

Peat Marwick McLintock

THE READER'S DIGEST ASSOCIATION LIMITED

AND SUBSIDIARY COMPANIES

COMPANIES HOUSE

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

M

16 BOTH JUNE, 1989

340452

APPROVED  
21 DEC 1989

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report, together with the accounts of the company for the year ended 30th June, 1989.

RESULTS

	£'000
Group profit before taxation and extraordinary items	15,585
Taxation	<u>(5,666)</u>
Group profit for the year after taxation	9,919
Dividends paid	<u>(2,237)</u>
Retained profit for the year	7,682
Retained profit brought forward	<u>23,722</u>
Retained profit carried forward	<u>31,404</u>
	=====

PROPOSED DIVIDEND

The directors do not recommend the payment of a final dividend (1988: £2,237,000).

An interim dividend of £2,237,000 (1988: £2,237,000) was paid during the year.

BUSINESS REVIEW

The principal activity of the group is publishing and includes the sale of magazines, books, gramophone records and tapes. There has been a gradual widening in the range of products sold and this trend is likely to be continued. It is the intention to continue investigating other related areas for future expansion.

Pre-tax profits of £15.6 million, although lower than last year, comfortably exceeded forecast and represent the second best in the company's history.

In May 1990 the data processing and fulfilment operations are to be relocated from London to Swindon. They will join the mailing services operations which have been located in Swindon since 1980.

DIRECTORS

The following served as directors during the year:

S.N. McRae	
B.C. Gray	
A.T. Lynam-Smith	
R.S. Hosie	
M.L. Stockton	
R.W. Hewett	(retired 31st October, 1988)
K.A. Gordon	(appointed 1st November, 1988)
F.K. Ross	(appointed 1st November, 1988)
R.G. Twisk	(appointed 1st November, 1988)
J.G. Van Wyk	(appointed 1st November, 1988)

No directors had any interests in the shares of the company at any time during the year.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

REPORT OF THE DIRECTORS

DIRECTORS (continued)

S.N. McRae was awarded 4,000 Equivalent Stock Units during the current year. Each Equivalent Stock Unit is the equivalent of one share of the Class A Non-Voting Common Stock of The Reader's Digest Association Inc., the company's ultimate holding company.

The interest's of Mr Hewett and Mr Gordon in Equivalent Stock Units of the ultimate holding company The Reader's Digest Association Inc., are set out in the accounts of that company.

FIXED ASSETS

Changes in fixed assets during the year are shown in note 8 to the accounts.

CHARITABLE CONTRIBUTIONS

The group has given £121,000 for charitable purposes during the year.

EMPLOYEE CONSULTATION

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

- (i) An annual presentation by the managing director giving employees a picture of the trading welfare of the company; and
- (ii) Bi-monthly meetings of an internal house committee which is specifically concerned with the welfare of employees and the presentation of their view; and
- (iii) A profit related pay scheme has been introduced in the year together with a bonus scheme similar to the profit sharing scheme which has been in existence for more than a decade and which enables all permanent employees to share in the welfare of the company; and
- (iv) Regular staff meetings where employees are encouraged to raise points for the consideration of management.

EMPLOYMENT OF DISABLED PERSONS

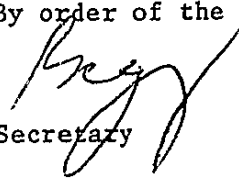
The company operates a policy for the employment and placement of disabled persons, the objectives of which are to ensure that full and fair consideration is given to disabled persons whether already employed by the company or as candidates for all types of vacancy, and that equal opportunity is afforded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

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

AUDITORS

At the company's last annual general meeting, Peat Marwick McLintock were reappointed as auditors of the company. A resolution concerning their reappointment as auditors will be proposed at the forthcoming annual general meeting.

By order of the board

  
Secretary

Berkeley Square House,  
Berkeley Square,  
London W1X 6AB.

AUDITORS' REPORT TO THE MEMBERS OF  
THE READER'S DIGEST ASSOCIATION LIMITED

We have audited the financial statements on pages 4 to 21, in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 30th June, 1989 and of the profit and source and application of funds of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

25<sup>th</sup> October 1989  
LONDON

*Peat Marwick McIntosh*  
Chartered Accountants

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH JUNE, 1989

	<u>Note</u>	<u>1989</u> £'000	<u>1988</u> £'000
TURNOVER	1&2	118,198	107,642
Cost of sales		(77,726)	(69,327)
GROSS PROFIT		<u>40,472</u>	<u>38,315</u>
Fulfilment costs		(4,640)	(4,363)
Distribution costs		(10,111)	(9,548)
Administrative expenses		(9,532)	(4,399)
Profit share		(2,794)	(2,564)
Other interest receivable and similar income		<u>2,190</u>	<u>1,410</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	15,585	18,851
Taxation on profit on ordinary activities	4	(5,666)	(6,576)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		9,919	12,275
Paid and proposed dividends	8	(2,237)	(4,474)
PROFIT FOR THE FINANCIAL YEAR		<u>7,682</u>	<u>7,801</u>
Retained profit brought forward from previous year		23,722	15,921
RETAINED PROFIT CARRIED FORWARD		<u>31,404</u> =====	<u>23,722</u> =====
DEALT WITH IN THE FINANCIAL STATEMENTS OF the investing company subsidiaries		29,875 1,529	22,639 1,083
		<u>31,404</u> =====	<u>23,722</u> =====

Of the retained profit for the year the amount dealt with in the financial statements of the company was £7,236,000 (1988: £6,990,000).

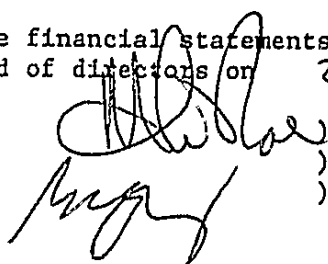
The notes on pages 8 to 21 form part of these financial statements.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 30TH JUNE, 1989

	<u>Note</u>	£'000	<u>1989</u> £'000	£'000	<u>1988</u> £'000
FIXED ASSETS					
Tangible assets	9	15,402		11,811	
Investments	10	<u>-</u>	15,402	<u>-</u>	11,811
CURRENT ASSETS					
Stocks	11	9,048		6,754	
Debtors	12	20,269		17,023	
Cash at bank and in hand		<u>26,667</u>		<u>21,850</u>	
		55,984		45,627	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	<u>(38,948)</u>		<u>(32,951)</u>	
NET CURRENT ASSETS			17,036		12,676
TOTAL ASSETS LESS CURRENT LIABILITIES			32,438		24,487
PROVISIONS FOR LIABILITIES AND CHARGES	14		<u>(698)</u>		<u>(429)</u>
NET ASSETS			<u>31,740</u> =====		<u>24,058</u> =====
CAPITAL AND RESERVES					
Called up share capital	16		112		112
Share premium account			224		224
Profit and loss account			31,404		23,722
			<u>31,740</u> =====		<u>24,058</u> =====

These financial statements were approved by the  
board of directors on 25th October, 1989

 Directors

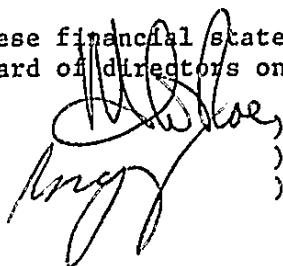
The notes on pages 8 to 21  
form part of these financial statements.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

COMPANY BALANCE SHEET AT 30TH JUNE, 1989

	<u>Note</u>	<u>£'000</u>	<u>1988</u> <u>£'000</u>	<u>£'000</u>	<u>1987</u> <u>£'000</u>
<b>FIXED ASSETS</b>					
Tangible assets	9	15,402		10,689	
Investments	10	<u>1</u>		<u>1</u>	
			15,403		10,690
<b>CURRENT ASSETS</b>					
Stocks	11	9,048		6,754	
Debtors	12	20,859		16,901	
Cash at bank and in hand		<u>25,077</u>		<u>21,469</u>	
		54,984		45,124	
<b>CREDITORS: AMOUNTS FALLING</b>					
<b>DUE WITHIN ONE YEAR</b>	13	<u>(39,478)</u>		<u>(32,688)</u>	
<b>NET CURRENT ASSETS</b>			15,506		12,436
<b>TOTAL ASSETS LESS CURRENT</b>					
<b>LIABILITIES</b>			30,909		23,126
<b>PROVISIONS FOR LIABILITIES</b>					
<b>AND CHARGES</b>	14		<u>(698)</u>		<u>(151)</u>
<b>NET ASSETS</b>			30,211		22,975
			=====		=====
<b>CAPITAL AND RESERVES</b>					
Called up share capital	16		112		112
Share premium account			224		224
Profit and loss account			29,875		22,639
			<u>30,211</u>		<u>22,975</u>
			=====		=====

These financial statements were approved by the  
board of directors on

 ) Directors

The notes on pages 8 to 21  
form part of these financial statements.



THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 30TH JUNE, 1989

	£'000	1989 £'000	£'000	1988 £'000
<b>SOURCE OF FUNDS</b>				
Profit on ordinary activities before taxation		15,585		18,851
Adjustment for items not involving the movement of funds:				
Depreciation and amortisation	1,869		1,398	
Profit on sale of tangible fixed assets	(107)		(36)	
Increase/(decrease) in provisions	<u>184</u>		<u>(120)</u>	
		1,946		1,242
<b>TOTAL GENERATED FROM OPERATIONS</b>		<u>17,531</u>		<u>20,093</u>
<b>FUNDS FROM OTHER SOURCES</b>				
Proceeds of sale on fixed assets		187		155
		<u>17,718</u>		<u>20,248</u>
<b>APPLICATION OF FUNDS</b>				
Purchase of fixed assets	5,540		9,353	
Tax paid	8,998		2,481	
Dividends paid	<u>4,474</u>		<u>4,511</u>	
		(19,012)		(16,345)
<b>(DECREASE)/INCREASE IN WORKING CAPITAL</b>		<u>(1,294)</u> =====		<u>3,903</u> =====
<b>COMPONENTS OF (DECREASE)/INCREASE IN WORKING CAPITAL</b>				
Stocks	2,294		356	
Debtors	2,160		52	
Creditors falling due within one year	<u>(8,870)</u>		<u>(528)</u>	
		(4,416)		(120)
<b>Movement in net liquid funds:</b>				
Increase in cash at bank and in hand	4,817		3,484	
(Increase)/decrease in overdraft	<u>(1,695)</u>		<u>539</u>	
		3,122		4,023
		<u>(1,294)</u> =====		<u>3,903</u> =====

The notes on pages 8 to 21  
form part of these financial statements.

READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(a) Accounting convention

The financial statements have been prepared under the historical cost convention.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries, DMS Limited, Pegasus Direct Marketing Limited, Postal Addressing Systems Limited and Reader's Digest (Family Insurance Services) Limited. The consolidated financial statements incorporate the appropriate proportions of profits or losses of the related companies: Drive Publications Limited and Ninecolt Limited, the financial years of which end on 31st December, 30th September and 31st December, respectively. In the case of the related companies for which financial years do not end on 30th June an adjustment is made based on unaudited financial statements to include their results on a basis co-terminous with the remainder of the group.

The Reader's Digest Association Limited has not presented its own profit and loss account as permitted by Section 228(7) of the Companies Act 1985.

(c) Turnover

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

(d) Depreciation

Depreciation has been computed on the straight line method, and the following depreciation lives have been adopted:

<u>Asset category</u>	<u>Depreciation lives</u>
Leasehold land and buildings	Amortised over the period of the lease
Plant and machinery	3 - 10 years
Office machines	3 years
Vehicles	5 years
Leasehold improvements	Amortised over the period of the lease

(e) Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value. Cost comprises the direct costs of products but in conformity with accounting policies of the U.S. 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). Stocks held in excess of one year's forecast sales are subject to a provision for obsolescence.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES (continued)

(f) Deferred taxation

Provision is made for deferred taxation using the deferral method for all timing differences between taxation allowances and the related accounting treatment, less advance corporation tax recoverable against future corporation tax liabilities. Deferred tax net debit balances are recognised and included within debtors, to the extent that they are expected to be recoverable within the next financial year. The deferral method is not in accordance with Statement of Standard Accounting Practice No.15 (Accounting for Deferred Tax).

(g) Foreign currency translation

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transaction. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date.

(h) Promotional costs

Promotional costs are written off to the profit and loss account when they are incurred and included in cost of sales.

(i) 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.

(j) Pensions

The group operates a defined benefit contributory pension scheme covering the majority of its permanent employees. The scheme funds are administered by trustees and are independent of the group's finances. The scheme is fully funded by contributions from both employees and the parent company. The parent company's contributions are paid to the scheme in accordance with the recommendations of independent actuaries. The company's contributions are charged to the profit and loss account in the year in which contributions are made. Annual costs amounted to £1,416,000 in 1989 and £1,735,000 in 1988. The funding of the scheme is intended to spread the cost of providing members' benefits over their working lifetimes and to provide security for those benefits.

As at 31st March, 1987 the value of the scheme's assets exceeded its liabilities on a discontinuance basis. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.5 per cent.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

(j) Pensions (continued)

From 1st April, 1987 to 30th June, 1988 the group's contribution rates were such as to bring the total contribution paid into the pension scheme to 17.5% of members salaries and profit sharing bonuses. As a result of the actuarial valuation carried out as at 31st March, 1987 the actuaries have recommended that the joint contribution could be reduced to 16% of members salaries and profit sharing bonuses from 1st July, 1988. The market value of the assets of the scheme at 31st March, 1987 amounted to £22,741,000. This joint contribution level has been arrived at on the basis that the contributions together with the proceeds of the scheme's investments is likely to be sufficient to provide the scheme benefits when they fall due.

The contribution rate is based on the 'Current Unit Method' in the case of the spouses' pension payable on death in service and the 'Attained Age Method' for other benefits.

The main assumptions used by the actuaries in applying these methods were:

Investment return	: 8.5 per cent per annum
Pay increases	: 7.5 per cent per annum
Increases to pensions in payment in excess of any GMP	: 3.0 per cent per annum
Increase in State pensions and earnings limits	: 7.0 per cent per annum
Withdrawals	: No allowances
Retirements	: Age specific probabilities incorporated
Mortality	
- before retirement	: A1967/70(2) ultimate table
- after retirement	: PA (90) tables
Assets	
	: UK equities: market value adjusted by three year average of F.T. Actuaries' All-Share Index
	: Overseas equities, unit trusts and other investments: market value adjusted by three year average of Standard and Poors Composite Index converted to Sterling terms
	: Index-linked gilts, short term deposits and net current assets: market value

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. TURNOVER

The turnover of the group arises from the activity of publishing. The analysis of turnover by geographical area is as follows.

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
UK	116,224	106,248
Outside UK	1,974	1,394
	<u>118,198</u> =====	<u>107,642</u> =====

3. PROFIT BEFORE TAXATION

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
Profit before taxation is after charging:		
Auditors' remuneration	42	38
Directors' remuneration as executives (note 5)	604	438
Depreciation and amortisation of fixed assets	1,869	1,398
Hire of plant and machinery	365	546
Relocation of the data processing and fulfilment operations from London to Swindon	4,905	-
	<u>=====</u>	<u>=====</u>

4. TAXATION

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
Taxation is based on the profit for the year and comprises:		
U.K. Corporation tax at 35% (1988: 35%)	7,328	6,820
Transferred from deferred taxation account	(1,747)	(171)
	<u>5,581</u>	<u>6,649</u>
Taxation adjustment in respect of prior years	85	(73)
	<u>5,666</u> =====	<u>6,576</u> =====

The company is a close company under the provisions of the Income and Corporation Taxes Act 1988 and in the opinion of the directors no provision is required to be made for any "shortfall" in distributions.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. REMUNERATION OF DIRECTORS

	<u>1989</u> £	<u>1988</u> £
Chairman during the year ended 30th June, 1989 and 30th June, 1988	119,974	96,717
	<u>1989</u> <u>No.</u>	<u>1988</u> <u>No.</u>
Other directors:		
£ 0 - £ 5,000	2	1
£ 5,001 - £10,000	-	1
£40,001 - £45,000	2	-
£50,001 - £55,000	-	1
£55,001 - £60,000	1	3
£60,001 - £65,000	1	1
£65,001 - £70,000	1	-
£70,001 - £75,000	1	-
£80,001 - £85,000	1	-
Total remuneration of other directors	426,138	296,135
Contributions under pension scheme	57,673	44,962
	<u>603,785</u> =====	<u>437,814</u> =====

6. EMPLOYEES AND STAFF COSTS

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

	<u>1989</u>	<u>1988</u>
General administration	82	87
Editorial	68	64
Art	21	20
Fulfilment and data processing	187	187
Production	26	24
Marketing	109	108
Advertising	26	25
Mailing services	188	183
New business expansion and shops	31	31
	<u>738</u> ===	<u>729</u> ===

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. EMPLOYEES AND STAFF COSTS (continued)

The aggregate payroll costs of these persons were as follows:

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
Wages and salaries	13,779	12,308
Social security costs	1,171	1,084
Other pension costs	1,416	1,735
	<u>16,366</u> =====	<u>15,127</u> =====

The following numbers of employees were paid over £30,000:

	<u>1989</u>	<u>1988</u>
£30,001 - £35,000	28	15
£35,001 - £40,000	13	15
£40,001 - £45,000	10	8
£45,001 - £50,000	12	1
£50,001 - £55,000	-	2
£55,001 - £60,000	2	1
£60,001 - £65,000	1	-
£70,001 - £75,000	-	1
£75,001 - £80,000	1	-

7. LEASE COMMITMENTS

The total rental expense for the years ended 30th June, 1989 and 30th June, 1988 was as follows:

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
Property rentals	1,594	1,778
Computer and equipment rental	347	517
Car rentals	18	29
	<u>1,959</u> =====	<u>2,324</u> =====

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. LEASE COMMITMENTS (continued)

The future minimum lease payments to which the group and the company are committed as at 30th June, 1989 under leases (all of which are non-cancellable operating leases) are as follows:

<u>Years ending 30th June</u>	<u>£'000</u>
1990	2,138
1991	1,826
1992	1,826
1993	1,826
1994	1,821
1995 and thereafter	19,073

The lease payments due within one year can be analysed by expiry date as follows:

	<u>£'000</u>
Within one year	231
Between two and five years	5
Greater than five years	<u>1,992</u>
	2,143
	<del>2,143</del>

8. PAID AND PROPOSED DIVIDENDS

	<u>1989</u> <u>£'000</u>	<u>1988</u> <u>£'000</u>
Interim - paid 10th April 1989		
£1 per share - (1988: £1 per share)	2,237	2,237
Final proposed - £Nil - (1988: £1 per share)	-	2,237
	<u>2,237</u>	<u>4,474</u>
	=====	=====



THE READER'S DIGEST ASSOCIATION L  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL S

9.                      FIXED ASSETS - TANGIBLE ASSETS

The Group

	Long leasehold land and <u>buildings</u> £'000	Plant and <u>machinery</u> £'000
Cost:		
At 1st July, 1988	7,379	4,781
Transfers	-	65
Additions	-	1,226
Sales and retirements	-	(126)
	<hr/>	<hr/>
At 30th June, 1989	<u>7,379</u>	<u>5,946</u>
Accumulated depreciation:		
At 1st July, 1988	118	3,007
Charge for the year	284	891
Sales and retirements	<hr/> -	<hr/> (123)
At 30th June, 1989	402	3,775
Net book values:	<hr/>	<hr/>
At 30th June, 1989	6,977	2,171
	=====	=====
At 30th June, 1988	7,261	1,774
	=====	=====

READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

THE CONSOLIDATED FINANCIAL STATEMENTS

Page 16

The Group

	Plant and machinery	Fixtures fittings tools and equipment	Payments on account and assets in the course of construction	Total
£s 00	£'000	£'000	£'000	£'000
79	4,781	5,376	270	17,806
-	65	13	(78)	-
-	1,226	814	3,500	5,540
-	(126)	(329)	-	(455)
	<u>5,946</u>	<u>5,874</u>	<u>3,692</u>	<u>22,891</u>
18	3,007	2,870	-	5,995
84	891	694	-	1,869
-	(123)	(252)	-	(375)
02	3,775	3,312	-	7,489
77	2,171	2,562	3,692	15,402
261	1,774	2,506	270	11,811

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. FIXED ASSETS - TANGIBLE ASSETS (continued)

The Company

	Long leasehold land and buildings <u>£'000</u>	Plant and machinery <u>£'000</u>
Cost:		
At 1st July, 1988	7,379	3,047
Transfers	-	16
Additions	-	577
Sales and retirements	-	(14)
Transfers from DMS Ltd	-	2,320
	<u>7,379</u>	<u>5,946</u>
At 30th June, 1989		
Accumulated depreciation:		
At 1st July, 1988	118	1,837
Charge for the year	284	680
Sales and retirements	-	(11)
Transfers from DMS Ltd	-	1,269
	<u>402</u>	<u>3,775</u>
At 30th June, 1989		
Net book values:		
At 30th June, 1989	6,977 =====	2,171 =====
At 30th June, 1988	7,261 =====	1,210 =====

LEADER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

THE CONSOLIDATED FINANCIAL STATEMENTS

Page 17

The Company

	Plant and machinery £'000	Fixtures fittings tools and equipment £'000	Payments on account and assets in the course of construction £'000	Total £'000
79	3,047	4,396	221	15,043
-	16	13	(29)	-
-	577	720	3,500	4,797
-	(14)	(260)	-	(274)
-	2,320	1,005	-	3,325
-	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
79	<u>5,946</u>	<u>5,874</u>	<u>3,692</u>	<u>22,891</u>
18	1,837	2,399	-	4,354
84	680	651	-	1,615
-	(11)	(202)	-	(212)
-	<u>1,269</u>	<u>464</u>	<u>      </u>	<u>1,733</u>
2	3,775	3,312	-	7,489
-	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
7	2,171	2,562	3,692	15,402
-	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>
51	1,210	1,997	221	10,689
-	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES ON THE CONSOLIDATED FINANCIAL STATEMENTS

10. FIXED ASSETS - INVESTMENTS

	<u>Group</u>	<u>Company</u>		
	<u>Related</u> <u>companies</u> £	<u>Subsidiary</u> <u>companies</u> £	<u>Related</u> <u>companies</u> £	<u>Total</u> £
Shares at cost at 1st July, 1988	150	1,202	150	1,352
Shares at cost at 30th June, 1989	<u>150</u> ===	<u>1,202</u> =====	<u>150</u> ===	<u>1,352</u> =====

(a) Related companies

Shares in related companies represent 50% of the ordinary share capital of the following:

<u>Company</u>	<u>Year-end date</u>	<u>Activity</u>
Drive Publications Limited	31st December	Publishing
Ninecolt Limited	30th September	Dormant

Drive Publications Limited has made no profit or loss since its date of incorporation.

(b) Subsidiary companies

DMS Limited is a wholly owned subsidiary incorporated in Great Britain. Up to 31st March, 1989 it was involved in the enclosing of promotional pieces and the packing, warehousing and despatch of books and record albums and the handling of returns. On 31st March, 1989 DMS Limited transferred its business to The Reader's Digest Association Limited, its assets being transferred at their book written down value.

Pegasus Direct Mail Marketing Limited is a wholly owned subsidiary incorporated in Great Britain and provides services for the direct mail industry.

Reader's Digest (Family Insurance Services) Limited is a wholly owned subsidiary incorporated in Great Britain and provides a direct mail insurance service.

Postal Addressing Systems Limited is a wholly owned subsidiary incorporated in Great Britain and has been dormant during the year.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. STOCKS

Stocks for the group and the company comprise:

	1989 £'000	1988 £'000
Raw materials and consumables	4,257	3,131
Work in progress	1,733	949
Finished goods and goods for resale	3,058	2,674
	<u>9,048</u> =====	<u>6,754</u> =====

Attributable overheads omitted from the valuation of stock and work in progress are estimated to amount to £414,000 at 30th June, 1989 and £336,000 at 30th June, 1988. The inclusion of such overheads would therefore increase the profits of the year by £78,000 (1988: decrease £81,000).

12. DEBTORS

	1989 £'000	The Group 1988 £'000	1989 £'000	The Company 1988 £'000
Trade debtors	13,744	10,840	13,531	10,543
Amounts owed by holding and fellow subsidiary companies	132	120	132	120
Amounts owed by subsidiary companies	-	-	739	228
Amounts owed by related companies	1,535	3,425	1,535	3,425
Other debtors	1,032	565	1,032	565
Repayments and accrued income	2,740	2,073	2,804	2,020
Deferred tax asset	1,086	-	1,086	-
	<u>20,269</u> =====	<u>17,023</u> =====	<u>20,859</u> =====	<u>16,901</u> =====

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1989 £'000	The Group 1988 £'000	1989 £'000	The Company 1988 £'000
Bank loans and overdrafts	3,279	1,584	3,279	1,512
Trade creditors	4,278	4,919	4,278	4,808
Amounts owed to holding and fellow subsidiary companies	1,039	79	1,039	79
Amounts owed to subsidiary companies	-	-	1,091	991
Corporation tax	6,478	8,809	6,085	8,269
Other creditors including taxation and social security	947	879	811	724
Accruals	13,447	5,546	13,415	5,170
Unexpired subscriptions	9,480	8,898	9,480	8,898
Proposed dividend	-	2,237	-	2,237
	<u>38,948</u> =====	<u>32,951</u> =====	<u>39,478</u> =====	<u>32,688</u> =====

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. PROVISIONS FOR LIABILITIES AND CHARGES

(a) <u>The Group</u>	<u>Deferred taxation</u> £'000	<u>Provision for future collection costs</u> £'000	<u>Total</u> £'000
Balance at 1st July, 1988	(85)	514	429
Utilised during the year	-	(4,406)	(4,406)
Charge/(credit) for the year in the profit and loss account	(1,747)	4,590	2,843
Movement in ACT recoverable	746	-	746
Transferred to debtors	1,086	-	1,086
Balance at 30th June, 1989	<u>-</u> =====	<u>698</u> =====	<u>698</u> =====

(b) <u>The Company</u>	<u>Deferred taxation</u> £'000	<u>Provision for future collection costs</u> £'000	<u>Total</u> £'000
Balance at 1st July, 1988	(363)	514	151
Utilised during the year	-	(4,406)	(4,406)
Charge/(credit) for the year in the profit and loss account	(1,786)	4,590	2,804
Movement in ACT recoverable	746	-	746
Transferred from DMS Ltd	317	-	317
Transferred to debtors	1,086	-	1,086
Balance at 30th June, 1989	<u>-</u> =====	<u>698</u> =====	<u>698</u> =====

15. DEFERRED TAXATION

	<u>1989</u> £'000	<u>The Group</u> <u>1988</u> £'000	<u>The Company</u> <u>1989</u> £'000	<u>1988</u> £'000
Effect of accelerated depreciation allowances on fixed assets available for taxation purposes	565	743	565	445
Other timing differences	(1,651)	(82)	(1,651)	(62)
Advance corporation tax payable on the dividend proposed in these financial statements and recoverable against future corporation liabilities	-	(746)	-	(746)
Deferred tax (asset)	<u>(1,086)</u> =====	<u>(85)</u> =====	<u>(1,086)</u> =====	<u>(363)</u> =====

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. DEFERRED TAXATION (continued)

Deferred taxation is accounted for using the deferral method such that provision is made for timing differences between depreciation allowances for taxation purposes and the depreciation charge in the financial statements at the rates of corporation tax prevailing when the timing differences arose.

The effect of accounting for deferred taxation under the liability method would be to decrease the deferred tax asset by £288,000 (1988: decrease by £301,000) in the group financial statements and £288,000 (1988: decrease by £190,000) in the company's financial statements.

16.	<u>SHARE CAPITAL</u>	£'000
	Authorised:	125
	2,500,000 ordinary shares of 5p each	===
	Allotted, issued and fully paid:	
	At 30th June, 1988 and 1989:	112
	2,237,000 ordinary shares of 5p each	===

17. CAPITAL COMMITMENTS

Capital commitments as at 30th June, 1989 consisted of the following:

	£'000
Authorised and contracted for	7,589
Authorised but not contracted for	102
	=====

18. ULTIMATE HOLDING COMPANY

The directors regard The Reader's Digest Association Inc. incorporated in the United States of America as the company's ultimate holding company.