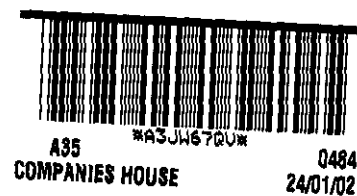


**PEARSON EDUCATION LIMITED**  
**FINANCIAL STATEMENTS - 31st DECEMBER 2000**  
**TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS**



Registered No: 872828

# **PEARSON EDUCATION LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31st DECEMBER 2000**

The Directors present their annual report on the affairs of the company together with the financial statements for the year ended 31st December 2000.

#### **PRINCIPAL ACTIVITY AND BUSINESS REVIEW**

The principal activity of the company continued to be that of an Educational publisher in the markets of Higher & Professional Education, English Language Teaching and Schools (both UK and International). The company remained focused on the key customer groups of educators and consumers. A number of overseas branches continued to be maintained to support local selling activity.

During 2000 the Higher & Professional Education market continued to be highly competitive and the demand for English Language Teaching materials remained strong throughout Europe as well as Asia and Latin America.

In summary, the company is well positioned to benefit from the worldwide demand for Education.

#### **DIVIDENDS**

No dividend was paid or payable during the year (1999 £3,919,000).

#### **MARKET VALUATION OF LAND AND BUILDINGS**

It is estimated that the market value of the company's properties at 31st December 2000, based on management's market research, is approximately £527,000 in excess of book value.

#### **DIRECTORS**

The Directors who have held office during the year are as follows :

P Jovanovich  
S Dowling  
N Portwood  
V M Lockie  
B J Landers (appointed 25<sup>th</sup> May, 2000)

#### **DIRECTORS' INTERESTS**

The interests of Directors in group companies are disclosed in the accounts of the immediate parent company, Longman Communications Limited.

The Directors, in common with other employees of Pearson plc group companies, may participate in the Pearson plc Save As You Earn (SAYE) Share Option Scheme under which rights are granted to purchase ordinary shares upon the expiry of 3, 5 or 7 year periods. Options taken up under the current scheme are exercisable at prices ruling on the Stock Exchange at the close of dealing on the day before the offer is made, less such discount (not exceeding 20%) as the Board of Pearson plc may determine. In addition, the Directors are eligible to participate in the Pearson plc Senior Executive Share Option Scheme.

#### **CHARITABLE AND POLITICAL CONTRIBUTIONS**

During the year the company made various charitable contributions totalling £50 (1999 - £917). The company did not make any political contributions during the year (1999 - £ Nil).

#### **POLICY ON INFORMATION FOR EMPLOYEES**

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

## **DIRECTORS' REPORT (continued)**

### **POLICY ON INFORMATION FOR EMPLOYEES (continued)**

Regular meetings are held with staff to keep them fully informed of the company's progress and future plans. Management also places great importance on timely and informative communication of changes occurring within the company.

All employees, after a specified period of service, are eligible to participate in the Pearson plc Save As You Earn Share Option Scheme. All employees are eligible to either an individual bonus linked to company performance or to a profit share bonus linked to the performance of Pearson plc (the company's ultimate parent company).

### **EMPLOYMENT OF DISABLED PERSONS**

Full consideration is given by the company to applications for employment made by disabled persons, who have or have had a physical or mental impairment. Due regard will be paid to their particular aptitudes and abilities and all reasonable adjustments will be made to ensure that they are not disadvantaged. This also applies to employees who may become disabled during their employment. Disabled employees are given the same opportunities for training, career development and promotion as other employees, subject to their particular abilities.

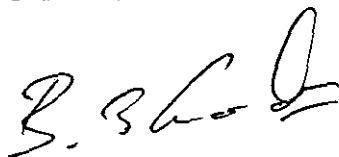
### **PAYMENTS TO CREDITORS**

The company's policy on the payment of creditors is, whenever possible, to ensure that suppliers are paid on the due date. Payments to suppliers of products and services are paid on their normal trading terms, unless special terms have been agreed. Creditor days in 2000 were 28 (1999 - 28).

### **POST BALANCE SHEET EVENT**

On 5<sup>th</sup> June 2001, the authorised share capital of the Company was increased to £250,000,000. On the same date, 133,000,000 ordinary shares of £1 each were allotted and issued to Longman Communications Limited, the Company's immediate parent company.

**By Order of the Board**



**B J LANDERS**  
Director

Edinburgh Gate  
Harlow  
Essex  
CM20 2JE

18<sup>th</sup> January 2002

## PEARSON EDUCATION LIMITED

### 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 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;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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.

**PEARSON EDUCATION LIMITED**

**AUDITORS REPORT TO THE MEMBERS OF PEARSON EDUCATION LIMITED**

We have audited the financial statements on pages 5 to 17 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 7 and 8.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the Annual Report. As described on page 3, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and our profession's ethical guidance.

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 United Kingdom Companies Act. 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.

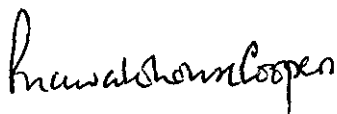
**BASIS OF AUDIT OPINION**

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<sup>st</sup> December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers**  
**Chartered Accountants and Registered Auditors**  
10, Bricket Road,  
St. Albans  
Herts AL1 3JX

18<sup>th</sup> January 2002

**PEARSON EDUCATION LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31st DECEMBER 2000**

|  | <u>Notes</u> | <u>2000</u><br><u>£'000</u> | <u>1999</u><br><u>£'000</u> |
|--|--------------|-----------------------------|-----------------------------|
| Turnover   | 1,2          | 186,110                     | 142,455                     |
| Cost of sales  |              | (117,182)                   | (90,247)                    |
| Gross Profit   |              | -----<br>68,928             | -----<br>52,208             |
| Other operating expenses (net)                               | 3            | (74,981)                    | (61,495)                    |
| Operating loss   |              | -----<br>(6,053)            | -----<br>(9,287)            |
| Write back of provision/(cost) of fundamental reorganisation | 4            | 26                          | (6,976)                     |
| Loss on ordinary activities before interest and tax          |              | -----<br>(6,027)            | -----<br>(16,263)           |
| Interest receivable and similar income                       | 5            | 353                         | 148                         |
| Interest payable and similar charges                         | 6            | (1,660)                     | (1,312)                     |
| Loss on ordinary activities before tax                       | 7            | -----<br>(7,334)            | -----<br>(17,427)           |
| Tax (charge)/credit on loss on ordinary activities           | 10           | (204)                       | 4,138                       |
| Loss on ordinary activities after tax                        | 19           | -----<br>(7,538)            | -----<br>(13,289)           |
| Dividend paid  | 19           | -                           | (3,919)                     |
| Retained loss for the year                                   | 19           | -----<br>(7,538)<br>=====   | -----<br>(17,208)<br>=====  |

All results relate to continuing operations.

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

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

The notes on pages 7 to 17 form an integral part of these accounts.

**PEARSON EDUCATION LIMITED**

**BALANCE SHEET - 31st DECEMBER 2000**

|   | <u>Notes</u> | <u>2000</u><br><u>£'000</u> | <u>1999</u><br><u>£'000</u> |
|---|--------------|-----------------------------|-----------------------------|
| <b>FIXED ASSETS</b>                           |              |                             |                             |
| Intangible assets                             | 11           | 83,259                      | 89,536                      |
| Tangible assets                               | 12           | 11,135                      | 14,301                      |
| Investments                                   | 13           | 353                         | 353                         |
|   |              | -----                       | -----                       |
|   |              | 94,747                      | 104,190                     |
|   |              | -----                       | -----                       |
| <b>CURRENT ASSETS</b>                         |              |                             |                             |
| Stocks  | 14           | 41,777                      | 42,667                      |
| Debtors                                       | 15           | 97,871                      | 121,144                     |
| Cash at bank and in hand                      |              | 4,233                       | 2,988                       |
|   |              | -----                       | -----                       |
|   |              | 143,881                     | 166,799                     |
| <b>CURRENT LIABILITIES</b>                    |              |                             |                             |
| Creditors:                                    |              |                             |                             |
| Amounts falling due within one year           | 16           | (204,625)                   | (228,278)                   |
|   |              | -----                       | -----                       |
| <b>NET CURRENT LIABILITIES</b>                |              | (60,744)                    | (61,479)                    |
|   |              | -----                       | -----                       |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>  |              | 34,003                      | 42,711                      |
| Creditors:                                    |              |                             |                             |
| Amounts falling due after more than one year  | 16           | (102)                       | (204)                       |
|   |              | -----                       | -----                       |
|   |              | 33,901                      | 42,507                      |
| <b>PROVISIONS FOR LIABILITIES AND CHARGES</b> |              |                             |                             |
| Pension Provision                             | 18           | (1,036)                     | (1,036)                     |
| Reorganisation provision                      | 18           | -                           | (746)                       |
| UK deferred taxation                          | 24           | -                           | (322)                       |
|   |              | -----                       | -----                       |
| <b>NET ASSETS</b>                             |              | 32,865                      | 40,403                      |
|   |              | =====                       | =====                       |
| <b>CAPITAL AND RESERVES</b>                   |              |                             |                             |
| Called up share capital                       | 19           | 37,500                      | 37,500                      |
| Share premium account                         | 19           | 1,014                       | 1,014                       |
| Other reserves                                | 19           | -                           | 408                         |
| Profit and loss account                       | 19           | (5,649)                     | 1,481                       |
|   |              | -----                       | -----                       |
| <b>EQUITY SHAREHOLDERS' FUNDS</b>             | 19           | 32,865                      | 40,403                      |
|   |              | =====                       | =====                       |

Signed on behalf of the Board on 18<sup>th</sup> January 2002



**B J Landers - Director**

The notes on pages 7 to 17 form an integral part of these accounts.

**PEARSON EDUCATION LIMITED**

**NOTES ON THE ACCOUNTS - 31st DECEMBER 2000**

**1. PRINCIPAL ACCOUNTING POLICIES**

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and preceding year, is set out below.

**(a) Basis of Accounting**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of usual fixed assets. The financial statements have been prepared in accordance with applicable accounting standards.

Under section 228 of the Companies Act 1985 the company is exempt from the requirement to prepare group accounts since it is a wholly owned subsidiary undertaking of a body corporate incorporated in the European Union (Note 25), in whose accounts its results are consolidated. The financial statements of the parent company meet all other conditions of section 228.

In accordance with the provisions of Financial Reporting Standard ("FRS") Number One, a cash flow statement has not been prepared since the Company is a wholly owned subsidiary of a body corporate incorporated in the European Union (Note 25). A consolidated cash flow statement is included in the financial statements of the ultimate parent company which meet all other conditions of the FRS.

**(b) Intangible Fixed Assets**

Goodwill arising on the acquisition of a business or purchase of publishing rights and titles is capitalised and amortised in equal instalments over its estimated economic life (Note 11). Its estimated economic life is determined by taking account of the nature of the transaction and the opinion of the Directors. Goodwill is amortised over a period of between 4 and 20 years. Any permanent diminution in the value of goodwill is recognised by an immediate write-off through the profit and loss account.

**(c) Fixed Assets**

Tangible fixed assets are stated at cost. During the year the company disposed of the only asset that had previously been revalued. Tangible fixed assets are depreciated over their estimated economic lives by equal annual instalments. Freehold buildings and long leaseholds are depreciated at 2% per annum, short leaseholds over the period of their leases, motor vehicles at 25% per annum and other plant and equipment at appropriate rates between 5% and 33.33% per annum.

**(d) Stocks and Work-in-Progress**

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost comprises all costs related to production processes which are, in the main, carried out by third parties.

**(e) Deferred Taxation**

The company provides deferred taxation at the expected applicable rates, to take account of timing differences between the treatment of certain items for financial statements purposes and their treatment for taxation purposes, to the extent it is, in the opinion of the Directors, likely that the timing differences will reverse in the future so as to crystallise a tax asset or liability. The major timing differences and the amounts involved are set out in Note 24.

**(f) Overseas Currencies**

Assets and liabilities in overseas currencies are translated into sterling at the rates ruling at the balance sheet date, but where currency balances are covered by forward foreign exchange contracts, provision is made in the profit and loss account to restate these balances in the balance sheet at the appropriate forward rate. Profits and losses arising on translation and on remittances during the year have been included in profit or loss on ordinary activities before taxation.



1. **PRINCIPAL ACCOUNTING POLICIES (continued)**

**(g) Turnover**

Turnover represents the amount receivable for goods and services net of returns, discounts and Value Added Tax.

**(h) Leases**

Lease payments in respect of assets held under operating leases are written off as incurred. The financial obligations under such leases are set out in Note 20.

**(i) Pensions Accounting**

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 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 cost, reduced by other variations exceeds contributions payable for that year. Other variations from cost are apportioned over the expected service lives of current employees in the scheme.

**(j) Fixed Asset Investments**

Fixed asset investments are stated at cost less any provision for permanent diminution in value (Note 13).

**(k) Going Concern**

Pearson plc, the ultimate parent undertaking, has confirmed that it will continue to provide financial support for the company for the foreseeable future and accordingly the accounts have been drawn up on a going concern basis.

2. **GEOGRAPHICAL ANALYSIS OF TURNOVER**

|                                     | <b>2000</b>         | <b>1999</b>         |
|-------------------------------------|---------------------|---------------------|
|                                     | <b><u>£'000</u></b> | <b><u>£'000</u></b> |
| Turnover by destination             |                     |                     |
| UK                                  | 88,719              | 75,761              |
| Europe, Australia and North America | 58,900              | 39,235              |
| Africa, Asia and Rest of America    | 38,491              | 27,459              |
|                                     | <u>186,110</u>      | <u>142,455</u>      |

All turnover derives from educational publishing.

**3. OTHER OPERATING EXPENSES (NET)**

|  | <b>2000</b>         | <b>1999</b>         |
|--|---------------------|---------------------|
|  | <b><u>£'000</u></b> | <b><u>£'000</u></b> |
| Distribution Costs                           | 4,886               | 3,563               |
| Administration, Marketing and Other Expenses | 73,456              | 61,272              |
|  | <u>78,342</u>       | <u>64,835</u>       |
| Other Operating Income                       | (3,361)             | (3,340)             |
|  | <u>74,981</u>       | <u>61,495</u>       |

**4. COST OF FUNDAMENTAL REORGANISATION**

The acquisition by Pearson plc of the educational business of Simon & Schuster and the creation of Pearson Education Limited gave rise to a write-back of organisation costs in the year of £26,000 (1999 charge £6,976,000) together with a resultant reduction in tax charge of £Nil (1999 £1,855,000) split appropriately between current and deferred tax.

**5. INTEREST RECEIVABLE AND SIMILAR INCOME**

|                             | <b>2000</b>         | <b>1999</b>         |
|-----------------------------|---------------------|---------------------|
|                             | <b><u>£'000</u></b> | <b><u>£'000</u></b> |
| On deposit and liquid funds | 353                 | 148                 |

**6. INTEREST PAYABLE AND SIMILAR CHARGES**

|   | <b>2000</b>         | <b>1999</b>         |
|---|---------------------|---------------------|
|   | <b><u>£'000</u></b> | <b><u>£'000</u></b> |
| Other borrowings repayable wholly within five years not by instalments: |                     |                     |
| Bank loans and overdraft  | 1,512               | 1,168               |
| All other loans and finance charges on finance leases                   | 148                 | 144                 |
|   | <u>1,660</u>        | <u>1,312</u>        |

**7. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

|   | <b>2000</b>         | <b>1999</b>         |
|---|---------------------|---------------------|
|   | <b><u>£'000</u></b> | <b><u>£'000</u></b> |
| Loss on ordinary activities before taxation is arrived at after charging: |                     |                     |
| Amortisation of goodwill  | 6,277               | 3,926               |
| Depreciation of tangible fixed assets                                     | 1,680               | 1,725               |
| Depreciation of assets held under finance leases                          | 58                  | 29                  |
| Auditors' remuneration:   |                     |                     |
| - audit services  | 65                  | 53                  |
| - non-audit services  | 118                 | 171                 |
| Operating lease rentals:  |                     |                     |
| - land and buildings  | 3,829               | 2,866               |
| - hire of plant and machinery   | 1,800               | 1,132               |

8. EMOLUMENTS OF DIRECTORS

|                                 | 2000<br>£'000 | 1999<br>£'000 |
|---------------------------------|---------------|---------------|
| Emoluments                      | 526           | 295           |
| Compensation for Loss of Office | -             | 130           |
|                                 | ----          | ----          |
|                                 | 526           | 425           |
|                                 | ====          | ====          |

The emoluments of the highest paid director were £329,000 (1999 £121,000) and the amount of his accrued pension as at 31st December 2000 was £8,000 (1999 £6,000).

As at the 31st December 2000 one of the directors was accruing pension benefits under a defined benefit scheme.

9. EMPLOYEES

The average weekly number of persons (including Directors) employed by the company during the year and their aggregate remuneration for the year was:

|                            | 2000<br>Number | 1999<br>Number |
|----------------------------|----------------|----------------|
| Publishing                 | 232            | 200            |
| Distribution               | 284            | 169            |
| Selling and administration | 696            | 616            |
|                            | ----           | ----           |
|                            | 1,212          | 985            |
|                            | ====           | ====           |

|                       | 2000<br>£'000 | 1999<br>£'000 |
|-----------------------|---------------|---------------|
| Wages and salaries    | 34,618        | 29,946        |
| Social security costs | 2,532         | 1,976         |
|                       | -----         | -----         |
|                       | 37,150        | 31,922        |
|                       | =====         | =====         |

10. TAXATION

|  | 2000<br>£'000 | 1999<br>£'000 |
|--|---------------|---------------|
| Taxation on loss on ordinary activities:                     |               |               |
| UK Corporation tax on loss for the year at 30% (1999 30.25%) | (421)         | 3,510         |
| Double taxation relief                                       | 300           | 42            |
|  | -----         | -----         |
|  | (121)         | 3,552         |
| UK deferred taxation   | (324)         | (149)         |
| Overseas taxation  | (459)         | (138)         |
|  | -----         | -----         |
|  | (904)         | 3,265         |
| Taxation adjustments relating to previous years:             |               |               |
| Corporation tax  | (914)         | 1,014         |
| UK deferred taxation   | 1,614         | (141)         |
|  | -----         | -----         |
|  | (204)         | 4,138         |
|  | =====         | =====         |

# 11. INTANGIBLE FIXED ASSETS

## Goodwill:

|                       | <u>£'000</u>    |
|-----------------------|-----------------|
| <b>Cost:</b>          |                 |
| At 1st January 2000   | 98,891          |
| At 31st December 2000 | -----<br>98,891 |
| <b>Amortisation:</b>  |                 |
| At 1st January 2000   | 9,355           |
| Charge for the year   | 6,277           |
| At 31st December 2000 | -----<br>15,632 |
| Net book amount:      |                 |
| At 31st December 2000 | 83,259          |
|                       | =====           |
| At 31st December 1999 | 89,536          |
|                       | =====           |

**12. TANGIBLE FIXED ASSETS**

|                                   | Properties<br><u>£'000</u> | Plant<br>& Motor<br>Vehicles<br><u>£'000</u> | Fixtures<br>& Fittings<br><u>£'000</u> | Assets<br>Under<br>Construction<br><u>£'000</u> | Total<br><u>£'000</u> |
|-----------------------------------|----------------------------|--|--|---|-----------------------|
| Cost or Valuation:                |                            |  |  |   |                       |
| At 1 <sup>st</sup> January 2000   | 6,051                      | 7,742  | 13,402                                 | -   | 27,195                |
| Additions                         | (38)                       | 623  | 178                                    | 1,165   | 1,928                 |
| Disposals                         | (3,288)                    | (3,164)                                      | (1,551)                                | -   | (8,003)               |
| Reallocations                     | 271                        | (188)  | (83)                                   | -   | -                     |
| Reclassification                  |                            | 211  | (211)                                  |   |                       |
| At 31 <sup>st</sup> December 2000 | <u>2,996</u>               | <u>5,224</u>                                 | <u>11,735</u>                          | <u>1,165</u>                                    | <u>21,120</u>         |
| Depreciation                      |                            |  |  |   |                       |
| At 1 <sup>st</sup> January 2000   | 953                        | 3,608  | 8,333                                  | -   | 12,894                |
| Charge for the Year               | 190                        | 686  | 862                                    | -   | 1,738                 |
| Disposals                         | (815)                      | (2,413)                                      | (1,419)                                | -   | (4,647)               |
| Reallocations                     | 29                         | (29)   | -                                      | -   | -                     |
| Reclassification                  |                            | 29   | (29)                                   | -   | -                     |
| At 31 <sup>st</sup> December 2000 | <u>357</u>                 | <u>1,881</u>                                 | <u>7,747</u>                           | <u>-</u>  | <u>9,985</u>          |
| Net book Values:                  |                            |  |  |   |                       |
| At 31 <sup>st</sup> December 2000 | <u>2,639</u>               | <u>3,343</u>                                 | <u>3,988</u>                           | <u>1,165</u>                                    | <u>11,135</u>         |
| At 31 <sup>st</sup> December 1999 | <u>5,098</u>               | <u>4,134</u>                                 | <u>5,069</u>                           | <u>-</u>  | <u>14,301</u>         |

The net book value of the properties comprises :

|                 | 2000<br><u>£'000</u> | 1999<br><u>£'000</u> |
|-----------------|----------------------|----------------------|
| Freehold        | 1,429                | 3,724                |
| Long leasehold  | 41                   | 43                   |
| Short leasehold | 1,169                | 1,331                |
|                 | <u>2,639</u>         | <u>5,098</u>         |

The historical cost net book value of the Freehold properties was £1,429,000 (1999 £3,316,000).

The net book value of assets held under finance leases was £124,330 (1999 £182,367).

## 13. FIXED ASSET INVESTMENTS

|                              | Subsidiary<br>Undertakings<br>£'000 | Other<br>Investments<br>£'000 | Total<br>£'000 |
|------------------------------|-------------------------------------|-------------------------------|----------------|
| <b>Cost:</b>                 |                                     |                               |                |
| At beginning and end of year | 353                                 | 13                            | 366            |
|                              | ----                                | ----                          | ----           |
| <b>Provision:</b>            |                                     |                               |                |
| At beginning and end of year | -                                   | (13)                          | (13)           |
|                              | ----                                | ----                          | ----           |
| <b>Net Book Amount :</b>     |                                     |                               |                |
| At beginning and end of year | 353                                 | -                             | 353            |
|                              | ----                                | ----                          | ----           |

The company holds 80,935 of the 80,936 Ordinary Shares of 1p each in Logotron Limited, a company registered in England and involved in the publication and distribution of computer software. The company did not trade in 2000. Its profit for the year to 31<sup>st</sup> December 2000 was £Nil (1999 £Nil). No dividend was declared (1999 £Nil) and the aggregate of its capital and reserves at 31st December 2000 was £362,000 (1999 £362,000).

The company holds 100% of the "B" Shares of £1 in Longman Group (Overseas Holdings) Limited, a company incorporated in England.

## 14. STOCKS

|                                   | 2000<br>£'000 | 1999<br>£'000 |
|-----------------------------------|---------------|---------------|
| Raw materials and consumables     | 40            | 75            |
| Work in progress                  | 22,003        | 20,777        |
| Finished goods and goods for sale | 19,734        | 21,815        |
|                                   | -----         | -----         |
|                                   | 41,777        | 42,667        |
|                                   | =====         | =====         |

The replacement costs of these stocks is estimated as being approximately £1,342,000 greater than the amounts stated above.

## 15. DEBTORS

|   | 2000<br>£'000 | 1999<br>£'000 |
|---|---------------|---------------|
| Amounts falling due within one year:          |               |               |
| Trade debtors                                 | 47,574        | 65,186        |
| Due from immediate parent company             | 401           | -             |
| Due from fellow subsidiary undertakings       | 20,522        | 13,353        |
| Loans to fellow subsidiary undertakings       | 16,961        | 25,532        |
| Due from associated undertakings              | 2,269         | 2,088         |
| Other debtors                                 | 772           | 2,927         |
| Prepayments                                   | 2,862         | 4,944         |
| Corporation Tax Recoverable                   | 3,000         | 4,731         |
|   | -----         | -----         |
|   | 94,361        | 118,761       |
|   | -----         | -----         |
| Amounts falling due after more than one year: |               |               |
| Other debtors                                 | 2,542         | 2,383         |
| UK Deferred Taxation (see note 24)            | 968           | -             |
|   | -----         | -----         |
|   | 97,871        | 121,144       |
|   | =====         | =====         |

**16. CREDITORS**

|  | <b>2000</b><br><b>£'000</b> | <b>1999</b><br><b>£'000</b> |
|--|-----------------------------|-----------------------------|
| Amounts falling due within one year:         |                             |                             |
| Bank overdraft                               | 18,885                      | 13,996                      |
| Trade creditors                              | 13,787                      | 12,058                      |
| Due to immediate parent company              | -                           | 16                          |
| Due to fellow subsidiary undertakings        | 18,083                      | 27,819                      |
| Loans from fellow subsidiary undertakings    | 129,233                     | 138,275                     |
| Finance lease obligations                    | 102                         | -                           |
| Other creditors                              | 10,422                      | 18,907                      |
| Other taxation and social security payable   | 12                          | 43                          |
| Accruals and deferred income                 | 14,101                      | 17,164                      |
|  | -----                       | -----                       |
|  | 204,625                     | 228,278                     |
|  | -----                       | -----                       |
| Amounts falling due after more than one year |                             |                             |
| Finance lease obligations                    | 102                         | 204                         |
|  | -----                       | -----                       |
|  | 204,727                     | 228,482                     |
|  | =====                       | =====                       |

**17. FINANCE LEASE OBLIGATIONS**

|                                     | <b>2000</b><br><b>£'000</b> | <b>1999</b><br><b>£'000</b> |
|-------------------------------------|-----------------------------|-----------------------------|
| For leases:                         |                             |                             |
| Expiring in less than one year      | -                           | -                           |
| Expiring between one and two years  | 204                         | -                           |
| Expiring between two and five years | -                           | 204                         |
|                                     | =====                       | =====                       |

**18. PROVISIONS FOR LIABILITIES AND CHARGES**

| <b>Reorganisation Provision</b>        | <b>2000</b><br><b>£'000</b>     | <b>1999</b><br><b>£'000</b>     |
|--|---------------------------------|---------------------------------|
| At 1st January 2000                    | 746                             | 4,487                           |
| Charge for the year                    | -                               | 8,400                           |
| Utilised in year                       | (720)                           | (10,717)                        |
| Released in the year                   | (26)                            | (1,424)                         |
|  | -----                           | -----                           |
| At 31st December 2000                  | -                               | 746                             |
|  | =====                           | =====                           |
| <br><b>Pension Provision (Note 23)</b> | <br><b>2000</b><br><b>£'000</b> | <br><b>1999</b><br><b>£'000</b> |
| At 1st January 2000                    | 1,036                           | -                               |
| Charged in year                        | -                               | 1,036                           |
|  | -----                           | -----                           |
| At 31st December 2000                  | 1,036                           | 1,036                           |
|  | =====                           | =====                           |

**19. EQUITY SHAREHOLDERS' FUNDS**

| (a) Called Up Share Capital   | 2000<br>£'000 | 1999<br>£'000 |
|---|---------------|---------------|
| Authorised, called up and fully paid 37,500,000<br>(1999 - 37,500,000) ordinary shares of £1 each | 37,500        | 37,500        |

**(b) Movement in Shareholders' Funds**

|                             | Called Up<br>Share<br>Capital<br>£'000 | Share<br>Premium<br>Account<br>£'000 | Revaluation<br>Reserve<br>£'000 | Profit<br>and Loss<br>Account<br>£'000 | Total<br>£'000 |
|-----------------------------|--|--------------------------------------|---------------------------------|--|----------------|
| At 1st January 2000         | 37,500                                 | 1,014                                | 408                             | 1,481                                  | 40,403         |
| Loss for the financial year | -                                      | -                                    | -                               | (7,538)                                | (7,538)        |
| Dividends paid              | -                                      | -                                    | -                               | -                                      | -              |
| Transfers between reserves  | -                                      | -                                    | (408)                           | 408                                    | -              |
| At 31st December 2000       | 37,500                                 | 1,014                                | -                               | (5,649)                                | 32,865         |

During the year, one of the company's properties was transferred to its immediate parent company, Longman Communications Limited, at net book value of £2,473,000 (see note 12). As a result, the balance on revaluation reserve, which related wholly to that property, was transferred to profit and loss reserves.

| (c) Reconciliation of Movements in Shareholders' Funds | 2000<br>£'000 | 1999<br>£'000 |
|--|---------------|---------------|
| Loss for the financial year                            | (7,538)       | (13,289)      |
| Dividends paid   | -             | (3,919)       |
| Retained loss for the year                             | (7,538)       | (17,208)      |
| Net reduction in shareholders' funds                   | (7,538)       | (17,208)      |
| Shareholders' funds at 1st January                     | 40,403        | 57,611        |
| Shareholders' funds at 31st December                   | 32,865        | 40,403        |



## 20. OPERATING LEASES

Operating lease rentals payable in the next year, with commitments expiring in:

|                   | Land and Buildings |              | Plant and Machinery |              |
|-------------------|--------------------|--------------|---------------------|--------------|
|                   | 2000               | 1999         | 2000                | 1999         |
|                   | £'000              | £'000        | £'000               | £'000        |
| One year          | -                  | -            | 132                 | 193          |
| Two to five years | 38                 | 460          | 1,256               | 975          |
| Over five years   | 3,769              | 2,802        | -                   | -            |
|                   | <u>3,807</u>       | <u>3,262</u> | <u>1,388</u>        | <u>1,168</u> |

## 21. CAPITAL COMMITMENTS

Commitments for capital expenditure at 31st December 2000 amounted to £Nil (1999 £Nil).

## 22. CONTINGENT LIABILITIES

Bank and other guarantees and indemnities at 31st December 2000 amounted to £1,235,818 (1999 £3,046,000) in respect of third parties and the Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £1,450,000 (1999 £4,635,000).

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 32 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 31st December 2000 was a cash balance of £6,792,000.

The maximum amount of this guarantee is limited to a net overdraft of £50,000,000.

At 31st December 2000 the company had an overdraft of £21,440,000 under this arrangement, limiting its potential liability to £28,560,000.

As at 31st December 2000 the potential liability arising from these guarantee arrangements amounted to £28,560,000 for the parent undertaking and £Nil for the fellow subsidiary undertakings of the company.

## 23. PENSION COMMITMENTS

The company is a member of the Pearson Group Pension Plan, which is a combination of both funded defined benefit and defined contribution schemes. Details of the Plan, including particulars of the latest actuarial valuation as at 1st January 1999, can be found in the Report and Accounts of Pearson plc for the year ended 31st December 2000. The pension costs relating to this plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus on the group plan calculated by the actuary is being apportioned over the expected service lives of the group's employees who are members of the scheme.

The company's pension cost, net of this surplus is an allocation of the group cost. For 2000 this cost is £Nil (1999 £1,036,000).

Details of pension provisions are given in note 18.

| 24. DEFERRED TAXATION  | Provided     | Provided     | Full Potential | Full Potential |
|--|--------------|--------------|----------------|----------------|
|  | 2000         | 1999         | Liability      | Liability      |
|  | <u>£'000</u> | <u>£'000</u> | <u>2000</u>    | <u>1999</u>    |
|  |              |              | <u>£'000</u>   | <u>£'000</u>   |
| Deferred taxation provided and not provided in the accounts: |              |              |                |                |
| Capital allowances in deficit/(excess) of depreciation       | 15           | (270)        | 15             | (270)          |
| General Provisions   | 953          | 911          | 953            | 911            |
| Authors Advances   | -            | (963)        | -              | (963)          |
|  | <u>-----</u> | <u>-----</u> | <u>-----</u>   | <u>-----</u>   |
| At 31st December   | 968          | (322)        | 968            | (322)          |
|  | <u>=====</u> | <u>=====</u> | <u>=====</u>   | <u>=====</u>   |

## 25. ULTIMATE PARENT COMPANY

The company's immediate parent company is Longman Communications Limited, a company incorporated in Great Britain.

The company's ultimate parent company and controlling party is Pearson plc, a company incorporated in Great Britain, and registered in England and Wales. Copies of the Reports and Financial Statements of Pearson plc are available to the public from the following address:

Pearson plc  
80 Strand  
London  
WC2R 0RL

Details of transactions with group undertakings have not been given. These are included in the consolidated financial statements of Pearson plc which are publicly available.