron and C. L. Corman, who are both directors of Folio Holdings Limited, are also trustees. During the year £7,000 (2012: £7,000) was paid by The Robert Gavron Charitable Trust for the rent of office space in the company's head office building.

The Folio Society Limited

Notes to the accounts

Year ended 31 August 2013

16. Ultimate parent company and controlling entity

The company's immediate and ultimate parent company and controlling entity is Folio Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of Folio Holdings Limited are available from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ. Folio Holdings Limited is under the control of Lord Gavron.

Folio Holdings Limited is the parent undertaking of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the reporting company is a member.