

The Reader's Digest Association Limited

Directors' report and financial statements

30 June 1998

Registered number 340452



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 1998.

Principal activities

The principal activity of the group is publishing and includes the sale of magazines, books, gramophone records, 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 1998 are set out in the consolidated profit and loss account on page 5.

The profit before taxation amounted to £4,678,000 (1997: loss of £10,162,000) and the profit after taxation amounted to £4,496,000 (1997: loss of £10,273,000).

Details of post balance sheet events are set out in note 27 to the accounts.

Dividend

The company made no dividend payments during the year (1997: £nil).

Directors and directors' interests

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

SN McRae	(resigned 31 October 1998)
P Brady	
J Byrne	
P Easterman	
EL Lawson	(resigned 29 August 1997)
AT Lynam-Smith	
MWC Pasteiner	
MJ Pearson	(resigned 11 July 1997)
JP Reynolds	
RG Twisk	
AJ Wilton	
MJ Bohane	(appointed 11 March 1998)
L Campbell	(appointed 14 April 1998)
WH Willis	(appointed 1 August 1997; resigned 25 September 1997)

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

Directors' report *(continued)*

Directors and directors' interests - (continued)

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.

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 related pay scheme and a bonus scheme similar to the profit sharing 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 objectives of which are 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 (1997: £nil). Donations to UK charities amounted to £75,000 (1997: £75,000).

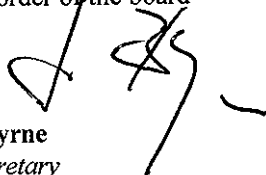
Credit payment policies

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 1998 was approximately 38 days.

Auditors

In accordance with Section 385 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


J Byrne
Secretary

11 Westferry Circus
Canary Wharf
London
E14 4HE

21st April 1999

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 of the group 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 maintaining 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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Auditors' report to the members of The Reader's Digest Association Limited

We have audited the financial statements on pages 5 to 28.

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 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 1998 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
Chartered Accountants
Registered Auditors

29 April 1999

Consolidated profit and loss account

for the year ended 30 June 1998

	Note	1998 £000	1997 £000
Turnover: group and share of joint venture		177,710	185,061
Less: share of joint venture' turnover		(94)	-
Group turnover	1,2	177,616	185,061
Cost of sales		(124,916)	(134,318)
Gross profit		52,700	50,743
Fulfilment and distribution costs		(18,698)	(20,061)
Administrative expenses	4	(28,632)	(36,982)
Group operating profit/(loss)	3	5,370	(6,300)
Share of operating loss in joint venture		(337)	-
Loss on disposal of subsidiary undertaking		-	(3,046)
Income from other fixed asset investments		110	-
Interest receivable and similar income	6	947	420
Interest payable and similar charges	7	(1,412)	(1,236)
Profit/(loss) on ordinary activities before taxation	2,3	4,678	(10,162)
Tax on profit/(loss) on ordinary activities	8	(182)	(111)
Retained profit/(loss) for the financial year	18	4,496	(10,273)
Retained loss brought forward		(25,236)	(14,963)
Retained loss carried forward	18	(20,740)	(25,236)

All turnover and operating profit is derived from continuing operations.

The group had no recognised gains or losses during the current or previous financial period other than those reflected in the above profit and loss account.

Historical cost losses in the current and prior years are the same as those reported above.

Consolidated balance sheet
at 30 June 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	9	64,974	67,261
Investments	10	330	330
		<u>65,304</u>	<u>67,591</u>
Current assets			
Stocks	11	5,963	9,279
Debtors	12	38,152	44,623
Investments	13	2,576	-
Cash at bank and in hand		7,366	4,771
		<u>54,057</u>	<u>58,673</u>
Creditors: amounts falling due within one year	14	<u>(44,981)</u>	<u>(59,776)</u>
Net current (liabilities)/assets		<u>9,076</u>	<u>(1,103)</u>
Total assets less current liabilities		<u>74,380</u>	<u>66,488</u>
Creditors: amounts falling due after more than one year	15	<u>(1,324)</u>	-
Provision for liabilities and charges			
Investment in joint venture		404	-
Share of gross assets		(478)	-
Share of gross liabilities			
		<u>(74)</u>	<u>-</u>
Net share of joint venture liabilities		<u>(1,998)</u>	<u>-</u>
Other			
Total provision for liabilities and charges	16	<u>(2,072)</u>	<u>-</u>
Net assets		<u>70,984</u>	<u>66,488</u>
Capital and reserves			
Called up share capital	19	91,500	91,500
Share premium account	18	224	224
Profit and loss account	18	(20,740)	(25,236)
		<u>70,984</u>	<u>66,488</u>
Shareholders' funds		<u>70,984</u>	<u>66,488</u>
Equity	17	<u>30,984</u>	<u>26,488</u>
Non-equity	17	<u>40,000</u>	<u>40,000</u>
	17	<u>70,984</u>	<u>66,488</u>

These financial statements were approved by the board of directors on its behalf by:

21st April

1999 and were signed on

AT Lynam-Smith
Director

A. T. Lynam-Smith

P Brady
Director

P Brady

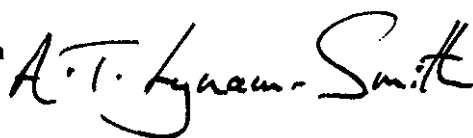
Company balance sheet

at 30 June 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	9	63,653	63,643
Investments	10	19,715	19,715
		<u>83,368</u>	<u>83,358</u>
Current assets			
Stocks	11	5,868	9,279
Debtors	12	36,752	45,810
Investments	13	2,576	-
Cash at bank and in hand		7,332	1,855
		<u>52,528</u>	<u>56,944</u>
Creditors: amounts falling due within one year	14	<u>(46,374)</u>	<u>(54,735)</u>
Net current assets		<u>6,154</u>	<u>2,209</u>
Total assets less current liabilities		<u>89,522</u>	<u>85,567</u>
Creditors: amounts falling due after more than one year	15	<u>(1,324)</u>	<u>-</u>
Provision for liabilities and charges	16	<u>(2,072)</u>	<u>-</u>
Net assets		<u>86,126</u>	<u>85,567</u>
Capital and reserves			
Called up share capital	19	91,500	91,500
Share premium account	18	224	224
Profit and loss account	18	(5,598)	(6,157)
Shareholders' funds		<u>86,126</u>	<u>85,567</u>
Equity	17	<u>46,126</u>	<u>45,567</u>
Non-equity	17	<u>40,000</u>	<u>40,000</u>
	17	<u>86,126</u>	<u>85,567</u>

These financial statements were approved by the board of directors on 21st April 1999 and were signed on its behalf by:

AT Lynam-Smith
 Director



P Brady
 Director



Consolidated cash flow statement

for the year ended 30 June 1998

	<i>Note</i>	1998 £000	1997 £000
Net cash inflow/(outflow) from operating activities	22	19,953	9,210
Return on investments and servicing of finance	23	(355)	(956)
Taxation	23	1,921	283
Capital expenditure	23	(4,140)	(44,788)
Acquisitions and disposals	23,24	(2,839)	93
		<hr/>	<hr/>
Cash inflow/(outflow) before use of liquid resources and financing		14,540	(36,158)
Management of liquid resources	23	(3,459)	(703)
Financing	23	-	40,000
		<hr/>	<hr/>
Increase/(decrease) in cash in the year		11,081	3,139
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt

for the year ended 30 June 1998

	<i>Note</i>	1998 £000	£000
Increase in cash in the period		11,081	
Cash outflow from increase in liquid resources		3,459	
Cash inflow from increase in finance		-	
		<hr/>	
Movement in net debt in the year	25		14,540
Net debt at July 1997	25		(47,174)
			<hr/>
Net debt at 30 June 1998	25		(32,634)
			<hr/>

Notes

(forming part of the financial statements)

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 1998. All material intercompany transactions and balances are eliminated on consolidation.

The consolidated accounts are based on accounts of subsidiary undertakings which are coterminous with those of the parent company.

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 a 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 Association Limited is disclosed in notes 17 and 18 to these accounts.

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	- life of lease
Plant and machinery	- 3 to 10 years
Fixtures, fittings, tools and equipment	- 3 to 10 years

No depreciation is provided on freehold land.

Notes (continued)

Accounting policies (continued)

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 risks 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 for 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.

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 two years' forecast sales are subject to a provision for obsolescence.

Notes (continued)

Accounting policies (continued)

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. The group provides for deferred taxation arising from timing differences where it expects the liability to crystallise within the foreseeable future less advance corporation tax recoverable against future corporation tax liabilities.

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 the 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 15th of the month or charged in the following month if mailing is after 15th of the month.
Premiums	- charged in full in the month of the first billed shipment.

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.

Notes (continued)

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:

	1998			1997		
	Turnover	Attributable pre-tax profit/ (loss)	Net operating assets/ (liabilities)	Turnover	Attributable pre-tax profit/ (loss)	Net operating assets/ (liabilities)
	£000	£000	£000	£000	£000	£000
<i>By activity</i>						
Reader's Digest Magazine	29,154	1,736	16,746	30,273	1,741	23,078
Book and home entertainment products	137,539	10,974	50,977	146,913	13,373	45,729
Special interest magazines	3,240	10	1,922	3,540	88	1,480
Computer data services	7,683	(3,288)	1,676	4,335	(7,349)	(2,054)
Central administration (including interest)	-	(4,417)	-	-	(18,015)	-
Joint venture	94	(337)	(337)	-	-	-
	<u>177,710</u>	<u>4,678</u>	<u>70,984</u>	<u>185,061</u>	<u>(10,162)</u>	<u>68,233</u>
<i>By geographical market</i>						
United Kingdom	164,042			174,046		
Outside United Kingdom	13,268			11,015		
	<u>177,710</u>			<u>185,061</u>		

Turnover is all originated in the United Kingdom.

Notes (continued)

Loss on ordinary activities before taxation

	1998 £000	1997 £000
<i>Loss on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration	64	65
- audit fees	189	200
- non-audit fees		
Depreciation and other amounts written off tangible fixed assets	6,467	5,649
Hire of plant and machinery	-	74
Hire of plant and machinery - rentals payable under operating leases	289	237
Hire of other assets - operating leases	1,045	3,541
Exchange (gains)/losses	(112)	76
<i>after crediting</i>		
Rents receivable from property	141	141

Remuneration of directors

	1998 £000	1997 £000
As executives:	888	1,019
Emoluments	45	43
Pension contributions	137	220
Incentives and bonuses	53	71
Benefits in kind		
	<u>1,123</u>	<u>1,353</u>

Benefits in kind primarily comprise company cars.

The emoluments, excluding pension contributions, of the highest paid director were £173,712 (1997: £170,826).

Notes (continued)

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	
	1998	1997
General administration	102	102
Editorial	53	85
Art	14	14
Fulfilment and data processing	114	112
Systems development	51	54
Production	30	26
Marketing	106	108
Advertising	19	22
Mailing services	94	96
New business expansion	8	8
	<hr/>	<hr/>
	591	627
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	24,277	20,605
Social security costs	1,800	1,790
Other pension costs (see note 21)	265	598
	<hr/>	<hr/>
	26,342	22,993
	<hr/>	<hr/>

Interest receivable and similar income

	1998	1997
	£000	£000
Bank interest	353	184
On loans to parent and fellow subsidiary undertakings	516	182
Other interest	78	54
	<hr/>	<hr/>
	947	420
	<hr/>	<hr/>

Notes *(continued)*

Interest payable and similar charges

	1998 £000	1997 £000
On bank loans and overdrafts	627	1,236
On loans from group undertakings	785	-
	<u>1,412</u>	<u>1,236</u>

Taxation

	1998 £000	1997 £000
UK corporation tax at 31% (1997: 31%) on the result for the year on ordinary activities	2,318	-
Deferred taxation	-	-
Adjustments relating to earlier years	(2,136)	111
	<u>182</u>	<u>111</u>

Notes (continued)

Tangible fixed assets

Group	Land and buildings	Plant and machinery	Fixtures fittings tools and equipment	Payments on account and assets in course of con- struction £000	Total £000
	£000	£000	£000		
Cost					
At beginning of year	56,846	17,246	13,840	6,914	94,846
Additions	7,592	1,089	2,548	-	11,229
Disposals	(4)	(4,802)	(3,289)	(6,470)	(14,565)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	64,434	13,533	13,099	444	91,510
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	6,117	11,589	9,879	-	27,585
Charge for year	1,867	3,133	1,467	-	6,467
On disposals	(4)	(4,769)	(2,743)	-	(7,516)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	7,980	9,953	8,603	-	26,536
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 1998	56,454	3,580	4,496	444	64,974
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 1997	50,729	5,657	3,961	6,914	67,261
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of land and buildings comprises:

	1998 £000	1997 £000
Long leasehold	56,454	50,729

The gross book value of land and buildings includes £nil (1997: £nil) of non depreciable assets.

Notes (continued)

Tangible fixed assets (continued)

Company	Long leasehold land and buildings and improvements	Plant and machinery	Fixtures fittings tools and equipment	Payments on account and assets in course of con- struction	Total
	£000	£000	£000	£000	£000
Cost					
At beginning of year	56,846	7,109	13,419	6,914	84,288
Additions	7,592	895	2,511	-	10,998
Disposals	(4)	(322)	(3,208)	(6,470)	(10,004)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	64,434	7,682	12,722	444	85,282
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation and diminution in value					
At beginning of year	6,117	4,966	9,562	-	20,645
Charge for year	1,867	678	1,416	-	3,961
On disposals	(4)	(308)	(2,665)	-	(2,977)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	7,980	5,336	8,313	-	21,629
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value					
At 30 June 1998	56,454	2,346	4,409	444	63,653
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 July 1997	50,729	2,143	3,857	6,914	63,643
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

0 Fixed asset investments

Group	Other investments other than loans £000	Other loans £000	Total £000
<i>Cost</i>	1,650	450	2,100
<i>Provisions</i>			
At beginning and end of year	(1,650)	(120)	1,770
<i>Net book value</i>			
At 30 June 1998	-	330	330

Company Shares in group undertakings £000

Shares

<i>Cost</i>	
At beginning of year	19,715
Additions	-
Amounts written off	-
At end of year	19,715

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 European Systems†	Computer data services	100%
Reader's Digest Publications Limited	Magazine publishing & sales	100%
Readers' Digest Financial Services Limited (formerly Readers' Digest (Family Insurance Services) Limited)	Direct mail insurance services	100%
Reader's Digest Central and Eastern European Research Limited	Consultancy	100%
Money Magazine Limited	Dormant	100%

† This includes an indirect holding of 1% owned by Readers' Digest Financial Services Limited.

During the year Readers' Digest Association Limited entered into a joint venture agreement to establish the Children's Magazine Company Limited. Reader's Digest Assoc. Limited owns 50% of the issued shares.

The company is engaged primarily in the publication and sale of children's books and magazines.

The results of the joint venture included in the group results are the audited figures for the five month period ended 31 December 1997.

Notes (continued)

1 Stocks

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Raw materials and consumables	797	1,144	749	1,144
Work in progress	985	2,735	985	2,735
Finished goods and goods for resale	4,181	5,400	4,134	5,400
	<u>5,963</u>	<u>9,279</u>	<u>5,868</u>	<u>9,279</u>

Attributable overheads omitted from the valuation of stock and work in progress are estimated to amount to £2,042,000 at 30 June 1998 and £2,878,000 at 30 June 1997.

2 Debtors

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Trade debtors	16,454	15,939	15,936	15,918
Advance corporation tax recoverable	-	1,886	-	1,886
Corporation tax recoverable	-	30	-	140
Amounts owed by group undertakings	7,751	10,555	8,142	12,533
Other debtors	270	78	186	247
Prepayments and accrued income	5,182	5,534	4,481	4,643
Pension prepayment	3,537	3,352	3,577	3,194
Deferred promotion costs	4,958	7,249	4,430	7,249
	<u>38,152</u>	<u>44,623</u>	<u>36,752</u>	<u>45,810</u>

The amounts owed by group undertakings comprise:

Parent and fellow subsidiary undertakings	7,751	10,555	7,142	8,923
Subsidiary undertakings	-	-	1,000	3,610
	<u>7,751</u>	<u>10,555</u>	<u>8,142</u>	<u>12,533</u>

£3,337,000 (1997: £3,094,000) of the pension prepayment, £3,322,000 (1997: £3,000,000) of the amounts owed to the company by fellow subsidiary undertakings and £2,690,000 (1997: £5,552,000) of the deferred promotion costs are recoverable after more than one year.

Notes (continued)

3 Current asset investments

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Investments in group undertakings	2,572	-	2,572	-

On 30 June 1998, the company acquired 100% of the shares of Ritztrade Limited, a company incorporated in South Africa which was previously owned by Readers' Digest Inc.

Ritztrade Limited has not been consolidated at 30 June 1998 as the company is being held for resale during the 1999 financial year.

The 1998 group accounts include Ritztrade as a current asset investment of £2,572,000 and also include deferred consideration on the purchase of £1,630,000. The amount has been included in amounts payable to group undertakings.

The company also had £99,000 receivable from Ritztrade at 30 June 1998.

4 Creditors: amounts falling due within one year

	Group 1998		Group 1997	
	£000	£000	£000	£000
Bank loans and overdrafts		-		11,945
Trade creditors		11,446		12,674
Amounts owed to parent and fellow subsidiary undertaking		7,397		11,125
Other creditors including taxation and social security:				
Corporation tax	54		-	
Other taxes and social security	972		561	
	<u>1,026</u>		<u>561</u>	
Taxation and social security	1,026		561	
Other creditors	2,272		375	
	<u>44,981</u>		<u>59,776</u>	
		3,298		936
Accruals and deferred income		10,315		11,303
Unexpired subscriptions		11,404		11,368
Relocation provision		1,121		425
		<u>44,981</u>		<u>59,776</u>

Notes (continued)

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

	Company 1998		Company 1997	
	£000	£000	£000	£000
Bank loans and overdrafts		-		10,000
Trade creditors		11,233		12,456
Amounts owed to group undertakings		10,521		10,671
Other creditors including taxation and social security:				
Other taxes and social security	715		561	
Other creditors	2,272		262	
		<hr/>	<hr/>	
		2,987		823
Corporation tax		12		-
Accruals and deferred income		9,768		8,138
Unexpired subscriptions		10,732		11,368
Relocation provision		1,121		1,279
		<hr/>	<hr/>	
		46,374		54,735
		<hr/>	<hr/>	
<i>The amounts owed to group undertakings comprise:</i>				
Parent and fellow subsidiary undertakings		8,318		10,671
Subsidiary undertakings		2,203		-
		<hr/>	<hr/>	
		10,521		10,671
		<hr/>	<hr/>	

The term loan of £10 million at 30 June 1997 was repaid on 1 July 1998.

Notes (continued)

5 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Amounts owed to parent undertaking	1,324	-	1,324	-

6 Provision for liabilities and charges

Group	Joint venture £000	Deferred tax £000	Total £000
At 1 July 1997	-	-	-
Established in the year	74	1,998	2,072
At 30 June 1998	74	1,998	2,072
Company			
At 1 July 1997	-	-	-
Established in the year	74	1,998	2,072
At 30 June 1998	74	1,998	2,072

7 Reconciliation of movements in shareholders' funds

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Profit/(loss) for the financial year	4,496	(10,273)	559	(8,825)
Net increase to/(deduction from) equity shareholders' funds	4,496	(10,273)	559	(8,825)
Opening shareholders' funds	66,488	36,761	85,567	54,392
New preference share capital subscribed	-	40,000	-	40,000
Closing shareholders' funds	70,984	66,488	86,126	85,567

Notes (continued)

8 Reserves

	Group			Company		
	Share premium account £000	Profit and loss account £000	Total £000	Share premium account £000	Profit and loss account £000	Total £000
At beginning of year	224	(25,236)	(25,012)	224	(6,157)	(5,933)
Transfer from profit and loss account for the year	-	4,496	4,496	-	559	559
At end of year	<u>224</u>	<u>(20,740)</u>	<u>(20,516)</u>	<u>224</u>	<u>(5,598)</u>	<u>(5,374)</u>

9 Called up share capital

	1998 £000	1997 £000
<i>Authorised</i>		
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
	<u>102,000</u>	<u>102,000</u>
<i>Allotted and called up</i>		
Equity: 1,030,000,000 ordinary shares of 5p each	51,500	51,500
Non-equity: 800,000,000 redeemable participating preference shares of 5p each	40,000	40,000
	<u>91,500</u>	<u>91,500</u>

In 1997 the authorised share capital of the company was increased by 800,000,000 redeemable participating preference shares of 5p each, which rank pari passu in certain respects with the existing ordinary shares of the company.

800 million of these new shares were issued at par in 1997 to The Reader's Digest Association Inc. in order to fund the acquisition of the new premises at Canary Wharf.

The redemption of these redeemable participating preference shares at their nominal value is at the discretion of the Board of Directors of The Reader's Digest Association Limited. ('RDA Ltd'). The holders are not entitled to vote at a general meeting but are entitled to receive a dividend for each redeemable participating preference share equal to any dividend declared in relation to any of the ordinary shares of the company. On a winding up of RDA Ltd, they are entitled to the repayment of capital in priority to any other class of share and shall not be entitled to any further or other participation in the profits or assets of the company.

Notes (continued)

Commitments

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

	1998 £000	1997 £000
Contracted	659	3,232

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

Group	1998		1997	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:				
Within one year	-	-	1,028	-
In the second to fifth years inclusive	-	221	141	145
Over five years	160	110	-	-
	<u>160</u>	<u>331</u>	<u>1,169</u>	<u>145</u>

Company

	1998 Land and buildings £000	1997 Land and buildings £000
Operating leases which expire:		
Within one year	-	1,028
In the second to fifth years inclusive	-	-
	<u>-</u>	<u>1,028</u>

Notes (continued)

21 Pension scheme

The group operates a defined benefit pension scheme. The assets of this scheme are held in a trust administered fund. The latest valuation of this scheme was performed by qualified actuaries as at 31 March 1996. The Reader's Digest Association Limited uses the projected unit method for valuing the funded benefits of the scheme.

Total pension cost for the group was £870,000 (1997:£850,000). The main actuarial assumptions adopted in the valuation for The Reader's Digest Association Limited Scheme were that over the long term the annual investment return would be 9%, salary increases would average 7% and future pensions would increase at an annual rate of 3% for payments in excess of any guaranteed minimum pension and 4.5% for state pensions.

At 30 June 1998 the group had prepaid pension contributions in its balance sheet amounting to £3,537,000 (1997:£3,352,000) (see note 12).

At the date of the latest actuarial valuations, the market values of the schemes' assets were £60,587,407. The Reader's Digest Association Limited Scheme was 118% funded based on the actuarial valuation after allowing for improved benefits for pensioners and members.

22 Reconciliation of operating loss to net cash inflow/(outflow) from operating activities

	1998 £000	1997 £000
Operating profit/(loss)	5,370	(9,346)
Depreciation charges	6,467	5,649
(Profit)/loss on sale of tangible fixed assets	(40)	12
Decrease/(increase) in stocks	3,316	7,973
Decrease/(increase) in debtors	4,344	1,612
Increase/(decrease) in creditors	496	3,310
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	19,953	9,210
	<hr/>	<hr/>

Notes (continued)

23 Cashflow statement

	1998 £000	1997 £000
Returns on investment and servicing of finance		
Interest received	947	536
Interest paid	(1,412)	(1,492)
Dividends received	110	-
	<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of finance	(355)	(956)
	<hr/>	<hr/>
Taxation		
UK corporation tax repaid	1,921	283
ACT paid	-	-
	<hr/>	<hr/>
	1,921	283
	<hr/>	<hr/>
Capital expenditure		
Purchase of tangible fixed assets	(11,229)	(45,868)
Sale of tangible fixed assets	7,089	1,080
	<hr/>	<hr/>
Net cash outflow from capital expenditure	(4,140)	(44,788)
	<hr/>	<hr/>
Acquisitions and disposals		
Purchase of business (see note 24)	(2,839)	93
	<hr/>	<hr/>
Management of liquid resources		
Cash (deposits)/withdrawals	(3,459)	(703)
	<hr/>	<hr/>
Net cash (outflow)/inflow from management of liquid resources	(3,459)	(703)
	<hr/>	<hr/>
The Readers's Digest Association Limited includes as liquid resources deposits of less than three months		
Financing		
Issue of preference share capital	-	40,000
	<hr/>	<hr/>
Net cash inflow from financing	-	40,000
	<hr/>	<hr/>

Notes (continued)

4 Acquisition of subsidiaries in 1998

	£000
Net assets acquired:	
Fixed assets	2,503
Debtors	1,214
Creditors	(878)
	<u>2,839</u>
Satisfied by	
Cash	<u>2,839</u>

5 Analysis of net debt

	At 1 July 1997 £000	Cashflow £000	At 30 June 1998 £000
Cash at bank and in hand	4,771	2,595	7,366
Overdrafts	(11,945)	11,945	-
Preference shares	(40,000)	-	(40,000)
	<u>(47,174)</u>	<u>14,540</u>	<u>(32,634)</u>

6 Year 2000

The directors have undertaken a review of the likely impact of the Year 2000 on the Group's computer systems and businesses. Where necessary, appropriate work is in hand to upgrade systems.

Notes (continued)

7 Post balance sheet events

The following events have occurred since 30 June 1998:

- i) On 31 December 1998, the company disposed of 100% of its subsidiary, Ritztrade Limited. There was no gain or loss on disposal.
- ii) On 29 January 1999 the company entered into a sale and leaseback transaction of its property at Canary Wharf. This will reduce the net book value of the company's fixed assets by £40.3 million.
- iii) On 16 February 1999, the company approved the redemption of its 5p 800 million preference shares. This will reduce the company's issued share capital to 1,030 million ordinary shares of 5p

8 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.

9 Related party transactions

As the company is a wholly owed subsidiary of The Reader's Digest Association Inc. ("RDA Inc") the company has taken advantage of the exemption contained in FRS8 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.