# PEARSON EDUCATION LIMITED

## ( FORMERLY ADDISON WESLEY LONGMAN LIMITED)

## FINANCIAL STATEMENTS - 31st DECEMBER 1998

## TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS



Registered No: 872828

## PEARSON EDUCATION LIMITED

## DIRECTORS' REPORT

## FOR THE YEAR ENDED 31st DECEMBER 1998

The Directors present their annual report on the affairs of the company together with the financial statements for the year ended 31st December 1998.

### PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company continued to be that of an Educational publisher in the markets of English Language Teaching (principally export), Higher Education 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 1998 the company experienced tough trading conditions particularly in its International markets. Conditions in the UK improved over 1997 and the UK Schools business did particularly well as a result of the Government's Year of Literacy initiative which was supported by additional funding. The Higher Education market remained highly competitive and the division went through radical restructuring towards the end of the year as a result of the acquisition, by Pearson plc, of Simon & Schuster's educational publishing businesses.

Internationally, whilst the demand for English Language Teaching materials remained strong, economic downturn in various parts of the world (Asia, South America) and in certain key European markets depressed the 1998 result.

Looking ahead, the integration of Addison Wesley Longman, the Simon and Schuster business and part of what was previously Financial Times Management (another Pearson business) to create Pearson Education, has put the company in an excellent position to benefit from the worldwide demand for learning and take advantage of greater economy of scale.

### DIVIDENDS

A dividend of £3,352,000 (1997 £5,669,000) was declared and paid during the year. The company also received a dividend of £845,000 (1997 £Nil) during the year from its subsidiary Logotron Limited.

### MARKET VALUATION OF LAND AND BUILDINGS

It is estimated that the market value of the company's properties at 31st December 1998 is approximately £2,465,000 in excess of book values.

### DIRECTORS

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

| | |
|---|---|
| T C Davy | (resigned 30th September 1998) |
| P Jovanovich | |
| S Dowling | |
| J D N Mills | (resigned 1st December 1998) |
| V M Lockie | |
| A Martin | (appointed 1st December 1998) |

### 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 £1,000 (1997 - £10,250). The company did not make any political contributions during the year (1997 - £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 1998 were 28 (1997 - 58).

## YEAR 2000

The company has made enquiries to ensure that the risks associated with the Year 2000 date are properly assessed and appropriate corrective action taken to protect the business and its assets. The company has made substantial progress in identifying and addressing potential problems associated with its systems. Details relating to the cost of this work are included in Note 3 on page 9.

## EURO

The company has significant trade within Europe and is preparing for the introduction of the single European Currency. It will, as required, adapt its systems to enable trading relationships with customers in member states of that currency to continue with the minimum of disruption. In the opinion of the directors, the costs associated with these changes are not considered significant.

**AUDITORS**

On 1st July 1998 Price Waterhouse merged with Coopers & Lybrand. A resolution was passed on 2nd November 1998 to appoint the new firm PricewaterhouseCoopers.

**By Order of the Board**

Victor Lai

**V M LOCKIE**
**Director and Company Secretary**

**Edinburgh Gate**
**Harlow**
**Essex**
**CM20 2JE**

**8th March 1999**

## 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 statement on pages 6 to 18 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 8 and 9.

## RESPECTIVE RESPONSIBILITES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established 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 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 31st December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

**PricewaterhouseCoopers**
**Chartered Accountants and Registered Auditors**
**London**

**8th March 1999**

## PEARSON EDUCATION LIMITED

## PROFIT AND LOSS ACCOUNT
## FOR THE YEAR ENDED 31st DECEMBER 1998

| | Notes | 1998 £000 | 1997 £000 |
|---|---|---|---|
| Turnover | 2 | 71,192 | 76,412 |
| Cost of sales | | (38,186) | (40,130) |
| Gross Profit | | 33,006 | 36,282 |
| Other operating expenses (net) | 3 | (23,708) | (28,351) |
| Operating profit | | 9,298 | 7,931 |
| Exceptional items | 4 | | |
| - Profit on disposal of fixed assets | | - | 140 |
| - Cost of fundamental reorganisation | | (5,353) | - |
| Profit on ordinary activities before interest and tax | | 3,945 | 8,071 |
| Income from shares in subsidiary undertaking | | 845 | - |
| Interest receivable and similar income | 5 | 214 | 334 |
| Interest payable and similar charges | 6 | (1,101) | (1,285) |
| Profit on ordinary activities before tax | 7 | 3,903 | 7,120 |
| Tax on profit on ordinary activities | 10 | (1,397) | (3,032) |
| Profit on ordinary activities after tax | 18 | 2,506 | 4,088 |
| Dividend paid | 18 | (3,352) | (5,669) |
| Retained loss for the year | 18 | (846) | (1,581) |

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 profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 8 to 18 form an integral part of these accounts.

## PEARSON EDUCATION LIMITED

## BALANCE SHEET - 31st DECEMBER 1998

| | Notes | 1998 £000 | 1997 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 11 | 9,735 | 11,253 |
| Tangible assets | 12 | 11,014 | 12,994 |
| Investments | 13 | 353 | 353 |
| | | 21,102 | 24,600 |
| **CURRENT ASSETS** | | | |
| Stocks | 14 | 27,903 | 28,279 |
| Debtors | 15 | 58,125 | 58,886 |
| Cash at bank and in hand | | 3,057 | 5,508 |
| | | 89,085 | 92,673 |
| **CURRENT LIABILITIES** | | | |
| Creditors: amounts falling due within one year | 16 | (48,057) | (56,549) |
| **NET CURRENT ASSETS** | | 41,028 | 36,124 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | 62,130 | 60,724 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | | | |
| Reorganisation provision | 17 | (4,487) | (1,162) |
| UK deferred taxation | 24 | (32) | (1,105) |
| **NET ASSETS** | | 57,611 | 58,457 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 18 | 37,500 | 37,500 |
| Share premium account | 18 | 1,014 | 1,014 |
| Other reserves | 18 | 423 | 438 |
| Profit and loss account | 18 | 18,674 | 19,505 |
| **EQUITY SHAREHOLDERS' FUNDS** | 18 | 57,611 | 58,457 |

Signed on behalf of the Board on 8th March 1999

**V M Lockie - Director**

The notes on pages 8 to 18 form an integral part of these accounts.

## 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 Community (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 Community (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 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).

| 2. **GEOGRAPHICAL ANALYSIS OF TURNOVER** | **1998 £000** | **1997 £000** |
|---|---|---|
| Turnover by Destination | | |
| UK | 26,559 | 24,416 |
| Europe | 21,250 | 23,161 |
| North America | 2,334 | 3,162 |
| Central and South America | 8,310 | 9,621 |
| Africa and Middle East | 6,761 | 8,505 |
| Asia | 5,388 | 6,810 |
| Australasia | 590 | 737 |
| | 71,192 | 76,412 |

All turnover derives from Educational Publishing.

All turnover arises by origin in the UK.

| 3. **OTHER OPERATING EXPENSES (NET)** | **1998 £000** | **1997 £000** |
|---|---|---|
| Distribution Costs | 2,962 | 2,820 |
| Administration, Marketing and Other Expenses | 27,370 | 29,124 |
| | 30,332 | 31,944 |
| Other Operating Income | (6,624) | (3,593) |
| | 23,708 | 28,351 |

Included in Administration, Marketing and Other Expenses are costs of £464,000 (1997 £117,000) associated with making IT systems Year 2000 compliant.

## 4. EXCEPTIONAL ITEMS

The acquisition by Pearson plc of the educational business of Simon & Schuster and the creation of Pearson Education gave rise to reorganisation costs in the year of £5,353,000 (1997 £Nil) together with a resultant reduction in tax charge of £1,659,000 split appropriately between current and deferred tax.

## 5. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 1998 £000 | 1997 £000 |
|---|---|---|
| On deposit and liquid funds | 214 | 140 |
| On refund of Corporation Tax | - | 194 |
| | 214 | 334 |

## 6. INTEREST PAYABLE AND SIMILAR CHARGES

| Other borrowings repayable wholly within five years not by instalment: | 1998 £000 | 1997 £000 |
|---|---|---|
| Bank loans and overdraft | 1,077 | 1,285 |
| All other loans | 24 | - |
| | 1,101 | 1,285 |

## 7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

| Profit on ordinary activities before taxation is arrived at after charging: | 1998 £000 | 1997 £000 |
|---|---|---|
| Amortisation of goodwill | 1,518 | 1,499 |
| Depreciation of tangible fixed assets | 1,677 | 1,936 |
| Auditors' remuneration: | | |
| - audit services | 66 | 59 |
| - non-audit services | 62 | 77 |
| Operating lease rentals: | | |
| - land and buildings | 1,420 | 1,419 |
| - hire of plant and machinery | 461 | 172 |

## 8. EMOLUMENTS OF DIRECTORS

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Emoluments | 315 | 282 |
| Compensation for Loss of Office | 268 | 171 |
| | 583 | 453 |

The emoluments of the highest paid director were £152,000 (1997 £164,000) and the amount of his accrued pension as at 31st December 1998 was £17,000 (1997 £13,000).

As at the 31st December 1998 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:

| | 1998 Number | 1997 Number |
|---|---|---|
| Publishing | 196 | 237 |
| Distribution | 91 | 85 |
| Selling and administration | 523 | 496 |
| | 810 | 818 |

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Wages and salaries | 16,983 | 15,877 |
| Social security costs | 1,271 | 1,303 |
| | 18,254 | 17,180 |

## 10. TAXATION

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Taxation on profit on ordinary activities: | | |
| UK Corporation tax on profits for the year at 31% (1997 – 31.5%) | (2,619) | (2,700) |
| Double taxation relief | 187 | 183 |
| | (2,432) | (2,517) |
| UK deferred taxation | 1,121 | (325) |
| Overseas taxation | (187) | (183) |
| | (1,498) | (3,025) |
| Corporation tax | 149 | 19 |
| UK deferred taxation | (48) | (26) |
| | (1,397) | (3,032) |

## 11. INTANGIBLE FIXED ASSETS

| Goodwill: | 1998 £000 | 1997 £000 |
|---|---|---|
| **Cost**: | | |
| At 1st January 1998 | 15,164 | 15,065 |
| Additions (see below) | - | 99 |
| At 31st December 1998 | 15,164 | 15,164 |
| **Amortisation**: | | |
| At 1st January 1998 | 3,911 | 2,412 |
| Charge for the year | 1,518 | 1,499 |
| At 31st December 1998 | 5,429 | 3,911 |
| Net book amount: | | |
| At 31st December 1998 | 9,735 | 11,253 |
| At 31st December 1997 | 11,253 | 12,653 |

Additions in 1997 comprised goodwill arising on the further acquisition of publication rights of GoGo product from Longman Asia Ltd:

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Stocks | - | - |
| Net assets acquired at book and fair value | - | - |
| Consideration (including Acquisition Costs) | - | 99 |
| Goodwill | - | 99 |

## 12. TANGIBLE FIXED ASSETS

| | Properties £000's | Plant & Motor Vehicles £000's | Fixtures & Fittings £000's | Assets Under Construction £000's | Total £000's |
|---|---|---|---|---|---|
| Cost or Valuation : | | | | | |
| At 1st January | 4,170 | 6,745 | 12,559 | 580 | 24,054 |
| Additions | 311 | 169 | 457 | (334) | 603 |
| Disposals | 394 | (1,801) | (984) | - | (2,391) |
| At 31st December 1998 | 4,875 | 5,113 | 12,032 | 246 | 22,266 |
| At Directors' valuation 1976 | 1,082 | - | - | - | 1,082 |
| At cost | 3,793 | 5,113 | 12,032 | 246 | 21,184 |
| | 4,875 | 5,113 | 12,032 | 246 | 22,266 |
| Depreciation | | | | | |
| At 1st January 1998 | 636 | 3,724 | 6,700 | - | 11,060 |
| Charge for the year | 84 | 363 | 1,230 | - | 1,677 |
| Disposals | 61 | (864) | (682) | - | (1,485) |
| At 31st December 1998 | 781 | 3,223 | 7,248 | - | 11,252 |
| Net book values : | | | | | |
| At 31st December 1998 | 4,094 | 1,890 | 4,784 | 246 | 11,014 |
| At 31st December 1997 | 3,534 | 3,021 | 5,859 | 580 | 12,994 |

| The net book value of the properties comprises : | 1998 £000 | 1997 £000 |
|---|---|---|
| Freehold | 3,564 | 3,488 |
| Long leasehold | 44 | 46 |
| Short leasehold | 486 | - |
| | 4,094 | 3,534 |

The historical cost net book value of the Freehold properties was £3,142,000 (1997 £3,050,000)

## 13. FIXED ASSET INVESTMENTS

| | Subsidiary Undertakings £000 | Other Investments £000 | Total £000 |
|---|---|---|---|
| **Cost:** | | | |
| At beginning of year | 353 | 13 | 366 |
| At end of year | 353 | 13 | 366 |
| **Provision:** | | | |
| At beginning and end of year | - | (13) | (13) |
| **Net Book Amount :** | | | |
| At beginning and end of year | 353 | - | 353 |

The company holds 80,935 of the 80,936 Ordinary Shares of 1p each inLogotron Limited, a company registered in England and involved in the publication and distribution of computer software. The company did not trade in 1998. Its profit for the year to 31st December 1998 was £Nil (1997 £Nil) but it declared and paid a dividend of £845,000 (1997 £Nil) and the aggregate of its capital and reserves at 31st December 1998 was £362,000 (1997 £1,207,000).

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

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Raw materials and consumables | - | 50 |
| Work in progress | 16,839 | 16,122 |
| Finished goods and goods for sale | 11,064 | 12,107 |
| | 27,903 | 28,279 |

The replacement costs of these stocks is estimated as being approximately £505,000 greater than the amounts stated above.

## 15. DEBTORS

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade debtors | 17,148 | 18,306 |
| Due from immediate parent company | 826 | 1,330 |
| Due from fellow subsidiary undertakings | 14,003 | 12,240 |
| Loans to fellow subsidiary undertakings | 20,397 | 20,397 |
| Due from associated undertakings | 1,777 | 1,670 |
| Other debtors | 1,225 | 1,753 |
| Prepayments | 1,663 | 1,709 |
| | 57,039 | 57,405 |
| Amounts falling due after more than one year: | | |
| Other debtors | 1,086 | 1,481 |
| | 58,125 | 58,886 |

## 16. CREDITORS

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Bank overdraft | 12,974 | 19,904 |
| Trade creditors | 4,786 | 6,703 |
| Due to fellow subsidiary undertakings | 4,809 | 2,496 |
| Loan from fellow subsidiary undertaking | 17,966 | 17,966 |
| Other creditors | 373 | 296 |
| Corporation tax | 2,485 | 4,501 |
| Other taxation and social security payable | - | 410 |
| Accruals and deferred income | 4,664 | 4,273 |
| | 48,057 | 56,549 |

## 17. PROVISIONS FOR LIABILITIES AND CHARGES

| **Reorganisation Provision** | 1998 £000 | 1997 £000 |
|---|---|---|
| At 1st January 1998 | 1,162 | - |
| Charged in year | 5,353 | 2,063 |
| Utilised in year | (2,028) | (901) |
| At 31st December 1998 | 4,487 | 1,162 |

## 18. EQUITY SHAREHOLDERS' FUNDS

### (a) Called Up Share Capital

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Authorised, called up and fully paid 37,500,000 (1997 - 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 1998 | 37,500 | 1,014 | 438 | 19,505 | 58,457 |
| Profit for the financial year | - | - | - | 2,506 | 2,506 |
| Dividends paid | - | - | - | (3,352) | (3,352) |
| Transfers between reserves | - | - | (15) | 15 | - |
| At 31st December 1998 | 37,500 | 1,014 | 423 | 18,674 | 57,611 |

### (c) Reconciliation of Movements in Shareholders' Funds

| | 1998 £000 | 1997 £000 |
|---|---|---|
| Profit for the financial year | 2,506 | 4,088 |
| Dividends paid | (3,352) | (5,669) |
| Retained (loss) for the year | (846) | (1,581) |
| Net (reduction) in shareholders' funds | (846) | (1,581) |
| Shareholders' funds at 1st January | 58,457 | 60,038 |
| Shareholders' funds at 31st December | 57,611 | 58,457 |

## 19. OPERATING LEASES

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

| | Land and Buildings | | Plant and Machinery | |
|---|---|---|---|---|
| | 1998 £000 | 1997 £000 | 1998 £000 | 1997 £000 |
| One year | - | - | 143 | - |
| Two to five years | - | - | 414 | 172 |
| Over five years | 1,420 | 1,380 | - | - |
| | 1,420 | 1,380 | 557 | 172 |

## 20. CAPITAL COMMITMENTS

Commitments for capital expenditure at 31st December 1998 amounted to NIL (1997 £Nil).

## 21. CONTINGENT LIABILITIES

Bank and other guarantees and indemnities at 31st December 1998 amounted £2,264,000 (1997 £2,344,000) in respect of third parties and the Company has also given a guarantee in respect of bank overdrafts of certain subsidiaries totalling £5,260,000 (1997 £4,945,000).

The company participates in an arrangement with Midland Bank plc whereby the accounts of Pearson plc and forty 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 1998 was an overdraft of £1,989,438.

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

At 31 December 1998 the company had an overdraft of £14,659,353 under this arrangement, limiting its potential liability at that date to £35,340,647.

As at 31 December 1998 the potential liability arising from these guarantee arrangements amounted to £35,340,647 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 (1997 £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 1996, can be found in the Report and Accounts of Pearson plc for the year ended 31st December 1998. The pension costs relating to the group plan are assessed in accordance with the advice of an independent qualified actuary.

The results of the most recent actuarial valuation show the pension scheme in surplus. In view of these results all employers' contributions remain suspended for the time being and hence the company's pension cost is£Nil (1997 £433,000 credit to profit and loss account).

## 24. DEFERRED TAXATION

| | Provided 1998 £000 | Provided 1997 £000 | Full Potential Liability 1998 £000 | Full Potential Liability 1997 £000 |
|---|---|---|---|---|
| Deferred taxation provided and not provided in the accounts: | | | | |
| Capital allowances in excess of depreciation | (587) | (626) | (587) | (626) |
| Reorganisation Provision | 998 | 157 | 998 | 157 |
| Authors Advances | (443) | (636) | (443) | (636) |
| At 31st December | (32) | (1,105) | (32) | (1,105) |

In accordance with the accounting policy set out in Note 1(e), the above total potential liability has been provided in full.

## 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 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.