

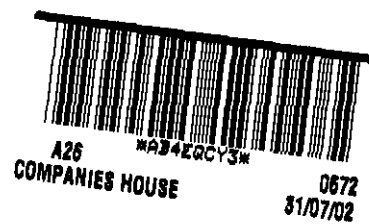
843946

READERS UNION LIMITED

Report and Accounts

31 December 2001

 ERNST & YOUNG



Readers Union Limited

Registered No: 843946

DIRECTORS

M Angelakis
M Dominguez
S J Kent
M F Arnett
J D Gaisford

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

SOLICITORS

Foot Anstey Sargent
21 Derry's Cross
Plymouth
Devon
PL1 2SW

REGISTERED OFFICE

Brunel House
Newton Abbot
Devon
TQ12 4PU

Readers Union Limited

DIRECTORS' REPORT

The directors present their report and accounts for the 18 months ended 31 December 2001.

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 produce improved results in the coming years.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £374,000. The directors do not recommend a final ordinary dividend, leaving a profit of £374,000 to be taken to reserves.

DIRECTORS AND THEIR INTERESTS

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

N A Page	(resigned 12 February 2001)
J R Townsend	(resigned 16 August 2000)
S N McRae	(resigned 16 August 2000)
J D Gaisford	
S J Kent	(appointed 16 August 2000)
M F Arnett	(appointed 16 August 2000)

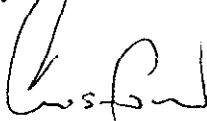
In addition, M Angelakis and Mdominguez were appointed as directors on 28 February 2002.

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

Following the acquisition of D & C Group by F & W (UK) Limited, Ernst & Young resigned as auditors and were replaced by Arthur Andersen. In September 2001, Ernst & Young LLP (Ernst & Young having transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000) were appointed as 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
Director
15 May 2002

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 financial statements for the period ended 31 December 2001 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

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 financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom 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 to you 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 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 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 2001 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Exeter
15 May 2002

Readers Union Limited

PROFIT AND LOSS ACCOUNT

for the 18 months ended 31 December 2001

		18 months to 31 December 2001 £'000	12 months to 30 June 2000 £'000
	Notes		
TURNOVER	2	16,377	10,985
Cost of sales		12,528	7,782
GROSS PROFIT		3,849	3,203
Distribution costs		1,399	1,025
Administrative expenses		2,014	1,529
OPERATING PROFIT	3	436	649
Interest payable and similar charges	5	(62)	-
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		374	649
Tax on profit on ordinary activities	6	-	(13)
RETAINED PROFIT FOR THE FINANCIAL PERIOD	14	374	662

The above results related to continuing activities.

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

Readers Union Limited

BALANCE SHEET

at 31 December 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Tangible assets	7	165	131
CURRENT ASSETS			
Stocks	8	1,301	1,116
Debtors	9	4,677	1,985
Cash at bank and in hand		125	599
		6,103	3,700
CREDITORS: amounts falling due within one year	10	4,668	2,630
NET CURRENT ASSETS		1,435	1,070
TOTAL ASSETS LESS CURRENT LIABILITIES		1,600	1,201
CREDITORS: amounts falling due after more than one year			
Obligations under finance leases and hire purchase contracts	11	29	4
		1,571	1,197
CAPITAL AND RESERVES			
Called up share capital	13	-	-
Profit and loss account	14	1,571	1,197
EQUITY SHAREHOLDERS' FUNDS	14	1,571	1,197



J D Gaisford

Director

15 May 2002

NOTES TO THE ACCOUNTS
at 31 December 2001

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 F&W (UK) 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.

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 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.

Readers Union Limited

NOTES TO THE ACCOUNTS

at 31 December 2001

1 ACCOUNTING POLICIES (continued)

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

	18 months to 31 December 2001 £'000	12 months to 30 June 2000 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration	10	10
Operating lease rentals – plant and machinery	168	120
Depreciation of owned tangible fixed assets	84	75
Depreciation of assets held under finance leases and hire purchase contracts	9	-
	<u> </u>	<u> </u>

4A DIRECTORS' EMOLUMENTS

	18 months to 31 December 2001 £'000	12 months to 30 June 2000 £'000
Emoluments	-	52
	<u> </u>	<u> </u>
	2001 No.	2000 No.
Number of directors accruing benefits under the group personal pension scheme	-	2
	<u> </u>	<u> </u>

The emoluments shown above are as paid from this 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 £392,000 from the immediate parent company and £Nil from the ultimate parent company. The directors do not believe it is practicable to apportion this amount between their services as directors and their services as directors of the immediate parent company and fellow subsidiary companies.

Readers Union Limited

NOTES TO THE ACCOUNTS at 31 December 2001

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>2001 No.</i>	<i>2000 No.</i>
Administration	35	38
Editorial and marketing	14	13
Distribution	22	23
	<u>71</u>	<u>74</u>

The aggregate payroll costs of these persons were as follows:

	<i>18 months to 31 December 2001 £'000</i>	<i>12 months to 30 June 2000 £'000</i>
Wages and salaries	1,771	1,181
Social security costs	153	108
Other pension costs	61	43
	<u>1,985</u>	<u>1,332</u>

5 INTEREST PAYABLE AND SIMILAR CHARGES

	<i>18 months to 31 December 2001 £'000</i>	<i>12 months to 30 June 2000 £'000</i>
Bank loans and overdrafts	10	-
Finance charges payable under finance leases and hire purchase contracts	3	-
Exchange differences	49	-
	<u>62</u>	<u>-</u>

NOTES TO THE ACCOUNTS
at 31 December 2001

6 TAXATION

	18 months to 31 December 2001 £'000	12 months to 30 June 2000 £'000
Based on the profit for the period:		
UK corporation tax	-	-
Over provision in respect of prior year	-	(13)
	<u>-</u>	<u>(13)</u>

7 TANGIBLE FIXED ASSETS

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost:			
At 1 July 2000	542	469	1,011
Additions	17	112	129
Disposals	(9)	-	(9)
At 31 December 2001	<u>550</u>	<u>581</u>	<u>1,131</u>
Depreciation:			
At 1 July 2000	498	382	880
Charge for period	43	50	93
Disposals	(7)	-	(7)
At 31 December 2001	<u>534</u>	<u>432</u>	<u>966</u>
Net book value:			
At 31 December 2001	<u>16</u>	<u>149</u>	<u>165</u>
At 30 June 2000	<u>44</u>	<u>87</u>	<u>131</u>

The net book value of fixtures & fittings above includes an amount of £50,258 (2000 - £11,000) in respect of assets held under finance leases and hire purchase contracts.

8 STOCKS

	2001 £'000	2000 £'000
Finished goods and goods for resale	<u>1,301</u>	<u>1,116</u>

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

Readers Union Limited

NOTES TO THE ACCOUNTS at 31 December 2001

9 DEBTORS

	2001 £'000	2000 £'000
Trade debtors	1,690	1,922
Other debtors	1	36
Prepayments and accrued income	1	27
Amounts owed by Group Undertakings	2,985	
	<u>4,677</u>	<u>1,985</u>

10 CREDITORS: amounts falling due within one year

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts (note 11)	13	5
Payments received on account	45	50
Trade creditors	1,558	1,637
Amounts owed to group undertakings	2,883	723
Accruals and deferred income	128	184
Corporation tax	-	-
Other creditors and social security	41	31
	<u>4,668</u>	<u>2,630</u>

11 OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	2001 £'000	2000 £'000
Amounts payable:		
Within one year	15	6
In two to five years	32	4
	<u>47</u>	<u>10</u>
Less: Finance charges allocated to future periods	(5)	(1)
	<u>42</u>	<u>9</u>
Finance leases are analysed as follows:		
Current obligations (note 10)	13	5
Non-current obligations	29	4
	<u>42</u>	<u>9</u>

NOTES TO THE ACCOUNTS
at 31 December 2001

12 PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation

The nature of timing differences in existence at 31 December 2001 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 (2000 - nil).

13 CALLED UP SHARE CAPITAL

	<i>Authorised, allotted, called up and fully paid</i>	
	<i>2001</i>	<i>2000</i>
	£	£
Ordinary shares of £1 each	100	100

14 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>2001</i>	<i>2000</i>
	£'000	£'000
Profit for the financial period	374	662
Opening shareholders' funds	1,197	535
Closing shareholders' funds	1,571	1,197

15 OTHER FINANCIAL COMMITMENTS

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	<i>Plant and machinery</i>	
	<i>2001</i>	<i>2000</i>
	£'000	£'000
Operating leases which expire:		
Within one year	44	4
Within two to five years	-	37

16 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 (2000 - £Nil).

The company has given an undertaking to provide financial support to the group companies David & Charles Limited and Debt Control Recovery Limited for a period of at least the following twelve months. The company has also provided a guarantee with the parent undertaking D & C Group Limited, for the invoice discounting liability of David & Charles Limited with GMAC Commercial Credit Limited. At the balance sheet date, the invoice discounting liability of David & Charles Limited was nil. The invoice discounting facility was closed on 15 February 2002.

NOTES TO THE ACCOUNTS
at 31 December 2001

17 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.