

THE READER'S DIGEST ASSOCIATION LIMITED

---

DIRECTORS' REPORT AND ACCOUNTS  
30TH JUNE, 1978

---



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

---



# THE READER'S DIGEST ASSOCIATION LIMITED

## 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, 1978.

### Results:

Profit for the year before taxation	£2,309,565
Taxation	<u>1,238,499</u>
Profit for the year after taxation	1,071,066
Proposed dividend	<u>738,210</u>
	332,856
Balance brought forward	<u>3,896,668</u>
Balance carried forward	<u>£4,229,524</u>

### Activities:

The principal activity of the company is publishing and includes the sale of magazines, books, gramophone records, tapes and sound reproducing equipment.

### Directors:

The following served as directors during the year:

V. Ross (Managing director)  
 G.A.G. Selby-Lowndes  
 A.R.P. Fairlie  
 P.A.A. Glemser  
 B.C. Gray  
 R.W. Hewett  
 S.N. McRae  
 M.R.S. Randolph  
 J.A. O'Hara  
 M.T. Tourrenc (France)

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

	<u>Ordinary shares of 5p each</u>	
	<u>At 30th June, 1978</u>	<u>At 30th June, 1977</u>
V. Ross	23,125	23,125
M.R.S. Randolph	14,000	14,000

At 30th June, 1977 and 1978 M.R.S. Randolph had an outstanding option right, valid until 10th June, 1979 to subscribe for 6,000 5p ordinary shares in the company at £2.72 per share.

### Exports:

The value of goods exported by the group from the United Kingdom, including goods exported to affiliated companies amounted to £4,240,103.

THE READER'S DIGEST ASSOCIATION LIMITED

---

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 1,129 and their aggregate remuneration was £4,092,626.

Fixed assets:

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

Charitable contributions:

The company has given £2,881 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.

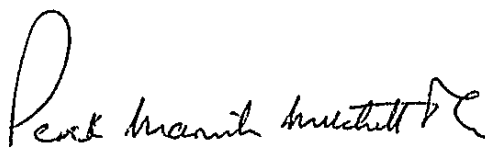
REPORT OF THE AUDITORS TO THE MEMBERS OF  
THE READER'S DIGEST ASSOCIATION LIMITED

We have examined the accounts set out on pages 4 to 11, which have been prepared under the historical cost convention.

As indicated in note 1(d) 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, prepared under the historical cost convention, give a true and fair view of the state of the company's affairs at 30th June, 1978 and of the profit and source and application of funds for the year to that date and comply with the Companies Acts 1948 and 1967.

LONDON



29<sup>th</sup> September, 1978.

Chartered Accountants

THE READER'S DIGEST ASSOCIATION LIMITED

---

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH JUNE, 1978

---

	<u>Note</u>	<u>1978</u>	<u>1977</u>
TURNOVER	1	£38,147,000	£31,842,000
PROFIT BEFORE TAXATION	2	2,309,565	1,897,881
Taxation	4	1,238,499	1,014,063
PROFIT AFTER TAXATION		1,071,066	883,818
Proposed dividend		738,210	702,418
		332,856	181,400
Balance brought forward from previous year		3,896,668	3,715,268
BALANCE CARRIED FORWARD		£ 4,229,524	£ 3,896,668

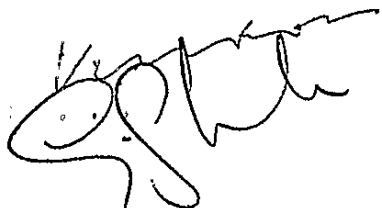
The notes referred to above  
form part of these accounts.

THE READER'S DIGEST ASSOCIATION LIMITED

BALANCE SHEET AT 30TH JUNE, 1978

	<u>Note</u>	<u>1978</u>	<u>1977</u>
EMPLOYMENT OF CAPITAL			
Fixed assets	1 & 5	£ 583,853	£ 545,403
Unlisted investments:			
Shares at cost	6	100	100
Current assets:			
Stock and work in progress	1 & 7	£ 4,751,828	£ 4,637,189
Debtors (less provisions)		8,225,236	7,162,675
Amounts due from fellow subsidiaries		1,178,680	451,506
Balance at bank and cash in hand		<u>1,148,882</u>	<u>1,588,385</u>
		<u>15,304,626</u>	<u>13,839,755</u>
Current liabilities:			
Creditors		£ 5,203,943	£ 4,404,983
Provision for future collection costs		270,608	249,409
Amounts due to parent and fellow subsidiaries		535,663	250,548
Current taxation	8	1,217,763	1,406,695
Proposed dividend		<u>738,210</u>	<u>702,418</u>
		<u>7,966,187</u>	<u>7,014,053</u>
Net current assets		<u>7,338,439</u>	<u>6,825,702</u>
		7,922,392	7,371,205
Deferred revenue - unexpired subscriptions	1	<u>2,374,374</u>	<u>2,134,014</u>
		<u>£5,548,018</u>	<u>£5,236,191</u>
CAPITAL EMPLOYED			
Share capital	9	£ 111,850	£ 111,850
Share premium account		224,460	224,460
Unappropriated profits		<u>4,229,524</u>	<u>3,896,668</u>
		4,565,834	4,232,978
Deferred taxation account	1 & 10	982,184	1,003,213

The notes referred to above form part of these accounts.

 } Directors

£5,548,018

£5,236,191

THE READER'S DIGEST ASSOCIATION LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS  
FOR THE YEAR ENDED 30TH JUNE, 1978

SOURCE OF FUNDS	<u>1978</u>	<u>1977</u>
Profit after taxation	£1,071,066	£ 883,818
Adjustment for items not involving the movement of funds:		
Depreciation of fixed assets	£ 190,306	£ 165,153
(Decrease)/increase in deferred taxation	(21,029)	705,125
Increase in deferred revenue	239,360	564,490
Increase/(decrease) in provision for future collection costs	21,199	(14,228)
Profit on sale of fixed assets	<u>(7,613)</u>	<u>(204,002)</u>
	422,223	1,216,538
TOTAL GENERATED FROM OPERATIONS	1,493,289	2,100,356
FUNDS FROM OTHER SOURCE		
Proceeds of disposal of fixed assets	<u>14,153</u>	<u>286,492</u>
	1,507,442	2,386,848
APPLICATION OF FUNDS		
Purchase of fixed assets	£ 235,296	£ 190,430
Investment in associated company	-	50
Dividend paid	<u>702,418</u>	<u>629,156</u>
	(937,714)	(819,636)
	£ 569,728	£1,567,212
CHANGES IN WORKING CAPITAL		
Increase in stocks	£ 114,639	£1,581,446
Increase in debtors	1,062,561	301,712
Increase in creditors, including taxation	(610,028)	(78,218)
Increase/(decrease) in net group debtors	442,059	(240,443)
(Decrease)/increase in net liquid funds	<u>(439,503)</u>	<u>2,715</u>
	<u>£ 569,728</u>	<u>£1,567,212</u>

THE READER'S DIGEST ASSOCIATION LIMITED

NOTES ON THE ACCOUNTS

1. ACCOUNTING POLICIES

(a) 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.

(b) Turnover:

Turnover comprises net revenue, after deducting provisions for bad debts and returns, and excludes value added tax.

(c) 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.

(d) 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). Such attributable overheads omitted from the valuation of stock and work in progress are estimated to amount to £434,573 at 30th June, 1978 and £777,178 at 30th June, 1977 (1976:£505,470). The inclusion of such overheads would therefore decrease the profits of the year by some £342,605 (1977:increase:£271,708). Stocks held in excess of one year's forecast sales are subject to a provision for obsolescence.

(e) Deferred taxation:

Deferred taxation, which has been provided on the deferral method, represents taxation relief on the increase in stock values during the five years ended 30th June, 1978 (see note 9), 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.

(f) Foreign currencies:

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

(g) Promotional costs:

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



THE READER'S DIGEST ASSOCIATION LIMITED

NOTES ON THE ACCOUNTS  
(continued)

2. PROFIT BEFORE TAXATION

Profit before taxation is after charging:

	<u>1978</u>	<u>1977</u>
	£ 2,006	£ -
Interest payable on short term loan	-	190,003
Profit on sale of computer equipment	15,000	13,000
Auditors' remuneration	176,601	138,900
Directors' remuneration as executives (note 3)	190,306	165,153
Depreciation and amortisation	362,652	297,924
Hire of plant and machinery		

3. REMUNERATION OF DIRECTORS AND SENIOR EMPLOYEES

	<u>1978</u>	<u>1977</u>
	£ -	£ -
Chairman	25,849	23,237
Highest paid director		
	<u>1978</u>	<u>1977</u>
	<u>No.</u>	<u>No.</u>
Other directors:	2	3 )
£0 - £ 2,500	-	2 )
£12,501 - £15,000	2	1 )
£15,001 - £17,500	2	1 )
£17,501 - £20,000	1	2 )
£20,001 - £22,500	1	- )
£22,501 - £25,000	1	- )
£25,001 - £27,500		
	<u>10,899</u>	<u>8,402</u>
Contributions under pension scheme	£ 176,601	£ 138,900

No director has been designated as chairman of the board.

Certain employees received emoluments, excluding pension scheme contributions, in excess of £10,000 as follows:

	<u>1978</u>	<u>1977</u>
£10,001 - £12,500	19	5
£12,501 - £15,000	5	4
£15,001 - £17,500	3	-
	<u>27</u>	<u>9</u>

4. TAXATION

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

	<u>1978</u>	<u>1977</u>
U.K. corporation tax at 52% (1977: 52%)	£1,212,349	£ 310,435
Transferred to deferred taxation account	25,269	710,944
	<u>1,237,618</u>	<u>1,021,379</u>
Taxation adjustment in respect of prior years	881	(7,316)
	<u>£1,238,499</u>	<u>£1,014,063</u>

THE READER'S DIGEST ASSOCIATION LIMITED

NOTES ON THE ACCOUNTS  
(continued)

4. TAXATION (continued)

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.

5. FIXED ASSETS

	Freehold property	Leasehold improvements Short lease	Plant machinery, furniture, fixtures, equipment and motor vehicles	Total
Cost:				
Balance at 30th June, 1977	£4,015	£274,264	£1,426,269	£1,704,548
Additions	-	21,203	214,093	235,296
Transfer	-	64,050	(64,050)	-
Sales and retirements	-	(1,451)	(56,670)	(58,121)
Balance at 30th June, 1978	£4,015	£358,066	£1,519,642	£1,881,723
Accumulated depreciation:				
Balance at 30th June, 1977	£ -	£128,456	£1,030,689	£1,159,145
Charge for the year	-	22,652	167,654	190,306
Sales and retirements	-	51,317	(102,898)	(51,581)
Balance at 30th June, 1978	£ -	£202,425	£1,095,445	£1,297,870
Net book value:				
At 30th June, 1978	£4,015	£155,641	£ 424,197	£ 583,853
At 30th June, 1977	£4,015	£145,808	£ 395,580	£ 545,403

At 30th June, 1978 there were outstanding commitments in respect of capital expenditure contracted for but not provided for in the accounts of £6,940 (1977:£30,297) and capital expenditure authorised but not contracted for of £53,620 (1977:£44,815).

6. UNLISTED INVESTMENTS

The unlisted investments comprise 50 ordinary shares of £1 each, fully paid, in Drive Publications Limited, and 50 ordinary shares of £1 each, fully paid, in Postal Addressing Systems Limited; being 50% of the issued share capital of each of those companies.

Drive Publications Limited and Postal Addressing Systems Limited are therefore regarded as associated companies of The Reader's Digest Association Limited within the definition given in the Statement of Standard Accounting Practice No.1.

Audited accounts for the year ended 31st December, 1977 and unaudited accounts for the ensuing six months period have been received from Drive Publications Limited and audited accounts for the year to 30th June, 1978 have been received from Postal Addressing Systems Limited. Neither company has made profit or loss since its date of incorporation.

THE READER'S DIGEST ASSOCIATION LIMITED

NOTES ON THE ACCOUNTS  
(continued)

6. UNLISTED INVESTMENTS (continued)

Included in debtors is an amount of £1,265,618 (1977:£1,488,923) due from Drive Publications Limited and an amount of £17,817 (1977:£10,078) from Postal Addressing Systems Limited.

7. STOCK AND WORK IN PROGRESS

Stock and work in progress comprises:

	<u>1978</u>	<u>1977</u>
Paper and cloth	£1,084,799	£1,637,598
Work in progress	506,899	1,172,700
Finished goods	<u>3,160,130</u>	<u>1,826,891</u>
	<u>£4,751,828</u>	<u>£4,637,189</u>

8. CURRENT TAXATION

Current taxation comprises:

	<u>1978</u>	<u>1977</u>
Corporation tax payable on the profits for the year, after deducting advance corporation tax paid (payable 1st July, 1979)	£ 850,550	£ 122,681
Corporation tax in respect of previous years (payable 1st July, 1978)	3,617	922,162
Advance corporation tax	<u>363,596</u>	<u>361,852</u>
	<u>£1,217,763</u>	<u>£1,406,695</u>

9. SHARE CAPITAL

Authorised:

2,500,000 ordinary shares of 5p each

£125,000

Issued:

At 30th June, 1977 and 1978:

2,237,000 ordinary shares of 5p each

£111,850

Options have been granted to one director to subscribe for 6,000 5p ordinary shares in the company at £2.72 per share exercisable on or before 10th June, 1979.

10. DEFERRED TAXATION

Deferred taxation account comprises:

	<u>1978</u>	<u>1977</u>
Taxation relief on the increase in the value of stock and work in progress during the six years ended 30th June, 1978	£1,110,282	£1,131,975
Effect of accelerated depreciation allowances on fixed assets available for taxation purposes	228,299	220,696
Other timing differences	7,199	12,394
Advance corporation tax payable on the dividend proposed in these accounts, and recoverable against future corporation tax liabilities	<u>(363,596)</u>	<u>(361,852)</u>
	<u>£ 982,184</u>	<u>£1,003,213</u>

THE READER'S DIGEST ASSOCIATION LIMITED

---

NOTES ON THE ACCOUNTS  
(continued)

11. 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.