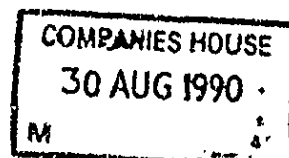


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Penguin Books Limited

Report and financial statements
for the year ended 31 December 1989



DIRECTORS' REPORT

The directors have pleasure in presenting their report together with the financial statements for the year ended 31 December 1989.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company and its subsidiaries continues to be book publishing and the warehousing and distribution of books.

Under the terms of agreements completed on 19 March 1990 certain subsidiary companies transferred the whole of their undertakings, assets and liabilities, except authors advances and royalties payable, to the company with effect from 1 January 1989. The company pays a management fee to those companies in respect of charges arising on the depreciation of authors advances and royalties payable.

During the year the company sold Sphere Books Limited giving rise to an extraordinary profit of £9,211,685 and acquired artwork and certain other assets of the Flower Fairies series for a consideration of £953,000 of which £696,000, attributed to goodwill, has been written off to reserves.

RESULTS OF THE COMPANY

	£
Profit before taxation	270,678
Taxation	319,042
	<hr/>
Loss on ordinary activities after taxation	(48,364)
Extraordinary profit	9,211,685
	<hr/>
Profit for the year	£9,163,321

The directors recommend that no final dividend be paid and that £9,163,321 be transferred to reserves.

DIRECTORS

The directors during the year were:-

P.M. Mayer	Chairman
E.M. Attenborough	
J.A. Broom	
P.T.S. Carson	
A.C. Franklin	(Appointed 11.7.89)
T.D. Glover	
S.D. Hall	(Appointed 24.1.89)
B. Johnson	
A.S. Lacey	
J. Peck	

DIRECTORS' REPORT (Continued)

DIRECTORS' INTERESTS

Messrs. Mayer, Carson, Glover, Webster, Wright, Attenborough and Rolfe are directors of the company's holding company and are therefore not required to notify to this company their interests in group companies.

Other directors' interests were:

	Pearson plc			
	Shares of 25p each			
	31 December 1989		1 January 1989	
	<u>Options</u>	<u>Shares</u>	<u>Options</u>	<u>Shares</u>
J.A. Broom	2,500	-	2,500	-
A.S. Lacey	7,058	-	5,982	-
J.R.R. Yglesias	2,500	-	2,500	-
S. Hall	7,736	2,450	8,840*	-
B. Johnson	2,500	-	2,500	-
S. Watt	1,000	-	1,000*	-
N. Williams	3,584	-	3,296*	-
A.C. Franklin	1,612	1,000	-*	1,000

None of the other directors or their families held any interests in group companies during the year.

* At date of appointment

POLICY ON DISABLED PERSONS

It is the company's policy to give full and fair consideration to applications for employment by disabled persons, having regard to their particular experience, aptitudes and abilities and mindful that the willingness and conscientiousness of many disabled persons goes far to counter-balance their disability. It is also the company's policy, where appropriate, to train, to develop the careers of, and to promote disabled employees.

If employees become disabled while they are in the company's employment, it is the company's policy to continue to employ them where practical or, if necessary and feasible, to rehabilitate them in appropriate alternative employment.

EMPLOYEE INVOLVEMENT

The company attaches importance to the creation amongst its employees of a sense of involvement in and identification with the objectives and success of the business.

For several years the company has aimed to encourage this sense of involvement specifically through the provision to every employee of annual information on the progress and objectives of the company. Regular meetings are held with staff representatives to keep them informed of the company's progress and future plans.

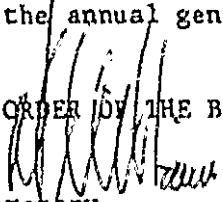
All employees after a specified period of service are eligible to participate in the Pearson plc Save As You Earn stock option scheme.

DIRECTORS' REPORT (Continued)

AUDITORS

Our auditors Deloitte Haskins & Sells are in the process of merging their practice with Coopers & Lybrand. In the meantime they have adopted Coopers & Lybrand Deloitte as their business name and have signed their audit report in that name. A resolution to reappoint Coopers & Lybrand Deloitte as the company's auditors will be proposed at the annual general meeting.

BY ORDER OF THE BOARD


Secretary

Harmondsworth
Middlesex.

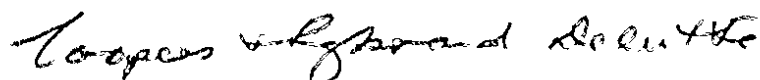
27 March 1990

AUDITORS' REPORT
TO THE MEMBERS OF PENGUIN BOOKS LIMITED

We have audited the financial statements on pages 5 to 18 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 1989 and of its results for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

The financial statements do not include a statement of source and application of funds as required by Statement of Standard Accounting Practice No. 10.



Chartered Accountants

London

27 March 1990

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 1989

	<u>Notes</u>	<u>1989</u> <u>£</u>	<u>1988</u> <u>£</u>
Turnover	2	89,190,532	63,750,466
Cost of sales		50,373,398	34,330,835
Gross profit		38,817,134	28,419,631
Other operating expenses (net)	3	36,762,255	27,373,525
Operating profit		2,054,879	1,546,106
Investment income	4	668,033	4,271,507
Profit before interest payable		2,722,912	5,817,613
Interest payable	5	2,452,234	3,312,442
Profit on ordinary activities before taxation	6	270,678	2,505,171
Taxation	8	319,042	156,000
Profit/(Loss) on ordinary activities after taxation		(48,364)	2,349,171
Extraordinary credit (charge)	9	9,211,685	(366,629)
Retained profit for the year	17	£9,163,321	£1,982,542

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989

1. ACCOUNTING POLICIES

a) Basis of Accounting

The annual financial statements are prepared on the historical cost basis of accounting. Group financial statements have not been prepared as the company is a wholly-owned subsidiary of another company incorporated in Great Britain.

b) Turnover

Turnover represents the value of publications supplied net of discounts and returns.

c) Tangible Fixed Assets

Tangible fixed assets are stated at cost and are depreciated over their estimated economic lives by equal annual instalments.

The rates of depreciation used are:-

Leasehold property	over the period of the lease
Artwork	20%
Plant and equipment	10-33.3%
Motor vehicles	25%

d) Fixed Asset Investments

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

e) Stocks

Finished books, work in progress and materials have been valued at the lower of cost and net realisable value which, in the case of paperback books, has been calculated according to a formula. Cost comprises direct costs including related production overheads which, in the case of first impressions of books, includes initial publishing expenditure.

f) Deferred Taxation

Deferred taxation is provided to take account of timing differences between the treatment of certain items for accounts purposes and their treatment for taxation purposes except to the extent it is, in the opinion of the directors, reasonable to assume that the timing differences will not reverse so as to crystallise a tax liability in the foreseeable future.

g) Overseas Currencies

Assets and liabilities in overseas currencies are translated into sterling at the rates ruling at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989

h) Pension costs

With the adoption of the Statement of Standard Accounting Practice on Accounting for Pension Costs, the expected cost of the company's defined benefit pension scheme is charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. Variations from expected cost arising from a significant reduction in the number of employees are adjusted in the profit and loss account to the extent that the expected pension costs, reduced by other variations from cost are apportioned over the expected service lives of current employees in the scheme.

	<u>1989</u> £	<u>1988</u> £
2. TURNOVER		
Geographical markets supplied:		
United Kingdom	61,878,592	43,747,016
Europe	7,288,246	5,555,679
Africa	2,138,020	1,446,818
America	8,998,519	5,040,568
Asia	2,559,041	2,300,027
Australasia	6,328,114	5,160,358
	<u>£89,190,532</u>	<u>£63,250,466</u>
	*****	*****
3. OTHER OPERATING EXPENSES (NET)		
Distribution costs	11,571,543	8,166,000
Administrative expenses	26,388,842	19,983,177
	<u>37,960,385</u>	<u>28,149,177</u>
Other operating income	(1,198,130)	(775,652)
	<u>£36,762,255</u>	<u>£27,373,525</u>
	*****	*****
4. INVESTMENT INCOME		
Interest receivable		
Group	623,258	2,008,628
Other	34,775	12,879
Dividend receivable from subsidiary	10,000	2,250,000
	<u>£ 668,033</u>	<u>£4,271,507</u>
	*****	*****
5. INTEREST PAYABLE		
On bank loans, overdrafts and other loans repayable within 5 years not by instalments	1,721,496	1,760,432
Group loans	730,738	1,552,010
	<u>£2,452,234</u>	<u>£3,312,442</u>
	*****	*****

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	<u>1989</u> £	<u>1988</u> £
After charging:		
Depreciation of tangible fixed assets	745,953	589,889
Auditors' remuneration:		
Current year	136,000	74,700
Prior year	10,240	5,800
Hire of plant and machinery	93,229	19,266

7. EMPLOYEES INCLUDING DIRECTORS

	<u>1989</u> £	<u>1988</u> £
Staff costs of employees (including directors) were:		
Wages and salaries	7,734,810	6,871,354
Social security costs	635,905	536,001
Other pension costs	-	182,982
	<u>£8,370,715</u>	<u>£7,590,337</u>

The average weekly number of persons (including directors) employed by the company during the year was 558 (1988 - 524) all of whom were employed in administration.

Higher-paid employees

The number of senior employees of Penguin Books Limited, other than directors who received remuneration (excluding pension contributions) in the following ranges was:

	<u>1989</u> Number	<u>1988</u> Number
£30,001 - £35,000	6	1
£35,001 - £40,000	-	1
	<u>1989</u> £	<u>1988</u> £

Staff costs include the following remuneration to directors of the company:

Other emoluments (including pension contributions and benefits in kind)	791,152	755,668
Compensation for loss of office	203,000	67,000
	<u>£ 994,152</u>	<u>£ 882,668</u>

Compensation for loss of office was paid by the company in respect of three directors.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

7. EMPLOYEES INCLUDING DIRECTORS (Continued)

The directors' remuneration disclosed above
(excluding pension contributions) included
amounts paid to:

The Chairman	£ NIL *****	£ NIL *****
Highest paid director	£ 70,363 *****	£ 79,201 *****

The number of other directors who received
emoluments (excluding pension contributions)
in the following ranges was:

	<u>1989</u> Number	<u>1988</u> Number
£ 5,001 - £10,000	1	-
£10,001 - £15,000	2	-
£15,001 - £20,000	4	1
£20,001 - £25,000	3	5
£25,001 - £30,000	3	2
£30,001 - £35,000	1	2
£35,001 - £40,000	2	1
£40,001 - £45,000	1	1
£45,001 - £50,000	-	1
£50,001 - £55,000	-	1

8. TAXATION	<u>1989</u> £	<u>1988</u> £
-------------	------------------	------------------

UK Corporation tax at 35% (1988 - 35%)
on the profit for the year:

Current	281,194	64,400
Deferred	(18,450)	87,000
	<hr/>	<hr/>
	262,744	151,400

Adjustments made in respect of prior
years:

Current	35,698	-
Deferred	20,600	4,600
	<hr/>	<hr/>
	£319,042 *****	£156,000 *****

The taxation charge for the year has been increased by £163,000 as a
result of non-allowable expenditure.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

9. EXTRAORDINARY CREDIT (CHARGE)

	<u>1989</u> £	<u>1988</u> £
Profit on sale of subsidiary company	9,211,685	-
Provisions made for diminution in value of interests in subsidiaries	-	£(366,629)
	<u>£9,211,685</u> *****	<u>£(366,629)</u> *****

There is no taxation related to the above amounts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

10 TANGIBLE FIXED ASSETS

	Short Leasehold Property £	Artwork £	Plant & Machinery £	Fixtures & Fittings £	Motor Vehicles £	Total £
Cost:						
At 1 January 1989	1,404,908	-	350,160	2,452,191	1,438,223	5,645,482
Additions	29,466	215,400	5,000	172,214	406,108	828,188
Disposals	-	-	-	-	(325,167)	(325,167)
Group transfers	-	-	-	-	31,974	31,974
At 31 December 1989	£1,434,374	£215,400	£355,160	£2,624,405	£1,551,138	£6,180,477
Depreciation						
At 1 January 1989	153,331	-	111,927	947,493	359,835	1,572,586
Charge for the year	69,754	-	34,742	221,346	420,111	745,953
Eliminated in respect of disposals	-	-	-	-	(241,474)	(241,474)
Group transfers	-	-	-	-	21,559	21,559
At 31 December 1989	£223,085	£	£146,669	£1,168,839	£560,031	£2,098,624
Net book value						
At 31 December 1989	£1,211,289	£215,400	£208,491	£1,455,566	£991,107	£4,081,853
At 31 December 1988	£1,251,577	£	£238,233	£1,504,698	£1,078,388	£4,072,896

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

11. FIXED ASSET INVESTMENTS

	Share Capital £	Loan Stock £	Total £
Interest in Subsidiaries			
At 1 January 1989	5,888,899	15,681,146	21,570,045
Additions	1,999,750	250,000	2,249,750
Disposals	(161,540)	(6,359,130)	(6,520,670)
	<hr/>	<hr/>	<hr/>
At 31 December 1989	£7,727,109	£9,572,016	£17,299,125
	<hr/>	<hr/>	<hr/>
Provisions for diminution in value			
At 1 January 1989	1,400,056	10,023,542	11,423,598
Eliminated in respect of disposals	(10,000)	(5,440,707)	(5,450,707)
	<hr/>	<hr/>	<hr/>
At 31 December 1989	£1,390,056	£4,582,835	£5,972,891
	<hr/>	<hr/>	<hr/>
Net Book Value			
At 31 December 1989	£6,337,053 *****	£4,989,181 *****	£11,326,234 *****
At 31 December 1988	£4,488,843 *****	£5,657,604 *****	£10,146 47 *****

The company owns all the equity interests in the following subsidiaries which are incorporated in Great Britain unless otherwise shown.

Penguin Warehousing and Distribution Limited
Allen Lane The Penguin Press Limited
Penguin Overseas Limited
Penguin Nominees Limited
Frederick Warne & Co. Limited
Frederick Warne (Publishers) Limited
The Newdigate Press Limited
T.B.L. Book Service Limited
Michael Joseph Limited
Pelham Books Limited
Hamish Hamilton Limited
Hamish Hamilton Children's Books Limited
Elm Tree Books Limited
The Rainbird Publishing Group Limited
George Rainbird Limited
The Illustrated Book Club Limited
Godfrey Cave Holdings Limited
Godfrey Books Sales Limited
Godfrey Cave Associates Limited
Oreya Books Limited
Benson Books (Orchard Park) Limited
Benson Books Limited
Bloomsbury Books Limited

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

11. FIXED ASSET INVESTMENTS (Continued)

In the opinion of the directors, the value of interests in subsidiaries is not less than the book value included in the balance sheet.

The company and its subsidiaries make up their financial statements to 31 December.

12. STOCKS	<u>1989</u> £	<u>1988</u> £
Stocks comprise:		
Raw materials and consumables	843,045	1,704,139
Work in progress	4,685,052	2,774,218
Finished books	12,019,590	10,046,849
	<u>£17,547,687</u>	<u>£14,525,306</u>

13 DEBTORS	<u>1989</u> £	<u>1988</u> £
Amounts falling due within one year:		
Trade debtors	17,678,002	19,789,923
Amounts owed by subsidiary companies	7,113,973	15,077,115
Amounts owed by holding company and fellow subsidiaries	4,017,652	8,198,731
Amounts owed by group associated companies	914,024	805,825
Other debtors	5,817,757	2,325,297
Prepayments and accrued income	1,436,800	1,783,230
	<u>36,978,201</u>	<u>47,980,121</u>

Amounts falling due after more than one year:

Amounts owed by subsidiaries	3,450,000	3,450,000
Amounts owed by fellow subsidiaries	-	165,044
	<u>£40,428,208</u>	<u>£51,595,165</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

14. CREDITORS	<u>1989</u> £	<u>1988</u> £
Amounts falling due within one year:		
Bank overdraft	12,549,298	13,694,849
Trade creditors	13,650,458	16,216,870
Amounts owed to subsidiary companies	6,339,124	10,536,496
Amounts owed to holding company and fellow subsidiaries	1,631,612	13,000,715
Corporation tax	536,431	1,799,464
Other taxation and social security payable	370,046	377,323
Other creditors	4,631,048	348,199
Accruals and deferred income	2,852,895	2,558,300
	<u>£42,560,912</u>	<u>£58,532,216</u>

Amounts falling due after more than one year:

Amount owed to holding company	<u>£15,412,322</u>	<u>£14,774,868</u>
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15. DEFERRED TAXATION

The deferred taxation provided and the total potential liability were as follows:

	<u>Amount provided</u>		<u>Total potential liability</u>	
	1989	1988	1989	1988
	£	£	£	£
Excess of tax allowances over depreciation	430,050	406,700	430,050	406,700
Capital gains rolled over	3,300	3,300	27,585	27,585
Provisions which will qualify for relief in future years	(357,692)	(213,900)	(357,692)	(213,900)
Interest receivable/payable	3,800	5,350	3,800	5,350
	<u>£79,458</u>	<u>£201,450</u>	<u>£103,743</u>	<u>£225,735</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

The movement in the provision during the year was as follows:

	£
At 1 January 1989	201,450
Transferred from group company	(124,142)
Transferred from profit and loss account	2,150
	<hr/>
At 31 December 1989	£ 79,458
	<hr/>

16. CALLED-UP SHARE CAPITAL	<u>1989</u>	<u>1988</u>
<u>Authorised</u>		
300,000 Ordinary Shares of £1 each	£ 300,000	£ 300,000
	<hr/>	<hr/>
<u>Alotted, called up and fully paid</u>		
300,000 Ordinary Shares of £1 each	£ 300,000	£ 300,000
	<hr/>	<hr/>

17. SHARE PREMIUM ACCOUNT AND PROFIT AND LOSS ACCOUNT

	Share Premium Account £	Profit and loss Account £
At 1 January 1989	1,139,407	5,885,725
Profit for the year	-	9,163,321
Exchange adjustments	-	15,782
Goodwill on Flower Fairies series	-	(696,000)
	<hr/>	<hr/>
At 31 December 1989	£1,139,407	£14,368,828
	<hr/>	<hr/>

18. CONTINGENT LIABILITIES

The company together with certain other subsidiaries of Pearson plc has guaranteed interest on and repayment of £30,937,000 guaranteed unsecured loan stock of Pearson plc.

The company has given letters of support to certain subsidiaries, in which it guarantees to meet their obligations for the ensuing year.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

19. FUTURE COMMITMENTS

1989
£

1988
£

Capital

At 31 December there were future commitments for which contracts had been placed amounting to

£1,144,000 £1,291,000

and amounts authorised by the directors but not contracted for of

£NIL

£NIL

Plant and Machinery

Land and Buildings

1989
£

1988
£

1989
£

1988
£

Revenue

At 31 December 1989 the company had annual commitments under non cancellable operating leases as set out below

Operating leases which expire:

Within 1 year	79,520	20,869	-	-
Within 2 - 5 years	18,921	17,630	-	-
In more than 5 years	6,721	6,710	1,557,750	1,518,450
	<u>£105,162</u>	<u>£45,209</u>	<u>£1,557,750</u>	<u>£1,518,450</u>

20 PENSION COSTS

The company is a member of The Pearson Group Pension Plan, which is a funded defined benefit scheme, details of which, including particulars of the actuarial valuation, can be found in the Report and Accounts of Pearson plc for the year ended 31 December 1989. The company's pension scheme was merged into one Pearson Group plan together with other group schemes, on 1 August 1988; as part of that merger all company contributions were suspended for the time being.

The pension costs relating to The Pearson Group Pension Plan are assessed in accordance with the advice of a qualified actuary from The Wyatt Company (UK) Limited. The latest actuarial assessment of the Plan was at 1 August 1988. In 1989 the expected pensions cost charged to the profit and loss account has been eliminated as a result of certain valuation surpluses which are being spread over the expected remaining service lives of current employees in the scheme together with part of the valuation surplus resulting from a significant reduction in group employees since previous valuations.

In previous years the profit and loss account was charged with the contributions payable by the company to the scheme. The change in accounting policy in 1989 follows the adoption of the Statement of Standard Accounting Practice on Accounting for Pension Costs.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 1989 (Continued)

21. ULTIMATE HOLDING COMPANY

The company's immediate holding company is The Penguin Publishing Company Limited and its ultimate holding company is Pearson plc. Both companies are incorporated in Great Britain.