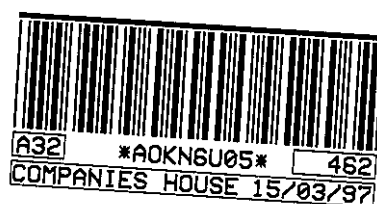


The Penguin Publishing Company Limited

*Report and financial statements
for the year ended 31 December 1996*

Registered No. 734421



THE PENGUIN PUBLISHING COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 1996

DIRECTORS

M Lynton	(Chairman)
M Brown	(USA)
P T S Carson	
R G Q Clarke	
P J Field	(Australia)
S Floyer	
A Forbes Watson	
A Holtz	
S Parr	(Canada)
J H Rolfe	
D Smith	(USA)

SECRETARY

C J Engle

REGISTERED OFFICE

Bath Road
Harmondsworth
Middlesex
UB7 0DA

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THE PENGUIN PUBLISHING COMPANY LIMITED

1

DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 1996.

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.

The company, through its subsidiaries, will continue to develop its paperback and hardback publishing and character merchandising throughout the world.

RESULTS AND DIVIDENDS

The company received dividends from group undertakings of £5,219,000 (1995 - £6,435,000).

	£000
Profit on ordinary activities before taxation	5,250
Taxation	(1,016)
	<hr/>
Profit after taxation	4,234
Dividend paid	(1,977)
	<hr/>
Deficit for the year	2,257
	=====

During the year an interim dividend of £1,977,000 was paid (1995 - £6,129,000). The directors recommend that no final dividend be paid (1995 - nil), and the profit of £2,257,000 be transferred to reserves.

THE PENGUIN PUBLISHING COMPANY LIMITED

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DIRECTORS' REPORT (Continued)

DIRECTORS

The directors during the year were:

M Lynton	Chairman	(appointed 17.09.96)
P M Mayer	Chairman	(resigned 31.12.96)
M Brown	(USA)	
P T S Carson		
R G Q Clarke	(appointed 18.01.96)	
P J Field	(Australia)	
S Floyer	(appointed 18.01.96)	
A Forbes Watson	(appointed 09.05.96)	
A Holtz	(USA appointed 18.01.96)	
S Parr	(Canada resigned 30.12.96)	
J H Rolfe		
D Smith	(USA) (resigned 29.07.96)	
J W Webster	(resigned 19.01.96)	

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

DIRECTORS' INTERESTS

The directors' interests in the share and loan capital as defined by section 324 of the Companies Act 1985 were as follows:

Pearson plc Shares of 25p each

	<u>OPTIONS</u>				<u>SHARES</u>	
	1 Jan 1996 or Date of Appointment	Granted	Exercised	31 Dec 1996	1 Jan 1996 or Date of Appointment	31 Dec 1996
M Lynton	187,500	-	-	187,500	-	-
P M Mayer	310,465	-	-	-	127,281	-
M Brown	61,988	31,500	14,488	79,000	-	-
P T S Carson	34,523	-	30,630	3,893	48,409	46,772
R G Q Clarke	11,444	14,312	-	25,756	-	-
P J Field	39,711	-	-	39,711	523	531
S Floyer	12,378	8,000	-	20,378	500	639
A Forbes Watson	33,800	16,900	-	50,700	-	-
A Holtz	16,804	15,700	-	32,504	-	-
J H Rolfe	14,330	1,349	6,502	9,177	2,612	3,970

THE PENGUIN PUBLISHING COMPANY LIMITED

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DIRECTORS' REPORT (Continued)

OFFICERS' LIABILITY INSURANCE

During the year to 31 December 1996, the company, as part of a group arrangement, maintained insurance covering officers of the company against liabilities arising in relation to the company in accordance with section 310(3)(a) of the Companies Act 1985.

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:

- a. the laying of the annual report and financial statements before the company in general meeting;
- b. the holding of an annual general meeting; and
- c. 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.

REGISTERED AUDITORS


During the year Coopers & Lybrand resigned as auditors. Price Waterhouse were appointed by resolution of the Board of Directors on 30 October 1996.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the year 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 apply them consistently and make judgements and estimates that are reasonable and prudent.

The directors must also state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements which must be prepared on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for the maintenance of adequate accounting records in compliance with the Companies Act 1985, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.


C J ENGLE
Company Secretary
Harmondsworth
Middlesex
UB7 0DA
7 March 1997

THE PENGUIN PUBLISHING COMPANY LIMITED

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REPORT OF THE AUDITORS TO THE MEMBERS OF THE PENGUIN PUBLISHING COMPANY LIMITED

We have audited the financial statements on pages 5 to 11.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
London

7 March 1997

THE PENGUIN PUBLISHING COMPANY LIMITED

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PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1996

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Other operating (expense)/income		31	(76)
Operating (loss)/profit		<u>31</u>	<u>(76)</u>
Investment income - dividends receivable from group undertakings		5,219	6,435
		<u> </u>	<u> </u>
Profit on ordinary activities before taxation	2	5,250	6,359
Taxation	4	(1,016)	(1,201)
		<u> </u>	<u> </u>
Profit on ordinary activities after taxation		4,234	5,158
Dividend - paid		(1,977)	(6,129)
		<u> </u>	<u> </u>
Profit / (Deficit) for the year		<u>2,257</u> <u>=====</u>	<u>(971)</u> <u>=====</u>

The results shown above all arise from continuing operations.

The company has no recognised gains and losses other than those included in the profit and loss account above, and therefore no separate statement of total recognised gains and losses has been presented.

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

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BALANCE SHEET AT 31 DECEMBER 1996

	<u>Notes</u>	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
FIXED ASSETS			
Investments	5	12,708	12,667
CURRENT ASSETS			
Debtors	6	24,497	22,224
CREDITORS:			
Amounts falling due within one year	7	(2,426)	(2,369)
NET CURRENT ASSETS		22,071	19,855
TOTAL ASSETS LESS CURRENT LIABILITIES		34,779	32,522
		=====	=====
CAPITAL AND RESERVES			
Called-up share capital	8	25,540	25,540
Profit and loss account	9	9,239	6,982
EQUITY SHAREHOLDERS' FUNDS	10	34,779	32,522
		=====	=====

The financial statements on pages 5 to 11 were approved by the board of directors on 7 March 1997 and were signed on its behalf by:



R G Q CLARKE

DIRECTOR

THE PENGUIN PUBLISHING COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996

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 from publishing a cash flow statement.

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 s228 of the Companies Act 1985, as the company is a wholly owned subsidiary undertaking of another undertaking registered in England and Wales.

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 1996 and 1995 the registered auditors' remuneration was borne by a subsidiary undertaking, Penguin Books Limited.

THE PENGUIN PUBLISHING COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

3 EMPLOYEES INCLUDING DIRECTORS' EMOLUMENTS

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

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
Directors' Emoluments		
Emoluments (including benefits in kind)	427	499
Compensation for loss of office		191
	<u>427</u>	<u>690</u>
	===	===

Directors' emoluments (excluding pension contributions) include amounts paid to:

The highest-paid director	91	132
	===	===

The duties of the chairman were performed mainly outside the UK and need not be disclosed.

The number of directors, who performed their duties mainly in the UK, and who received emoluments (excluding pension contributions) in the following ranges was:

	<u>1996</u> <u>Number</u>	<u>1995</u> <u>Number</u>
£20,001 - £25,000	1	-
£60,001 - £65,000	1	1
£75,001 - £80,000	1	-
£85,001 - £90,000	2	-
£90,001 - £95,000	1	1
£100,001 - £105,000	-	1
£110,001 - £115,000	-	1
£130,001 - £135,000	-	1

4 TAXATION

	<u>1996</u> <u>£000</u>	<u>1995</u> <u>£000</u>
United Kingdom corporation tax at 33% (1995 - 33%)	925	1,103
Double taxation relief	(881)	(1,084)
	<u>44</u>	<u>19</u>
Overseas taxation (Over)/Under provision in respect of prior years	962	1,185
	10	(3)
	<u>1,016</u>	<u>1,201</u>
	=====	=====

Dividends received/receivable from UK subsidiaries are paid under a group income election.

THE PENGUIN PUBLISHING COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

5	FIXED ASSET INVESTMENTS	£000
Investment in group undertakings:		
	Cost at 1 January 1996	12,667
	Additions	41
		<hr/>
	Cost at 31 December 1996	12,708
		=====

Interests in Group Undertakings

The company owns all the equity interests in the following group undertakings which are registered in England and Wales and are engaged in publishing and distribution of books unless otherwise stated:

Penguin Books Limited, owning:	<u>Activity</u>
Penguin Warehousing & Distribution Limited	Dormant
Allen Lane The Penguin Press Limited	
Penguin Overseas Limited	Dormant
Frederick Warne & Co. Limited; owning	
Frederick Warne (Publishers) Limited	Dormant
Michael Joseph Limited	
Pelham Books Limited	Dormant
Hamish Hamilton Limited	
Hamish Hamilton Children's Books Limited	Dormant
Elm Tree Books Limited	Dormant
Godfrey Cave Holdings Limited	
Godfrey Cave Associates Limited	
Omega Books Limited	Dormant
Bloomsbury Books Limited	Dormant
George Rainbird Limited	
The Rainbird Publishing Group Limited	Dormant
Penguin France S.A. (incorporated in France)	
Penguin Italia Srl (incorporated in Italy)	
Penguin Deutschland GmbH (incorporated in Germany)	
Penguin Books SA (Spain) (incorporated in Spain)	
Penguin Hellas Limited (incorporated in Greece)	
Penguin Books Japan (incorporated in Japan)	
Ventura Publishing Limited; owning	
Salspot Limited	Merchandising
Ladybird Books Limited; owning	
Ladybird Direct Limited	Dormant
Rough Guides - 51% equity interest	
Penguin Books Australia Limited (incorporated in Australia); owning	
Chronicle Australasia Pty Limited (incorporated in Australia)	
- 50% equity interest	
Penguin Books (NZ) Limited (incorporated in New Zealand)	
Penguin Books (South Africa) (Pty) Limited (incorporated in South Africa)	Dormant
Bath Road Corporation (incorporated in United States)	
Penguin Books Netherlands BV (incorporated in The Netherlands)	
Penguin Books India Private Limited (incorporated in India)	
- 55% equity interest	

In the opinion of the directors, the value of interests in subsidiary undertakings is in excess of the book value included in the balance sheet.

THE PENGUIN PUBLISHING COMPANY LIMITED

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

5 FIXED ASSET INVESTMENTS (Continued)

The company and its subsidiary undertakings make up their financial statements to 31 December with the exception of:

Penguin Overseas Limited, to 31 March. The company is dormant.
Penguin Books India Private Limited whose financial statements are made up to 31 March to comply with local legislation.

6 DEBTORS	<u>1996</u> £000	<u>1995</u> £000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	24,497	22,224
	<u>24,497</u>	<u>22,224</u>
	=====	=====

7 CREDITORS	<u>1996</u> £000	<u>1995</u> £000
Amounts falling due within one year:		
Amounts owed to subsidiary undertakings	2,350	2,350
Corporation Tax	76	19
	<u>2,426</u>	<u>2,369</u>
	=====	=====

8 CALLED-UP SHARE CAPITAL	<u>1996</u> £000	<u>1995</u> £000
<u>Authorised, allotted, called up and fully paid</u>		
25,540,000 ordinary shares of £1 each	25,540	25,540
	=====	=====

9 PROFIT AND LOSS ACCOUNT	<u>£000</u>
At 1 January 1996	6,982
Profit for the year	2,257

At 31 December 1996	9,239
	=====

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1996 (Continued)

10 RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	<u>1996</u> £000	<u>1995</u> £000
Profit for the financial year	4,234	5,158
Dividends	(1,977)	(6,129)
Net addition(reduction) to equity shareholders' funds	<u>2,257</u>	<u>(971)</u>
Opening equity shareholders' funds	32,522	33,493
Closing equity shareholders' funds	<u>34,779</u> =====	<u>32,522</u> =====

11 CONTINGENT LIABILITIES

The company participates in an arrangement with National Westminster Bank PLC whereby the accounts of Pearson plc and 28 of its subsidiaries, "the guarantors", are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net balance under this arrangement at 31 December 1996 was an overdraft of £1,147,364.

The maximum amount of this guarantee is limited to a gross overdraft of £130,000,000. At 31 December 1996 this was the company's potential liability.

As at 31 December 1996 the potential liability arising from these guarantee arrangements amounted to £130,000,000 for the parent undertakings and fellow subsidiary undertakings and £ nil for the subsidiary undertakings of the company.

12 RELATED PARTY TRANSACTIONS

Advantage is taken of the exemption not to disclose related party transactions with members of the group or associates and joint ventures of other group members.

The company's immediate parent undertaking is Longman Penguin Limited and its ultimate parent undertaking is Pearson plc, both companies being registered in England and Wales. Copies of the consolidated financial statements of Pearson plc are available to the public from the following address:

The Secretary
Pearson plc
3 Burlington Gardens
London W1X 1LE