

The Reader's Digest Association Limited

**Directors' report and consolidated
financial statements**

Registered number 340452

30 June 2002



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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

Principal activities

The principal activity of the group is publishing and includes the sale of magazines, books, compact discs, tapes and video cassettes which are sold by direct mail to the general public.

Business review

The group's results for the year to 30 June 2002 are set out in the consolidated profit and loss account on page 5.

The profit before taxation amounted to £9,368,000 (2001: profit of £25,850,000) and the profit after taxation amounted to £5,670,000 (2001: profit of £17,022,000).

Dividend and transfer to reserve

The directors do not recommend the payment of a dividend (2001 dividend £9,013,000). The profit for the year of £5,670,000 (2001: profit after dividend of £8,009,000) was transferred to reserves.

Directors and directors' interests

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

P Brady	
P Easterman	(resigned 30 June 2001)
AT Lynam-Smith	
MWC Pasteiner	
RG Twisk	(resigned 12 April 2002)
AJ Wilton	
MJ Bohane	(resigned 31 December 2001)
I Marsh	(appointed 31 December 2001; resigned 7 April 2003)
T Gardner	(appointed 7 April 2003)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of group companies.

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

Directors' report *(continued)*

Employees

The group supports a wide range of procedures which are intended to lead to improved consultation between management and employees. Matters of particular relevance are:

- (i) presentation of the group's annual results by the managing director to the group;
- (ii) bi-monthly committee meetings concerning the welfare of employees and the presentation of their views;
- (iii) a profit sharing bonus scheme which enables all permanent employees to share in the welfare of the group; and
- (iv) regular staff meetings where employees are encouraged to raise points for the consideration of management.

The group operates a policy for the employment and placement of disabled persons, the objective of which is to ensure that full and fair consideration is given to disabled persons whether already employed by the group or as candidates for all types of vacancy and that equal opportunity is afforded to all disabled persons for training, career development and promotion.

Political and charitable contributions

The group made no political contributions during the year (2001: *£nil*). Donations to UK charities amounted to £31,000 (2001: £33,000).

Credit payment policies

The group agrees terms and conditions for its business transactions with its suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. The average number of days credit taken by the company for trade purchases at 30 June 2002 was approximately 24 days (2001: 34 days).

Auditors

KPMG were re-appointed auditors on 22 April 2002. However, since that date their business was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 27 May 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.


D. Oethery
Secretary

11 Westferry Circus
Canary Wharf
London
E14 4HE

18th July 2003

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 the group 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 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 group 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 the group 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 group and to prevent and detect fraud and other irregularities.



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London EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of The Reader's Digest Association Limited

We have audited the financial statements on pages 5 to 26.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our 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 auditor's 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, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit 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 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 and of the group as at 30 June 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
KPMG LLP
Chartered Accountants
Registered Auditors

25 July 2003

Consolidated profit and loss account
for the year ended 30 June 2002

	<i>Note</i>	2002 £000	2001 £000
Group turnover	<i>1,2</i>	140,613	147,530
Cost of sales		(98,003)	(93,832)
Gross profit		42,610	53,698
Fulfilment and distribution costs		(13,242)	(16,079)
Administrative expenses	<i>4-5</i>	(20,654)	(22,811)
Group operating profit	<i>3</i>	8,714	14,808
Profit on sale of fixed assets		-	7,278
Interest receivable and similar income	<i>6</i>	740	3,949
Interest payable and similar charges	<i>7</i>	(86)	(185)
Profit on ordinary activities before taxation	<i>2,3</i>	9,368	25,850
Tax on profit on ordinary activities	<i>8</i>	(3,698)	(8,828)
Profit for the financial year	<i>16</i>	5,670	17,022
Dividends on equity shares	<i>9</i>	-	(9,013)
Retained profit for the year	<i>17</i>	5,670	8,009

All turnover and operating profit is derived from continuing operations.

The company has no recognised gains or losses other than the profit for each financial year reflected in the above profit and loss account.

Historical cost profits in the current and prior years are the same as these reported above.

Consolidated balance sheet
at 30 June 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	10	5,175	6,555
Current assets			
Stocks	12	4,188	2,637
Debtors	13	34,097	43,799
Cash at bank and in hand		10,578	1,505
		<u>48,863</u>	<u>47,941</u>
Creditors: amounts falling due within one year	14	<u>(33,899)</u>	<u>(43,123)</u>
Net current assets		<u>14,964</u>	<u>4,818</u>
Total assets less current liabilities		<u>20,139</u>	<u>11,373</u>
Provision for liabilities and charges	15	<u>(3,282)</u>	<u>(186)</u>
Net assets		<u>16,857</u>	<u>11,187</u>
Capital and reserves			
Called up share capital	18	15,500	15,500
Share premium account	17	224	224
Profit and loss account	17	1,133	(4,537)
Shareholders' funds		<u>16,857</u>	<u>11,187</u>

These financial statements were approved by the board of directors on 18th July 2003 and were signed on its behalf by:

AT Lynam-Smith
Director

A.T. Lynam-Smith

P Brady
Director

P Brady

Company balance sheet

at 30 June 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	10	5,102	6,461
Investments	11	17,519	17,519
		<u>22,621</u>	<u>23,980</u>
Current assets			
Stocks	12	4,169	2,590
Debtors	13	31,867	39,492
Cash at bank and in hand		6,809	90
		<u>42,845</u>	<u>42,172</u>
Creditors: amounts falling due within one year	14	<u>(34,925)</u>	<u>(44,051)</u>
Net current assets/(liabilities)		<u>7,920</u>	<u>(1,879)</u>
Total assets less current liabilities		<u>30,541</u>	<u>22,101</u>
Provision for liabilities and charges	15	<u>(3,282)</u>	<u>(186)</u>
Net assets		<u>27,259</u>	<u>21,915</u>
Capital and reserves			
Called up share capital	18	15,500	15,500
Share premium account	17	224	224
Profit and loss account	17	11,535	6,191
Shareholders' funds		<u>27,259</u>	<u>21,915</u>

These financial statements were approved by the board of directors on 18th July 2003 and were signed on its behalf by:

AT Lynam-Smith
Director

A.T. Lynam-Smith

P Brady
Director

P Brady

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 to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention except for the group's accounting for stock as discussed below.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries. These accounts are made up to 30 June 2002. All material intercompany transactions and balances are eliminated on consolidation.

Unless otherwise stated, acquisition accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is amortised over a period of 20 years as described below.

In the company's accounts, investments in subsidiary and associated undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent realised profit for the company.

In accordance with Section 230 (4) of the Companies Act 1985, The Reader's Digest Association Limited is exempt from the requirement to present its own profit and loss account.

The amount of the profit for the financial year dealt with in the financial statements of The Reader's Digest Associated Limited is disclosed in notes 16 and 17 to these accounts.

Cash flow statement

The Reader's Digest Association Inc., the company's ultimate parent company, includes a consolidated cash flow statement in its accounts, which are available to the public and may be obtained from the address set out in note 21. Consequently, this company has taken advantage of the exemption granted by FRS 1 (Revised 1996) and has not prepared a cash flow statement.

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation

Depreciation is provided using the straight line method to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Freehold buildings	- 40 years
Leasehold land and buildings and improvements	- life of lease
Plant and machinery	- 3 to 10 years
Fixtures, fittings, tools and equipment	- 3 to 10 years

Foreign currencies

Transactions denominated 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.

Goodwill

Goodwill relating to businesses purchased by the company is amortised on a straight line basis over a period of 20 years in accordance with the accounting policy of the US parent company unless, in the opinion of the directors, goodwill has suffered a permanent diminution in value, in which case it is written off.

Leases

Where the group enters into a lease which entails taking substantially all the risk and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation of future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a basis representative of the benefit derived from the assets, normally on a straight line basis over the life of the lease.

Pension costs

The group operates a pension scheme providing benefits based on final pensionable pay. The assets of this scheme are held separately from those of the group. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the group. Any difference 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.

Notes (continued)

1 Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost comprises the direct costs of products, but, in conformity with the accounting policy of the US parent company, does not include an allocation of attributable production and development overheads; this basis of valuation is a departure from Statement of Standard Accounting Practice No.9 (Stock and Work in Progress); however, the effect of this departure is not material. Stocks held in excess of one year forecast sales are subject to a provision for obsolescence.

Taxation

The company adopted Financial Reporting Standard 19 Deferred Tax ("FRS 19") during the year. 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 resulting in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

No prior year adjustment has been recorded on the implementation of FRS 19, as the impact on the year ended 30 June 2001 is not considered to be material.

Members of the group are able to relieve their taxable profits by receiving tax losses from other group companies, where capacity to utilise those losses exists. Where there is reasonable certainty that taxable profits can be relieved the group relief receivable is included in the taxation charge or credit for the year in the company's accounts.

Turnover

Turnover comprises net revenues after deducting provisions for bad debts and returns and excludes value added tax. Magazine turnover is taken into account by reference to the cover date and all other turnover by reference to the date of despatch of the goods.

Promotional costs

Internal promotional costs are charged to the profit and loss account when they are incurred, whereas external promotional costs are capitalised and charged to the profit and loss account according to the product type as follows:

Magazine costs	- charged equally over 12 months from date of the first issue;
Condensed Books and Series Books	- charged in full in the month of the main shipment of the first paid books, defined as mail date plus 2 months;
Single sales	- charged in full in the month of mailing if this is on or before 15 th of the month or charged in the following month if mailing is after 15 th of the month.
Premiums	- charged in full in the month of the first billed shipment.

Notes (continued)

1 Accounting policies (continued)

Product development costs

External and internal product development costs are charged to the profit and loss account when they are incurred.

Deferred Income - unexpired subscriptions

Prepaid magazine subscriptions are credited to deferred income and released to the profit and loss account in equal instalments over the period of the subscription.

2 Analysis of turnover and loss on ordinary activities before taxation

The table below sets out information for each of the group's industry segments and geographic areas of operation:

	Turnover	2002 Attributable pre-tax profit/(loss)	Net operating assets/	Turnover	2001 Attributable pre-tax profit/(loss)	Net operating (liabilities)/ assets
	£000	£000	£000	£000	£000	£000
<i>By activity</i>						
Reader's Digest Magazine	24,195	4,244	1,162	28,869	5,534	(6,019)
Book and home entertainment products	111,080	15,195	11,962	112,575	29,120	16,612
Special interest magazine	3,832	12	65	4,342	634	5
Computer data services	1,506	275	3,668	1,468	674	589
Central administration (including interest)	-	(10,358)	-	276	(10,112)	-
	<u>140,613</u>	<u>9,368</u>	<u>16,857</u>	<u>147,530</u>	<u>25,850</u>	<u>11,187</u>
<i>By geographical market</i>						
United Kingdom	137,874			143,690		
Outside United Kingdom	2,739			3,840		
	<u>140,613</u>			<u>147,530</u>		

Turnover all originates in the United Kingdom.

Notes (continued)

3 Profit on ordinary activities before taxation

	2002 £000	2001 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Auditors' remuneration		
- audit fees	91	92
- non-audit fees	197	147
Depreciation of owned tangible fixed assets	1,009	1,656
Impairment of owned tangible fixed assets	778	-
Hiring of plant and machinery - rentals payable under operating leases		-
Land and buildings - operating leases	1,680	1,660
Hire of other assets - operating leases	153	258
Exchange (gains)/losses	(28)	185
Writeback of loan previously written off	1,072	-
Gain on disposal of fixed assets	53	-

The auditor fee in respect of the company was £64,000 (2001: £68,000).

4 Remuneration of directors

	2002 £000	2001 £000
As executives:		
Emoluments	597	586
Pension contributions	34	33
Incentives and bonuses	257	502
Benefits in kind	5	35
Compensation for loss of office	191	-
	<u>1,084</u>	<u>1,156</u>

Benefits in kind primarily comprise company cars.

The emoluments, excluding pension contributions, of the highest paid director were £388,278 (2001: £524,212).

Notes (continued)

5 Staff numbers and costs

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

	Number of employees	
	2002	2001
General administration	38	41
Editorial	58	64
Art	10	10
Fulfilment and data processing	8	10
Systems development	46	24
Production	31	27
Marketing	79	78
Advertising	16	17
Mailing services	8	29
New business expansion	8	7
	<u>302</u>	<u>307</u>

The aggregate payroll costs of these persons were as follows:

	2002	2001
	£000	£000
Wages and salaries	13,652	14,751
Social security costs	1,158	1,373
Other pension costs (see note 20)	4,148	1,241
	<u>18,958</u>	<u>17,365</u>

6 Interest receivable and similar income

	2002	2001
	£000	£000
Bank interest	417	1,330
On loans to parent and fellow subsidiary undertakings	17	2,619
Foreign exchange gains	28	-
Other income	278	-
	<u>740</u>	<u>3,949</u>

Notes (continued)

7 Interest payable and similar charges

	2002 £000	2001 £000
On loans to parents and fellow subsidiary undertakings	86	-
Foreign exchange loss	-	185
	<u>86</u>	<u>185</u>

8 Taxation

	2002 £000	2001 £000
UK corporation tax at 30% (2001: 30%) on the result for the year on ordinary activities	2,604	8,119
Deferred taxation	899	-
Adjustments relating to earlier years	195	709
	<u>3,698</u>	<u>8,828</u>

The effective rate of tax charged for the year differs from the standard rate of Corporation Tax in the UK (30%). The differences are explained below:

	2002 £000	2001 £000
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	2,810	7,755
Effects of:		
Permanent disallowables	732	402
Timing differences where effect will be recognised in future periods	(899)	(12)
Adjustment in respect of previous periods	195	709
Other	(39)	(26)
	<u>2,799</u>	<u>8,828</u>

9 Dividends

	2002 £000	2001 £000
Equity shares: 2001 interim dividend paid	-	9,013
	<u>-</u>	<u>9,013</u>

Notes (continued)

10 Tangible fixed assets

Group	Land and buildings £000	Computer equipment £000	Fixtures, fittings and equipment £000	Leasehold improve- ments £000	Total £000
<i>Cost</i>					
At beginning of year	2,116	2,121	6,680	1,827	12,744
Additions	-	131	405	-	536
Disposals	-	(15)	(440)	-	(455)
Transfers	-	1,565	(1,565)	-	-
At end of year	2,116	3,802	5,080	1,827	12,825
<i>Depreciation</i>					
At beginning of year	245	1,881	3,940	123	6,189
On disposals	-	(10)	(316)	-	(326)
Depreciation charge for year	109	251	538	111	1,009
Impairment charge for year	-	-	778	-	778
Total charge for year	109	251	1,316	111	1,787
Transfers	-	1,135	(1,135)	-	-
At end of year	354	3,257	3,805	234	7,650
<i>Net book value</i>					
At 30 June 2002	1,762	545	1,275	1,593	5,175
At 30 June 2001	1,871	240	2,740	1,704	6,555

The net book value of land and buildings comprises:

	2002 £000	2001 £000
Long leasehold	1,762	1,871

Notes (continued)

10 Tangible fixed assets (continued)

Company	Land and buildings	Computer equipment	Fixtures, fittings, tools and equipment	Leasehold improve- ments	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	2,116	2,111	6,514	1,827	12,568
Additions	-	127	385	-	512
Disposals	-	(13)	(405)	-	(418)
Transfers	-	1,565	(1,565)	-	-
At end of year	2,116	3,790	4,929	1,827	12,662
Depreciation					
At beginning of year	245	1,875	3,864	123	6,107
On disposals	-	(10)	(291)	-	(301)
Depreciation charge for year	109	248	508	111	976
Impairment charge for year	-	-	778	-	778
Total charge for year	109	248	1,286	111	1,754
Transfers	-	1,135	(1,135)	-	-
At end of year	354	3,248	3,724	234	7,560
Net book value					
At 30 June 2002	1,762	542	1,205	1,593	5,102
At 30 June 2001	1,871	236	2,650	1,704	6,461

The net book value of land and buildings comprises:

	2002 £000	2001 £000
Long leasehold	1,757	1,871

Notes (continued)

11 Fixed asset investments

Company	Shares in group undertakings £000
<i>Cost</i>	
At beginning and end of year	19,385
<i>Provisions</i>	
At beginning and end of year	1,866
<i>Net book value</i>	
At 30 June 2002	17,519
At 30 June 2001	17,519

The companies in which the company's interest is more than 10%, and are included in the consolidated accounts are listed below. All the subsidiaries are incorporated in Great Britain and registered in England and Wales.

	Principal activities	Percentage of ordinary share capital held
<i>Subsidiary undertakings</i>		
Reader's Digest Holdings Limited ♦	Holding company	100%

♦ This includes indirect holdings of 100% in the following companies:

	Principal activities	Percentage of ordinary share capital held
<i>Subsidiary undertakings</i>		
Reader's Digest European Systems	Computer data services	100%
Reader's Digest Publications Limited	Magazine publishing & sales	100%
Reader's Digest Financial Services Limited	Direct mail insurance services	100%
Reader's Digest Central and Eastern Europe Limited	Consultancy	100%
Money Magazine Limited	Dormant	100%

Notes (continued)

12 Stock

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Raw materials and consumables	742	495	723	448
Work in progress	992	621	992	621
Finished goods and goods for resale	2,454	1,521	2,454	1,521
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	4,188	2,637	4,169	2,590
	<hr/>	<hr/>	<hr/>	<hr/>

Attributable overheads omitted from the valuation of stock and work in progress are estimated to amount to £618,000 at 30 June 2002 and £389,000 at 30 June 2001.

13 Debtors

	Group		Company	
	2002	2001	2002	2001
	£000	£000	£000	£000
Trade debtors	20,111	16,129	19,346	15,587
Amounts owed by group undertakings	5,124	16,210	4,304	13,229
Other debtors	2,199	1,101	2,176	1,081
Prepayments and accrued income	6,663	10,359	6,041	9,595
	<hr/>	<hr/>	<hr/>	<hr/>
	34,097	43,799	31,867	39,492
	<hr/>	<hr/>	<hr/>	<hr/>
<i>The amounts owed by group undertakings comprise:</i>				
Parent and fellow subsidiary undertakings	5,124	16,210	1,627	12,584
Subsidiary undertakings	-	-	2,677	645
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	5,124	16,210	4,304	13,229
	<hr/>	<hr/>	<hr/>	<hr/>

At 30 June 2001, £1,615,000 of the pension prepayment of £2,596,000 was considered to be recoverable after more than one year. At 30 June 2002, there was no prepaid pension.

Notes (continued)

14 Creditors: amounts falling due within one year

	£000	Group 2002 £000	£000	Group 2001 £000
Trade creditors		6,370		8,091
Amounts owed to parent and fellow subsidiary undertaking		-		6,992
Other creditors including taxation and social security:				
Corporation tax	1,324		8,309	
Other taxes and social security	528		136	
	<hr/>		<hr/>	
Taxation and social security	1,852		8,445	
Other creditors	892		2,559	
	<hr/>		<hr/>	
		2,744		11,004
Accruals and deferred income		14,779		6,726
Unexpired subscriptions		10,006		10,072
Relocation provision		-		238
		<hr/>		<hr/>
		33,899		43,123
		<hr/>		<hr/>

Notes (continued)

14 Creditors: amounts falling due within one year (continued)

	Company 2002		Company 2001	
	£000	£000	£000	£000
Trade creditors		6,311		8,077
Amounts owed to group undertakings		4,164		10,260
Other creditors including taxation and social security:				
Corporation tax	-		7,523	
Other taxes and social security	-		2,143	
		-		9,666
Accruals and deferred income		13,559		5,738
Unexpired subscriptions		10,006		10,072
Relocation provision		-		238
Other liabilities		885		-
		34,925		44,051
<i>The amounts owed to group undertakings comprise:</i>				
Parent and fellow subsidiary undertakings		-		5,041
Subsidiary undertakings		4,164		5,219
		4,164		10,260

Notes (continued)

15 Provision for liabilities and charges

Group	Restructuring £000	Post retirement benefit £000	Deferred tax £000	Total £000
At 30 June 2001	-	-	186	186
Transferred from prepayments	-	(2,596)	-	(2,596)
Provided during the year	1,436	4,148	886	6,470
Utilised in the year	-	(778)	-	(778)
At 30 June 2002	1,436	774	1,072	3,282
Company				
At 30 June 2001	-	-	186	186
Transferred from prepayments	-	(2,596)	-	(2,596)
Provided during the year	1,436	4,148	886	6,470
Utilised in the year	-	(778)	-	(778)
At 30 June 2002	1,436	774	1,072	3,282

During the year, the company announced a restructuring plan which included headcount reductions, and the vacation of part of their office facilities, so that these could be sublet. The resulting restructuring provision includes severance costs of £800,000 and vacant property costs of £636,000.

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2002 Provided £000	2002 Unprovided £000	2001 Provided £000	2001 Unprovided £000
Deferred tax arising from trading losses	-	341	-	582
Difference between accumulated depreciation and capital allowances	92	350	-	248
Other timing differences	(1,164)	(14)	(186)	(232)
	(1,072)	677	(186)	598

Notes (continued)

16 Reconciliation of movements in equity shareholders' funds

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Profit for the financial year	5,670	17,022	5,344	15,204
Dividends	-	(9,013)	-	(9,013)
Net increase in equity shareholder's funds	5,670	8,009	5,344	6,191
Opening shareholders' funds	11,187	39,178	21,915	51,724
Ordinary share capital repurchased (see note 18)	-	(36,000)	-	(36,000)
Closing shareholders' funds	16,857	11,187	27,259	21,915

17 Reserves

	Share premium account £000	Group Profit and loss account £000	Total £000	Share premium account £000	Company Profit and loss account £000	Total £000
At beginning of year	224	(4,537)	(4,313)	224	6,191	6,415
Transfer from profit and loss account for the year	-	5,670	5,670	-	5,344	5,344
At end of year	224	1,133	1,357	224	11,535	11,759

18 Called up share capital

	2002 £000	2001 £000
Authorised		
Equity: 1,240,000,000 ordinary shares of 5p each	62,000	62,000
Non-equity: 800,000,000 redeemable participating preference shares of 5p each	40,000	40,000
	102,000	102,000
Allotted and called up		
Equity: 310,000,000 ordinary shares of 5p each	15,500	15,500
Non-equity: 800,000,000 redeemable participating preference shares of 5p each	-	-
	15,500	15,500

As part of a share repurchase exercise the company's parent undertaking, The Reader's Digest Association Inc., purchased 720 million ordinary 5p shares of the company at par on 16 March 2001 for cancellation of intercompany debt.

19 Commitments

(i) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2002 £000	2001 £000
Contracted	-	205

(ii) Annual commitments under non-cancellable operating leases are as follows:

Group

	2002		2001
	Land and buildings £000	Other £000	Land and buildings £000
Operating leases which expire:			
Within one year	-	28	-
In the second to fifth years inclusive	-	125	-
Over five years	2,750	-	2,750
	<u>2,750</u>	<u>153</u>	<u>2,750</u>

Company

	2002 £000	2001 £000
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	-	-
Over five years	2,750	2,750
	<u>2,750</u>	<u>2,750</u>

20 Pension scheme

The company operates a pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method.

Qualified actuaries performed the latest valuation of the scheme as at 31 March 2002 and used the projected unit method to value the benefits of the scheme. The main actuarial assumptions adopted for this valuation were that over the long term the annual investment return would be 7.3% p.a., salary increases would average 4.1% p.a. and future pensions would increase at an annual rate of 2.0% p.a.

Notes (continued)

20 Pension scheme (continued)

At the date of the latest actuarial valuation, the market value of the scheme's assets was £74,709,000 (previous valuation in 1999: £85,875,000) and the scheme was 94% (previous valuation in 1999: 111%) funded.

The total pension cost for the group was £4,148,000 (2001: £1,241,000). At 30 June 2002, the group had a pension provision in its balance sheet amounting to £774,000 (2001: prepayment of £2,596,000).

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

The valuation was updated by the actuary on an FRS 17 basis as at 30 June 2002 and 30 June 2001.

The major assumptions used in this valuation were:

	2002	2001
Rate of increase in salaries	4.1%	4.1%
Rate of increase in pensions in payment and deferred pensions	2.0%	2.0%
Discount rate applied to scheme liabilities	5.8%	6.3%
Inflation assumption	2.6%	2.6%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return 2002	Value at 2002 £000	Long term rate of return 2001	Value at 2001 £000
Equities	8.00%	57,178	8.25%	66,607
Corporate bonds	5.00%	14,328	5.55%	14,687
Government bonds	6.00%	972	6.25%	-
Other	3.50%	2,231	3.75%	4,581
		<hr/>		<hr/>
		74,709		85,875
Present value of scheme liabilities		(108,727)		(94,343)
		<hr/>		<hr/>
Deficit in the funded pension plan		(34,018)		(8,468)
Deficit in the unfunded pension plan		(2,084)		(1,774)
		<hr/>		<hr/>
Total scheme deficit		(36,102)		(10,242)
Related deferred tax asset		10,831		3,073
		<hr/>		<hr/>
Net pension liability		(25,271)		(7,169)
		<hr/>		<hr/>

The amount of this net pension asset/liability would have a consequential effect on reserves.

Notes (continued)

20 Pension scheme (continued)

Movement in deficit during the year

	2002 £000
Deficit in scheme at beginning of year	(10,242)
Current service cost	(2,652)
Contributions paid	778
Past service cost	-
Other finance income	295
Actuarial loss	(24,281)
	<hr/>
Deficit in the scheme at end of year	(36,102) <hr/>

If FRS 17 had been fully adopted in these financial statements the pension costs for defined benefit schemes would have been:

Analysis of other pension costs charged in arriving at operating profit/loss

	2002 £000
Current service cost	2,652
	<hr/>

Analysis of amounts included in other finance income

	2002 £000
Expected return on pension scheme assets	6,350
Interest on pension scheme liabilities	(6,055)
	<hr/>
	295 <hr/>

Analysis of amount recognised in statement of total recognised gains and losses

	2002 % of year end scheme assets	2002 £000
Actual return less expected return on scheme assets	(19%)	(14,414)
Experience gains and losses arising on scheme liabilities	(1%)	(724)
Changes in assumptions underlying the present value of scheme liabilities	(8%)	(9,143)
		<hr/>
Actuarial gain loss recognised in statement of total recognised gains and losses	(22%)	(24,281) <hr/>

Notes (continued)

21 Ultimate parent company

The company is a subsidiary undertaking of The Reader's Digest Association Inc. ("RDA Inc") which is incorporated in the State of New York in the United States of America. The consolidated accounts of RDA Inc. are available to the public and may be obtained from US Securities and Exchange Commission, Washington DC, 20549, USA.

22 Related party transactions

As the company is ultimately a wholly owned subsidiary of The Reader's Digest Association Inc. ("RDA Inc."), the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of RDA Inc. can be obtained from the address disclosed above.