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POLYGRAM RECORD OPERATIONS LIMITED

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Report and Accounts
31st December 1987

POLYGRAM
1988

POLYGRAM RECORD OPERATIONS LIMITEDDIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1987.

Results and dividend

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

The directors do not recommend that a dividend be paid.

Review of the business

The Company's principal activities during the year were the manufacture of gramophone records and musicassettes and the distribution and marketing of these products together with compact discs and videos. On 1 January 1987, the trades, together with the relevant assets and liabilities of Phonogram Limited and Polydor Limited were transferred to the company.

The Company's factory at Walthamstow was closed in 1988. The decision to close the factory arose from the increasing surplus of manufacturing capacity of black discs in the United Kingdom and throughout Europe.

Tangible fixed assets

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

Directors and their interests

The directors during the year were:

L. J. Anderson
W.W. Bryant (Resigned May 31, 1987)
B. Coulson (Appointed June 1, 1987)
C. van Dijk
B. H. Fallows (Appointed June 1, 1987)
M. L. Oberstein
A. G. Pye
P. M. Rezon

B. Coulson and C Van Dijk resigned from the Board on September 2, 1988 and September 16, 1988 respectively.

At no time during the year ended December 31, 1987 did any director have any interest which is required by Section 324 of the Companies Act 1985 to be notified to the company.

POLYGRAM RECORD OPERATIONS LIMITEDDIRECTORS' 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

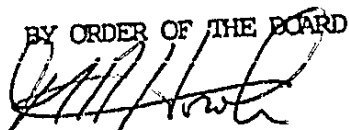
The Company is committed to the principle of providing employees with information on matters affecting the business which are of concern to them. On the industrial site a system of regular briefing groups is in existence and in other locations similar information is disseminated in a less formal manner.

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 the auditors, Arthur Young, will be put to the members at the Annual General Meeting.

BY ORDER OF THE BOARD



MICHAEL HOWLE
Secretary

1 Sussex Place
London W6 9XS

October 31, 1988



A MEMBER OF ARTHUR YOUNG INTERNATIONAL

Arthur Young

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 freehold land and buildings, give a true and fair view of the state of the company's affairs at December 31, 1987 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

Arthur Young

ARTHUR YOUNG

October 31, 1988

POLYGRAM RECORD OPERATIONS LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1987

	<u>Notes</u>	<u>1987</u> £'000	<u>1986</u> £'000
Turnover	3	98,268	104,680
Cost of sales		(61,746)	(88,185)
Gross profit		<u>36,522</u>	<u>16,495</u>
Distribution costs		(7,782)	(7,841)
Administrative expenses		(23,519)	(8,326)
		<u>(31,301)</u>	<u>(16,167)</u>
		5,221	328
Other operating profit		16	-
Income from shares in related companies		-	373
Interest receivable	5	2,374	-
Interest payable	5	(93)	(211)
Exceptional item	4	<u>-</u>	<u>25,075</u>
Profit on ordinary activities before taxation	5	7,518	25,565
Tax on profit on ordinary activities	7	(2,991)	(1,840)
Profit/(loss) on ordinary activities after taxation		4,527	23,725
Extraordinary item after taxation	17	(5,900)	-
Transfer to revaluation reserve		-	(5)
Dividend		-	(20,800)
Retained loss brought forward		<u>232</u>	<u>(2,688)</u>
Retained profit/(loss) carried forward		<u>(1,141)</u>	<u>232</u>

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

FOLYGRAM RECORD OPERATIONS LIMITEDBALANCE SHEET AT DECEMBER 31, 1987

	<u>Notes</u>	<u>1987</u> <u>£'000</u>	<u>1986</u> <u>£'000</u>
Fixed assets:			
Tangible assets	8	5,309	4,167
Investments	9	153	-
		<u>5,462</u>	<u>4,167</u>
Current assets:			
Stocks	10	2,712	870
Debtors	11	54,835	48,300
Cash at bank and in hand		7,009	1,639
		<u>64,556</u>	<u>50,809</u>
Creditors: amounts falling due within one year	12	<u>(70,516)</u>	<u>(52,218)</u>
Net current liabilities		<u>(5,960)</u>	<u>(1,409)</u>
Total assets less current liabilities		<u>(498)</u>	<u>2,758</u>
Creditors: amounts falling due after more than one year	13	-	(1,870)
Provision for liabilities and charges:			
Deferred taxation	14	-	-
		<u>(498)</u>	<u>888</u>
Capital and reserves:			
Called up share capital	15	15	15
Revaluation reserve	16	628	641
Profit and loss account		(1,141)	232
		<u>(498)</u>	<u>888</u>

A. G. Eye)
M. L. Oberstein) Directors

October 31, 1988

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, 1987

	<u>1987</u> £'000	<u>1986</u> £'000
Source of funds:		
Profit/(loss) on ordinary activities before taxation	7,518	25,565
Extraordinary item before taxation	(5,900)	-
	<u>1,618</u>	<u>25,565</u>
Adjustment for items not involving the movement of funds:		
Depreciation	930	775
Profit on sale of investments	-	(25,075)
Amounts written off investments	850	-
(Profit)/loss on sale of tangible fixed assets	12	(11)
	<u>3,410</u>	<u>1,254</u>
Total generated from operations		
Funds from other sources:		
Proceeds from sale of tangible fixed assets	224	243
Proceeds from sale of associated company	-	3,125
Proceeds from sale of subsidiary	-	22,000
	<u>224</u>	<u>25,368</u>
	<u>3,634</u>	<u>26,622</u>
Application of funds:		
Taxation paid	(73)	-
Group relief/ACT surrendered	(2,466)	-
Purchase of tangible fixed assets	(1,895)	(995)
Transfer of assets from group companies	(426)	(4)
Investments purchased	(1,003)	-
Dividend paid	(20,800)	-
	<u>(26,663)</u>	<u>(999)</u>
Increase/(decrease) in working capital	<u>(23,029)</u>	<u>25,623</u>
Components of increase/(decrease) in working capital:		
Stocks	1,842	(239)
Debtors	6,535	26,561
Creditors	(36,239)	(2,658)
	<u>(27,862)</u>	<u>23,664</u>
Movement in net liquid funds:		
Bank loans and overdrafts	(537)	330
Cash and bank balances	5,370	1,629
	<u>4,833</u>	<u>1,959</u>
	<u>(23,029)</u>	<u>25,623</u>

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

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 19871. 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 freehold land and buildings.

Tangible fixed assets

Depreciation is charged on a straight line basis.

Rates of depreciation are:

Land	-	Nil
Buildings	-	2%
Piping and wiring	-	5%
Machinery, equipment and installations in rented premises	--	10% and 20%
Fixtures and fittings	-	10% and 25%
Office machinery	-	15%
Lease equipment	-	2-25%
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, 1987, 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, 1987
(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>1987</u>	<u>1986</u>
	£'000	£'000
United Kingdom	85,006	104,643
Europe	7,706	37
USA	3,455	-
Other	2,101	-
	<u>98,268</u>	<u>104,680</u>

4. Exceptional item

The exceptional items represent the profit on disposal of the Company's 50% holding in Record Merchandisers Limited; and sale of the wholly owned subsidiary The Decca Record Company to Polygram Leisure Limited.

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1987
(continued)5. Profit on ordinary activities before taxation

Profit is stated after charging:

	<u>1987</u> £'000	<u>1986</u> £'000
Administration expenses:		
Hire of equipment	704	743
Auditors' remuneration	153	169
Depreciation of tangible fixed assets	930	200
Exchange losses (of which unrealised £Nil (1986 - £Nil))	190	385
Interest receivable:		
Group companies	(2,211)	-
Others	(163)	-
Interest payable:		
Other	93	211
	<u>==</u>	<u>==</u>

6. Employees

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

	<u>1987</u> No.	<u>1986</u> No.
Manufacturing	344	365
Commercial and administrative	753	514
	<u>1,097</u>	<u>879</u>
	<u>==</u>	<u>==</u>

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

	<u>1987</u> £'000	<u>1986</u> £'000
Wages and salaries	13,833	10,413
Social security costs "	1,133	787
Other pension costs	293	508
	<u>15,259</u>	<u>11,708</u>
	<u>==</u>	<u>==</u>
	£'000	£'000
Directors' remuneration (including pension contributions)	221	164
Emoluments of the chairman (excluding pension contributions)	-	-
	<u>==</u>	<u>==</u>
Emoluments (excluding pension contributions) of the highest paid director	60	51
	<u>==</u>	<u>==</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1987

(continued)

6. Employees
(continued)

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

	<u>1987</u> No.	<u>1986</u> No.
£ Nil - £ 5,000	1	3
£ 15,001 - £20,000	-	1
£ 20,001 - £25,000	2	-
£ 35,001 - £40,000	-	1
£ 45,001 - £50,000	2	1
£ 50,001 - £55,000	-	1

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

	<u>1987</u> No.	<u>1986</u> No.
£ 30,001 - £ 35,000	9	2
£ 35,001 - £ 40,000	3	-
£ 45,001 - £ 50,000	1	-
£ 50,001 - £ 55,000	1	-
£ 55,001 - £ 60,000	1	-
£ 85,001 - £ 90,000	2	-
£135,001 - £140,000	1	-
£165,001 - £170,000	1	-
£190,001 - £195,000	1	-

7. Taxation

The taxation rate used is 35%.

	<u>1987</u> £'000	<u>1986</u> £'000
Current year:		
Corporation tax	2,295	1,840
Group Relief	696	-
	<u>2,991</u>	<u>1,840</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1987
(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, 1987	1,500	7,690	9,190
Additions	13	1,882	1,895
Revaluation during the year	(13)	-	(13)
Transfers from group companies	-	702	702
Disposals	-	(565)	(565)
At December 31, 1987	<u>1,500</u>	<u>9,709</u>	<u>11,209</u>
Depreciation:			
At January 1, 1987	-	5,023	5,023
Provided during the year	-	930	930
Transfers from group companies	-	276	276
Disposals	-	(329)	(329)
At December 31, 1987	<u>-</u>	<u>5,900</u>	<u>5,900</u>
Net book value:			
At December 31, 1987	<u>1,500</u>	<u>3,809</u>	<u>5,309</u>
Net book value:			
At January 1, 1987	<u>1,500</u>	<u>2,667</u>	<u>4,167</u>

The company's freehold premises were revalued as at December 31, 1986 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	597	9,709	10,306
Depreciation	-	(5,900)	(5,900)
Balance December 31, 1987	<u>597</u>	<u>3,809</u>	<u>4,406</u>
Balance December 31, 1986	<u>584</u>	<u>2,667</u>	<u>3,251</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1987
(continued)9. Investments

	<u>Other Investments</u> £'000
Cost:	
At January 1, 1987	-
Transfers from group companies	3
Additions	1,000
	<u>1,003</u>
At December 31, 1987	<u>1,003</u>
Amounts written off:	
At January 1, 1987	-
During the year	850
At December 31, 1987	-
	<u>850</u>
Net book value:	
At January 1, 1987	-
	<u>153</u>
At December 31, 1987	<u>153</u>

10. Stocks

	<u>1987</u> £'000	<u>1986</u> £'000
Stocks consist of:		
Finished goods	1,998	-
Raw materials	428	510
Work-in-progress	182	189
Sundry stocks	104	171
	<u>2,712</u>	<u>870</u>

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1987
(continued)11. Debtors

	<u>1987</u> E'000	<u>1986</u> E'000
Trade debtors	35,202	36,199
Group companies:	10,751	1,976
U.K. holding company	5,035	5,748
Overseas group companies	911	2,897
U.K. group companies	1,798	391
Other debtors	1,108	1,089
Prepayments	<u>54,835</u>	<u>48,300</u>

12. Creditors: amounts falling due within one year

	<u>1987</u> E'000	<u>1986</u> E'000
Trade creditors	27,361	17,421
Group companies:	3,067	4,555
Overseas group companies	6,319	300
U.K. group companies	-	20,800
Dividend	6,937	2,133
Current corporation tax	2,483	3,411
Other taxes and social security costs	9,499	1,644
Other creditors	537	-
Bank loans and overdrafts	14,313	1,954
Accruals	<u>70,516</u>	<u>52,218</u>

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

Other creditors	<u>-</u>	<u>1,870</u>
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14. Deferred taxation

The full potential liability for deferred tax has been provided for the year to December 31, 1988 at the effective rate of corporation tax of 35%. The directors do not consider it reasonable at present to assume that timing differences will not reverse in the foreseeable future.

	<u>1987</u> E'000	<u>1986</u> E'000
Capital allowances in advance of depreciation	(418)	(473)
Other timing differences	418	748
Revaluation of fixed assets and related depreciation	-	(275)
	<u>-</u>	<u>-</u>

POLYGRAM RECORD OPERATIONS LIMITED
NOTES TO THE ACCOUNTS AT DECEMBER 31, 1987
 (continued)

14. Deferred taxation (continued)

	<u>1987</u>	<u>1986</u>
	£'000	£'000

In addition future tax relief not taken up in the accounts should be available on the following item:

Other timing differences which should produce future tax relief

<u>1,936</u>	<u>2,556</u>
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15. Share Capital

Authorised

Allotted, issued and fully paid

	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
	No.	No.	£'000	£'000
Ordinary shares of £1 each Issued and fully paid	<u>15,000</u>	<u>15,000</u>	<u>15</u>	<u>15</u>

16. Revaluation reserve

	<u>1987</u>
	£'000

At January 1, 1987
 Revaluation of fixed assets
 Deferred tax thereon

641
(13)
<u>-</u>

At December 31, 1987

<u>628</u>

17. Extraordinary Item

	<u>1987</u>
	£'000

Provision for costs related to closure of factory in 1988
 Taxation

5,900
<u>-</u>

Extraordinary item after taxation

<u>5,900</u>
