

NEWSQUEST MEDIA GROUP LIMITED

**Directors' Report and Financial Statements
for the year ended 31 December 1997**



REPORT AND FINANCIAL STATEMENTS 1997

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DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

Newsquest Media Group Limited is the parent of a fully integrated group of companies operating within the publishing and printing industry. Its ultimate parent company is Newsquest plc. During 1997 Newsquest plc obtained a listing on the London Stock Exchange with new equity raised which has been used to the benefit of the Newsquest Group

RESULTS AND DIVIDENDS

The company's profit after taxation was £18,925,000 (year ended 31 December 1996: £5,590,000).

The directors propose an ordinary dividend of £15,000,000 (year ended 31 December 1996: £ nil) and a dividend of £ 4,269 was proposed on preference shares (year ended 31 December 1996: £4,269).

FUTURE DEVELOPMENTS

The directors are confident of continued satisfactory business results given a favourable trading environment and the benefits of the Westminster Press acquisition.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are listed below. Except for the interests listed below, relating to directors who do not serve on the Board of the ultimate parent company, their interests in the share capital of the company's ultimate parent company are detailed in the respective financial statements of the parent company.

J T Brown
I W Aiken
D G Christie
P Davidson
J C Pfeil
P A Radburn
E M Robinson

Interests of directors in the share capital of the ultimate parent company:

	Options over 1p ordinary shares	1p ordinary shares
I W Aiken	82,400	1,188,243
D G Christie	85,280	1,188,243
P A Radburn	82,400	1,188,243
E M Robinson	71,200	194,602

The options over shares expire on 23 October 2007, are exercisable at an option price of £2.50 and are subject to a performance precondition. No options have been exercised in the year.

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

The company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms subject to the terms and conditions being met by the supplier. Creditor days at 31 December 1997 were 12 days.

DIRECTORS' REPORT

EMPLOYEE PARTICIPATION

Employee participation processes have continued throughout the year. Such processes are undertaken on a regional basis, and include consultation with staff via elected representatives on a Staff Council, the publication of regular newsletters and the regular meetings of directors and senior managers with all staff throughout the year.

During 1997, the ultimate parent company, Newsquest plc, established a save-as-you-earn share option scheme to enable staff to participate in the equity of that company, which is now quoted on the London Stock Exchange.

DISABLED PERSONS

It is the policy of the company to consider the skills and aptitudes of disabled persons fully and fairly at all times in recruitment, career development, training and promotion. In pursuing this policy and having special concern for employees who become disabled, all practical measures are taken to ensure that disabled persons are placed in jobs suited to their individual circumstances.

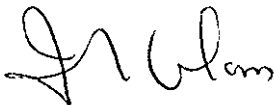
CHARITABLE AND POLITICAL CONTRIBUTIONS

Contributions made by the company during the year for charitable purposes totalled £ nil (1996 - £15,000). There were no political donations made (1996 - £ nil).

AUDITORS

A resolution to re-appoint Deloitte & Touche as the auditors will be proposed at the Annual General Meeting in accordance with Section 385 of the Companies Act 1985.

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



J M Glass
Company Secretary

9 April 1998

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 as at the end of the financial 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- 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 proper accounting records 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 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.



Chartered Accountants

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NEWSQUEST MEDIA GROUP LIMITED

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 16 which have been prepared under the accounting policies set out on page 7.

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 affairs of the company at 31 December 1997 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Chartered Accountants and
Registered Auditors

14 April 1998

NEWSQUEST MEDIA GROUP LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 December 1997

	Note	Year ended 31 December 1997 £'000	Year ended 31 December 1996 £'000
TURNOVER	1	1,346	1,628
Cost of sales		(934)	(1,249)
GROSS PROFIT		412	379
Net operating expenses	3	(33,983)	(7,588)
Other operating income	4	53,000	25,554
OPERATING PROFIT	5	19,429	18,345
Exceptional items	9	-	10,241
Profit before interest and tax		19,429	28,586
Income from fixed asset investments	6	23,000	-
Interest receivable and similar income	7	707	535
Interest payable and similar charges	8	(25,159)	(23,954)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		17,977	5,167
Tax credit on profit on ordinary activities	11	952	423
Profit for the financial year		18,929	5,590
Non-equity preference dividends	20	(4)	(4)
Profit attributable to ordinary shareholders		18,925	5,586
Equity ordinary dividends	20	(15,000)	-
RETAINED PROFIT TRANSFERRED TO RESERVES	19,21	3,925	5,586

All the company's activities were in respect of continuing operations.

The company has no recognised gains or losses for the current and preceding financial years other than the profits above and, therefore, no separate statement of total recognised gains and losses has been presented.

A reconciliation of movements in shareholders' funds is shown in Note 21.

NEWSQUEST MEDIA GROUP LIMITED

BALANCE SHEET 31 December 1997

	Note	£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	12		790		1,203
Investments	13		73,099		73,099
			<u>73,889</u>		<u>74,302</u>
CURRENT ASSETS					
Debtors	14	402,805		501,579	
Cash at bank and in hand		<u>2,575</u>		<u>8,900</u>	
		405,380		510,479	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	<u>(265,202)</u>		<u>(262,175)</u>	
NET CURRENT ASSETS			<u>140,178</u>		<u>248,304</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			214,067		322,606
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		<u>(119,266)</u>		<u>(231,730)</u>
NET ASSETS			<u><u>94,801</u></u>		<u><u>90,876</u></u>
CAPITAL AND RESERVES					
Called up share capital - equity	18		1		1
Called up share capital - non-equity	18		425		425
Share premium account	19		50,418		50,418
Merger reserve	19		1,907		1,907
Profit and loss account	19		<u>42,050</u>		<u>38,125</u>
TOTAL SHAREHOLDERS' FUNDS			<u><u>94,801</u></u>		<u><u>90,876</u></u>
Shareholders' funds are attributable to:					
Equity shareholders' funds			94,376		90,451
Non-equity shareholders' funds			<u>425</u>		<u>425</u>
			<u><u>94,801</u></u>		<u><u>90,876</u></u>

The financial statements on pages 5 to 16 were approved by the Board of directors on 9 April 1998 and were signed on its behalf by:

J C Pfeil

J C Pfeil
Director

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

1. ACCOUNTING POLICIES

Compliance with accounting standards

These financial statements have been prepared in accordance with applicable accounting standards.

Turnover

Turnover represents the invoiced value of sales, excluding Value Added Tax. Advertising turnover is recognised upon publication of the relevant newspaper. The whole of turnover is attributable to the one principal activity of the company being the printing and publishing of newspapers in the UK. The accounts reflect a 52 week trading period.

Development expenditure

Development expenditure incurred on the launch of new titles is expensed to the profit and loss account as incurred.

Vacant property

An accrual is made at the balance sheet date for the net present value of net future rentals on vacant and surplus property.

Investments

Investments are stated at cost, less provision, if appropriate, for any permanent diminution in value.

Taxation

Deferred taxation is provided on timing differences arising from the different treatment of items for accounting and taxation purposes which are expected to reverse in the future, calculated at the rate at which it is expected the tax will arise. No provision is made for tax which would become payable on the sale of intangible assets at the stated amounts as there is no present intention to sell these intangible assets.

Operating leases

Operating lease rentals are charged to the income statement on a straight line basis over the periods of the leases.

Tangible fixed assets and depreciation

Plant and equipment is stated in the balance sheet at cost less accumulated depreciation. No depreciation is provided on land. Plant and equipment is depreciated over its estimated useful life on a straight line basis at rates from 2% to 50%.

Borrowings

All borrowings are initially stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs are charged to the profit and loss account over the term of the borrowings and represent a constant proportion of the balance of capital repayments outstanding.

Pensions

Employees are members of the Newsquest Media Group Pension Scheme (the "Scheme"), a defined benefit scheme. The Scheme is administered on a Newsquest Media Group Limited group basis and total contributions are assessed by a qualified actuary based on the cost of providing pensions across all participating Newsquest Media Group Limited group companies. Costs are not determined separately for each participating company hence contributions are charged to the profit and loss account in the period on the basis of amounts payable. Further information on the Scheme is set out in the financial statements of the ultimate parent company, Newsquest plc.

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

1. ACCOUNTING POLICIES (CONTINUED)

Group accounts and cash flow statement

The company, as it is a wholly owned subsidiary itself, is not required to prepare group accounts under Section 228 of the Companies Act 1985 because its ultimate parent undertaking at 31 December 1997 is established under the law of a member State of the European Union. Accordingly the financial statements present information about the company rather than the group as a whole. A cash flow statement is not required under Financial Reporting Standard 1, as the company is a wholly owned subsidiary and the group's financial statements are publicly available.

2. EMPLOYEES

	1997 £'000	1996 £'000
Staff costs		
Wages and salaries	2,692	2,354
Social security costs	272	205
Other pension costs	161	84
Total	<u>3,125</u>	<u>2,643</u>
	No.	No.
Average number of employees	<u>61</u>	<u>70</u>

3. NET OPERATING EXPENSES

	1997 £'000	1996 £'000
Distribution and selling costs	-	-
Administrative expenses	33,983	7,588
Total	<u>33,983</u>	<u>7,588</u>

Included within administrative expenses in 1997 are finance and management charges of £24,194,000 from Newsquest Capital plc and £6,014,000 of costs associated with the listing of Newsquest plc.

4. OTHER OPERATING INCOME

	1997 £'000	1996 £'000
Management fees charged to subsidiaries	<u>53,000</u>	<u>25,554</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

5. OPERATING PROFIT

Operating profit is stated after charging:

	1997 £'000	1996 £'000
Hire of plant and machinery	24	-
Depreciation - owned assets	578	480
- leased assets	-	97
Auditors' remuneration - audit fees	180	85
- non audit fees	386	306
Rationalisation and reorganisation costs	182	1,784
Acquisition financing costs	-	3,910
	<u> </u>	<u> </u>

Included within listing costs and deferred financing fees is £624,700 (1996 - £1,065,000) paid to the auditors.

6. INCOME FROM FIXED ASSET INVESTMENTS

	1997 £'000	1996 £'000
Dividends from group undertakings	23,000	-
	<u> </u>	<u> </u>

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	1997 £'000	1996 £'000
Interest receivable	707	535
	<u> </u>	<u> </u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
Interest payable on bank loans	17,189	6,925
Financing costs	7,970	15,051
Interest payable on other loans	-	1,961
Finance charges in respect of finance leases	-	17
	<u> </u>	<u> </u>
	25,159	23,954
	<u> </u>	<u> </u>

Included in financing costs in 1997 is £6,846,000 related to the write off of deferred fees on bank facilities that were terminated during the year.

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

9. EXCEPTIONAL ITEMS

	1997 £'000	1996 £'000
Profit on sale of investments	-	11,190
Costs of restructuring on acquisition of PL Publishing	-	(949)
	<u>-</u>	<u>10,241</u>

The profit on sale of investments was generated by the disposal of the investments in Newsquest (Yorkshire) Limited and Newsquest (Midlands North) Limited on 15 February 1996. The net cash consideration received upon disposal totalled £14,615,000. The investments had been included at cost of £3,425,000.

10. DIRECTORS' EMOLUMENTS

	1997 £'000	1996 £'000
Aggregate emoluments (excluding sales incentive payments)	1,298	1,001
Sale incentive payments (a)	-	350
	<u>1,298</u>	<u>1,351</u>

(a) Payments made by Reed Elsevier (UK) Limited in connection with the sale of Newsquest Media Group Limited.

Fees and other emoluments (excluding pension contributions) payable to the highest paid director amounted to £246,500 (1996: £247,658). Comparative figures have been adjusted to reflect directors' emoluments on an accruals basis. Six directors are members of a defined benefit pension scheme.

11. TAXATION CREDIT ON PROFIT ON ORDINARY ACTIVITIES

	1997 £'000	1996 £'000
UK corporation tax	(193)	-
Deferred taxation	445	423
Prior year adjustment - corporation tax	700	-
Total	<u>952</u>	<u>423</u>

The tax charge is disproportionately low due to the high level of income not subject to corporation tax.

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

12. TANGIBLE FIXED ASSETS

	Plant and equipment £'000
Cost	
At 1 January 1997	2,988
Transfers from group companies	8
Additions	179
Disposals	(66)
At 31 December 1997	3,109
Accumulated depreciation	
At 1 January 1997	1,785
Transfers from group companies	6
Charge to profit and loss account	578
Disposals	(50)
At 31 December 1997	2,319
Net book value	
At 31 December 1997	790
At 31 December 1996	1,203

13. INVESTMENTS HELD AS FIXED ASSETS

	Investments in subsidiary undertakings £'000
Cost and net book value	
At 1 January 1997 and 31 December 1997	73,099

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

13. INVESTMENTS HELD AS FIXED ASSETS (continued)

Details of companies in which the company holds more than 10% of any class of equity share capital or more than 10% of the total allotted share capital, all of which are incorporated in England and Wales, are given below:

Name of company	Shares and proportion held	Nature of business
Newsquest (Midlands South) Limited	322 ordinary shares of £1 each (100%)	Publishing
Newsquest (Lancashire) Limited	282 ordinary shares of £1 each (100%)	Publishing
Newsquest (Cheshire/Merseyside) Limited	362 ordinary shares of £1 each (100%)	Publishing
Newsquest (Essex) Limited	242 ordinary shares of £1 each (100%)	Publishing
Newsquest (London) Limited	522 ordinary shares of £1 each (100%)	Publishing
Newsquest Printing (Worcester) Limited	32 ordinary shares of £1 each (100%)	Printing
Newsquest Printing (Lostock) Limited	62 ordinary shares of £1 each (100%)	Printing
Newsquest Printing (Colchester) Limited	52 ordinary shares of £1 each (100%)	Printing
Bury Times Limited	320,000 ordinary shares of £1 each (100%)	Dormant
Swallowdove Limited	1 ordinary share of £1 each (100%)	Holding company
Newsquest Media (Northern) Limited	87,209 ordinary shares of 1p each and 823,000 deferred shares of £1 each (100%)	Dormant
Newsquest Media (Southern) Limited	7,750,969 ordinary shares of 5p each (100%)	Dormant
Newsquest Media (Midlands) Limited	12,775,000 ordinary shares of £1 each (100%)	Dormant
London and Kent Newspapers Limited	7,000 ordinary and 70,000 deferred shares of £1 each (100%)	Dormant

14. DEBTORS

	1997	1996
	£'000	£'000
Amounts falling due within one year		
Trade debtors	2,245	2,041
Amounts owed by subsidiary undertakings	395,011	488,797
Prepayments and accrued income	368	165
Other debtors	5,181	10,576
Total	402,805	501,579

There are no debtors falling due after more than one year.

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

15. CREDITORS

	1997 £'000	1996 £'000
Amounts falling due within one year		
Bank loans and overdrafts	-	1,151
Trade creditors	1,012	804
Amounts owed to parent undertakings	193,850	187,687
Amounts owed to subsidiary undertakings	46,682	59,972
Other taxation and social security	89	-
Corporation tax	192	107
Other creditors	3,748	209
Accruals and deferred income	4,621	12,241
Proposed ordinary dividends	15,000	-
Proposed preference dividends	8	4
Total	265,202	262,175
Amounts falling due after more than one year		
Bank loans (net of deferred financing fees)	119,266	231,730
Total	119,266	231,730
Borrowings repayable as follows		
In one year or less	-	1,151
Between one and two years	-	2,546
Between two and five years	119,266	51,748
In five years or more	-	177,436
Total	119,266	232,881
Repayable by instalments wholly or partly in more than five years		
Revolving credit facility	119,266	-
Bank revolver	-	25,000
Tranche 1 variable rate secured loan	-	149,618
Tranche 2A dollar variable rate secured loan	-	25,434
Tranche 2B variable rate secured loan	-	32,829
Total	-	232,881

The bank loans are secured by guarantees from the company, its parent and the group's principal subsidiaries. The year end interest rate on the revolving credit facility was 8.0%

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

16. OPERATING LEASE COMMITMENTS

Annual commitments for non-cancellable operating lease rentals are as follows:

	Leases for land and buildings	
	1997	1996
	£'000	£'000
Expiry of operating leases falling due Between 2 and 5 years	45	45

At 31 December 1997 the company had the following capital commitments:

	1997	1996
	£'000	£'000
Contracted for but not provided in these accounts	46	-

17. DEFERRED TAXATION

	1997	1996
	£'000	£'000
At 1 January 1997	1,143	720
Movement in year	445	423
At 31 December 1997	1,588	1,143

	1997	1996
	£'000	£'000
The deferred taxation asset included in debtors comprises:		
Excess of depreciation over tax allowances	120	23
Other timing differences	1,468	1,120
	1,588	1,143

NOTES TO THE ACCOUNTS
Year ended 31 December 1997

18. CALLED UP SHARE CAPITAL

	Number	1997 £'000	Number	1996 £'000
Authorised				
Ordinary shares of \$1 each	1,270	1	1,270	1
Deferred Ordinary shares of £1 each	200	-	200	-
1% First Cumulative Redeemable Preference shares of £1 each	325,000	325	325,000	325
1% Second Cumulative Redeemable Preference shares of £1 each	99,900	100	99,900	100
	<u>426,370</u>	<u>426</u>	<u>426,370</u>	<u>426</u>
Called up, allotted and fully paid				
Ordinary shares of \$1 each	1,270	1	1,270	1
Deferred shares of £1 each	127	-	127	-
1% First Cumulative Redeemable Preference shares of £1 each	325,000	325	325,000	325
1% Second Cumulative Redeemable Preference shares of £1 each	99,900	100	99,900	100
	<u>426,297</u>	<u>426</u>	<u>426,297</u>	<u>426</u>

The deferred ordinary shares can be repurchased at the option of the company at any time for an aggregate consideration of £1 which shall be applied for the benefit of the company. The deferred ordinary shares are not entitled to any participation in the profits or the assets of the company, other than as indicated below. The deferred ordinary shareholder has no right to receive notice of or attend and vote at any general meeting and shall only be entitled to participate in the assets of the company after the holders of every other class of shares in the capital of the company shall have received the sum of £10,000,000 in respect of each share held by them.

The Cumulative Redeemable Preference shares can be redeemed at the option of the company or the shareholder at any time on giving appropriate notice. A premium of 38.46p per share is payable on the redemption of the 1% First Cumulative Preference shares. No premium is payable on the redemption of the 1% Second Cumulative Preference shares. The 1% Second Cumulative Preference shares cannot be redeemed while any 1% First Cumulative Preference shares remain in issue. The preference shareholders have no rights at any general meeting other than in special circumstances and on a winding up are entitled to receive their nominal value and premium prior to ordinary shareholders.

19. RESERVES

	Share premium account £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 1997	50,418	1,907	38,125
Profit for the year	-	-	3,925
At 31 December 1997	<u>50,418</u>	<u>1,907</u>	<u>42,050</u>

NOTES TO THE ACCOUNTS

Year ended 31 December 1997

20. DIVIDENDS

	1997 £'000	1996 £'000
Ordinary dividend proposed	15,000	-
Non-equity dividend proposed		
Preference dividend	4	4

21. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Profit for the financial year	18,929	5,590
Dividends	(15,004)	(4)
	3,925	5,586
Capital contribution	-	10,000
Net addition to shareholders' funds	3,925	15,586
Opening shareholders' funds	90,876	75,290
Closing shareholders' funds	94,801	90,876

22. PENSION SCHEMES

The company is a member of the Newsquest Pension Plan, which is primarily a funded defined benefit scheme, details of which, including particulars of the latest actuarial valuation, can be found in the financial statements of Newsquest plc for the period ended 31 December 1997. The pension costs relating to the group plan are assessed in accordance with the advice of a qualified actuary.

The total pension cost for the period was £161,000 (1996 - £84,000).

23. RELATED PARTIES

The company is included in the consolidated financial statements of its ultimate parent company. These financial statements are publicly available, therefore, the company has taken advantage of the exemption in FRS 8 paragraph 3(c) from disclosure of transactions with entities that are part of the group or investees of the group qualifying as related parties.

24. ULTIMATE PARENT COMPANY

The company's ultimate parent company is Newsquest plc, a company incorporated in Great Britain and registered in England and Wales. The annual report and consolidated financial statements of Newsquest plc can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.