

**PEARSON EDUCATION LIMITED**  
**FINANCIAL STATEMENTS - 31st DECEMBER 1999**  
**TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS**

**Registered No: 872828**



**PEARSON EDUCATION LIMITED**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31st DECEMBER 1999**

The Directors present their annual report on the affairs of the company together with the financial statements for the year ended 31st December 1999.

**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.

There was considerable integration activity throughout 1999 as the Addison Wesley Longman, Prentice Hall and Financial Times Management imprints all came together under Pearson Education Limited. As the year progressed, a number of operational integrations took place. All this followed the acquisition by Pearson Plc, Pearson Education Limited's ultimate holding company, of the Simon & Schuster Educational businesses in November 1998.

As a result of this acquisition, Pearson Education Limited acquired the net assets of International Book Distributors Limited on 5<sup>th</sup> July 1999.

During 1999 the Higher & Professional Education market remained highly competitive but had a successful year following the acquisition. The demand for English Language Teaching materials remained strong throughout Europe as well as Asia and Latin America. Conditions in the UK Schools market remained buoyant as a result of the Government's continued literacy funding.

In summary, the company is well positioned to benefit from the worldwide demand for Education and to take advantage of the economy of scale.

**DIVIDENDS**

A dividend of £3,919,000 (1998 £3,352,000) was declared and paid during the year.

**MARKET VALUATION OF LAND AND BUILDINGS**

It is estimated that the market value of the company's properties at 31st December 1999 is approximately £2,917,000 in excess of book values.

**DIRECTORS**

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

P Jovanovich

S Dowling

N Portwood

(appointed 1<sup>st</sup> June 1999)

V M Lockie

A Martin

(resigned 15<sup>th</sup> November 1999)

On 25<sup>th</sup> May 2000, B J Landers was appointed as a director.

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

### **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 £917 (1998 - £1,000). The company did not make any political contributions during the year (1998 - £ 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.

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**

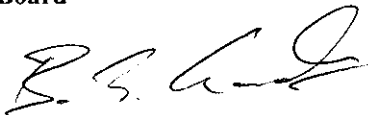
Full consideration is given by the company to applications for employment made by disabled persons, who have or have had a physical or mental impairment. Due regard will be paid to their particular aptitudes and abilities and all reasonable adjustments will be made to ensure that they are not disadvantaged. 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 1999 were 28 (1998 - 28).

**By Order of the Board**

**B J Landers**  
Director



Edinburgh Gate  
Harlow  
Essex  
CM20 2JE

15<sup>th</sup> December 2000

**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.

**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.

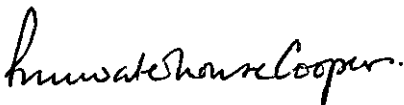
**BASIS OF AUDIT OPINION**

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 1999 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**

**15<sup>th</sup> December 2000**

**PEARSON EDUCATION LIMITED**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31st DECEMBER 1999**

	<u>Notes</u>	<u>1999</u> <u>£'000</u>	<u>1998</u> <u>£'000</u>
Turnover	2	142,455	71,192
Cost of sales		(90,247)	(38,186)
Gross Profit		----- 52,208	----- 33,006
Other operating expenses (net)	3	(61,495)	(23,708)
Operating (loss)/profit		(9,287)	9,298
Cost of fundamental reorganisation	4	(6,976)	(5,353)
(Loss)/profit on ordinary activities before interest and tax		----- (16,263)	----- 3,945
Income from shares in subsidiary undertaking		-	845
Interest receivable and similar income	5	148	214
Interest payable and similar charges	6	(1,312)	(1,101)
(Loss)/profit on ordinary activities before tax	7	(17,427)	3,903
Tax on (loss)/profit on ordinary activities	10	4,138	(1,397)
(Loss)/Profit on ordinary activities after tax	18	----- (13,289)	----- 2,506
Dividend paid	18	(3,919)	(3,352)
Retained loss for the year		----- (17,208)	----- (846)

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.

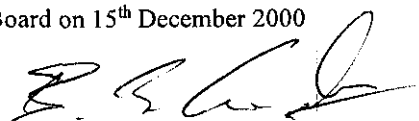
**PEARSON EDUCATION LIMITED**

**BALANCE SHEET - 31st DECEMBER 1999**

	<u>Notes</u>	<b>1999</b> <b><u>£'000</u></b>	<b>1998</b> <b><u>£'000</u></b>
<b>FIXED ASSETS</b>			
Intangible assets	11	89,536	9,735
Tangible assets	12	14,301	11,014
Investments	13	353	353
		-----	-----
		104,190	21,102
		-----	-----
<b>CURRENT ASSETS</b>			
Stocks	14	42,667	27,903
Debtors	15	121,144	58,125
Cash at bank and in hand		2,988	3,057
		-----	-----
		166,799	89,085
<b>CURRENT LIABILITIES</b>			
Creditors: amounts falling due within one year	16	(228,482)	(48,057)
		-----	-----
<b>NET CURRENT (LIABILITIES)/ ASSETS</b>		(61,683)	41,028
		-----	-----
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		42,507	62,130
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Pension Provision	17	(1,036)	-
Reorganisation provision	17	(746)	(4,487)
UK deferred taxation	24	(322)	(32)
		-----	-----
<b>NET ASSETS</b>		40,403	57,611
		=====	=====
<b>CAPITAL AND RESERVES</b>			
Called up share capital	18	37,500	37,500
Share premium account	18	1,014	1,014
Other reserves	18	408	423
Profit and loss account	18	1,481	18,674
		-----	-----
<b>EQUITY SHAREHOLDERS' FUNDS</b>	18	40,403	57,611
		=====	=====

Signed on behalf of the Board on 15<sup>th</sup> December 2000

**B J Landers - Director**



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

NOTES ON THE ACCOUNTS - 31st DECEMBER 1999

**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 not exceeding 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 or valuation (Note 12) and 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 valued 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, except to the extent it is, in the opinion of the Directors, not 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 19.

### (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

	1999 £'000	1998 £'000
Turnover by Destination		
UK	75,761	26,559
Europe, Australia and North America	39,235	24,174
Africa, Asia and Rest of America	27,459	20,459
	-----	-----
	142,455	71,192
	=====	=====

All turnover derives from Educational Publishing.

All turnover arises by origin in the UK.

As a result of the fact that International Book Distributors Limited and Pearson Education Limited were accounted for on common systems after 5 July 1999, it is not practicable to determine the post acquisition results of International Book Distributors Limited.

<b>3. OTHER OPERATING EXPENSES (NET)</b>	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Distribution Costs	3,563	2,962
Administration, Marketing and Other Expenses	61,272	27,370
	-----	-----
	64,835	30,332
Other Operating Income	(3,340)	(6,624)
	-----	-----
	<u>61,495</u>	<u>23,708</u>

Included in Administration, Marketing and Other Expenses are costs of £224,000 (1998 £464,000) associated with making IT systems Year 2000 compliant.

#### 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 reorganisation costs in the year of £6,976,000 (1998 £5,353,000) together with a resultant reduction in tax charge of £1,855,000 (1998 £1,659,000) split appropriately between current and deferred tax.

<b>5. INTEREST RECEIVABLE AND SIMILAR INCOME</b>	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
On deposit and liquid funds	148	214
	====	====

#### 6. INTEREST PAYABLE AND SIMILAR CHARGES

Other borrowings repayable wholly within five years not by instalments:	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdraft	1168	1,077
All other loans	144	24
	-----	-----
	<u>1,312</u>	<u>1,101</u>
	====	====

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

Loss on ordinary activities before taxation is arrived at after charging:	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Amortisation of goodwill	3,926	1,518
Depreciation of tangible fixed assets	1,754	1,677
Auditors' remuneration:		
- audit services	53	66
- non-audit services	171	62
Operating lease rentals:		
- land and buildings	2,866	1,420
- hire of plant and machinery	1,132	461
	=====	=====

# 8. EMOLUMENTS OF DIRECTORS

	1999 £'000	1998 £'000
Emoluments	295	315
Compensation for Loss of Office	130	268
	-----	-----
	425	583
	=====	=====

The emoluments of the highest paid director were £121,000 (1998 £152,000) and the amount of his accrued pension as at 31st December 1999 was £6,000 (1998 £17,000).

As at the 31st December 1999 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:

	1999 Number	1998 Number
Publishing	200	196
Distribution	169	91
Selling and administration	616	523
	-----	-----
	985	810
	=====	=====

	1999 £'000	1998 £'000
Wages and salaries	29,946	16,983
Social security costs	1,9761,271	
	-----	-----
	31,922	18,254
	=====	=====

# 10. TAXATION

	1999 £'000	1998 £'000
Taxation on (loss)/profit on ordinary activities:		
UK Corporation tax on (loss)/profits for the year at 30.25% (1998 31%)	3,510	(2,619)
Double taxation relief	42	187
	-----	-----
	3,552	(2,432)
UK deferred taxation	(149)	1121
Overseas taxation	(138)	(187)
	-----	-----
	3,265	(1,498)
Taxation adjustments relating to previous years:		
Corporation tax	1,014	149
UK deferred taxation	(141)	(48)
	-----	-----
	4,138	(1,397)
	=====	=====

# 11. INTANGIBLE FIXED ASSETS

## Goodwill:

### Cost:

**£'000**

At 1st January 1999	15,164
Additions (see below)	83,727

At 31st December 1999	98,891
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### Amortisation:

At 1st January 1999	5,429
Charge for the year	3,926

At 31st December 1999	9,355
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### Net book amount:

At 31st December 1999	89,536
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At 31st December 1998	9,735
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Additions in 1999 comprised goodwill transferred on the acquisition of the net assets of International Book Distributors Limited of £83,388,000 and on the acquisition of the net assets of Financial Times Management Limited of £339,000.

**12. TANGIBLE FIXED ASSETS**

	Properties £'000	Plant & Motor Vehicles £'000	Fixtures & Fittings £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation:</b>					
At 1 <sup>st</sup> January 1999	4,875	5,113	12,032	246	22,266
Additions	29	171	781	-	981
Group transfers	928	2,571	599	-	4,098
Disposals	-	(140)	(10)	-	(150)
Reallocations	219	27	-	(246)	-
At 31 <sup>st</sup> December 1999	<u>6,051</u>	<u>7,742</u>	<u>13,402</u>	<u>-</u>	<u>27,195</u>
At Directors' valuation 1976	1,082	-	-	-	1,082
At Cost	<u>4,969</u>	<u>7,742</u>	<u>13,402</u>	<u>-</u>	<u>26,113</u>
	<u>6,051</u>	<u>7,742</u>	<u>13,402</u>	<u>-</u>	<u>27,195</u>
<b>Depreciation</b>					
At 1 <sup>st</sup> January 1999	781	3,223	7,248	-	11,252
Charge for the Year	172	491	1,091	-	1,754
Disposals	-	(106)	(6)	-	(112)
At 31 <sup>st</sup> December 1999	<u>953</u>	<u>3,608</u>	<u>8,333</u>	<u>-</u>	<u>12,894</u>
<b>Net book Values:</b>					
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>
At 31 <sup>st</sup> December 1998	<u>4,094</u>	<u>1,890</u>	<u>4,784</u>	<u>246</u>	<u>11,014</u>

The net book value of the properties comprises :

	1999 £'000	1998 £'000
Freehold	3,724	3,564
Long leasehold	43	44
Short leasehold	1331	486
	<u>5,098</u>	<u>4,094</u>

The historical cost net book value of the Freehold properties was £3,316,000 (1998 £3,142,000).

**13. FIXED ASSET INVESTMENTS**

	<b>Subsidiary Undertakings £'000</b>	<b>Other Investments £'000</b>	<b>Total £'000</b>
<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 1999. Its profit for the year to 31<sup>st</sup> December 1999 was £Nil (1998 £Nil) No dividend was declared (1998 £845,000) and the aggregate of its capital and reserves at 31st December 1999 was £362,000 (1998 £362,000).

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

In the opinion of the Directors the value of the company's interest in its subsidiaries is not less than the amount stated in the balance sheet.

**14. STOCKS**

	<b>1999 £'000</b>	<b>1998 £'000</b>
Raw materials and consumables	75	-
Work in progress	20,777	16,839
Finished goods and goods for sale	21,815	11,064
	<u>42,667</u>	<u>27,903</u>

The replacement costs of these stocks is estimated as being approximately £1,018,000 greater than the amounts stated above.

**15. DEBTORS**

	<b>1999 £'000</b>	<b>1998 £'000</b>
Amounts falling due within one year:		
Trade debtors	65,186	17,148
Due from immediate parent company	-	826
Due from fellow subsidiary undertakings	13,353	14,003
Loans to fellow subsidiary undertakings	25,532	20,397
Due from associated undertakings	2,088	1,777
Other debtors	2,927	1,225
Prepayments	4,944	1,663
Corporation Tax Recoverable	4,731	-
	<u>118,761</u>	<u>57,039</u>
Amounts falling due after more than one year:		
Other debtors	2,383	1,086
	<u>121,144</u>	<u>58,125</u>

# 16. CREDITORS

	1999 £'000	1998 £'000
Amounts falling due within one year:		
Bank overdraft	13,996	12,974
Trade creditors	12,262	4,786
Due to immediate parent company	16	-
Due to fellow subsidiary undertakings	27,819	4,809
Loan from fellow subsidiary undertaking	138,275	17,966
Other creditors	18,907	373
Corporation tax	-	2,485
Other taxation and social security payable	43	-
Accruals and deferred income	17,164	4,664
	----- 228,482 =====	----- 48,057 =====

# 17. PROVISIONS FOR LIABILITIES AND CHARGES

Reorganisation Provision	1999 £'000	1998 £'000
At 1st January 1999	4,487	1,162
Additional provisions made including increases to existing provisions	8,400	5,353
Utilised in year	(10,717)	(2,028)
Released in the year	(1,424)	-
At 31st December 1999	----- 746 =====	----- 4,487 =====

The reorganisation provision will be utilised against the costs arising from the integration of Pearson Education Limited and International Book Distributors Limited. This integration is expected to be completed within one year.

Pension Provision (Note 23)	1999 £'000	1998 £'000
At 1st January 1999	-	-
Charged in year	1,036	-
At 31st December 1999	----- 1,036 =====	----- - =====

**18. EQUITY SHAREHOLDERS' FUNDS**

(a) Called Up Share Capital	1999 £'000	1998 £'000
Authorised, called up and fully paid 37,500,000 (1998 - 37,500,000) ordinary shares of £1 each	37,500	37,500

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

	Called Up Share Capital £'000	Share Premium Account £'000	Revaluation Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1st January 1999	37,500	1,014	423	18,674	57,611
Loss for the financial year	-	-	-	(13,289)	(13,289)
Dividends paid	-	-	-	(3,919)	(3,919)
Transfers between reserves	-	-	(15)	15	-
At 31st December 1999	37,500	1,014	408	1,481	40,403

(c) Reconciliation of Movements in Shareholders' Funds	1999 £'000	1998 £'000
Loss for the financial year	(13,289)	2,506
Dividends paid	(3,919)	(3,352)
Retained loss for the year	(17,208)	(846)
Net reduction in shareholders' funds	(17,208)	(846)
Shareholders' funds at 1st January	57,611	58,457
Shareholders' funds at 31st December	40,403	57,611

**19. OPERATING LEASES**

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

	Land and Buildings		Plant and Machinery	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000
One year	-	-	193	143
Two to five years	460	-	975	414
Over five years	2,802	1,420	-	-
	3,262	1,420	1,168	557

**20. CAPITAL COMMITMENTS**

Commitments for capital expenditure at 31st December 1999 amounted to NIL (1998 £Nil).



**21. CONTINGENT LIABILITIES**

Bank and other guarantees and indemnities at 31st December 1999 amounted £3,046,000 (1998 £2,264,000) in respect of third parties and the Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £4,635,000 (1998 £5,260,000).

The company participates in an arrangement with HSBC Bank plc whereby the accounts of Pearson plc and 38 of its subsidiaries, "the guarantors" are combined, with cleared debit and credit balances being offset for interest calculation purposes. In order to comply with banking regulations, each guarantor to this arrangement has provided a multilateral guarantee in respect of the overdraft obligations (but no other debts due to the bank) of each of the other participants. The net balance under this arrangement at 31 December 1999 was a cash balance of £7,915,000.

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

At 31 December 1999 this was the Company's potential liability.

As at 31 December 1999 the potential liability arising from these guarantee arrangements amounted to £33,805,000 for the parent undertakings and fellow subsidiary undertakings of the company.

**22. DEBENTURE STOCKS OF PEARSON PLC**

The company, together with certain other subsidiaries of Pearson plc, has guaranteed interest on and repayment of £25,500,000 (1998 £25,500,000) guaranteed unsecured loan stock of Pearson plc.

**23. PENSION COMMITMENTS**

The company is a member of the Pearson Group Pension Plan, which is primarily a funded defined benefit scheme, details of which, 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 31<sup>st</sup> December 1999. The pension costs relating to the group plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus of the group plan calculated by the actuary at 1st January 1999 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 £1,036,000 (1998 £ Nil).

Details of pension provisions are given in note 17.

**24. DEFERRED TAXATION**

	Provided	Provided	Full Potential	Full Potential
	1999	1998	Liability	Liability
	£'000	£'000	1999	1998
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Deferred taxation provided and not provided in the accounts:				
Capital allowances in excess of depreciation	(270)	(587)	(270)	(587)
Reorganisation Provision	911	998	911	998
Authors Advances	(963)	(443)	(963)	(443)
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
At 31st December	(322)	(32)	(322)	(32)
	<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  
3 Burlington Gardens  
London  
W1X 1LE

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.