

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

DIRECTORS' REPORT AND ACCOUNTS
30th JUNE, 1975

PEAT, MARWICK, MITCHELL & CO.
11, Ironmonger Lane, London EC2P 2AR.

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

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, 1975.

Results:

Profit for the year before taxation and extraordinary item	£2,001,845
Taxation	<u>1,051,752</u>
Profit for the year after taxation and before extraordinary item	£ 950,093
Extraordinary item	<u>4,466</u>
	945,627
Dividends:	
Paid	£279,625
Proposed	<u>279,625</u>
	559,250
	386,377
Balance brought forward	<u>3,162,276</u>
Balance carried forward	<u>£3,548,653</u>

Activities.

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

Directors:

The following were directors throughout the year:

V. Ross (Managing director)
P.S. Crane
A.R.P. Fairlie
P.A.A. Glemser
M.R.S. Randolph
G.A.G. Selby-Lowndes

M. Tourrenc (France) and H. Lewis (U.S.A.) were appointed directors on 1st July, 1974 and 8th July, 1974 respectively.

J.H. Davenport (formerly the chairman) resigned on 31st December, 1974.

Directors' interests in the company are as shown below:

	<u>Ordinary shares of 5p each</u>	
	<u>At 30th June, 1974</u>	<u>At 30th June, 1975</u>
V. Ross	23,125	23,125
A.R.P. Fairlie	6,000	-
P.A.A. Glemser	8,000	-
M.R.S. Randolph	14,000	14,000
G.A.G. Selby-Lowndes	22,500	-

THE READER'S DIGEST ASSOCIATION LIMITED
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REPORT OF THE DIRECTORS
(continued)

Directors: (continued)

At 30th June, 1975 the following director had outstanding option rights, valid until 10th June, 1979, to subscribe for the following 5p ordinary shares in the company.

M.R.S. Randolph 6,000 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 £1,965,370.

Subsidiary company:

With effect from 1st May, 1975 the parent company acquired from the company the whole of the issued share capital of The Reader's Digest Association (Private) Limited (incorporated in India) for nil consideration.

Employees:

The average number employed by the Group who worked wholly or mainly in the United Kingdom during the year was 1,227 and their aggregate remuneration was £2,792,715.

Fixed assets:

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

Charitable contributions:

The company has given £77,918 for charitable purposes during the year, including £74,995 in respect of prizes unclaimed from promotional competitions.

Auditors:

The auditors, Messrs. Peat, Marwick, Mitchell & Co. continue in office in accordance with Section 159 of the Companies Act, 1948.

By order of the board

B.C. GRAY

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 balance sheet and consolidated profit and loss account, together with the notes thereon, set out on pages 4 to 9.

Reference is made in note 11 to the fact that the Inland Revenue is seeking to disallow as a deduction from profits certain expenditure on promoting the company's products. If the Inland Revenue succeed in their claim the company would be liable to additional Corporation Tax of some £180,000 of which £79,000 relates to the year ended 30th June, 1975. In view of the foregoing we are unable to state that we are satisfied that the aggregate taxation liabilities of the company, or the charge for taxation for the year, are fairly stated.

Subject to the above, in our opinion, the accounts on pages 4 to 9 comply with the Companies Acts, 1948 and 1967 and give respectively a true and fair view of the state of the company's affairs at 30th June, 1975 and a true and fair view of the profit of the group.

LONDON

PEAT, MARWICK, MITCHELL & CO.

16th October, 1975.

Chartered Accountants

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE, 1975

	Note	1975	1974
TURNOVER	1	<u>£25,728,797</u>	<u>£20,281,119</u>
PROFIT BEFORE TAXATION AND EXTRAORDINARY ITEM	2	2,001,845	2,592,203
Taxation	3	<u>1,051,752</u>	<u>1,406,154</u>
PROFIT AFTER TAXATION AND BEFORE EXTRAORDINARY ITEM (of which £959,259 is dealt with in the accounts of The Reader's Digest Association Limited) (1974 - £1,180,964)		950,093	1,186,049
EXTRAORDINARY ITEM	4		
Disposal of subsidiary company:			
Loss on investment		£ 8,093	£ -
Accumulated deficit		<u>3,627</u>	<u>-</u>
		945,627	1,186,049
Dividends - paid		£279,625	£1,010,327
- proposed		<u>279,625</u>	<u>-</u>
		386,377	175,722
Balance brought forward from previous year		<u>3,162,276</u>	<u>2,986,554</u>
BALANCE CARRIED FORWARD		<u>£ 3,548,653</u>	<u>£ 3,162,276</u>
The Reader's Digest Association Limited		£ 3,548,653	£ 3,156,737
Subsidiary Company		-	5,539
		<u>£ 3,548,653</u>	<u>£ 3,162,276</u>

The notes referred to above
form part of these accounts.

THE READER'S DIGEST ASSOCIATION LIMITED

BALANCE SHEET AT 30TH JUNE, 1975

	<u>Note</u>	<u>1975</u>	<u>1974</u>
EMPLOYMENT OF CAPITAL			
Fixed assets	1 & 5	£ 627,586	£ 578,470
Investment in subsidiary company:			
Shares at cost		£ 8,093	
Indebtedness		<u>1,796</u>	9,889
Unquoted investments:			
Shares at cost	6	50	50
Current assets:			
Stock and work in progress	1	£ 3,655,646	£3,040,116
Debtors (less provisions)		5,893,656	4,965,004
Amounts due from parent and fellow subsidiaries		618,922	527,906
Balance at bank and cash in hand		<u>44,083</u>	<u>1,099,150</u>
		<u>10,212,307</u>	<u>9,632,176</u>
Current liabilities:			
Creditors		£ 3,145,723	£3,140,404
Provision for future collection costs		177,239	138,244
Amounts due to fellow subsidiaries		173	20,244
Current taxation		1,238,185	2,014,779
Proposed dividend		<u>279,625</u>	<u>-</u>
		<u>4,840,945</u>	<u>5,313,671</u>
Net current assets		<u>5,371,362</u>	<u>4,318,505</u>
		5,998,998	4,906,914
Deferred revenue - unexpired subscriptions	1	<u>1,489,853</u>	<u>1,282,867</u>
		<u>£4,509,145</u>	<u>£3,624,047</u>
CAPITAL EMPLOYED			
Share capital	7	£ 111,850	£ 111,850
Share premium account		224,460	224,460
Unappropriated profits		<u>3,548,653</u>	<u>3,156,737</u>
		3,884,963	3,493,047
Deferred taxation account	8	624,182	131,000
The notes referred to above form part of these accounts.			
V. ROSS)			
) Directors			
G.A.G. SELBY-LOWNDES)			
		<u>£4,509,145</u>	<u>£3,624,047</u>

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

NOTES ON THE ACCOUNTS

1. ACCOUNTING POLICIES

(a) Consolidation policy:

The consolidated profit and loss account includes the results of the operations of the company's former subsidiary company for the ten months ended 30th April, 1975 (Note 4).

(b) 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.

(c) Turnover:

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

(d) 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.

(f) Deferred taxation:

Deferred taxation, which has been provided by the deferral method, represents taxation relief on the increase in stock values during the year ended 30th June, 1974 (see note 8) and 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.

2. PROFIT BEFORE TAXATION

Profit before taxation is after charging:

	<u>1975</u>	<u>1974</u>
Auditors' remuneration	£ 11,000	£ 9,465
Directors' remuneration as executives (Note 10)	97,871	100,032
Depreciation and amortisation	211,518	159,511
Hire of plant and machinery	216,287	125,141

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

NOTES ON THE ACCOUNTS
(continued)

3. TAXATION

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

	1975	1974
U.K. Corporation tax at 52% (1974 - 52%)	£1,039,052	£1,301,154
Double taxation relief	<u>7,787</u>	<u>16,790</u>
Overseas taxation	£1,031,265	£1,284,364
Transferred to deferred taxation account	<u>7,787</u>	<u>45,790</u>
	<u>39,740</u>	<u>76,000</u>
Taxation adjustment in respect of prior years	£1,078,792	£1,406,154
	<u>(27,040)</u>	<u>-</u>
	<u>£1,051,752</u>	<u>£1,406,154</u>

The company is a "close company" under the provisions of the Income and Corporation Taxes Act, 1970, but no provision is required to be made for any "shortfall" in distribution.

4. SUBSIDIARY COMPANY

With effect from 1st May, 1975 the parent company acquired from the company the whole of the issued share capital of The Reader's Digest Association (Private) Limited (incorporated in India) for nil consideration; included in the consolidated profit and loss account for the year ended 30th June, 1975 is an amount of £9,166, being the loss of that company for the ten months ended 30th April, 1975, as shown in unaudited accounts drawn up to that date.

5. FIXED ASSETS

	Freehold property	Leasehold improvements		Plant, machinery, furniture, fixtures, equipment and motor vehicles	Total
		Short lease	Long lease		
Cost:					
Balance at 30th June, 1974	£4,015	£226,403	£53,091	£1,374,987	£1,658,496
Additions	-	29,733	-	236,059	265,792
Sales and retirements	-	-	-	(46,493)	(46,493)
Balance at 30th June, 1975	<u>£4,015</u>	<u>£256,136</u>	<u>£53,091</u>	<u>£1,564,553</u>	<u>£1,877,795</u>
Accumulated depreciation:					
Balance at 30th June, 1974	£ -	£127,511	£ -	£ 952,515	£1,080,026
Charge for the year	-	27,988	-	179,147	207,135
Sales and retirements	-	-	-	(36,952)	(36,952)
Balance at 30th June, 1975	<u>£ -</u>	<u>£155,499</u>	<u>£ -</u>	<u>£1,094,710</u>	<u>£1,250,209</u>

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

NOTES ON THE ACCOUNTS
(continued)

5. FIXED ASSETS

	Freehold property	Leasehold <u>improvements</u>		Plant, machinery, furniture, fixtures, equipment and motor vehicles	Total
		Short lease	Long lease		
Net book value:					
At 30th June, 1975	<u>£4,015</u>	<u>£100,637</u>	<u>£53,091</u>	<u>£469,843</u>	<u>£ 627,586</u>
At 30th June, 1974	<u>£4,015</u>	<u>£ 98,892</u>	<u>£53,091</u>	<u>£422,472</u>	<u>£ 578,470</u>

6. UNQUOTED INVESTMENT

The unquoted investment comprises 50 ordinary shares of £1 each, fully paid, in Drive Publications Limited, being 50% of the issued ordinary share capital.

Drive Publications Limited therefore is regarded as an associated company of The Reader's Digest Association Limited within the definition given in the Statement of Standard Accounting Practice No.1.

Unaudited accounts for the year ended 31st December, 1974 and for the ensuing six months period have been received. From the date of incorporation to 30th June, 1975 Drive Publications Limited has made neither profit nor loss.

7. SHARE CAPITAL

Authorised:

2,500,000 ordinary shares of 5p each £125,000

Issued:

At 30th June, 1974 and 1975:

2,237,000 ordinary shares of 5p each £111,850

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

8. DEFERRED TAXATION

Deferred taxation account comprises:

	<u>1975</u>	<u>1974</u>
Taxation relief on the increase in the value of stock and work-in-progress during the year ended 30th June, 1974	£573,749	£ -
Effect of accelerated depreciation allowances on fixed assets available for taxation purposes	205,130	122,610
Other timing differences	(4,130)	8,390
Advance corporation tax payable on the dividend proposed in these accounts, and recoverable against future corporation tax liabilities	<u>(150,567)</u>	<u>-</u>
	<u>£624,182</u>	<u>£131,000</u>

THE READER'S DIGEST ASSOCIATION LIMITED
AND ITS SUBSIDIARY COMPANY

NOTES ON THE ACCOUNTS
(continued)

8. DEFERRED TAXATION (continued)

The period of deferment of corporation tax in respect of the increase in the value of stock and work-in-progress during the year ended 30th June, 1974 is uncertain, and no account has been taken of any such deferral in respect of the year ended 30th June, 1975 since both depend upon future legislation.

9. 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.

10. REMUNERATION OF DIRECTORS AND SENIOR EMPLOYEES

	<u>1975</u>	<u>1974</u>
Chairman (1974 - also highest paid director)	£ 6,374	£ 20,878
Highest paid director	21,001	-
Other directors:		

	<u>1975</u>	<u>1974</u>		
	<u>No.</u>	<u>No.</u>		
£0 - £ 2,500	3	2)	
£10,001 - £12,500	-	1)	
£12,501 - £15,000	3	2)	60,236
£15,001 - £17,500	-	2)	69,170
£17,501 - £20,000	1	-)	

Contributions under pension scheme	<u>10,260</u>	<u>9,984</u>
	<u>£97,871</u>	<u>£100,032</u>

There were four employees (1974 - 1) whose emoluments, excluding pension scheme contributions, were within the range £10,001 - £12,500.

11. CONTINGENT LIABILITY

The company has incurred certain expenditure on promoting its products during the four years ended 30th June, 1975 which the Inland Revenue are seeking to disallow as a deduction from profits for taxation purposes. The directors, having been advised by Counsel, are of the opinion that such expenditure is properly deductible and, consequently, no provision has been made in these accounts for corporation tax on this expenditure. If the Inland Revenue succeed in their claim the company would be liable to corporation tax of some £180,000, of which £79,000 relates to the year ended 30th June, 1975 (1974 - £52,000).

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THE READER'S DIGEST ASSOCIATION LIMITED

LIST OF DIRECTORS

<u>Name and Address</u>	<u>Occupation</u>	<u>Directorships</u>
Hobart Durbin Lewis, Bedford Center Road, Bedford Hills, New York 10507, USA.	President, The Reader's Digest Association Inc.	No other UK Directorships.
Marcel Theophile Tournenc, 3 Avenue de la Porte de Montrouge, 75014 Paris, France.	Managing Director, Selection du Reader's Digest .SA.	No other UK Directorships.
Peter Stephen Crane, 34 Arlington House, Arlington Street, London S.W.1.	Solicitor.	American Chamber of Commerce (UK) Ltd. American Management Resources Ltd. Bachelor Holiday Parties Ltd. Baldwin-Burns Ltd. Canadian Export Oil & Gas (UK) Ltd. Centriline Ltd. Common Cause Ltd. Common Cause College Ltd. Common Cause Publications Ltd. Copes Regulators Ltd. Creslenn (UK) Ltd. Dennison Manufacturing Co. Ltd. Erie Resistor Ltd. Erie Technological Products Ltd. Grayson Travel Ltd. Marinex Petroleum Ltd. Metadalic Ltd. National Chemsearch (UK) Ltd. Nissen International (Sports Equipment) Ltd. Placid Oil (GB) Ltd. Raymond Concrete Pile Co. Ltd. Seawold Ltd. Temarine (Yacht Basins) Ltd.
Victor Ross, 1 Templewood Avenue, Lion N.W.3.	Managing Director, The Reader's Digest Association Ltd.	Drive Publications Ltd. Foreign Study League (UK) Ltd. Reader's Digest Films Ltd.
Greville Arthur George Selby-Lowndes, Langley Cottage, Cherry Tree Lane, Fulmer, Bucks.	Deputy Managing Director, The Reader's Digest Association Ltd.	Drive Publications Ltd. Reader's Digest Films Ltd.
Archibald Robin Paul Fairlie, 3 Cholmeley Crescent, London N.6.	Business Services Director, The Reader's Digest Association Ltd.	Foreign Study League (UK) Ltd.

Name and Address

Occupation

Directorships

Peter Alexander
Alfred Glemser,
Folly Cottage,
Bigfrith,
Cookham Dean,
Berks.

Publishing
Projects
Director, The
Reader's Digest
Association
Ltd.

Drive Publications Ltd.
Reader's Digest Films Ltd.

Michael Richard
Spencer Randolph,
The Cloth Hall,
Smarden,
Kent.

Editorial Director, Maritime World Ltd.
The Reader's Digest Association Ltd.
Reader's Digest Films Ltd.
Reader's Digest Pension Trustees Ltd.