

READERS UNION LIMITED

Report and Financial Statements

31 December 2004

Deloitte & Touche LLP
Bristol



REPORT AND FINANCIAL STATEMENTS 2004

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READERS UNION LIMITED

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

AUDITORS

Deloitte & Touche LLP
Bristol

READERS UNION LIMITED

DIRECTORS' REPORT

The directors present their annual report and audited financial statements for the year ended 31 December 2004.

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 and dividends amounted to £966,000 (2003: £1,124,000). An ordinary dividend payment of £650,000 was paid in the year (2003: £nil).

DIRECTORS AND THEIR INTERESTS

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

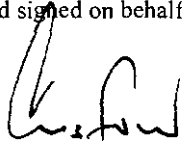
M Angelakis
M F Arnett
M Dominguez
S J Kent

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

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

 24/1/05

J D Gaisford
Secretary

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 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 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 2004 which comprise the profit and loss account, the balance sheet and related notes 1 to 18. 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 2004 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

23 June 2005

READERS UNION LIMITED

PROFIT AND LOSS ACCOUNT
Year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
TURNOVER	2	13,154	11,809
Cost of sales		(9,185)	(7,875)
GROSS PROFIT		3,969	3,934
Distribution costs		(1,138)	(988)
Administrative expenses		(1,463)	(1,349)
OPERATING PROFIT		1,368	1,597
Interest receivable and similar income	4	13	8
Interest payable and similar charges	5	(1)	(2)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	1,380	1,603
Tax on profit on ordinary activities	7	(414)	(479)
PROFIT FOR THE FINANCIAL YEAR		966	1,124
Dividend payable	8	(650)	-
RETAINED PROFIT TRANSFERRED TO RESERVES	15	316	1,124

All turnover and profits derive from continuing operations.

There were no recognised gains and losses for the year other than those in the profit and loss account above, and accordingly no statement of total recognised gains and losses is presented.

READERS UNION LIMITED

BALANCE SHEET
At 31 December 2004

	Notes	2004		2003	
		£'000	£'000	£'000	£'000
FIXED ASSETS					
Tangible assets	9		435		413
CURRENT ASSETS					
Stocks	10	2,383		1,483	
Debtors	11	6,785		5,594	
Cash at bank and in hand		82		745	
		9,250		7,822	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	12	(5,941)		(4,802)	
NET CURRENT ASSETS			3,309		3,020
TOTAL ASSETS LESS CURRENT LIABILITIES			3,744		3,433
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
Obligations under finance leases and hire purchase contracts	13		-		(5)
NET ASSETS			3,744		3,428
CAPITAL AND RESERVES					
Called up share capital	14		-		-
Profit and loss account	15		3,744		3,428
TOTAL EQUITY SHAREHOLDERS' FUNDS	15		3,744		3,428

These financial statements were approved by the Board of Directors on

20/6/2005

Signed on behalf of the Board of Directors



M F Arnett
Director

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

1. ACCOUNTING POLICIES

Basis of preparation

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

Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard 1 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:

Fixtures and fittings	3 to 5 years
Computer equipment	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.

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 2004

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 in which they are incurred.

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 one geographical segment 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 (2003: £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.

	2004	2003
	£'000	£'000
Employee costs during the year:		
Wages and salaries	1,501	1,348
Social security costs	135	124
Other pension costs	49	45
	<u>1,685</u>	<u>1,517</u>
 Average number of persons employed:	 No.	 No.
Administration	36	35
Editorial and marketing	17	16
Distribution	28	27
	<u>81</u>	<u>78</u>

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

4.	INTEREST RECEIVABLE AND SIMILAR INCOME	2004	2003
		£'000	£'000
	Bank interest receivable	13	8
		<hr/>	<hr/>
5.	INTEREST PAYABLE AND SIMILAR CHARGES	2004	2003
		£'000	£'000
	Finance charges payable under finance leases and hire purchase contracts	1	2
		<hr/>	<hr/>
6.	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2004	2003
	Profit on ordinary activities before taxation is stated after charging/(crediting):	£'000	£'000
	Profit on disposal of fixed assets	46	-
	Auditors' remuneration - audit fees	14	12
	Depreciation and other amounts written off tangible fixed assets:		
	- owned	152	76
	- held under finance leases and hire purchase contracts	12	12
	Operating lease rentals - plant and machinery	22	46
	Exchange gains	(54)	(42)
		<hr/>	<hr/>
7.	TAXATION	2004	2003
	Tax on profit on ordinary activities	£'000	£'000
	Current tax		
	UK corporation tax on profits of the year	405	487
	Adjustment in respect of prior year	-	(4)
	Total current tax	<hr/> 405	<hr/> 483
	Deferred tax		
	Timing differences - origination and reversal	9	(4)
		<hr/> 414	<hr/> 479

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

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% (2003: 30%). The differences are explained below:

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>1,380</u>	<u>1,603</u>
	£'000	£'000
Tax at 30% thereon	414	481
Effects of:		
Disallowed expenses and non-taxable income	6	2
Capital allowances in excess of depreciation	(5)	(15)
Other timing differences	(3)	19
Other	(7)	(4)
Current tax charge for year	<u>405</u>	<u>483</u>
Deferred tax		
The deferred tax included in the balance sheet is analysed as follows:	£'000	£'000
Depreciation in excess of capital allowances	4	9
Other timing differences	36	40
	<u>40</u>	<u>49</u>
The movement in the deferred tax asset during the year is summarised as follows:	£'000	
At 1 January 2004	49	
Charged to profit and loss account	(9)	
At 31 December 2004	<u>40</u>	

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

8.	DIVIDEND PAYABLE	2004	2003
		£'000	£'000
	Dividends paid on equity shares of £6,500 (2003: £nil) per share	650	-

9.	TANGIBLE FIXED ASSETS			
		Computer equipment £'000	Fixtures and fittings £'000	Total £'000
	Cost			
	At 1 January 2004	517	639	1,156
	Additions	85	137	222
	Disposals	(37)	(97)	(134)
	At 31 December 2004	565	679	1,244
	Depreciation			
	At 1 January 2004	237	506	743
	Charge for the year	103	61	164
	Disposals	(37)	(61)	(98)
	At 31 December 2004	303	506	809
	Net book value			
	At 31 December 2004	262	173	435
	At 31 December 2003	280	133	413

The net book value of fixtures and fittings includes an amount of £7,000 (2003: £19,000) in respect of assets held under finance leases and hire purchase contracts.

10.	STOCKS	2004	2003
		£'000	£'000
	Finished goods	2,383	1,483

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

11.	DEBTORS	2004	2003
		£'000	£'000
	Trade debtors	1,872	1,789
	Other debtors	153	20
	Amounts owed by group undertakings	4,720	3,736
	Deferred tax	40	49
		6,785	5,594

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2004

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	2004 £'000	2003 £'000
Obligations under finance leases and hire purchase contracts	5	13
Payments received on account	51	47
Trade creditors	1,724	1,206
Amounts owed to group undertakings	3,787	3,085
Accruals and deferred income	137	129
Corporation tax payable	195	287
Other creditors and social security	42	35
	<u>5,941</u>	<u>4,802</u>
 13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS		
The maturity of these amounts is as follows:	2004 £'000	2003 £'000
Amounts payable:		
- within one year	5	14
- between two to five years	-	5
	<u>5</u>	<u>19</u>
Less: finance charges allocated to future years	-	(1)
	<u>5</u>	<u>18</u>
 Finance leases and hire purchase contracts are analysed as follows:	£'000	£'000
Current obligations (note 10)	5	13
Non-current obligations	-	5
	<u>5</u>	<u>18</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 2004

14.	CALLED UP SHARE CAPITAL	2004	2003
		£	£
	Authorised		
	100 Ordinary shares of £1 each	100	100
		<u> </u>	<u> </u>
		£	£
	Allotted, called up and fully paid		
	100 Ordinary shares of £1 each	100	100
		<u> </u>	<u> </u>

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

	Share capital £'000	Profit and loss account £'000	Total 2004 £'000	Total 2003 £'000
At beginning of the financial year	-	3,428	3,428	2,304
Profit for financial the year	-	966	966	1,124
Dividend payable	-	(650)	(650)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At the end of the financial year	-	3,744	3,744	3,428
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

16. **RELATED PARTY TRANSACTIONS**

The company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Disclosures" and has not disclosed transactions with companies that are part of the F&W Publications Inc group of companies.

17. **ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

F&W Publications Inc is the controlling party and 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.

18. **POST BALANCE SHEET EVENTS**

Prior to the balance sheet date, the group had entered into an agreement for the development of a club and publishing system. At the balance sheet date £82,222 had been capitalised within fixed assets relating to the development. Following significant delays with the project, a decision was made after the balance sheet date to terminate the contract.

There is recourse to the system contractors for £62,500 and so the carrying value of the fixed asset has been reduced by £19,722 as an adjusting post balance sheet event at 31 December 2004.