

READERS UNION LIMITED

Report and Financial Statements

31 December 2003



REPORT AND FINANCIAL STATEMENTS 2003

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

M Angelakis
M F Arnett
M Dominguez
S J Kent

SECRETARY

J D Gaisford

REGISTERED OFFICE

Brunel House
Newton Abbot
Devon
TQ12 4PU

BANKERS

Lloyds Bank plc
Newton Abbot Branch
41 Courtney Street
Newton Abbot
Devon
TQ12 2QW

AUDITORS

Deloitte & Touche LLP
Bristol

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities of the company are the operation of book clubs and mail order businesses.

The directors are pleased with the performance of the business and believe that solid foundations have been laid for future growth.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £1,124,000 (2002: £668,000). The directors do not recommend payment of a dividend (2002: £nil).

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were as follows:

M Angelakis
M F Arnett
M Dominguez
S J Kent

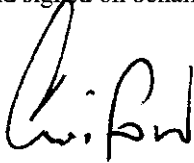
The directors who held office at the end of the financial year had no interest in the share capital of the company or other UK group companies.

AUDITORS

Ernst & Young LLP resigned as auditors on 9 December 2003 and Deloitte & Touche LLP were appointed.

A resolution to reappoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

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



J D Gaisford
Secretary

31 August 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures 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 group 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 the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF READERS UNION LIMITED

We have audited the financial statements of Readers Union Limited for the year ended 31 December 2003 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and related notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 1985. We also report 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 with the company is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
Bristol

20 September 2004

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003

	Notes	2003 £'000	2002 £'000
TURNOVER	2	11,809	10,901
Cost of sales		(7,875)	(7,469)
GROSS PROFIT		3,934	3,432
Distribution costs		(988)	(920)
Administrative expenses		(1,349)	(1,542)
OPERATING PROFIT	4	1,597	970
Interest receivable and similar income	5	8	-
Interest payable and similar charges	6	(2)	(7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		1,603	963
Tax on profit on ordinary activities	7	(479)	(295)
RETAINED PROFIT FOR THE FINANCIAL YEAR	14	1,124	668

All turnover and profits derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2003

	2003 £'000	2002 £'000
Profit for the financial year	1,124	668
Prior year adjustment	-	65
Total recognised gains and losses since last annual report	1,124	733

BALANCE SHEET
At 31 December 2003

	Notes	2003 £'000	2002 £'000
FIXED ASSETS			
Tangible assets	8	413	237
CURRENT ASSETS			
Stocks	9	1,483	1,407
Debtors	10	5,594	5,098
Cash at bank and in hand		745	272
		<u>7,822</u>	<u>6,777</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	11	<u>(4,802)</u>	<u>(4,692)</u>
NET CURRENT ASSETS		<u>3,020</u>	<u>2,085</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>3,433</u>	<u>2,322</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Obligations under finance leases and hire purchase contracts	12	<u>(5)</u>	<u>(18)</u>
NET ASSETS		<u><u>3,428</u></u>	<u><u>2,304</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	-	-
Profit and loss account	14	<u>3,428</u>	<u>2,304</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS	14	<u><u>3,428</u></u>	<u><u>2,304</u></u>

These financial statements were approved by the Board of Directors on 31 August 2004.

Signed on behalf of the Board of Directors



M F Arnett
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

1. ACCOUNTING POLICIES**Basis of preparation**

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Cash flow statement

The company is exempt from the requirement of FRS1 to produce a cash flow statement as it is a wholly owned member of the F&W (UK) Limited group which produces a consolidated cash flow statement.

Depreciation and tangible fixed assets

Depreciation is provided on all tangible assets other than freehold land, at rates calculated to write off the cost less estimated residual value of each asset by equal annual instalments over its expected useful life as follows:

Equipment and fittings	3 to 5 years
Mainframe computer equipment	4 years
Microcomputers	3 to 4 years

The carrying values of fixed assets are reviewed for impairment in the period if events or changes in circumstances indicate the carrying values may not be recoverable.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the balance sheet date. All gains or losses on translation are included in the profit and loss account.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads.

Deferred taxation

In accordance with Financial Reporting Standard 19, deferred taxation is provided in full on timing differences which represent an asset or liability at the balance sheet date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising on unremitted earnings of subsidiaries, associates and joint ventures where there is no commitment to remit these earnings. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Assets obtained under finance leases and hire purchase contracts are capitalised at their fair value on inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital element outstanding.

Rental costs under operating leases are charged to profit and loss account in equal annual amounts over the periods of the leases.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

1. ACCOUNTING POLICIES (continued)

Pension costs

Contributions are made to the defined contribution group personal pension plan at rates between 3% and 12% of annual salary depending upon the employee's length of service. The contributions payable are charged to the profit and loss account during the year.

2. TURNOVER

Turnover comprises the invoiced value of goods and services supplied by the company exclusive of value added tax and trade discounts.

The directors consider that there is only one class of business and hence segmental information by class is not provided.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Directors' emoluments

The directors received total remuneration for the year of £nil (2002: £nil) from the company.

The directors of the company are also directors of the immediate parent company and fellow subsidiaries. The remuneration of these directors is borne by the ultimate parent company, being F&W Publications Inc. It is not practicable to allocate total remuneration between services to this company and other group companies.

	2003	2002
	£'000	£'000
Employee costs during the year:		
Wages and salaries	1,348	1,181
Social security costs	124	99
Other pension costs	45	41
	<u>1,517</u>	<u>1,321</u>

Average number of persons employed:	No.	No.
Administration	35	32
Editorial and marketing	16	15
Distribution	27	28
	<u>78</u>	<u>75</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration - audit fees	12	14
Depreciation and other amounts written off tangible fixed assets:		
- owned	76	92
- held under finance leases and hire purchase contracts	12	49
Operating lease rentals - plant and machinery	46	92
Exchange gains	(42)	(29)
	<u> </u>	<u> </u>

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2003 £'000	2002 £'000
Bank interest receivable	8	-
	<u> </u>	<u> </u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2003 £'000	2002 £'000
Bank loans and overdrafts	-	4
Finance charges payable under finance leases and hire purchase contracts	2	3
	<u> </u>	<u> </u>
	2	7
	<u> </u>	<u> </u>

7. TAXATION

	2003 £'000	2002 £'000
Tax on profit on ordinary activities		
Current tax		
UK corporation tax on profits of the year	487	275
Adjustment in respect of prior year	(4)	-
	<u> </u>	<u> </u>
Total current tax	483	275
Deferred tax		
Timing differences - origination and reversal	(4)	20
	<u> </u>	<u> </u>
	479	295
	<u> </u>	<u> </u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

7. TAXATION (continued)

Factors affecting tax charge for the current year

The tax assessed for the year differs from that resulting from applying the standard rate of corporation tax in the United Kingdom 30% (2002: 30%). The differences are explained below:

	2003	2002
	£'000	£'000
Profit on ordinary activities before tax	1,603	963
	<u>£'000</u>	<u>£'000</u>
Tax at 30% thereon	481	289
Effects of:		
Disallowed expenses and non-taxable income	2	3
Capital allowances in excess of depreciation	(15)	(12)
Other timing differences	19	(9)
Other	(4)	4
Current tax charge for year	<u>483</u>	<u>275</u>
Deferred tax		
The deferred tax included in the balance sheet is analysed as follows:	£'000	£'000
Depreciation in excess of capital allowances	9	25
Other timing differences	40	20
	<u>49</u>	<u>45</u>
The movement in the deferred tax asset during the year is summarised as follows:	£'000	
At 1 January 2003	45	
Deferred tax credit	4	
At 31 December 2003	<u>49</u>	

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

8. TANGIBLE FIXED ASSETS

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2003	675	593	1,268
Additions	190	74	264
Disposals	(348)	(28)	(376)
At 31 December 2003	517	639	1,156
Depreciation			
At 1 January 2003	545	486	1,031
Charge for the year	40	48	88
Disposals	(348)	(28)	(376)
At 31 December 2003	237	506	743
Net book value			
At 31 December 2003	<u>280</u>	<u>133</u>	<u>413</u>
At 31 December 2002	<u>130</u>	<u>107</u>	<u>237</u>

The net book value of fixtures and fittings includes an amount of £19,000 (2002: £31,000) in respect of assets held under finance leases and hire purchase contracts.

9. STOCKS

	2003 £'000	2002 £'000
Finished goods	<u>1,483</u>	<u>1,407</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material.

10. DEBTORS

	2003 £'000	2002 £'000
Trade debtors	1,789	1,541
Other debtors	20	-
Amounts owed by group undertakings	3,736	3,512
Deferred tax	49	45
	<u>5,594</u>	<u>5,098</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2003

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2003 £'000	2002 £'000
Obligations under finance leases and hire purchase contracts (note 12)	13	12
Payments received on account	47	45
Trade creditors	1,206	1,112
Amounts owed to group undertakings	3,085	3,010
Accruals and deferred income	129	188
Corporation tax payable	287	275
Other creditors and social security	35	50
	<u>4,802</u>	<u>4,692</u>

12. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

	2003 £'000	2002 £'000
The maturity of these amounts is as follows:		
Amounts payable:		
- within one year	14	14
- in two to five years	5	18
	<u>19</u>	<u>32</u>
Less: finance charges allocated to future years	(1)	(2)
	<u>18</u>	<u>30</u>
Finance leases and hire purchase contracts are analysed as follows:	£'000	£'000
Current obligations (note 11)	13	12
Non-current obligations	5	18
	<u>18</u>	<u>30</u>

The finance lease and hire purchase obligations are secured via a charge over the assets to which they relate.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2003

13. CALLED UP SHARE CAPITAL	2003	2002
	£	£
Authorised		
100 Ordinary shares of £1 each	100	100
	<hr/>	<hr/>
	£	£
Allotted, called up and fully paid		
100 Ordinary shares of £1 each	100	100
	<hr/>	<hr/>

14. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

	Share capital	Profit and loss account	Total 2003	Total 2002
	£'000	£'000	£'000	£'000
At beginning of the financial year	-	2,304	2,304	1,636
Retained profit for the year	-	1,124	1,124	668
	<hr/>	<hr/>	<hr/>	<hr/>
At the end of the financial year	-	3,428	3,428	2,304
	<hr/>	<hr/>	<hr/>	<hr/>

15. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption available under Financial Reporting Standard No. 8 "Related Party Disclosures" and has not disclosed transactions with companies that are part of the F&W Publications Inc. group of companies.

16. ULTIMATE PARENT UNDERTAKING

F&W Publications Inc is the parent company of the largest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from 4700 E. Galbraith Road, Cincinnati, Ohio 45236, USA. D&C Group Limited is the parent company of the smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from Brunel House, Newton Abbot, Devon TQ12 4PU.