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POLYGRAM RECORD OPERATIONS LIMITED

Report and Accounts
31st December 1988

COMPANIES HOUSE
27 FEB 1990

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1988.

Results and dividend

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

The directors recommend a dividend of £10,000,000 be paid to PolyGram UK Limited.

Review of the business

The Company's principal activities during the year were the distribution and marketing of gramophone records and musicassettes together with compact discs and videos.

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 7.

Directors and their interests

The directors during the year were:

L. J. Anderson	
B. Coulson	(Resigned September 2, 1988)
C. van Dijk	(Resigned September 16, 1988)
B. H. Fallows	
M. L. Oberstein	
A. G. Pye	
P. M. Rezon	

L.J. Anderson resigned from the Board on April 7, 1989. PolyGram UK Limited was appointed as a Corporate Director on March 22, 1989.

At no time during the year ended December 31, 1988 did any director have any interest which is required by Section 324 of the Companies Act 1985 to be notified to the company.

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

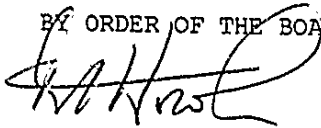
The Company is committed to the principle of providing employees with information on matters affecting the business which are of concern to them. On the industrial site a system of regular briefing groups is in existence and in other locations similar information is disseminated in a less formal manner.

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

Arthur Young merged their practice with Ernst & Whinney on September 1, 1989 and now practice in the name of Ernst & Young. Accordingly, they have signed their audit report in their new name. Ernst & Young have expressed their willingness to continue in office as auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

BY ORDER OF THE BOARD



MICHAEL HOWLE
Secretary

1 Sussex Place
London W6 9XS

December 8, 1989

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 Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of the company's affairs at December 31, 1988 and of its profit and source and application of funds for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young

ERNST & YOUNG

December 8, 1989

POLYGRAM RECORD OPERATIONS LIMITEDPROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1988

	<u>Notes</u>	<u>1988</u> £'000	<u>1987</u> £'000
Turnover	3	117,031	98,268
Cost of sales		(83,564)	(61,746)
		-----	-----
Gross profit		33,467	36,522
Distribution costs		(8,153)	(7,782)
Administrative expenses		(16,919)	(23,519)
		-----	-----
		(25,072)	(31,301)
		-----	-----
		8,395	5,221
Other operating profit		-	16
Interest receivable	4	2,653	2,374
Interest payable	4	(39)	(93)
		-----	-----
Profit on ordinary activities before taxation	4	11,009	7,518
Tax on profit on ordinary activities	6	(3,070)	(2,991)
		-----	-----
Profit/(loss) on ordinary activities after taxation		7,939	4,527
Extraordinary item after taxation	15	3,340	(5,900)
Transfer from revaluation reserve		628	-
Dividend		(10,000)	-
Retained loss brought forward		(1,141)	232
		-----	-----
Retained profit/(loss) carried forward		766	(1,141)
		=====	=====

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

POLYGRAM RECORD OPERATIONS LIMITEDBALANCE SHEET AT DECEMBER 31, 1988

	<u>Notes</u>	<u>1988</u> £'000	<u>1987</u> £'000
Fixed assets:			
Tangible assets	7	2,174	5,309
Investments	8	150	153
		-----	-----
		2,324	5,462
Current assets:			
Stocks	9	2,400	2,712
Debtors	10	90,386	54,835
Cash at bank and in hand		692	7,009
		-----	-----
		93,478	64,556
Creditors: amounts falling due within one year	11	(95,021)	(70,516)
		-----	-----
Net current liabilities		(1,543)	(5,960)
		-----	-----
Total assets less current liabilities		781	(498)
		=====	=====
Capital and reserves:			
Called up share capital	13	15	15
Revaluation reserve	14	-	628
Profit and loss account		766	(1,141)
		-----	-----
		781	(498)
		=====	=====



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

December 8, 1989

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, 1988

	<u>1988</u> £'000	<u>1987</u> £'000
Source of funds:		
Profit/(loss) on ordinary activities before taxation	11,009	7,518
Extraordinary item before taxation	1,620	(5,900)
	-----	-----
	12,629	1,618
Adjustment for items not involving the movement of funds:		
Depreciation	852	930
Amounts written off investments (Profit)/loss on sale of tangible fixed assets	3	850
	(1,595)	12
	-----	-----
Total generated from operations	11,889	3,410
Funds from other sources:		
Proceeds from sale of tangible fixed assets	4,850	224
	-----	-----
	4,850	224
	-----	-----
	16,739	3,634
Application of funds:		
Taxation paid	(1,650)	(73)
Group relief/ACT surrendered	(6,307)	(2,466)
Purchase of tangible fixed assets	(991)	(1,895)
Transfer of assets from group companies	19	(426)
Investments purchased	-	(1,003)
Dividend paid	(10,000)	(20,800)
	-----	-----
	(18,929)	(26,663)
	-----	-----
Decrease in working capital	(2,190)	(23,029)
	=====	=====
Components of increase/(decrease) in working capital:		
Stocks	(312)	1,842
Debtors	35,551	6,535
Creditors	(31,649)	(36,239)
	-----	-----
	3,590	(27,862)
Movement in net liquid funds:		
Bank loans and overdrafts	537	(537)
Cash and bank balances	(6,317)	5,370
	-----	-----
	(5,780)	4,833
	-----	-----
	(2,190)	(23,029)
	=====	=====

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

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 19881. Ultimate holding company

The directors regard Philips Gloeilampenfabrieken N.V., which is incorporated in The Netherlands as 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%
Leased 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 of 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, 1988, 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, 1988

(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>1988</u> £'000	<u>1987</u> £'000
United Kingdom	93,011	85,006
Europe	10,968	7,706
USA	10,754	3,455
Other	2,298	2,101
	-----	-----
	117,031	98,268
	=====	=====

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)4. Profit on ordinary activities before taxation

Profit is stated after charging:

	<u>1988</u> £'000	<u>1987</u> £'000
Administration expenses:		
Hire of equipment	704	704
Auditors' remuneration	133	153
Depreciation of tangible fixed assets	852	930
Exchange losses (of which unrealised £Nil (1987 - £Nil))	(205)	100
Interest receivable:		
Group companies	(2,491)	(2,211)
Others	(162)	(163)
Interest payable:		
Other	39	93
	=====	=====

5. Employees

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

	<u>1988</u> No.	<u>1987</u> No.
Manufacturing	-	344
Commercial and administrative	766	753
	-----	-----
	766	1,097
	=====	=====

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

	<u>1988</u> £'000	<u>1987</u> £'000
Wages and salaries	11,969	13,833
Social security costs	1,007	1,133
Other pension costs	295	293
	-----	-----
	13,271	15,259
	=====	=====
	£'000	£'000
Directors' remuneration (including pension contributions)	304	221
	===	===
Emoluments of the chairman (excluding pension contributions)	-	-
	===	===
Emoluments (excluding pension contributions) of the highest paid director	72	60
	===	===

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)5. Employees
(continued)

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

	<u>1988</u> No.	<u>1987</u> No.
£ Nil - £ 5,000	1	1
£ 5,001 - £10,000	1	-
£ 20,001 - £25,000	-	2
£ 35,001 - £40,000	1	-
£ 45,001 - £50,000	1	2
£ 55,001 - £60,000	1	-
£ 60,001 - £65,000	1	-

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

	<u>1988</u> No.	<u>1987</u> No.
£ 30,001 - £ 35,000	6	9
£ 35,001 - £ 40,000	9	3
£ 40,001 - £ 45,000	4	-
£ 45,001 - £ 50,000	4	1
£ 50,001 - £ 55,000	-	1
£ 55,001 - £ 60,000	-	1
£ 65,001 - £ 70,000	1	-
£ 85,001 - £ 90,000	-	2
£105,001 - £110,000	1	-
£135,001 - £140,000	-	1
£165,001 - £170,000	-	1
£190,001 - £195,000	-	1

Group management charges from another company within the Philips Group contain a charge for managerial services including that of a director which is not separately identifiable.

6. Taxation

The taxation rate used is 35%.

	<u>1988</u> £'000	<u>1987</u> £'000
Current year:		
Corporation tax	2,647	2,295
Group Relief	423	696
	-----	-----
	3,070	2,991
	-----	-----

The taxation charge takes into account the utilisation of prior year timing differences for which no credit had previously been taken. (See Note 12)

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1988

(continued)

7. 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, 1988	1,500	9,709	11,209
Additions	-	991	991
Transfers to group companies	-	(39)	(39)
Disposals	(1,500)	(6,546)	(8,046)
	-----	-----	-----
At December 31, 1988	-	4,115	4,115
	=====	=====	=====
Depreciation:			
At January 1, 1988	-	5,900	5,900
Provided during the year	-	852	852
Transfers to group companies	-	(19)	(19)
Disposals	-	(4,792)	(4,792)
	-----	-----	-----
At December 31, 1988	-	1,941	1,941
	=====	=====	=====
Net book value:			
At December 31, 1988	-	2,174	2,174
	=====	=====	=====
Net book value:			
At January 1, 1988	1,500	3,809	5,309
	=====	=====	=====

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	-	4,115	4,155
Depreciation	-	(1,942)	(1,942)
	-----	-----	-----
Balance December 31, 1988	-	2,173	2,173
	-----	-----	-----
Balance December 31, 1987	597	3,809	4,406
	-----	-----	-----

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1988

(continued)

8. Investments

	<u>Associated Companies</u> £'000
Cost:	
At January 1, 1988	1,003
Transfers from group companies	-
Disposals	(3)

At December 31, 1988	1,000

Amounts written off:	
At January 1, 1988	850
During the year	

At December 31, 1988	850

Net book value:	
At January 1, 1988	153
	=====
At December 31, 1988	150
	=====

The company holds 49% of the equity of GO! Discs Limited, a company involved in the music industry and incorporated in the United Kingdom.

9. Stocks

	<u>1988</u> £'000	<u>1987</u> £'000
Stocks consist of:		
Finished goods	2,400	1,998
Raw materials	-	428
Work-in-progress	-	182
Sundry stocks	-	104
	-----	-----
	2,400	2,712
	=====	=====

POLYGRAM RECORD OPERATIONS LIMITEDNOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
(continued)10. Debtors

	<u>1988</u> £'000	<u>1987</u> £'000
Trade debtors	52,583	35,202
Group companies:		
U.K. holding company	21,032	10,751
Overseas group companies	12,431	5,065
U.K. group companies	1,674	911
Other debtors	468	1,798
Prepayments	2,198	1,108
	-----	-----
	90,386	54,835
	=====	=====

11. Creditors: amounts falling due within one year

	<u>1988</u> £'000	<u>1987</u> £'000
Trade creditors	36,311	27,361
Group companies:		
Overseas group companies	7,930	3,067
U.K. group companies	22,272	6,319
Dividend	-	-
Current corporation tax	330	6,937
Other taxes and social security costs	1,600	2,483
Other creditors	19,032	9,499
Bank loans and overdrafts	-	537
Accruals	7,546	14,313
	-----	-----
	95,021	70,516
	=====	=====

12. 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>1988</u> £'000	<u>1987</u> £'000
Capital allowances in advance of depreciation	(214)	(418)
Other timing differences	214	418
	-----	-----
	-	-
	=====	=====

POLYGRAM RECORD OPERATIONS LIMITED
NOTES TO THE ACCOUNTS AT DECEMBER 31, 1988
 (continued)

12. Deferred taxation (continued)

	<u>1988</u> £'000	<u>1987</u> £'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	4,254 =====	7,999 =====

13. <u>Share Capital</u>	<u>Authorised</u>		<u>Allotted, issued and fully paid</u>	
	<u>1988</u> No.	<u>1987</u> No.	<u>1988</u> £'000	<u>1987</u> £'000
Ordinary shares of £1 each issued and fully paid	15,000 =====	15,000 =====	15 =====	15 =====

14. Revaluation reserve

	<u>1988</u> £'000
At January 1, 1988	628
Disposals	(628)

At December 31, 1988	-
	=====

15. Extraordinary Item

	<u>1988</u> £'000	<u>1987</u> £'000
Provision for costs related to closure of factory in 1988	1,620	(5,900)
Taxation	1,720	-
	-----	-----
Extraordinary item after taxation	3,340 =====	(5,900) =====