

POLYGRAM RECORD OPERATIONS LIMITED950138 /
93DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1985.

Results

The results for the year are set out on page 4.

Review of the business

The company's principal activity during the year was the manufacture of gramophone records and musicassettes and the distribution of these products together with compact discs and videos.

The commercial division reported successful sales campaigns, in particular the marketing of special products.

Factory throughput was maintained at or above budgeted levels in all product configurations. In the distribution division, a large volume of third party work enabled high activity levels to be maintained.

Tangible fixed assets

The movements in tangible fixed assets during the year are set out in note 8.

Directors and their interests

The directors of the company during the year were:

R. Bala-Ratnam	(Resigned November 15, 1985)
W. W. Bryant	
R. Lopez S	(Resigned April 30, 1985)
C. G. D. May	(Resigned August 1, 1986)
A. J. Morris	(Resigned April 25, 1985)
M. L. Oberstein	(Appointed July 1, 1985)
C. J. R. Swan	(Appointed March 6, 1985 and resigned November 15, 1985)

P. M. Rezon and L. J Anderson were appointed on January 2, 1986. I. D. Groves was appointed on February 10, 1986 and resigned on August 1, 1986. C Van Dijk was appointed on July 1, 1986. A G Pye was appointed on August 1, 1986.

At no time during the year ended December 31, 1985 did any director have any interest in shares or debentures which is required by Section 324 of the Companies Act 1985 to be notified to the company.

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POLYGRAM RECORD OPERATIONS LIMITED

DIRECTORS' REPORT

(continued)

Disabled persons

The company's policy is to consider disabled workers for all suitable employment vacancies, to give appropriate training assistance necessary to introduce workers to their jobs and to develop their skills and capabilities.

Providing information to employees

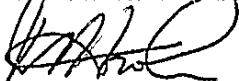
The company is committed to the principle of providing employees with information on matters affecting the business which are of concern to them. On the larger industrial sites a system of regular briefing groups has been introduced, and in other locations similar information is disseminated in a less formal manner.

These arrangements are in addition to the normal joint consultation with representatives of recognised trade unions which include an annual meeting with the relevant directors to review the results of the previous financial year.

Auditors

A resolution to reappoint Arthur Young as auditors will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



M. HOWLE
Secretary

P.O Box 2LB
15 Saint George Street,
London W1A 2LB

August 1, 1986



Arthur Young

Chartered Accountants
Rolls House, 7 Rolls Buildings,
Fetter Lane, London EC4A 1NH

REPORT OF THE AUDITORS TO THE MEMBERS OF
POLYGRAM RECORD OPERATIONS LIMITED

We have audited the accounts on pages 4 to 14 in accordance with approved auditing standards.

In our opinion, the accounts, which have been prepared under the historical cost convention, modified to include the revaluation of certain assets in accordance with the accounting policies stated on page 7, give a true and fair view of the state of affairs of the company at December 31, 1985 and of its loss and source and application of funds for the year then ended and comply with the Companies Act 1985.


ARTHUR YOUNG

August 1, 1986

POLYGRAM RECORD OPERATIONS LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1985

	<u>Notes</u>	£'000	<u>1985</u> £'000	<u>1984</u> £'000
Turnover	3		99,636	74,356
Cost of sales			(86,797)	(62,335)
			<u>12,839</u>	<u>12,021</u>
Gross profit				
Distribution costs		(8,289)		(6,960)
Administrative expenses		(7,257)		(6,000)
			<u>(15,546)</u>	<u>(12,960)</u>
			(2,707)	(839)
Other operating profit			67	158
Income from shares in related companies			200	200
Interest receivable	5		-	9
Interest payable	5		(141)	(428)
Exceptional item	4		-	(500)
Loss on ordinary activities before taxation	5		(2581)	(1,400)
Tax on loss on ordinary activities	7		395	478
Loss for the financial year			<u>(2186)</u>	<u>(922)</u>
Transfer (to)/from revaluation reserve			(6)	31
Retained (loss)/profit brought forward			<u>(496)</u>	<u>395</u>
Retained (loss) carried forward			<u><u>(2,682)</u></u>	<u><u>(496)</u></u>

The notes on page 7 to 14 form part of these accounts

POLYGRAM RECORD OPERATIONS LIMITEDBALANCE SHEET AT DECEMBER 31, 1985

	<u>Notes</u>	£'000	1985 £'000	1984 £'000
Fixed assets:				
Tangible assets	8	4,092		4,357
Investments	9	50		50
		-----	4,142	4,407
Current assets:				
Stocks	10	1,109		1,019
Debtors	11	21,739		18,310
Cash at bank and in hand		10		3,728
		-----		-----
		22,858		23,057
Creditors: amounts falling due within one year	12	(27,520)		(26,961)
			(4,662)	(3,904)
Net current liabilities			-----	-----
			(520)	503
Total assets less current liabilities				
Creditors: amounts falling due after more than one year	13		(1600)	-
Provision for liabilities and charges:				
Deferred taxation	14		-	(507)
			-----	-----
			(2,120)	(4)
Capital and reserves:				
Called up share capital	15		15	15
Revaluation reserve	16		553	477
Profit and loss account			(2,688)	(496)
			-----	-----
			(2,120)	(4)

W. W. BRYANT

M. L. OBERSTEIN

) Directors

August 1, 1986

The notes on pages 7 to 14 form part of these accounts.

POLYGRAM RECORD OPERATIONS LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1985

	£'000	1985 £'000	1984 £'000
Source of funds:			
Loss on ordinary activities before taxation	(2,581)		1,400
Adjustment for items not involving the movement of funds:			
Depreciation	755		968
Write back of provision against investments			-
Loss on sale of tangible fixed assets	167		14
			<u> </u>
Total (absorbed by)/generated from operations		(1,659)	(418)
Funds from other sources:			
Proceeds from sale of tangible fixed assets		209	186
		<u> </u>	<u> </u>
		(1,450)	(232)
Application of funds:			
Purchase of tangible fixed assets	(765)		(662)
Transfer of assets from group companies	(1)		-
Group taxation relief	(23)		-
		<u> </u>	<u> </u>
		(789)	(662)
Decrease in working capital		<u>(2239)</u>	<u>(894)</u>
Components of decrease in working capital:			
Stocks	90		(63)
Debtors	3,429		(3,552)
Creditors	(3,574)		2,206
		<u> </u>	<u> </u>
		(55)	(5,209)
Movement in net liquid funds:			
Bank loans and overdrafts	1,534		1,705
Cash and bank balances	(3,718)		3,210
		<u> </u>	<u> </u>
		(2,184)	4,915
		<u> </u>	<u> </u>
		(2,239)	(894)
		<u> </u>	<u> </u>

The notes on page 7 to 14 form part of these accounts

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 19851. Ultimate holding company

The directors regard Philips Gloeilampenfabrieken N.V., which is incorporated in The Netherlands is the company's ultimate holding company.

2. Accounting policies

These accounts are prepared under the historical cost convention modified to include the revaluation of tangible fixed assets as described below.

Tangible fixed assets

Tangible fixed assets and accumulated depreciation were revalued annually up to December 31, 1982 in line with price indices established for group purposes to reflect the replacement cost of the assets. Thereafter in accordance with the holding company's accounting policy no further revaluations are being made in the accounts.

Depreciation is charged on a straight line basis. Accumulated depreciation includes amounts transferred from revaluation surpluses in earlier years and not charged to the profit and loss account.

Rates of depreciation are:

Land	-	Nil
Buildings	-	2%
Piping and wiring	-	5%
Machinery, equipment and installations	-	10% and 20%
in rented premises	-	10% and 25%
Fixtures and fittings	-	15%
Office machinery	-	2-25%
Leased equipment	-	25%
Motor vehicles	-	25%

Leasing commitments

Assets obtained under finance leases are capitalised and depreciated over the life of the lease.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance repayments outstanding.

Rentals paid under operating leases are charged to income as incurred.

Post balance sheet events

Events relating to the year ended December 31, 1985, which occurred before the date of approval of the accounts by the board of directors, have been included in the accounts to the extent that this is required by Statement of Standard Accounting Practice No. 17.

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)2. Accounting policies (continued)Investments

Investments are stated at cost less amounts written off.

Stocks

Stocks and work-in-progress are stated at the lower of cost and estimated net realisable value. Cost represents actual cost and consists, in the case of own manufactured products, of direct material and labour costs together with the relevant proportion of factory fixed and variable overheads. Net realisable value is the estimated selling price less estimated costs to disposal.

Foreign currencies

Assets and liabilities in foreign currencies at the balance sheet date are translated at the market rate of exchange ruling at that date whilst transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. All differences are taken to the profit and loss account in line with Statement of Standard Accounting Practice No. 20.

Deferred taxation

Deferred taxation is provided by the liability method on all timing differences which are expected to reverse in the foreseeable future.

3. Turnover

Turnover represents the invoiced value of goods and services excluding value added tax. The geographical area to which turnover relates is as follows:

	<u>1985</u>	<u>1984</u>
	£'000	£'000
United Kingdom	99,613	74,261
Europe	23	95
	<u>99,636</u>	<u>74,356</u>

4. Exceptional item

A provision of £500,000 was made in 1984 for the revenue costs of reorganisation of the distribution facilities in the U.K.

POLYGRAM RECORD OPERATIONS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)

5. Profit on ordinary activities before taxation

Profit is stated after charging:

	<u>1985</u> £'000	<u>1984</u> £'000
Cost of sales:		
Depreciation of tangible fixed assets	550	512
Distribution costs:		
Depreciation of tangible fixed assets	205	230
Administration expenses:		
Hire of equipment	647	725
Auditors' remuneration	48	10
Depreciation of tangible fixed assets	205	226
Exchange losses (of which, unrealised £Nil (1984 - £41))	17	129
Interest receivable:		
Other	-	9
Interest payable:		
Other	<u>141</u>	<u>428</u>

6. Employees

The average weekly number of employees including directors during the year was made up as follows:

	<u>1985</u> No.	<u>1984</u> No.
Manufacturing	300	399
Commercial and administrative	533	557
	<u>913</u>	<u>956</u>

Staff costs, during the year, including directors remuneration, amounted to:

	<u>1985</u> £'000	<u>1984</u> £'000
Wages and salaries	9,716	9,140
Social security costs	707	714
Other pension costs	536	549
	<u>10,959</u>	<u>10,403</u>
	£'000	£'000
Directors' remuneration (including pension contributions)	<u>96</u>	<u>32</u>
Emoluments of the chairman (excluding pension contributions)	<u>-</u>	<u>-</u>
Emoluments (excluding pension contributions) of the highest paid director	<u>59</u>	<u>30</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)6. Employees
(continued)

The number of other directors whose emoluments (excluding pension contributions) fell within the ranges below were:

	<u>1985</u> No.	<u>1984</u> No.
£ Nil - £ 5,000	2	3
£ 30,001 - £35,000	1	-

There were no employees who earned more than £30,000 during the year (1984 - Nil).

7. Taxation

The taxation rates used are 45% for the period January 1 to March 31, 1985 and 40% for the period April 1 to December 31, 1985.

	<u>1985</u> £'000	<u>1984</u> £'000
Current year:		
Corporation tax	293	-
Group relief	-	23
Deferred tax	(531)	(531)
Adjustment for change in rates of corporation tax	-	(43)
	<u>(238)</u>	<u>(551)</u>
Prior years:		
Group relief	(151)	(2)
Deferred tax	(6)	75
	<u>(395)</u>	<u>(478)</u>

POLYRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1985

(continued)

8. Tangible fixed assets

	<u>Freehold land and buildings</u> £'000	<u>Plant and equipment</u> £'000	<u>Total</u> £'000
Cost or valuation:			
At January 1, 1985	1,100	10,786	11,886
Additions	-	765	765
Revaluation during the year	100	-	100
Transfers to group companies	-	3	3
Disposals	-	(1,093)	(1,093)
	<u>1,200</u>	<u>10,461</u>	<u>11,661</u>
At December 31, 1985			
Depreciation:			
At January 1, 1985	-	7,529	7,529
Provided during the year	-	755	755
Transfers to group companies	-	2	2
Disposals	-	(717)	(717)
	<u>-</u>	<u>7,569</u>	<u>7,569</u>
At December 31, 1985			
Net book value:			
At December 31, 1985	<u>1,200</u>	<u>2,892</u>	<u>4,092</u>
Net book value:			
At January 1, 1985	<u>1,100</u>	<u>3,257</u>	<u>4,357</u>

The company's freehold premises were revalued as at December 31, 1985 by a qualified surveyor on an open market basis.

The historic cost and related depreciation of fixed tangible assets are shown below:

	<u>Freehold land and buildings</u> £'000	<u>Plant and equipment</u> £000	<u>Total</u> £'000
Cost	584	7,231	7,815
Depreciation	-	(4,531)	(4,531)
Balance December 31, 1985	<u>584</u>	<u>2,700</u>	<u>3,284</u>
Balance December 31, 1984	<u>584</u>	<u>3,060</u>	<u>3,644</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)9. Investments

	<u>Shares in group companies</u> £	<u>Shares in related companies</u> £	<u>Total</u> £
Cost at January 1, 1985	1,200	50,000	51,200
Amounts written off: At January 1, 1985 and December 31, 1985	1,100	-	1,100
Net book value: At January 1, 1985 and December 31, 1985	100	50,000	50,100

The company has the following investments:

<u>Names of Company</u>	<u>Country of incorporation</u>	<u>Holding</u>	<u>Percentage held</u>
Shares in group companies Phonodisc Sales Ltd	U.K.	100 at £1	100%
The Decca Record Company Ltd	U.K.	1,000 at £1	100%
Shares in related companies Record Merchandisers Ltd	U.K.	50,000 at £1	100%

10. Stocks

	<u>1985</u> £'000	<u>1984</u> £'000
Stocks consist of:		
Finished goods	5	-
Raw materials	510	347
Work-in-progress	427	466
Sundry stocks	167	206
	<u>1,109</u>	<u>1,019</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1985
(continued)11. Debtors

	1985 £'000	1984 £'000
Trade debtors	16,668	15,084
Group companies:		
Overseas group companies	743	453
U.K. group companies	3,111	2,137
U.K. associated company	200	-
Other debtors	434	249
Prepayments	583	387
	<u>21,739</u>	<u>18,310</u>

12. Creditors: amounts falling due within one year

	1985 £'000	1984 £'000
Trade creditors	8,784	6,555
Group companies:		
U.K. holding company	6,118	8,904
Overseas group companies	3,057	2,188
U.K. group companies	1,708	1,056
Current corporation tax	293	-
Other taxes and social security costs	4,314	3,004
Other creditors	2,145	1,453
Bank loans and overdrafts	330	1,864
Accruals	771	1,937
	<u>27,520</u>	<u>26,961</u>

13. Creditors: amounts falling due after more than one year

Other creditors	1,600	-
	<u>1,600</u>	<u>-</u>

14. Deferred taxation

The full potential liability for deferred tax has been provided for the year to December 31, 1985 at the effective rate of corporation tax of 36.25%. The directors do not consider it reasonable at present to assume that timing differences will not reverse in the foreseeable future.

	1985 £'000	1984 £'000
Capital allowances in advance of depreciation	(613)	(838)
Other timing differences	867	568
Revaluation of fixed assets and related depreciation	(254)	(237)
	<u>-</u>	<u>(507)</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 198514. Deferred Taxation (continued)

	<u>1985</u> £'000	<u>1984</u> £'000
In addition future tax relief not take up in the accounts should be available on the following item	-	-
Other timing differences which should produce future tax relief on	295	-
	<u>295</u>	<u>-</u>

15. Share capital

	<u>Authorised</u>		<u>Alloted, issued and fully paid</u>	
	<u>1985</u> No.	<u>1984</u> No.	<u>1985</u> £'000	<u>1984</u> £'000
Ordinary shares of £1 each	5,000	5,000	5	5
Deferred shares of £1 each	10,000	10,000	10	10
	<u>15,000</u>	<u>15,000</u>	<u>15</u>	<u>15</u>
Issued and fully paid			<u>15</u>	<u>15</u>

16. Revaluation reserve

	<u>1985</u> £'000
At January 1, 1985	477
Transfer from profit and loss account	6
Surplus arising on the revaluation of fixed assets and related accumulated depreciation	100
	<u>583</u>
Less deferred tax thereon	(30)
At December 31, 1985	<u>553</u>

17. Contingent liabilities

These represent claims of £500,000 the nominal amount of which are in excess of the amounts provided.