

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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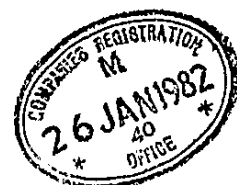
DIRECTORS' REPORT AND ACCOUNTS

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30TH JUNE, 1981

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PEAT, MARWICK, MITCHELL & CO.,  
1 Puddle Dock, Blackfriars, London, EC4V 3PD.



THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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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, 1981.

Results:

Group profit before taxation and extraordinary items	£3,885,125
Taxation	<u>1,899,343</u>
Group profit for the year after taxation and before extraordinary items	1,985,782
Extraordinary items	<u>1,192,903</u>
Group profit for the year after taxation and extraordinary items	3,178,685
Dividends:	
Interim	£279,625
Proposed final	<u>671,100</u>
	<u>950,725</u>
	2,227,960
Balance brought forward	<u>5,949,509</u>
Balance carried forward	<u>£8,177,469</u>

Activities:

The principal activity of the group is publishing and includes the sale of magazines, books, gramophone records and tapes.

Directors:

The following served as directors during the year:

V. Ross	(Chairman)
R.W. Hewett	
G.A.G. Selby-Lowndes	
A.R.P. Fairlie	(resigned as director 10th October, 1980)
P.A.A. Glemser	(resigned as director 27th February, 1981)
B.C. Gray	
S.N. McRae	
M.R.S. Randolph	
J.A. C'Hara	

Directors' interests in the shares of the company are as follows:

	<u>Ordinary shares of 5p each</u>	
	<u>At 30th</u>	<u>At 30th</u>
	<u>June, 1981</u>	<u>June, 1980</u>
V. Ross	23,125	23,125
M.R.S. Randolph	14,000	14,000

Exports:

The value of goods exported by the group from the United Kingdom, including goods exported to affiliated companies amounted to £1,753,504.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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REPORT OF THE DIRECTORS  
(continued)

Employees:

The average number employed by the group who worked wholly or mainly in the United Kingdom during the year was 1,106 and their aggregate remuneration was £7,080,866.

Fixed assets:

Changes in fixed assets during the year are shown in note 5 to the accounts.

Charitable contributions:

The group has given £2,918 for charitable purposes during the year.

Auditors:

A resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



Secretary

25, Berkeley Square,  
London W1X 6AB.

14th December, 1981.

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

We have audited the accounts on pages 4 to 20, in accordance with approved Auditing Standards.

As indicated in note 1(d) and note 7 to the accounts the basis of valuation of stock and work in progress does not include an allocation of attributable production and development overheads and therefore does not accord with Statement of Standard Accounting Practice No.9 (Stock and Work in Progress).

With this exception in our opinion the accounts which have been prepared on the basis of the accounting policies set out on page 8 give a true and fair view of the state of affairs of the company and of the group at 30th June, 1981 and of the profit and source and application of funds of the group, for the year to that date and comply with the Companies Acts 1948 to 1981.

In our opinion the abridged supplementary current cost accounts set out on pages 14 to 20 have been properly prepared, in accordance with the accounting policies and methods set out on pages 16 to 20 to give the information required by Statement of Standard Accounting Practice No.16.

LONDON

14th December 1981

*Pear Martin Mitchell*

Chartered Accountants

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH JUNE, 1981

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	<u>Note</u>	<u>1981</u>	<u>1980</u>
GROUP TURNOVER	1	£55,662,000	£47,810,000
GROUP PROFIT BEFORE TAXATION AND EXTRAORDINARY ITEM	2	£ 3,885,125	£ 3,758,072
Taxation	3	1,899,343	2,092,135
GROUP PROFIT AFTER TAXATION AND BEFORE EXTRAORDINARY ITEM		1,985,782	1,665,937
Extraordinary items	4	1,192,903	-
PROFIT ATTRIBUTABLE TO GROUP (dealt with in the accounts of the company £2,532,702 (1980: £2,180,460)		3,178,685	1,665,937
Paid and proposed dividend		950,725	894,800
Balance brought forward from previous year		2,227,960	771,137
		5,949,509	5,178,372
BALANCE CARRIED FORWARD		£ 8,177,469	£ 5,949,509

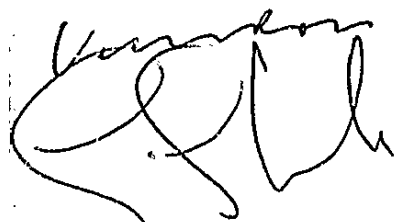
The notes referred to above  
form part of these accounts.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 30TH JUNE, 1981

	<u>Note</u>	<u>1981</u>	<u>1980</u>
<b>EMPLOYMENT OF CAPITAL</b>			
Fixed assets	1 & 5	£ 2,452,168	£ 1,398,933
Interests in associated companies	6	100	100
<b>Current assets:</b>			
Stock and work in progress	1 & 7	£ 6,249,152	£ 6,243,675
Debtors (less provisions)		11,818,976	11,857,454
Amounts due from fellow subsidiaries		654,682	462,718
Balance at bank and cash in hand		<u>4,827,449</u>	<u>2,867,124</u>
		<u>23,550,259</u>	<u>21,430,971</u>
<b>Current liabilities:</b>			
Bank overdraft		£ 665,870	£ 327,383
Loans	8	672,735	-
Creditors		6,182,276	7,019,073
Provision for future collection costs		421,340	357,779
Amounts due to parent and fellow subsidiaries		121,433	418,347
Current taxation		2,860,917	2,360,577
Proposed dividend		<u>671,100</u>	<u>559,250</u>
		<u>11,595,671</u>	<u>11,042,409</u>
Net current assets		<u>11,954,588</u>	<u>10,388,562</u>
		<u>14,406,856</u>	<u>11,787,595</u>
<b>Deferred revenue:-</b>			
unexpired subscriptions 1		<u>4,925,802</u>	<u>4,196,036</u>
		<u>£ 9,481,054</u>	<u>£ 7,591,559</u>
<b>CAPITAL EMPLOYED</b>			
Share capital	10	£ 111,850	£ 111,850
Share premium account		224,460	224,460
Unappropriated profits		<u>8,177,469</u>	<u>5,949,509</u>
		<u>8,513,779</u>	<u>6,285,819</u>
Deferred taxation account 1 & 11		967,275	1,305,740

The notes referred to above form part of these accounts.

 ) Directors

£ 9,481,054

£ 7,591,559

14th December, 1981.

## THE READER'S DIGEST ASSOCIATION LIMITED

BALANCE SHEET AT 30TH JUNE, 1981

	<u>Note</u>	<u>1981</u>	<u>1980</u>
<b>EMPLOYMENT OF CAPITAL</b>			
Fixed assets	1 & 5	£ 1,664,536	£ 934,134
Interest in subsidiary	12	102	500,313
Interests in associated companies	6	100	100
<b>Current assets:</b>			
Stock and work in progress	1 & 7	£ 6,249,152	£ 6,207,614
Debtors (less provisions)		11,787,776	11,811,151
Amounts due from subsidiaries		561,338	477,183
Amounts due from fellow subsidiaries		654,682	462,718
Balance at bank and cash in hand		4,820,400	2,851,734
		<u>24,073,348</u>	<u>21,810,400</u>
<b>Current liabilities:</b>			
Bank overdraft		£ 665,870	£ 327,383
Loans	8	672,735	-
Creditors		6,037,881	6,893,669
Provision for future collection costs		421,340	357,779
Amounts due to parent and fellow subsidiaries		121,433	418,347
Current taxation	9	2,860,917	2,360,577
Proposed dividend		671,100	559,250
		<u>11,451,276</u>	<u>10,917,005</u>
Net current assets		12,622,072	10,893,395
		14,286,810	12,327,942
Deferred revenue - unexpired subscriptions	1	4,925,802	4,082,437
		£ 9,361,008	£ 8,245,505
<b>CAPITAL EMPLOYED</b>			
Share capital	10	£ 111,850	£ 111,850
Share premium account		224,460	224,460
Unappropriated profit		8,404,016	6,822,038
		<u>8,740,326</u>	<u>7,158,348</u>
Deferred taxation account	1 & 11	620,682	1,087,157

The notes referred to above form part of these accounts.

 Directors

£ 9,361,008

£ 8,245,505

14th December, 1981.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 30TH JUNE, 1981

	1981	1980
<b>SOURCE OF FUNDS</b>		
Profit after taxation	£1,985,782	£1,665,937
Extraordinary items*	<u>1,192,903</u>	<u>-</u>
	3,178,685	1,665,937
Adjustment for items not involving the movement of funds:		
Depreciation of fixed assets	£ 550,451	£ 341,084
(Decrease)/increase in deferred taxation	(338,465)	187,314
Increase in deferred revenue*	729,766	1,226,085
Increase in provision for future collection costs	63,561	13,986
Loss/Profit on sale of fixed assets	<u>1,817</u>	<u>(2,361)</u>
	1,007,130	1,766,108
<b>TOTAL GENERATED FROM OPERATIONS</b>	4,185,815	3,432,045
<b>FUNDS FROM OTHER SOURCES</b>		
Proceeds of disposal of fixed assets	<u>283,377</u>	<u>9,388</u>
	4,469,192	3,441,433
<b>APPLICATION OF FUNDS</b>		
Purchase of fixed assets	£1,888,880	£ 726,051
Dividend paid	<u>838,875</u>	<u>894,800</u>
	(2,727,755)	(1,620,851)
	1,741,437	1,820,582
<b>CHANGES IN WORKING CAPITAL</b>		
Increase in stocks	£ 5,477	£ 379,594
(Decrease)/increase in debtors*	(38,478)	382,985
Increase in short term loan	(672,735)	-
Decrease/(increase) in creditors* including taxation	336,457	(1,330,305)
Increase in net group debtors	488,878	125,268
Increase in net liquid funds	<u>1,621,838</u>	<u>2,263,040</u>
	<u>£1,741,437</u>	<u>£1,820,582</u>

\*Summary of the effects of the sale of Wildlife Publications Limited:

Net assets disposed of

Net working capital

£27,714

Sale proceeds

Cash received and  
receivable

£27,714



THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES ON THE CONSOLIDATED ACCOUNTS

1. ACCOUNTING POLICIES

(a) Accounting convention:

The accounts have been prepared under the historical cost convention. Current cost accounts prepared in accordance with Statement of Standard Accounting Practice No.16 are set on pages 14 to 20.

(b) Basis of consolidation:

(i) Subsidiaries:

The consolidated accounts incorporate the accounts of the company and its wholly owned subsidiaries DMS Limited and Issuebreak Limited, the financial years of which end on 30th June and 31st December respectively. Issuebreak Limited which was incorporated on 17th October, 1980 is a non trading subsidiary. Wildlife Publications Limited, a wholly owned subsidiary, was sold at 31st October, 1980 and its results for the 4 months ended on that date have been incorporated into the consolidated accounts.

(ii) Associated companies:

The consolidated accounts incorporate the appropriate proportions of profits or losses of associated companies. In the case of one associated company whose financial year ends on 31st December an adjustment is made, based on unaudited accounts, to include its results on a basis co-terminous with the remainder of the group.

(c) Turnover:

Turnover comprises net revenue, after deducting provisions for bad debts and returns, and excludes value added tax. Magazine revenue is taken to account by reference to the cover date, other revenue by reference to date of 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>
Buildings - freehold	No depreciation has been provided
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 ON THE CONSOLIDATED ACCOUNTS  
(continued)

1. ACCOUNTING POLICIES (continued)

(f) Deferred taxation:

Deferred taxation, which has been provided on the deferral method, to the extent that the directors consider that timing differences will not reverse in the foreseeable future, represents the effect of accelerated depreciation allowances on fixed assets available for taxation purposes and other timing differences, less advance corporation tax recoverable against future corporation tax liabilities.

(g) Foreign currencies:

Foreign currencies have been converted at rates ruling at the balance sheet date.

(h) Promotional costs:

Promotional costs are written off to profit and loss account when they are incurred.

(i) Deferred income:

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

2. PROFIT BEFORE TAXATION

Profit before taxation is after charging:

	<u>1981</u>	<u>1980</u>
Interest payable on short term loan	£ 85,130	£ -
Auditors' remuneration	22,280	22,040
Directors' remuneration as executives (note 13)	258,528	239,735
Depreciation and amortisation	550,451	341,084
Hire of plant and machinery	621,876	671,114

3. TAXATION

Taxation is based on the profit for the year and comprises:

	<u>1981</u>	<u>1980</u>
U.K. corporation tax at 52% (1980: 52%) after group relief	£1,233,245	£2,122,064
Transferred from deferred taxation account	655,402	(31,569)
	<u>1,888,647</u>	<u>2,090,495</u>
Taxation adjustment in respect of prior years	10,696	1,640
	<u>£1,899,343</u>	<u>£2,092,135</u>

The company is a 'close company' under the provisions of the Income and Corporation Taxes Act 1970 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 ON THE CONSOLIDATED ACCOUNTS  
(continued)

4. EXTRAORDINARY ITEMS

Profit on disposal of Drive Publications Limited  
Release of deferred taxation

The release of deferred taxation represents stock appreciation relief written off in accordance with the provisions of the Companies Act 1967.

5. FIXED ASSETS

	Freehold property	The group Leasehold improvements Short lease	Plant, machinery, furniture, fixtures, equipment and motor vehicles	Total
Cost				
At 30th June, 1980	£4,015	£548,064	£2,268,413	£2,820,492
Additions	-	181,746	1,707,134	1,888,880
Sales and retirements	-	(37,621)	(683,571)	(721,192)
At 30th June, 1981	£4,015	£692,189	£3,291,976	£3,988,180
Accumulated depreciation:				
At 30th June, 1980	£ -	£215,120	£1,206,439	£1,421,559
Charge for the year	-	19,251	531,200	550,451
Sales and retirements	-	(2,248)	(433,750)	(435,998)
At 30th June, 1981	£ -	£232,123	£1,303,889	£1,536,012
Net Book values:				
At 30th June, 1981	£4,015	£460,066	£1,988,087	£2,452,168
At 30th June, 1980	£4,015	£332,944	£1,061,974	£1,398,933

At 30th June, 1981 there were outstanding commitments in respect of capital expenditure (1980: £205,584) and capital expenditure authorised but not contracted for of £Nil (1980: £205,584).

6. INTERESTS IN ASSOCIATED COMPANIES

Interests in associated companies comprise 50 ordinary shares of £1 each, fully paid, fully paid in Postal Addressing Systems Limited; being 50% of the issued share capital of Postal Addressing Systems Limited.

Drive Publications Limited and Postal Addressing Systems Limited are therefore regarded as subsidiary undertakings within the definition given in the Statement of Standard Accounting Practice.

Audited accounts for the year ended 31st December, 1980 and unaudited accounts for the year ended 30th June, 1981 have been received from Drive Publications Limited and audited accounts for the year ended 30th June, 1981 have been received from Postal Addressing Systems Limited or loss since its date of incorporation.

Included in debtors is an amount of £3,602,330 (1980: £4,121,332) due from Drive Publications Limited.

(continued)

nited

Stock appreciation relief written off in accordance with

<u>old</u>	<u>Plant, machinery,</u>	
<u>ments</u>	<u>furniture, fixtures,</u>	
<u>t</u>	<u>equipment and</u>	
<u>e</u>	<u>motor vehicles</u>	<u>Total</u>
54	£2,268,413	£2,820,492
46	1,707,134	1,888,880
(21)	<u>(683,571)</u>	<u>(721,192)</u>
89	£3,291,976	£3,988,180
20	£1,206,439	£1,421,559
51	531,200	550,451
(48)	<u>(433,750)</u>	<u>(435,998)</u>
23	£1,303,889	£1,536,012
66	£1,988,087	£2,452,168
44	£1,061,974	£1,398,933

commitments in respect of capital expenditure contracted but not contracted for of £Nil (1980: £221,800)

ordinary shares of £1 each, fully paid, in Drive Publ  
d: being 50% of the issued share capital of each of

ing Systems Limited are therefore regarded as associated  
 tement of Standard Accounting Practice No.1.

ber, 1980 and unaudited accounts for the ensuing six  
d 30th June, 1981 have been received from Postal Adm

(1980: £4,121,332) due from Drive Publications Limited

IN THE CONSOLIDATED ACCOUNTS  
(continued)

£ 11  
1,07

**£1.19**

on relief written off in accordance with the

machinery, re, fixtures, ment and vehicles	Total	Freehold property	Lea impr S 1
268,413	£2,820,492	£4,015	£32
707,134	1,888,880	-	
(683,571)	(721,192)	-	(3
291,976	£3,988,180	£4,015	£28
206,439	£1,421,559	£ -	£21
531,200	550,451	-	
(433,750)	(435,998)	-	
303,889	£1,536,012	£ -	£22
988,087	£2,452,168	£4,015	£ 6
061,974	£1,398,933	£4,015	£10

Subject of capital expenditure contracted for but not yet contracted for of £Nil (1980: £221,800).

of £1 each, fully paid, in Drive Publications Ltd.  
of the issued share capital of each of those

ted are therefore regarded as associated com  
and Accounting Practice No.1.

81. unaudited accounts for the ensuing six months have been received from Postal Addressing

332) due from Drive Publications Limited and

ADATED ACCOUNTS  
(ued)

<u>1981</u>	<u>1980</u>
£ 119,665	£ -
<u>1,073,238</u>	<u>-</u>
<u>£1,192,903</u>	<u>£ -</u>

itten off in accordance with the provisions of the Finance Act 1981.

<u>Total</u>	<u>Freehold property</u>	<u>The company</u>		<u>Total</u>
		<u>Leasehold improvements Short lease</u>	<u>Plant, machinery, furniture, fixtures, equipment and motor vehicles</u>	
£2,820,492	£4,015	£321,088	£2,017,718	£2,342,821
1,388,880	-	-	1,505,837	1,505,837
<u>(721,192)</u>	<u>-</u>	<u>(34,407)</u>	<u>(711,798)</u>	<u>(746,205)</u>
£3,988,180	£4,015	£286,681	£2,811,757	£3,102,453
£1,421,559	£ -	£214,975	£1,193,712	£1,408,687
550,451	-	9,619	447,519	457,138
<u>(435,998)</u>	<u>-</u>	<u>(480)</u>	<u>(427,428)</u>	<u>(427,908)</u>
£1,536,012	£ -	£224,114	£1,213,803	£1,437,917
£2,452,168	£4,015	£ 62,567	£1,597,954	£1,664,536
£1,398,933	£4,015	£106,113	£ 824,006	£ 934,134

tal expenditure contracted for but not provided for in the accounts of £11,310  
or of £Nil (1980: £221,800).

, fully paid, in Drive Publications Limited, and 50 ordinary shares of £1 each,  
d share capital of each of those companies.

efore regarded as associated companies of The Reader's Digest Association  
ing Practice No.1.

counts for the ensuing six months period have been received from Drive Publications  
n received from Postal Addressing Systems Limited. Neither company has made profit

om Drive Publications Limited and an amount of £69,027 (1980: £29,241) from Postal Addressing

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

NOTES ON THE CONSOLIDATED ACCOUNTS  
(continued)

7. STOCK AND WORK IN PROGRESS

Stock and work in progress comprises:

	The group		The company	
	1981	1980	1981	1980
Paper and cloth	£1,163,530	£1,455,209	£1,163,530	£1,419,148
Work in progress	1,438,366	1,236,272	1,438,366	1,236,272
Finished goods	<u>3,647,256</u>	<u>3,552,194</u>	<u>3,647,256</u>	<u>3,552,194</u>
	<u>£6,249,152</u>	<u>£6,243,675</u>	<u>£6,249,152</u>	<u>£6,207,614</u>

Attributable overheads omitted from the valuation of stock and work in progress are estimated to amount to £1,062,191 at 30th June, 1981 and £761,541 at 30th June, 1980 (1979: £576,752). The inclusion of such overheads would therefore increase the profits of the year by some £280,650 (1980: Increase £204,789).

8. LOANS

The company has as a short loan £672,735 9% loan stock. This loan stock is redeemable at par on 1st May, 1982.

9. CURRENT TAXATION

Current taxation comprises:

	1981	1980
Corporation tax payable on the profits for the year, after deducting advance corporation tax paid (payable 1st July, 1982)	£ 873,727	£1,882,385
Corporation tax in respect of previous years (payable 1st July, 1981)	1,621,967	238,513
Advance corporation tax	<u>365,223</u>	<u>239,679</u>
	<u>£2,860,917</u>	<u>£2,360,577</u>

10. SHARE CAPITAL

Authorised:

2,500,000 ordinary shares of 5p each

£ 125,000

Issued:

At 30th June, 1981 and 1980:

2,237,000 ordinary shares of 5p each

£ 111,850

NOTES ON THE CONSOLIDATED ACCOUNTS  
(continued)

11. DEFERRED TAXATION

Deferred taxation account comprises:

	<u>The Group 1981</u>	<u>The Company 1981</u>	<u>The Group 1980</u>	<u>The Company 1980</u>
Taxation relief on the increase in the value of stock and work-in-progress	£ -	£ -	£1,073,238	£1,073,238
Effect of accelerated depreciation allowances on fixed assets available for taxation purposes	1,257,121	910,528	491,969	273,386
Other timing differences	(2,232)	(2,232)	(19,788)	(19,788)
Advance corporation tax payable on the dividend proposed in these accounts and recoverable against future corporation tax liabilities	(287,614)	(287,614)	(239,679)	(239,679)
	<u>£ 967,275</u>	<u>£620,682</u>	<u>£1,305,740</u>	<u>£1,087,157</u>

An amount of £1,308,910 relating to stock relief has not been provided for in these accounts in the light of the relevant provisions of the Finance Act 1981.

12. INTEREST IN SUBSIDIARIES

Interest in subsidiaries as shown in the balance sheet of the company comprised:

	<u>1981</u>	<u>1980</u>
Shares at cost	£102	£ 313
Loan stock	-	500,000
	<u>£102</u>	<u>£500,313</u>

DMS Limited is the wholly owned trading subsidiary of the company, incorporated and operating principally in England. Issuebreak Limited, a wholly owned subsidiary of the company incorporated in England, has not traded during the year.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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NOTES ON THE CONSOLIDATED ACCOUNTS  
(continued)

## 13. REMUNERATION OF DIRECTORS AND SENIOR EMPLOYEES

			<u>1981</u>	<u>1980</u>
Chairman			£ 55,238	£ 49,746
	<u>1981</u>	<u>1980</u>		
	<u>No.</u>	<u>No.</u>		
Other directors:				
£ 0 - £ 5,000	1	1 )		
£10,001 - £15,000	1	-- )		
£20,001 - £25,000	1	4 )	184,771	174,942
£25,001 - £30,000	4	2 )		
£35,001 - £40,000	1	-- )		
Contributions under pension scheme			<u>18,519</u>	<u>15,047</u>
			<u>£258,528</u>	<u>£239,735</u>
Seven employees received emoluments, excluding pension scheme contributions, in excess of £20,000 as follows:				
			<u>1981</u>	<u>1980</u>
£20,001 - £25,000			<u>7</u>	<u>1</u>

## 14. 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.



THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

SUPPLEMENTARY CURRENT COST ACCOUNTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH JUNE, 1981

	<u>Note</u>	<u>Current cost £'000</u>	<u>Historical cost £'000</u>
GROUP TURNOVER		<u>55,662.0</u>	<u>55,662.0</u>
GROUP PROFIT BEFORE TAXATION			
INTEREST AND EXTRAORDINARY ITEM		3,970.3	3,970.3
Current cost operating adjustments	6	(757.7)	-
CURRENT COST OPERATING PROFIT		<u>3,212.6</u>	<u>3,970.3</u>
Gearing adjustment	8	26.4	-
Interest on net borrowing		(85.2)	(85.2)
Profit before taxation		<u>3,153.8</u>	<u>3,885.1</u>
Taxation		(1,899.3)	(1,899.3)
Profit after taxation		<u>1,254.5</u>	<u>1,985.8</u>
Extraordinary item		1,192.9	1,192.9
CURRENT COST PROFIT ATTRIBUTABLE TO SHAREHOLDERS		<u>2,447.4</u>	<u>3,178.7</u>
Paid and proposed dividend		(950.7)	(950.7)
RETAINED CURRENT COST PROFIT OF THE YEAR		<u>1,496.7</u>	<u>2,228.0</u>
Balance brought forward from previous year		<u>5,949.5</u>	<u>5,949.5</u>
BALANCE CARRIED FORWARD		<u>7,446.2</u>	<u>8,177.5</u>

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

CONSOLIDATED BALANCE SHEET AT 30TH JUNE, 1981

	<u>Note</u>	Current cost <u>£'000</u>	Historical cost <u>£'000</u>
EMPLOYMENT OF CAPITAL			
Fixed assets	5	2,629.5	2,452.1
Interests in associated companies	7	0.1	0.1
		<u>2,629.6</u>	<u>2,452.2</u>
Current assets:			
Stock and work in progress	3	6,412.0	6,249.2
Debtors (less provisions)		11,819.0	11,819.0
Amounts due from fellow subsidiaries		654.7	654.7
Balance at bank and cash in hand		4,827.5	4,827.5
		<u>23,713.2</u>	<u>23,550.4</u>
Current liabilities:			
Bank overdraft		665.9	665.9
Loans		672.7	672.7
Creditors		6,182.3	6,182.3
Provision for future collection costs		421.3	421.3
Amounts due to parent and fellow subsidiaries		121.4	121.4
Current taxation		2,860.9	2,860.9
Proposed dividend		671.1	671.1
		<u>11,595.6</u>	<u>11,595.6</u>
Net current assets		<u>12,117.6</u>	<u>11,954.8</u>
Deferred revenue - unexpired subscriptions		<u>4,925.8</u>	<u>4,925.8</u>
		<u>9,821.4</u>	<u>9,481.2</u>
CAPITAL EMPLOYED			
Share capital		111.9	111.9
Share premium account		224.5	224.5
Current cost reserve	9	1,071.5	-
Unappropriated profits		7,446.2	8,177.5
		<u>8,854.1</u>	<u>8,513.9</u>
Deferred taxation account		967.3	967.3
		<u>9,821.4</u>	<u>9,481.2</u>

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

- (a) The current cost accounts have been prepared in accordance with Statement of Standard Accounting Practice No.16 and the related guidance notes issued by the Accounting Standards Committee.
- (b) The accounting policies used in preparing the historical cost accounts have also been adopted in the current cost accounts except as set out in Note 5 below.
- (c) The current cost accounts are in summarised form. Further analyses are contained in the historical cost accounts.

2. EXPLANATION OF CURRENT COST ACCOUNTS

In the balance sheet, assets are stated at their "value to the business". In general terms, this is the amount that would be required to replace the assets at current price levels. Monetary items (debtors, creditors, proposed dividends) and deferred taxation are as stated in the historical cost accounts.

The restatement of net assets in this way places a value in accounting terms on the operating capability of the business. Under current cost principles this operating capability has to be maintained before a profit can be struck. The current cost operating profit is thus the surplus on the ordinary activities of the business for the year, after making changes necessary to maintain the operating capability of that business. This involves three adjustments (see Note 6) to the historical cost profit as follows:

- (a) A cost of sales adjustment (see Note 3).
- (b) A monetary working capital adjustment (see Note 4).
- (c) A depreciation adjustment (see Note 5).

After striking the current cost operating profit, it is necessary to consider the impact of borrowings. Insofar as assets are partially financed and replaced by borrowed money, the full burden of price increases does not fall on the shareholder. To take account of this, a "gearing adjustment" (see Note 8) is made whereby the net total of the three adjustments described above is abated by the average proportion of net operating assets that were financed by borrowings during the year.

The current cost adjustments are taken to the current cost reserve (see Note 9). It is part of the concept of maintaining operating capability that this reserve should be treated as non-distributable. To use it to pay dividends would in effect mean returning to the shareholder the essential capital required for continuing operations at the same level.

SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

NOTES TO THE ACCOUNTS  
(continued)

3. **STOCKS AND THE COST OF SALES ADJUSTMENT**  
The cost of sales adjustment represents the difference between the historical cost of goods sold and their replacement cost at the time of sale. It is substantially equivalent to the additional cash required to replace at higher current prices the equivalent volume of goods sold. The adjustment has been computed by making the "averaging method" calculation over two six-monthly periods. An internal index has been computed by reference to the major items sold in the year. Stocks have been restated in the balance sheet at current cost.
4. **MONETARY WORKING CAPITAL ADJUSTMENT**  
The monetary working capital adjustment represents the additional finance needed for trade debtors, trade creditors and unexpired magazine subscriptions as a result of changes in the input price of goods and services used and financed by each part of the business. The adjustment has been computed by making the "averaging method" calculation over three periods. The same index has been used as in the cost of sales adjustment calculation.
5. **FIXED ASSETS AND THE DEPRECIATION ADJUSTMENT**  
Freehold property and computer equipment have been restated at directors' valuation. All other fixed assets have been restated by applying appropriate Central Statistical Office price indices to original costs.

The current cost depreciation charges can be regarded as that sum of money which requires to be spent to replace with existing technology the capacity of the fixed assets at the start of the year. The main reason why it is higher than the historical cost depreciation charges is because the fall in value of money means that any calculation based on the cost of assets in prior years is inadequate as a measure of their loss of value in current terms. Current cost depreciation does not imply that the assets in question will be replaced, either with existing or new technology.

The same depreciation rates have been used as set out in Note 1(d) of the historical cost accounts except as set out below.

<u>Asset Category</u>	<u>Depreciation Life</u>
Office Machines	6 Years
Plant and Machinery	10 years

The depreciation rate for the above asset categories have been extended because a significant volume of these assets are still in use despite having been fully depreciated in the historical cost accounts.

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

NOTES TO THE ACCOUNTS  
(continued)

5. FIXED ASSETS AND THE DEPRECIATION ADJUSTMENT (continued)

	<u>Gross</u> <u>£'000</u>	<u>Depreciation</u> <u>£'000</u>	<u>Net</u> <u>£'000</u>
Freehold property	33.0	-	33.0
Leasehold improvements	1,795.4	1,257.2	538.2
Plant, machinery, furniture, fixtures, equipment and motor vehicles	4,719.5	2,661.2	2,058.3
	<hr/>	<hr/>	<hr/>
Total	<u>6,547.9</u>	<u>3,918.4</u>	<u>2,629.5</u>

6. CURRENT COST OPERATING ADJUSTMENTS  
The net charge is made up as follows:

	<u>£'000</u>
Cost of sales adjustment (note 3)	663.7
Monetary working capital adjustment (note 4)	25.2
Depreciation adjustment (note 5)	<u>68.8</u>
	<hr/>
	757.7
	<hr/>

7. ASSOCIATED COMPANIES

Current cost accounts have not been prepared by the two associated companies. There are no meaningful current cost adjustments that can be made to the results of either company and, since neither has made profit or loss since its date of incorporation, the interest in associated companies is shown in the current cost balance sheet at historical cost.

8. GEARING ADJUSTMENT

	<u>£'000</u>
Gearing adjustment	<u>26.4</u>

SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

NOTES TO THE ACCOUNTS  
(continued)

8. GEARING ADJUSTMENT (continued)

The significance of the gearing adjustment and the method of calculation are described in note 2. For the purpose of calculating the gearing adjustment:

Borrowings comprise:

Bank overdraft	£'000
Loan	665.9
Deferred taxation	672.7
Current taxation	967.3
Balance at bank and cash in hand	2,860.9
	(4,827.5)

339.3

Net operating assets comprise:

Fixed assets	
Investments in associated companies	2,629.5
Stock	0.1
Monetary working capital	6,412.0
	822.8

9,864.4

9. CURRENT COST RESERVE

The purpose and nature of the reserve are explained in note 2. The make-up of the reserve, in this first year that current cost accounts have been prepared, is as follows:

Revaluation during the year of:

Freehold property	£'000
Leasehold improvements	29.0
Plant, machinery, furniture, fixtures, equipment and motor vehicles	100.4
Stock and work in progress	116.8
	162.8

Adjustments to profit and loss account for:

Cost of sales	
Monetary working capital	663.7
Gearing	25.2
	(26.4)

Balance at end of the year

1,071.5

of which:

Realised	
Unrealised	731.3
	340.2

1,071.5

THE READER'S DIGEST ASSOCIATION LIMITED  
AND SUBSIDIARY COMPANIES

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SUPPLEMENTARY CURRENT COST ACCOUNTS  
(continued)

NOTES TO THE ACCOUNTS  
(continued)

9. CURRENT COST RESERVE (continued)

The realised element represents the net cumulative total of the current cost adjustments which have been passed through the profit and loss account. Thus, it represents the difference between historical and current cost profit since current cost accounts were first prepared in this case since 1st July, 1980.

10. CORRESPONDING AMOUNTS

Since this is the first year in which current cost accounts have been prepared, corresponding amounts have not been included since they are not readily available.