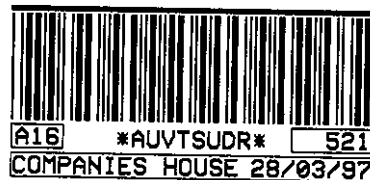


Readers Union Limited

Directors' report and financial statements

30 June 1996

Registered number 843946



Readers Union Limited

Directors' report and financial statements

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Readers Union Limited

Directors' report

The directors present their annual report and audited financial statements for the year ended 30 June 1996.

Principal activities

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

Business review

The results for the year are summarised below:

	£000
Turnover	<u>9,328</u>
Loss on ordinary activities before taxation	(172)
Taxation	<u>29</u>
Loss on ordinary activities after taxation	<u>(143)</u>

Dividend

The directors recommend the payment of a dividend of £650,000 for the year ended 30 June 1996.

Directors and directors' interests

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

TK Stubbs	(resigned 24 July 1995)
KE Holland	
NA Page	
CA Sage	

CA Sage resigned as a director on 5 September 1996.

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

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

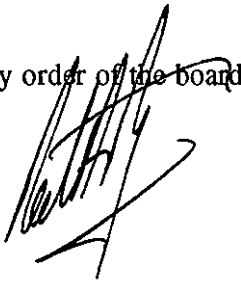
Readers Union Limited

Directors' report *(continued)*

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



NA Page
Secretary

Brunel House
Forde Road
Newton Abbot
Devon
TQ12 4PU

Readers Union Limited

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 for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- 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 maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Phoenix House
Notte Street
Plymouth
Devon PL1 2RT

Auditors' report to the members of Readers Union Limited

We have audited the financial statements on pages 5 to 12.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgments 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 as at 30 June 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors

16 January 1997

Readers Union Limited

Profit and loss account for the year ended 30 June 1996

	Note	1996 £000	1995 £000
Turnover		9,328	12,598
Cost of sales		<u>(7,052)</u>	<u>(10,112)</u>
Gross profit		2,276	2,486
Fulfilment costs		<u>(1,318)</u>	<u>(1,381)</u>
Distribution costs		(682)	(913)
Administrative expenses		<u>(448)</u>	<u>(544)</u>
Loss on ordinary activities before taxation	2	(172)	(352)
Tax on loss on ordinary activities	5	<u>29</u>	<u>320</u>
Loss for the financial year		(143)	(32)
Retained profit brought forward		1,204	1,236
Proposed dividend		<u>(650)</u>	<u>-</u>
Retained profit carried forward		<u>411</u>	<u>1,204</u>

There were no acquisitions or discontinued operations within the company during 1996 and 1995.

The company has no recognised gains or losses in either 1996 or 1995 other than the losses for these years.

A reconciliation of movements in shareholders' funds can be found in note 12 of these financial statements.

Readers Union Limited

Balance sheet at 30 June 1996

	Note	1996 £000	1995 £000
Fixed assets			
Tangible assets	6	283	464
Current assets			
Stocks	7	1,068	1,241
Debtors	8	2,002	2,224
Cash at bank and in hand	14(b)	626	387
		<u>3,696</u>	<u>3,852</u>
Creditors: amounts falling due within one year	9	<u>(3,568)</u>	<u>(3,112)</u>
Net current assets		<u>228</u>	<u>740</u>
Total assets less current liabilities		<u>411</u>	<u>1,204</u>
Capital and reserves			
Called up share capital	11	-	-
Profit and loss account		<u>411</u>	<u>1,204</u>
Equity Shareholders' funds		<u>411</u>	<u>1,204</u>

These financial statements were approved by the board of directors on 6 January 1997 and were signed on its behalf by:


NA Page
Director

Readers Union Limited

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1, the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of an EC parent company.

Certain costs in the profit and loss account have been re-categorised. The 1995 figures, as reported, have been adjusted to reflect these changes.

Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of value added tax and trade discounts. Returns by customers are deducted from turnover in the year in which the returns are made.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives 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 using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Stocks

Stocks of books have been valued at cost price less provisions for quantities which the directors estimate may not eventually be sold at full price. Certain books held in stock at the year end may be sold at prices below stock value as an inducement to new members to join the book clubs. This further reduction is regarded as a lead book subsidy of the year in which the offer is taken up.

Recruitment and promotional expenditure

All recruitment and promotional expenditure is expensed as it is incurred.

Readers Union Limited

Notes (continued)

1 Accounting policies (continued)

Leasing

Expenditure on operating leases is charged to the profit and loss account as the rentals accrue.

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.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2	Loss on ordinary activities before taxation	1996 £000	1995 £000
	<i>Loss on ordinary activities before taxation is stated</i>		
	<i>after charging/(crediting)</i>		
	Auditors' remuneration	11	11
	Operating lease rentals	113	150
	Depreciation and other amounts written off tangible fixed assets	193	148
	Exceptional item - restructuring costs	-	(67)
		<hr/>	<hr/>

The £67,000 credit relates to the release of the previous year's unutilised restructuring provision.

3 Remuneration of directors

No remuneration was paid to the directors by the company during the year (1995: £nil). All directors were remunerated by higher group undertakings.

Readers Union Limited

Notes (continued)

4 Staff numbers and costs

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

	Number of employees	
	1996	1995
Administration	13	16
Editorial/marketing	-	12
Distribution	1	22
	<u>14</u>	<u>50</u>

The aggregate payroll costs of these persons were as follows:

	1996 £000	1995 £000
Wages and salaries	403	851
Social security costs	34	69
Other pension costs (see note 13)	4	13
	<u>441</u>	<u>933</u>

5 Taxation

	1996 £000	1995 £000
Group relief @ 33 %	29	120
Surrender in respect of current year	-	200
Receivable in respect of prior year	<u>29</u>	<u>320</u>

The taxation credit includes the crystallisation of timing differences not previously recognised as it is company policy not to accrue for deferred tax assets unless their recovery is reasonably certain.

Readers Union Limited

Notes (continued)

6 Tangible fixed assets

	Computer equipment £000	Fixtures and fittings £000	Motor vehicles £000	Total £000
<i>Cost</i>				
At beginning of year	485	481	86	1,052
Additions	18	27	-	45
Disposals	(29)	(118)	(44)	(191)
Group transfers	-	-	(14)	(14)
	<u>474</u>	<u>390</u>	<u>28</u>	<u>892</u>
<i>At end of year</i>				
<i>Depreciation</i>				
At beginning of year	237	317	34	588
Charge for year	112	73	8	193
On disposals	(29)	(108)	(30)	(167)
Group transfers	-	-	(5)	(5)
	<u>320</u>	<u>282</u>	<u>7</u>	<u>609</u>
<i>At end of year</i>				
<i>Net book value</i>				
At 30 June 1996	<u>154</u>	<u>108</u>	<u>21</u>	<u>283</u>
At 30 June 1995	<u>248</u>	<u>164</u>	<u>52</u>	<u>464</u>

7 Stocks

	1996 £000	1995 £000
Finished goods and goods for resale	<u>1,068</u>	<u>1,241</u>

8 Debtors

	1995 £000	1994 £000
Trade debtors	1,403	1,547
Amounts owed by group undertaking	320	329
Other debtors	46	54
Prepayments and accrued income	233	294
	<u>2,002</u>	<u>2,224</u>

Prepayments include £153,631 (1995: £141,340) in respect of pensions which will be recovered after more than one year.

Readers Union Limited

Notes (continued)

9 Creditors: amounts falling due within one year

	1996 £000	1995 £000
Payments received on account	49	57
Trade creditors	1,058	1,280
Amounts owed to parent undertaking including proposed dividend	2,372	1,575
Accruals and deferred income	89	200
	<u>3,568</u>	<u>3,112</u>

10 Provisions for liabilities and charges - deferred taxation

The nature of the timing differences in existence at 30 June 1996 and 1995 is such that an asset arises for the purposes of deferred taxation. On the grounds of prudence, this asset is not recognised in these accounts.

11 Called up share capital

	1996 £	1995 £
<i>Authorised, Allotted, called up and fully paid</i>		
Ordinary shares of £1 each	<u>100</u>	<u>100</u>

12 Reconciliation of movements in shareholders' funds

	1996 £000	1995 £000
Loss for the financial year	(143)	(32)
Opening shareholders' funds	1,204	1,236
Proposed dividend	650	-
	<u>411</u>	<u>1,204</u>
Closing shareholders' funds		

13 Pension scheme

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. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the aggregate method. The most recent valuation (in draft) was at 30 November 1993 and contributions of the employees have remained at 3%.

Readers Union Limited

Notes (continued)

13 Pension scheme (continued)

At 30 June 1996 the company had prepaid pension contributions amounting to £153,631 (1995: £141,340).

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

It was assumed that the investment returns would be 9% per annum, that salary increases would average 8% per annum and that present and future pensions would increase at a rate of 9% per annum. The draft actuarial valuation at 30 November 1993 showed that the market value of the scheme's assets was £2,099,900 and the present value of accrued benefits was £1,119,100.

14 Commitments and Guarantees

(a) At the end of the financial year the company had annual commitments under non-cancellable operating leases as follows:

	Plant & machinery	
	1996	1995
	£000	£000
Operating leases which expire:		
Within one year	85	113

(b) The company has guaranteed the overdraft of its immediate parent company and there exists a right of set off between the two companies. The amount outstanding at the year end was £Nil (1995: £nil).

15 Ultimate holding company and parent undertaking of a larger group

The company's ultimate holding company is The Reader's Digest Association Inc which is incorporated in the United States of America.

The largest group in which the results of the company are consolidated is that headed by The Reader's Digest Association Inc. The smallest group in which they are consolidated is that headed by David & Charles Limited, a company incorporated in Great Britain and registered in England and Wales.

The consolidated accounts of David & Charles Limited are available to the public and may be obtained from The Registrar of Companies, Companies House, Maindy, Cardiff CF4 3UZ.