

843946

READERS UNION LIMITED

Report and Accounts

31 December 2002

 ERNST & YOUNG



Readers Union Limited

Registered No: 843946

DIRECTORS

M Angelakis
M F Arnett
M Dominguez
S J Kent

SECRETARY

J D Gaisford

AUDITORS

Ernst & Young LLP
Broadwalk House
Southernhay West
Exeter
EX1 1LF

BANKERS

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

REGISTERED OFFICE

Brunel House
Newton Abbot
Devon
TQ12 4PU

 **ERNST & YOUNG**

Readers Union Limited

DIRECTORS' REPORT

The directors present their report and accounts for the 12 months ended 31 December 2002.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

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

The directors are pleased with the performance of the business and believe that actions taken to concentrate on the core business will continue to produce improved results in the coming years.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £668,000 (2001 - £385,000). The directors do not recommend a final ordinary dividend, leaving a profit of £668,000 to be taken to reserves.

DIRECTORS AND THEIR INTERESTS

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

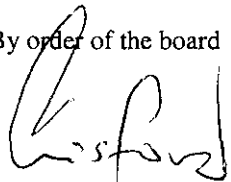
M Angelakis	(appointed 28 February 2002)
M F Arnett	
M Doninguez	(appointed 28 February 2002)
J D Gaisford	(resigned 27 May 2002)
S J Kent	

The directors who held office at the end of the financial year had no interest in the share capital of the company. Their interests in the UK holding company F & W (UK) Limited are disclosed in the accounts of that company.

AUDITORS

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board


J D Gaisford
Secretary

24 June 2003

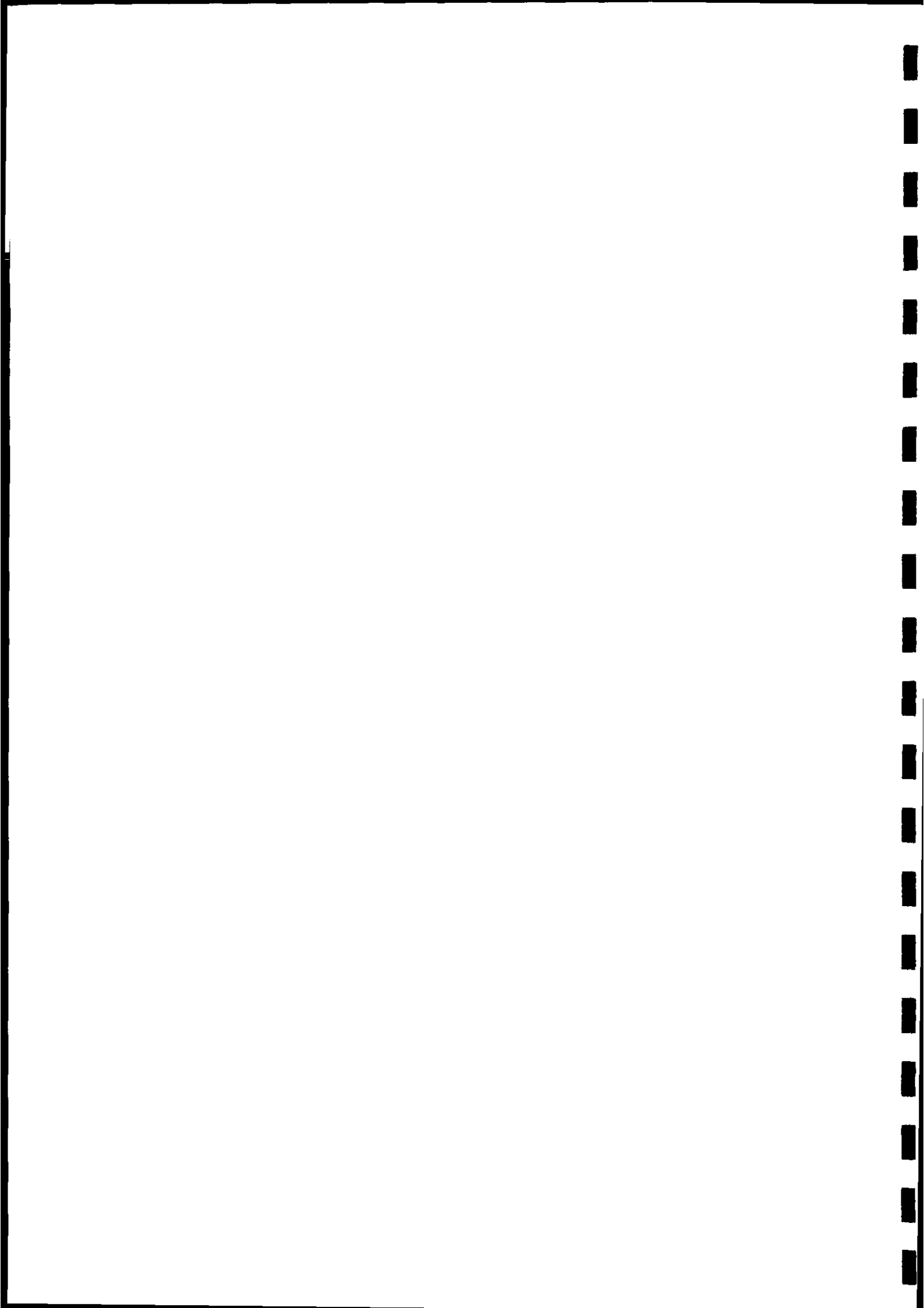
Readers Union Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial period 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.



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF READERS UNION LIMITED

We have audited the company's accounts for the year ended 31 December 2002 which comprise Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related notes 1 to 17. These accounts have been prepared on the basis of 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 the accounts in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, 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 and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF READERS UNION LIMITED
(continued)

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Exeter

1 July 2003

Readers Union Limited

PROFIT AND LOSS ACCOUNT for the 12 months ended 31 December 2002

		<i>12 months to 31 December 2002</i>	<i>Restated 18 months to 31 December 2001</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>
TURNOVER	2	10,901	16,377
Cost of sales		7,469	12,528
GROSS PROFIT		3,432	3,849
Distribution costs		920	1,399
Administrative expenses		1,571	2,014
OPERATING PROFIT	3	941	436
Interest payable and similar charges	5	22	(62)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		963	374
Tax on profit on ordinary activities	6	(295)	11
RETAINED PROFIT FOR THE FINANCIAL YEAR/PERIOD	13	668	385

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		<i>12 months to 31 December 2002</i>	<i>Restated 18 months to 31 December 2001</i>
	<i>Notes</i>	<i>£'000</i>	<i>£'000</i>
Profit for the financial year/period		668	385
Prior year adjustment	17	65	-
Total recognised gains and losses since last annual report		733	385

Readers Union Limited

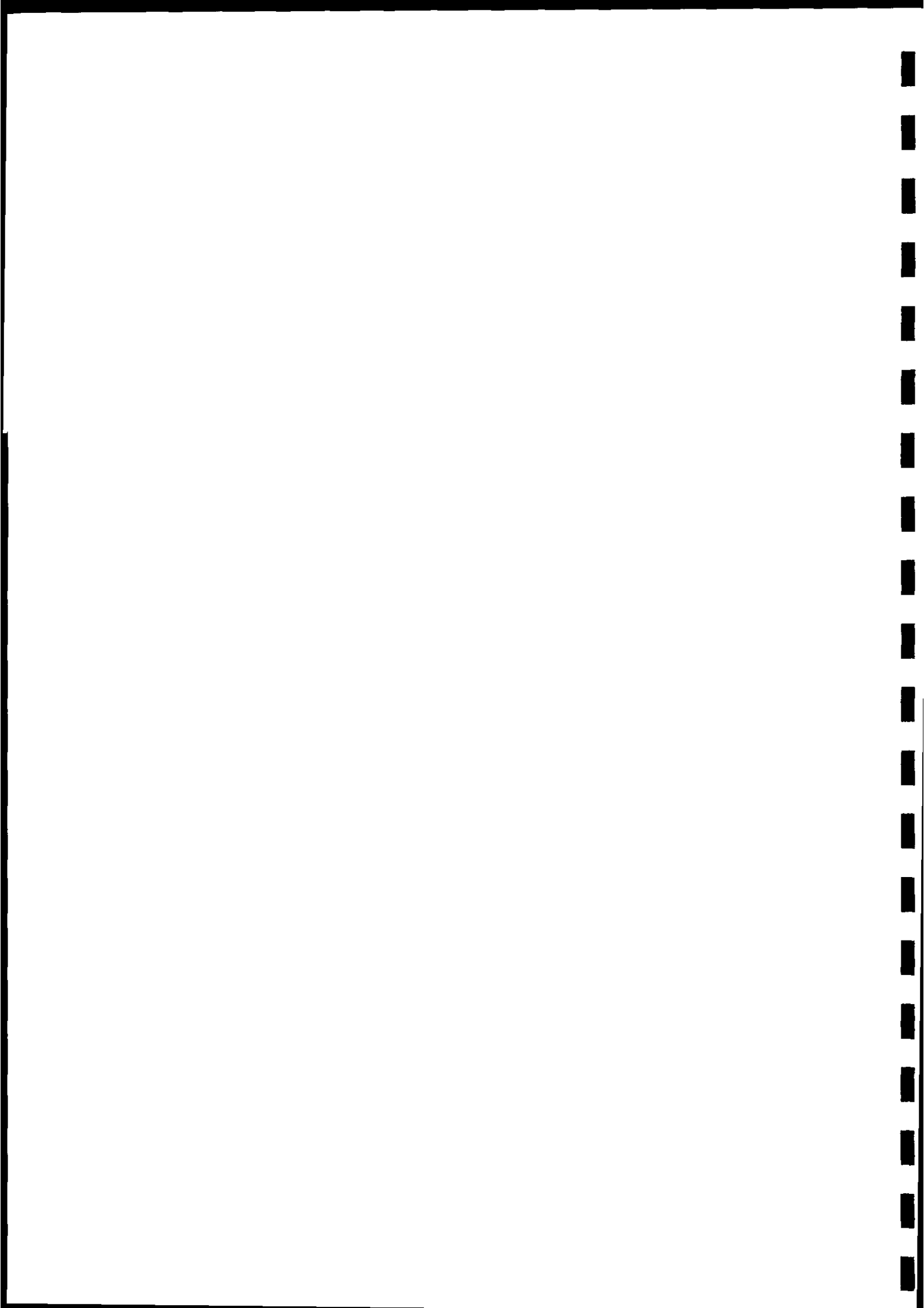
BALANCE SHEET at 31 December 2002

	Notes	2002 £'000	Restated 2001 £'000
FIXED ASSETS			
Tangible assets	7	237	165
CURRENT ASSETS			
Stocks	8	1,407	1,301
Debtors	9	5,098	4,742
Cash at bank and in hand		272	125
		6,777	6,168
CREDITORS: amounts falling due within one year	10	4,692	4,668
NET CURRENT ASSETS		2,085	1,500
TOTAL ASSETS LESS CURRENT LIABILITIES		2,322	1,665
CREDITORS: amounts falling due after more than one year			
Obligations under finance leases and hire purchase contracts	11	18	29
		2,304	1,636
CAPITAL AND RESERVES			
Called up share capital	12	-	-
Profit and loss account	13	2,304	1,636
EQUITY SHAREHOLDERS' FUNDS	13	2,304	1,636



M F Arnett
Director

24 June 2003.



Readers Union Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

1 ACCOUNTING POLICIES

Basis of preparation and change in accounting policy

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

In preparing the accounts for the current year, the company has adopted FRS 19 'Deferred Tax' which has resulted in a change in accounting policy for deferred tax. Deferred tax is recognised on a full provision basis in accordance with the accounting policy described below. Previously, deferred tax was provided for on a partial provision basis, whereby provision was made on all timing differences to the extent that they were expected to reverse in the future without replacement.

This change in accounting policy has resulted in a prior year adjustment for the company. Shareholders' funds at 1 July 2000 have been increased by £54,000 and the tax charge for the period ended 31 December 2001 has been reduced by £11,000. The deferred tax asset has been increased by £65,000 at 31 December 2001. Profit for the current year has been reduced by £20,000 as a result of the change in accounting policy.

Cash flow statement

No cash flow statement has been prepared as the company is a wholly owned subsidiary of D&C Group Limited.

Depreciation and tangible fixed assets

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	-	3 to 5 years
Mainframe computer equipment	-	4 years
Microcomputers	-	3 to 4 years

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

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

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

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

NOTES TO THE ACCOUNTS
at 31 December 2002

1 ACCOUNTING POLICIES (continued)

Pension costs

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

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.

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	12 months to 31 December 2002 £'000	18 months to 31 December 2001 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	14	10
Operating lease rentals – plant and machinery	92	168
Depreciation of owned tangible fixed assets	49	84
Depreciation of assets held under finance leases and hire purchase contracts	15	9
	<u>170</u>	<u>271</u>

Readers Union Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

4a DIRECTORS' EMOLUMENTS

The directors received total remuneration for the year of £Nil (2001: £Nil) from the company.

The directors of the company are also directors of the immediate parent company and fellow subsidiaries. The directors received total remuneration for the year of £Nil (2001: £392,000) from the immediate parent company and £Nil (2001 - £Nil) from the ultimate parent company.

4b STAFF COSTS

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

	<i>Number of employees</i>	
	<i>2002</i>	<i>2001</i>
	<i>No.</i>	<i>No.</i>
Administration	32	35
Editorial and marketing	15	14
Distribution	28	22
	<u>75</u>	<u>71</u>

The aggregate payroll costs of these persons were as follows:

	<i>12 months to 31 December 2002 £'000</i>	<i>18 months to 31 December 2001 £'000</i>
Wages and salaries	1,181	1,771
Social security costs	99	153
Other pension costs	41	61
	<u>1,321</u>	<u>1,985</u>

NOTES TO THE ACCOUNTS
at 31 December 2002

5 INTEREST PAYABLE AND SIMILAR CHARGES

	12 months to 31 December 2002 £'000	18 months to 31 December 2001 £'000
Bank loans and overdrafts	4	10
Finance charges payable under finance leases and hire purchase contracts	3	3
Exchange differences	(29)	49
	<u>(22)</u>	<u>62</u>

6 TAXATION

	12 months to 31 December 2002 £'000	Restated 18 months to 31 December 2001 £'000
(a) Tax on profit on ordinary activities		
UK Corporation Tax:		
UK corporation tax on profits of the period (note 6(b))	275	-
Deferred Tax:		
Originating and reversal of timing differences (note 6(c))	20	(11)
	<u>295</u>	<u>(11)</u>

(b) Factors affecting the tax charge for the period

The tax assessed on the profit on ordinary activities for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	963	374
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	289	112
Effect of:		
Disallowed expenses and non taxable income	3	2
Depreciation in excess of capital allowances	(12)	(1)
Other timing differences	(9)	13
Group relief	-	(126)
Others	4	-
Current tax charge for the period (note 6(a))	<u>275</u>	<u>-</u>

Readers Union Limited

NOTES TO THE ACCOUNTS at 31 December 2002

6 TAXATION (continued) (c) Deferred Tax

The deferred tax included in the balance sheet is as follows:

	2002 £'000	2001 £'000
Included in debtors (note 9)	45	65
Accelerated capital allowances	25	36
Other timing differences	20	29
	45	65
		£'000
At 1 January 2002		65
Deferred tax charge (note 6(a))		(20)
At 31 December 2002		45

7 TANGIBLE FIXED ASSETS

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost:			
At 1 January 2002	550	581	1,131
Additions	123	13	136
At 31 December 2002	673	594	1,267
Depreciation:			
At 1 January 2002	534	432	966
Charge for year	21	43	64
At 31 December 2002	555	475	1,030
Net book value:			
At 31 December 2002	118	119	237
At 31 December 2001	16	149	165

7 TANGIBLE FIXED ASSETS (continued)

The net book value of fixtures & fittings above includes an amount of £31,125 (2001: £50,258) in respect of assets held under finance leases and hire purchase contracts.

Readers Union Limited

NOTES TO THE ACCOUNTS

at 31 December 2002

8 STOCKS

	2002 £'000	2001 £'000
Finished goods and goods for resale	1,407	1,301

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

9 DEBTORS

	2002 £'000	<i>Restated</i> 2001 £'000
Trade debtors	1,541	1,690
Other debtors	-	1
Prepayments and accrued income	-	1
Amounts owed by Group Undertakings	3,512	2,985
Deferred tax (note 6(c))	45	65
	5,098	4,742

10 CREDITORS: amounts falling due within one year

	2002 £'000	2001 £'000
Obligations under finance leases and hire purchase contracts (note 11)	12	13
Payments received on account	45	45
Trade creditors	1,112	1,558
Amounts owed to group undertakings	3,010	2,883
Accruals and deferred income	188	128
Corporation tax	275	-
Other creditors and social security	50	41
	4,692	4,668

NOTES TO THE ACCOUNTS
at 31 December 2002

11 OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	2002 £'000	2001 £'000
Amounts payable:		
Within one year	14	15
In two to five years	18	32
	<u>32</u>	<u>47</u>
Less: Finance charges allocated to future periods	(2)	(5)
	<u>30</u>	<u>42</u>
Finance leases are analysed as follows:		
Current obligations (note 10)	12	13
Non-current obligations	18	29
	<u>30</u>	<u>42</u>

12 CALLED UP SHARE CAPITAL

	2002 £	2001 £
		Authorised, allotted, called up and fully paid
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

13 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £'000	Profit and loss account £'000	Total £'000
At 1 July 2000	-	1,197	1,197
Prior year adjustment (note 17)	-	54	54
At 1 July 2000 as restated	-	1,251	1,251
Retained profit for the period	-	385	385
At 31 December 2001	-	1,636	1,636
Retained profit for the year	-	668	668
At 31 December 2002	-	2,304	2,304

NOTES TO THE ACCOUNTS

at 31 December 2002

14 OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	<i>Plant and machinery</i>	
	<i>2002</i>	<i>2001</i>
	<i>£'000</i>	<i>£'000</i>
Operating leases which expire:		
Within one year	-	44
	<hr/>	<hr/>

15 CONTINGENT LIABILITY

The company has guaranteed the borrowings of F & W (UK) Limited and subsidiary companies and there exists a right of set off between the companies. The amount outstanding at the year end was £Nil (2001: £Nil).

The company has given an undertaking to provide financial support to the group companies David & Charles Limited and Debt Recovery Control Limited for a period of at least the following twelve months.

16 ULTIMATE HOLDING COMPANY

The company's ultimate parent undertaking is F & W Publishing Inc, a company registered in the United States of America.

The company's immediate holding company is D&C Group Limited.

The Company's UK parent undertaking is F & W (UK) Limited, a company registered in England and Wales. Copies of its group accounts, which include the company, are available from the registered office.

17 PRIOR YEAR ADJUSTMENT

Financial Reporting Standard 19, Deferred Tax, became effective during the year. This requires full provision to be made for deferred taxation. Historically, no provision has been made for deferred taxation. The amount of deferred tax relating to prior years has been charged to retained profits as required by Financial Reporting Standard 19. The comparative figures in the primary statements and relevant notes have been restated to reflect this change in accounting policy.

Readers Union Limited

NOTES TO THE ACCOUNTS at 31 December 2002

17 PRIOR YEAR ADJUSTMENT (continued)

The effects in 2001 on the implementation of Financial Reporting Standard 19 are as follows:

	2001 £'000
PROFIT AND LOSS ACCOUNT	
Deferred tax asset in period	11
Increase in profit for the period	11
BALANCE SHEET	
Deferred tax asset at beginning of period	54
Credit for period	11
Increase in net assets at 31 December 2001	65

