

**The Penguin Publishing  
Company Limited**  
(Registered Number 734421)

**Report and Financial Statements  
For the year ended 31 December 2003**



# **The Penguin Publishing Company Limited**

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# The Penguin Publishing Company Limited

## Directors' Report

The directors have pleasure in presenting their report together with the financial statements of The Penguin Publishing Company Limited ("the company") for the year ended 31 December 2003.

## Principal activities and business review

The Penguin Publishing Company Limited is the holding company for the Penguin Group.

*The principal activity of the company's subsidiaries continues to be the publishing, warehousing and distribution of books.*

## Results and dividends

The company received dividends from group undertakings of £195,662 (2002: £3,168,948).

During the year an interim dividend of £nil was paid (2002: £nil). The directors recommend that no final dividend be paid (2002: nil), and the profit of £7,718,000 (2002: profit of £44,138,000 as restated) be transferred to reserves.

## Directors

The current directors of the Company and those who held office during the year are as follows:

A Forbes Watson	
C Power	(Resigned 28 February 2003)
P J Field	
S M D Floyer	
B Landers	(Appointed 20 May 2003)
J Makinson	

The present directors will continue in office pursuant to the Articles of Association.

## Directors' interests

None of the directors had any interests in the shares of the company.

The directors' interests in the shares of the ultimate parent company, Pearson plc, as defined by section 324 of the Companies Act 1985 were as follows:

	Options		Shares	
	1 January 2003	31 December 2003	1 January 2003	31 December 2003
A Forbes Watson	137,962	118,778	31,715	29,152
B Landers	17,648	17,648	6,354	8,354
P Field	76,673	59,911	31,943	19,267
S Floyer	55,137	55,137	10,689	11,699

J Makinson, being a director of the parent company Pearson plc, is not required to notify his interest to this company. His interests are disclosed in the financial statements of Pearson plc.

# **The Penguin Publishing Company Limited**

## **Directors' Report** (Continued)

### **Elective resolutions**

At the 1990 annual general meeting an elective resolution under section 379A of the Companies Act 1985 was passed in respect of dispensing with the following provisions:

- the laying of the annual report and financial statements before the company in general meeting;
- the holding of an annual general meeting; and
- the requirement to reappoint annually the registered auditors of the company in general meeting.

The provisions of this elective resolution will apply for subsequent years until the election is revoked.

### **Prior year comparatives**

In the 2002 accounts a management recharges payment to Pearson Management Services Limited of £7,500,000 was incorrectly classified as a dividend paid in the accounts of The Penguin Publishing Company Limited, rather than as Administrative Expenses in the accounts of Penguin Books Limited. To correct this, the prior year comparatives of both companies have been changed. In the accounts of The Penguin Publishing Company Limited this has resulted in a reduction to dividends paid and a corresponding increase in Amounts owed by group undertakings for 2002 comparatives.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report including, as described below, the financial statements.

Company law requires the directors to prepare financial statements for each financial year that 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 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.
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 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.

# **The Penguin Publishing Company Limited**

## **Directors' Report** (Continued)

### **Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a limited liability partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 21 January 2003 and the directors appointed its successor PricewaterhouseCoopers LLP, as auditors.

This report was approved on 27 October 2004

By Order Of The Board

A handwritten signature in black ink, appearing to be 'B. Landers', written over a horizontal line.

**B Landers**  
**Director**  
80 Strand  
London  
WC2R 0RL

## **Independent Auditors' Report to the Members of The Penguin Publishing Company Limited**

We have audited the financial statements, which comprise the profit and loss account, the balance sheet and the related notes.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

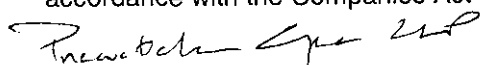
### **Basis of audit opinion**

We conducted our audit in accordance with auditing standards 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 of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
London

27 October 2004

# The Penguin Publishing Company Limited

## Profit and loss account For the year ended 31 December 2003

	<i>Notes</i>	<b>2003</b> <b>£000</b>	<b>2002</b> <b>£000</b> (restated)
Administrative expenses		-	-
<b>Operating (loss)/profit</b>		-	-
Profit on sale of group undertaking	<i>5</i>	<b>7,896</b>	40,990
Income from shares in group undertakings		<b>196</b>	3,169
<b>Profit on ordinary activities before taxation</b>	<i>2</i>	<b>8,092</b>	44,159
Tax on profit on ordinary activities	<i>4</i>	<b>(374)</b>	(21)
<b>Profit on ordinary activities after taxation and retained profit for the year</b>	<i>10</i>	<b>7,718</b>	44,138

The results shown above all arise from continuing operations.

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

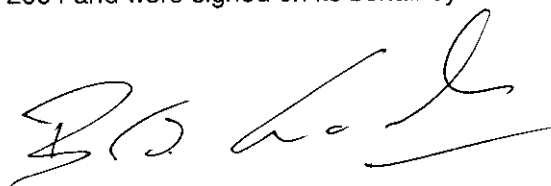
# The Penguin Publishing Company Limited

## Balance sheet at 31 December 2003

	<i>Notes</i>	<b>2003</b> <b>£000</b>	<b>2002</b> <b>£000</b> (restated)
<b>Fixed assets</b>			
Investments	5	11,723	12,708
<b>Current assets</b>			
Debtors	6	88,655	79,578
Creditors: amounts falling due within one year	7	(2,783)	(2,409)
<b>Net Current Assets</b>		<b>85,872</b>	<b>77,169</b>
<b>Total assets less current liabilities</b>		<b>97,595</b>	<b>89,877</b>
<b>Capital and reserves</b>			
Called up share capital	8	25,540	25,540
Profit and loss account	10	72,055	64,337
<b>Equity shareholders' funds</b>	11	<b>97,595</b>	<b>89,877</b>

The notes on pages 8 to 12 form part of these financial statements.

The financial statements on pages 5 to 12 were approved by the board of directors on 27 October 2004 and were signed on its behalf by:



**B Landers**  
Director



# The Penguin Publishing Company Limited

## Statement Of Total Recognised Gains And Losses For The Year Ended 31 December 2003

	2003 £'000	2002 £'000 (restated)
Profit for the financial year	7,718	44,138
<b>Total recognised gains relating to the year</b>	<b>7,718</b>	<b>44,138</b>
Prior year adjustment (as explained in note 9)	7,500	
<b>Total gains recognised since last annual report</b>	<b>15,218</b>	

The notes on pages 9 to 12 form part of these accounts.

# **The Penguin Publishing Company Limited**

## **Notes to the Financial Statements For the year ended 31 December 2003**

### **1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom.

The company is a wholly owned subsidiary of Pearson plc and the cash flows of the company are included in the consolidated group cash flow statement of Pearson plc. Consequently the company is exempt under the terms of Financial Reporting Standard No. 1 (revised 1996) "Cash Flow Statements" from publishing a cash flow statement. The company is also exempt under the terms of Financial Reporting Standard No. 8 "Related Party Disclosures" from disclosing the related party transactions (but not balances) with entities that are part of the Pearson plc group or investees of the Pearson plc group (note 12).

A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### **a) Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention. Group financial statements have not been prepared, as permitted by section 228 of the Companies Act 1985, as the company is a wholly owned subsidiary undertaking of another undertaking registered in England and Wales for which group financial statements are prepared.

#### **b) Fixed asset investments**

Fixed asset investments are stated at cost less any provision for permanent diminution in value.

#### **c) Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Foreign exchange differences are taken to the profit and loss account as they arise.

#### **d) Investment income**

Income from investments is included together with the related tax credit on an accruals basis.

### **2 Profit on ordinary activities before taxation**

In 2003 and 2002 the registered auditors' remuneration was borne by a subsidiary undertaking, Penguin Books Limited.

### **3 Employee costs and directors' remuneration**

Staff costs, including directors' emoluments, are borne by subsidiary undertakings, and thus no staff are deemed to be employed.

# The Penguin Publishing Company Limited

## Notes to the Financial Statements For the year ended 31 December 2003 (continued)

### 4 Taxation

	2003 £000	2002 £000
UK corporation tax at 30% (2002: 30%)	138	1,551
Double taxation relief	(138)	(1,490)
Total current tax	-	61
Prior year adjustment to current tax	374	(40)
Tax on profit on ordinary activities	374	21

The reconciliation from the tax charge at the standard rate of UK corporation tax is as follows:

	2003 £000	2002 £000
Profit on ordinary activities before taxation	8,092	44,159
Profit on ordinary activities multiplied by standard rate of 30%	2,428	13,248
Overseas dividends plus foreign tax	79	600
Prior year tax charge adjustments	374	(40)
Tax exempt sale of subsidiary	(2,369)	(12,297)
Underlying tax relief	(138)	(1,490)
Current tax charge for the period	374	21

### 5 Fixed asset investments

Shares in group undertakings

	£000
Cost and net book value at 1 January 2003	12,708
Disposals	(985)
Cost and net book value at 31 December 2003	11,723

# The Penguin Publishing Company Limited

## Notes to the Financial Statements For the year ended 31 December 2003 (continued)

### 8 Called up share capital

	2003 £000	2002 £000
Authorised, allotted, called up and fully paid 25,540,000 ordinary shares of £1 each	25,540	25,540

### 9 Prior year adjustment

Comparative figures have been restated to reflect the following:

In the 2002 accounts management recharges payment to Pearson Management Services Limited of £7,500,000 was incorrectly classified as a dividend paid in the accounts of The Penguin Publishing Company Limited, rather than as Administrative Expenses in the accounts of Penguin Books Limited. In the accounts of The Penguin Publishing Company Limited this has resulted in a reduction to dividends paid and a corresponding increase in Amounts owed by group undertakings for 2002 comparatives.

As a result comparative figures for the year ended 31 December 2002 have been adjusted as follows:

	Profit for the year after dividends £000	Net assets £000
As previously reported	36,638	82,377
Effect of prior year adjustment	7,500	7,500
<b>As restated</b>	<b>44,138</b>	<b>89,877</b>

### 10 Profit and loss account

	£000
At 1 January 2003 (as previously reported)	56,837
Effect of prior year adjustment (Note 9)	7,500
<b>At 1 January 2003 (as restated)</b>	<b>64,337</b>
Profit for the year	7,718
<b>At 31 December 2003</b>	<b>72,055</b>

# The Penguin Publishing Company Limited

## Notes to the Financial Statements

For the year ended 31 December 2003 (continued)

### 11 Reconciliation of movement in equity shareholders' funds

	2003 £000	2002 £000
Opening equity shareholders' funds (as previously reported)	82,377	45,739
Opening equity shareholders' funds (as restated)	89,877	-
Profit on ordinary activities after taxation	7,718	36,638
<b>Closing equity shareholders' funds (as previously reported)</b>	<b>-</b>	<b>82,377</b>
Effect of prior year adjustment (Note 9)	-	7,500
<b>Closing equity shareholders' funds (as restated)</b>	<b>97,595</b>	<b>89,877</b>

### 12 Related party transactions

The Company is a wholly owned subsidiary within Pearson plc and utilises the exemption contained in Financial Reporting Statement No 8 "Related Party Disclosures" not to disclose any transactions with entities that are part of the Pearson plc group.

### 13 Ultimate parent undertaking

The ultimate parent undertaking is Pearson plc, a company that is registered in England and Wales. Copies of the consolidated financial statements of Pearson plc may be obtained from The Secretary, Pearson plc, 80 Strand, London WC2R 0RL.