

Readers Union Limited

Report and Accounts

30 June 1998



Readers Union Limited

Registered No: 843946

DIRECTORS

N A Page
J R Townsend
L Godwin
S N McRae
P D Macklin

SECRETARY

P D Macklin

AUDITORS

Ernst & Young
Broadwalk House
Southernhay West
Exeter
EX1 1LF

BANKERS

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

Girobank
Bridle Road
Bootle
Merseyside
G1R 0AA

SOLICITORS

Foot & Bowden
21 Derry's Cross
Plymouth
Devon
PL1 2SW

REGISTERED OFFICE

Brunel House
Newton Abbot
Devon
TQ12 4PU

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 30 June 1998.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activities of the company consist of operating book clubs and mail order businesses.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £357,000. The directors recommend a final ordinary dividend amounting to £600,000, leaving a retained loss of £243,000.

DIRECTORS AND THEIR INTERESTS

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

N A Page

J R Townsend

A J Newton - resigned 29 June 1998

P M Spence - resigned 29 September 1998

S N McRae - appointed 8 September 1997

L Godwin - appointed 1 March 1998

P D Macklin was appointed as a director on 1 September 1998.

The directors who held office at the end of the financial year had no interest in the share capital of the company. Their interests in the ultimate holding company D & C Group Limited are disclosed in the accounts of that company.

YEAR 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year. Such systems will require modification or replacement in order to avoid malfunction in the year 2000 and beyond. The operation of our business depends not only on our own computer systems, but also those of our suppliers and customers. This could expose the company to risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is well advanced in the phase of assessing and addressing the risks to our business resulting from Year 2000 issues. Given the complexity of the problem, it is not possible for any organisation to guarantee that no Year 2000 problems will be experienced. However, the Board believes that it will achieve an acceptable state of readiness and that there are adequate resources in place to deal promptly with any issues which might arise.

The costs of dealing with Year 2000 issues will largely be subsumed into the recurring activities of the departments involved, and the directors do not envisage that any material additional costs will be incurred.

AUDITORS

Ernst & Young were appointed auditors during the year and a resolution to reappoint them as auditors will be put to the members at the Annual General Meeting.

By order of the board

N A Page

Director

29 September 1998

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

REPORT OF THE AUDITORS
to the members of Readers Union Limited

We have audited the accounts on pages 6 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

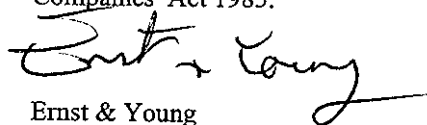
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 30 June 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Exeter
13 October 1998

Readers Union Limited

PROFIT AND LOSS ACCOUNT for the year ended 30 June 1998

	<i>Notes</i>	<i>1998</i> £'000	<i>1997</i> £'000
TURNOVER	2	10,183	9,106
Cost of sales		7,304	6,314
GROSS PROFIT		2,879	2,792
Distribution costs		949	974
Administrative expenses		1,466	1,381
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	464	437
Tax on profit on ordinary activities	6	107	56
PROFIT FOR THE FINANCIAL YEAR		357	381
Proposed dividend		600	279
RETAINED (LOSS)/PROFIT FOR YEAR	13	(243)	102

The above results related to continuing activities.

The company had no recognised gains or losses other than the profit for the year.

Readers Union Limited

BALANCE SHEET

at 30 June 1998

	Notes	1998 £'000	1997 £'000
FIXED ASSETS			
Tangible assets	7	151	187
CURRENT ASSETS			
Stocks	8	1,447	1,170
Debtors	9	1,583	1,556
Cash at bank and in hand		709	329
CREDITORS: amounts falling due within one year	10	3,739 3,773	3,055 2,856
NET CURRENT (LIABILITIES)/ASSETS		(34)	199
TOTAL ASSETS LESS CURRENT LIABILITIES		117	386
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation	11	-	26
		117	360
CAPITAL AND RESERVES			
Called up share capital	12	-	-
Profit and loss account	13	117	360
EQUITY SHAREHOLDERS' FUNDS	13	117	360

These financial statements were approved by the board of directors on 29 September 1998 and were signed on its behalf by:-


N A Page
Director

NOTES TO THE ACCOUNTS

at 30 June 1998

1 ACCOUNTING POLICIES

Accounting convention

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

Cash flow statement

No cash flow statement has been prepared as the company is a wholly owned subsidiary of David & Charles Limited.

Depreciation

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

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

Foreign currencies

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

Stocks

Stocks of books have been valued at the lower of cost and net realisable value, less provision for quantities which the directors estimate may not eventually be sold at full price.

Leased assets

Expenditure under operating leases is charged to the profit and loss account in the year incurred.

Pension costs

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods which are expected to benefit from the employees' service. Any differences between the charge to the profit and loss account and the contributions paid to the scheme is included as an asset or liability in the balance sheet.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences, which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Related party transactions

Transactions with group companies have not been disclosed due to advantage being taken of the exemptions granted under Financial Reporting Standard No. 8.

2 TURNOVER

Turnover is derived from book club sales in the UK and is exclusive of value added tax and trade discounts.

NOTES TO THE ACCOUNTS

at 30 June 1998

3 PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	1998 £'000	1997 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging		
Auditors' remuneration	10	9
Operating lease rentals	132	103
Depreciation and other amounts written off tangible fixed assets	93	141
	<u>235</u>	<u>253</u>

4 DIRECTORS' EMOLUMENTS

The emoluments paid to the directors by the company during the year was £31,000 (1997 - £Nil). With the exception of the director receiving this amount all other directors were remunerated by higher group companies. The amount of company contributions paid to the pension scheme in respect of this director was £1,000 (1997 - £Nil).

5 STAFF COSTS

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	1998 No.	Number of employees 1997 No.
Administration	31	8
Editorial/marketing	13	9
Distribution	16	1
	<u>60</u>	<u>18</u>

The aggregate payroll costs of these persons were as follows:

	1998 £'000	1997 £'000
Wages and salaries	870	356
Social security costs	73	32
	<u>943</u>	<u>388</u>

Readers Union Limited

NOTES TO THE ACCOUNTS at 30 June 1998

6 TAXATION

	1998 £'000	1997 £'000
Based on the profit/(loss) for the year:		
UK corporation tax at 31%	153	30
Adjustment in respect of prior year	(20)	-
Deferred taxation	(26)	26
	<u>107</u>	<u>56</u>

7 TANGIBLE FIXED ASSETS

	Computer equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost:				
At 1 July 1997	506	420	-	926
Additions	34	11	16	61
Disposals	(62)	-	-	(62)
At 30 June 1998	<u>478</u>	<u>431</u>	<u>16</u>	<u>925</u>
Depreciation:				
At 1 July 1997	432	307	-	739
Charge for year	62	30	1	93
Disposals	(58)	-	-	(58)
At 30 June 1998	<u>436</u>	<u>337</u>	<u>1</u>	<u>774</u>
Net book value:				
At 30 June 1998	<u>42</u>	<u>94</u>	<u>15</u>	<u>151</u>
At 30 June 1997	<u>74</u>	<u>113</u>	<u>-</u>	<u>187</u>

8 STOCKS

	1998 £'000	1997 £'000
Finished goods and goods for resale	<u>1,447</u>	<u>1,170</u>

Readers Union Limited

NOTES TO THE ACCOUNTS at 30 June 1998

9 DEBTORS

	1998 £'000	1997 £'000
Trade debtors	1,514	1,507
Other debtors	43	21
Prepayments and accrued income	26	28
	<u>1,583</u>	<u>1,556</u>

Included within prepayments and accrued income is £26,000 relating to deferred pension costs.

10 CREDITORS: amounts falling due within one year

	1998 £'000	1997 £'000
Payments received on account	55	39
Trade creditors	1,389	972
Amounts owed to parent undertaking including proposed dividend	1,824	1,506
Accruals and deferred income	352	309
Corporation tax	153	30
	<u>3,773</u>	<u>2,856</u>

11 PROVISIONS FOR LIABILITIES AND CHARGES

The movements in deferred taxation during the year are as follows:

	£'000
At 1 July 1997	26
Credited to profit and loss account	(26)
At 30 June 1998	<u>-</u>

Deferred taxation provided in the accounts is as follows:

	1998 £'000	1997 £'000
Capital allowances in advance of depreciation	<u>-</u>	<u>26</u>

NOTES TO THE ACCOUNTS
at 30 June 1998

12 CALLED UP SHARE CAPITAL

	1998	1997
	£	£
Ordinary shares of £1 each	100	100

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	1998	1997
	£'000	£'000
Profit for the financial year	357	381
Dividends	(600)	(279)
Net (reduction)/addition to shareholders' funds	(243)	102
Opening shareholders' funds	360	258
Closing shareholders' funds	117	360

14 PENSION COMMITMENTS

The company operates a funded pension scheme, The Pension and Life Assurance Plan of David & Charles Limited, which provides benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company, under a contract with The Equitable Life Assurance Society.

The pension costs are determined with the advice of independent qualified actuaries on the basis of triennial valuations using the projected unit method. The results of the most recent interim valuation, which was conducted as at 31 March 1995, was as follows:

Main assumptions:

Rate of return on investments	9% per annum
Rate of salary increases	8% per annum
Rate of pension increases	4½% per annum
Market value of scheme's assets (£'000)	2,538
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases.	188%

The company has continued to pay contributions at the rate of 5%.

NOTES TO THE ACCOUNTS
at 30 June 1998

15 OTHER FINANCIAL COMMITMENTS

At 30 June 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998 £'000	Plant and machinery 1997 £'000
Operating leases which expire:		
Within one year	123	39
	<u>123</u>	<u>39</u>

16 CONTINGENT LIABILITY

The company has guaranteed the overdraft of its immediate parent company and ultimate holding company, and there exists a right of set off between the companies. The amount outstanding at the year end was £173,714 (1997 - £Nil).

17 RELATED PARTIES

The company's immediate parent undertaking is David & Charles Limited, a company registered in England and Wales.

The company's ultimate holding company is D&C Group Limited incorporated in England and Wales.

It has included the company in its group accounts, copies of which are available from its registered office: Brunel House, Newton Abbot, Devon, TQ12 4PU.