

1989940

**Report and Accounts**

*FFRR Records Limited*

**31 December 1998**



# FFRR Records Limited

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Registered No. 1989940

## **DIRECTORS**

R Ames  
T M Bennett  
P J Lower  
J V Watson

## **AUDITORS**

Ernst & Young  
Becket House  
1 Lambeth Palace Road  
London SE1 7EU

## **REGISTERED OFFICE**

Waldron House  
57-63 Old Church Street  
London SW3 5BS

# FFRR Records Limited

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## DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 December 1998.

### RESULTS AND DIVIDENDS

The results for the year are set out on page 5. The directors do not recommend the payment of a dividend for the year under review.

### REVIEW OF THE BUSINESS

The company's principal activity during the year was in the marketing of recorded music. No new artists were signed during this period. The company traded successfully during the year. During the year, PolyGram UK Limited continued to perform certain accounting and administrative services for the company.

### FUTURE DEVELOPMENTS

The directors aim to continue the current management policy of maintaining the existing roster of artists. No further investment in artists is anticipated.

### DIRECTORS AND THEIR INTERESTS

The directors who served during the year ended 31 December 1998 were as follows:

R Ames  
T M Bennett  
P J Lower  
J V Watson  
C S Bell (resigned 30 September 1998)

There are no directors' interests requiring disclosure under the Companies Act 1985.

### SUBSTANTIAL SHAREHOLDER

On 31 December 1998, PolyGram UK Limited held 49 shares of £1 each (49% of the ordinary share capital) in the company.

### YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in event that there is a failure by other parties to remedy their own Year 2000 issues.

The company considers that sufficient action has been taken to address the risk to its business resulting from the date change to the Year 2000, but recognises that, due to the nature of the Year 2000 problem, it is not possible to give absolute assurance that this is the case. The costs incurred are not significant to the company's operations.

FFRR Records Limited

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DIRECTORS' REPORT

**AUDITORS**

A resolution to reappoint Ernst & Young will be put to the members at the Annual General Meeting.

On behalf of the board



P J Lower

Director

01 OCT 1999

## FFRR Records Limited

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### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## REPORT OF THE AUDITORS to the members of FFRR Records Limited

We have audited the accounts on pages 6 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 9.

### **Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

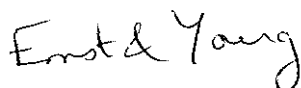
### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

### **Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young  
Registered Auditor  
London

1 October 1999

## FFRR Records Limited

### PROFIT AND LOSS ACCOUNT for the year ended 31 December 1998

	<i>Notes</i>	<i>1998 £000</i>	<i>1997 £000</i>
<b>TURNOVER</b>	3	601	1,508
Cost of sales		(256)	(734)
Gross profit		345	774
Distribution Costs		(3)	(29)
Administration expenses		(105)	(337)
		(108)	(366)
<b>OPERATING PROFIT</b>	4	237	408
Interest receivable	7	122	953
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		359	1,361
Tax on profit on ordinary activities	8	(131)	(576)
<b>PROFIT FOR THE FINANCIAL YEAR</b>		228	785
Retained earnings brought forward		8,405	7,620
Retained earnings carried forward		8,633	8,405

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no gains or losses arising other than those recognised in the profit and loss account.

The notes to the accounts are on pages 9 to 15.

# FFRR Records Limited

## BALANCE SHEET at 31 December 1998

	<i>Notes</i>	<i>1998 £000</i>	<i>1997 £000</i>
<b>FIXED ASSETS</b>			
Tangible assets	9	39	38
<b>CURRENT ASSETS</b>			
Stocks	10	—	2
Debtors	11	12,592	28,616
		12,592	28,618
<b>CREDITORS: amounts falling due within one year</b>	12	(3,998)	(4,894)
<b>NET CURRENT ASSETS</b>		8,594	23,724
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		8,633	23,762
<b>CREDITORS: amounts falling due after more than one year</b>	13	—	(15,357)
		8,633	8,405
<b>CAPITAL AND RESERVES</b>			
Called up share capital	15,18	—	—
Profit and loss account	18	8,633	8,405
Equity shareholders' funds		8,633	8,405

P.J.Lower  
Director

01 OCT 1999



# FFRR Records Limited

## STATEMENT OF CASH FLOWS at 31 December 1998

	<i>Notes</i>	<i>1998 £000</i>	<i>1997 £000</i>
<b>NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>	16	16,886	(10,149)
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>			
Interest received		301	7,605
<b>TAXATION</b>			
UK Corporation tax paid		(1,801)	(1,486)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Payments to acquire tangible fixed assets		(37)	—
Receipts from sales of tangible fixed assets		8	47
		(29)	47
<b>FINANCING</b>			
Net movement in short term borrowings		—	91
Net movement in long term borrowings	17	(15,357)	3,890
		(15,357)	3,981
<b>DECREASE IN CASH</b>		—	(2)

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	<i>1998 £000</i>	<i>1997 £000</i>
Decrease in cash	—	(2)
Cash inflow/(outflow) from change in debt financing	15,357	(3,981)
Change in net debt arising from cashflows	15,357	(3,983)
<b>MOVEMENT IN NET DEBT</b>	15,357	(3,983)
<b>NET DEBT AT 1 JANUARY</b>	(15,357)	(11,374)
<b>NET DEBT AT 31 DECEMBER</b>	—	(15,357)

## FFRR Records Limited

### NOTES TO THE ACCOUNTS

at 31 December 1998

#### 1. PARENT UNDERTAKING

The parent undertaking of the group of undertakings for which the group accounts are drawn up and of which the company is a member is Divinestate Limited, registered in England. Copies of Divinestate Limited's accounts can be obtained from Waldron House, 57 - 63 Old Church Street, London, SW3 5BS.

#### 2. ACCOUNTING POLICIES

These accounts are prepared under the historical cost convention, on a going concern basis and in accordance with applicable accounting standards.

##### *Tangible fixed assets*

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Motor vehicles      –      25%      straight line basis

##### *Stocks*

Stocks are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated cost of disposal.

##### *Foreign currencies*

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the market rate ruling at that date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account in line with Statement of Standard Accounting Practice No. 20.

##### *Royalties and advances*

Royalties are accounted as and when earnings are notified. The result of this policy is that domestic royalties are in general accounted one quarter in arrears and overseas royalties two quarters in arrears.

Advances to artists are written down to the estimated amount that will be recovered from sub licence advances received and royalty receipts.

##### *Deferred taxation*

Deferred taxation is provided by the liability method on all timing differences which are expected to reverse in the foreseeable future, calculated at the current corporation tax rate.

#### 3. TURNOVER

Turnover represents the invoiced value of goods and services excluding value added tax. Turnover relates to the principal activity of the company and the geographical distribution of turnover is as follows:

	1998 £000	1997 £000
United Kingdom	169	506
Europe	234	644
United States of America	82	110
Other	116	248
	<u>601</u>	<u>1,508</u>

## FFRR Records Limited

### NOTES TO THE ACCOUNTS

at 31 December 1998

#### 4. OPERATING PROFIT

	1998 £000	1997 £000
<i>This is stated after charging:</i>		
Depreciation of tangible fixed assets	28	36
Auditors' remuneration – audit services	43	33

#### 5. DIRECTORS' EMOLUMENTS

Details of directors emoluments, paid by other group undertakings and PolyGram UK Limited are set out below. The directors do not believe it is practicable to apportion these amounts between their services as directors of this company and their services as directors of the other group undertakings.

	1998 £000	1997 £000
Emoluments	3,915	705
Pension contributions	15	13

The amounts in respect of the highest paid director are as follows:

Emoluments	3,031	193
Pension contributions	2	–

#### 6. STAFF COSTS

All staff are employees of PolyGram UK Limited and are on secondment to the company. The average number of employees seconded during the year was 11 (1997 – 14).

A service charge of £3,628,907 (1997 – £3,834,631) has been made by PolyGram UK Limited, which includes directors' emoluments of £590,719 (1997 – £589,122) and £1,971,188 (1997 – £2,205,509) relating to the other staff seconded to the company. The majority of these costs have been recharged to other group undertakings.

#### 7. INTEREST RECEIVABLE

Interest receivable (relating to this and prior years) from PolyGram UK Limited of £256,000 (1997 – £1,752,624) relates to amounts due on the loan to PolyGram UK Limited of £1,392,287 (1997 – £28,153,943), of which £121,600 (1997 – £952,624) has been recognised in FFRR Records Limited during the year.

# FFRR Records Limited

## NOTES TO THE ACCOUNTS

at 31 December 1998

### 8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Current year:		
UK corporation tax	—	2,219
Charge in respect of losses claimed as consortium relief from affiliated undertakings	131	92
Deferred taxation	—	(1,744)
Adjustments in respect of prior years	—	9
	<u>131</u>	<u>576</u>

### 9. TANGIBLE FIXED ASSETS

	<i>Motor Vehicles</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Cost:		
At 1 January 1998	146	146
Additions	37	37
Disposals	(89)	(89)
At 31 December 1998	<u>94</u>	<u>94</u>
Depreciation:		
At 1 January 1998	108	108
Provided during the year	28	28
Disposals	(81)	(81)
At 31 December 1998	<u>55</u>	<u>55</u>
Net book value:		
At 31 December 1998	<u>39</u>	<u>39</u>
At 1 January 1998	<u>38</u>	<u>38</u>

### 10. STOCKS

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Stocks consist of:		
Finished goods	<u>—</u>	<u>2</u>

# FFRR Records Limited

## NOTES TO THE ACCOUNTS

at 31 December 1998

### 11. DEBTORS

	1998 £000	1997 £000
Trade debtors	—	56
Other debtors	32	91
Loans to PolyGram UK Limited	1,393	28,154
Interest receivable from PolyGram UK Limited	121	300
Loan to group undertaking	11,028	—
Prepayments	18	15
	<u>12,592</u>	<u>28,616</u>

The loan made to the group undertaking is receivable after more than one year. The loan to PolyGram UK Limited is repayable within one year. This loan carries interest calculated at a rate equivalent to the one month London Interbank Bid (LIBID) Rate, published on the first day of each month.

### 12. CREDITORS: amounts falling due within one year

	1998 £000	1997 £000
Trade creditors	2,380	2,415
Corporation tax	20	1,690
Loan from parent undertaking	322	192
Amounts payable to other group undertakings	87	87
Accruals and deferred income	1,189	510
	<u>3,998</u>	<u>4,894</u>

### 13. CREDITORS: amounts falling due after more than one year

	1998 £000	1997 £000
Loan from group undertaking	—	15,357
	<u>—</u>	<u>15,357</u>

### 14. DEFERRED TAXATION

*Not Provided*

	1998 £000	1997 £000
Other timing differences which should provide future tax relief	429	502
	<u>429</u>	<u>502</u>

# FFRR Records Limited

## NOTES TO THE ACCOUNTS at 31 December 1998

### 15. SHARE CAPITAL

	1998 £	1997 £
Authorised: 1,000 Ordinary shares of £1 each	1,000	1,000
Allotted, called up and fully paid: 100 Ordinary shares of £1 each	100	100

### 16. RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	1998 £000	1997 £000
Operating profit	237	408
Depreciation	28	36
(Profit) on sale of tangible fixed assets	—	(24)
Decrease in stocks	2	24
Decrease/(increase) in debtors	15,845	(7,913)
Increase/(decrease) in operating creditors and accruals	774	(2,680)
	16,649	(10,557)
Net cash inflow/(outflow) from operating activities	16,886	(10,149)

### 17. ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 1998 £000	Cashflow 31 December 1998 £000	At 31 December 1998 £000
Debt due after one year	(15,357)	15,357	—

# FFRR Records Limited

## NOTES TO THE ACCOUNTS

at 31 December 1998

### 18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT OF RESERVES

	<i>Share Capital (note 15) £000</i>	<i>Profit &amp; Loss £000</i>	<i>Total £000</i>
At 1 January 1997	–	7,620	7,620
Profit for the year	–	785	785
At 31 December 1997	–	8,405	8,405
Profit for the year	–	228	228
At 31 December 1998	–	8,633	8,633

### 19. RELATED PARTIES

FFRR Records Limited is a 51% owned subsidiary of Divinestate Limited (the parent undertaking) and as such has related party transactions and balances with the following undertakings:

#### *Divinestate Limited*

	<i>1998 £000</i>	<i>1997 £000</i>
Consortium relief payable	323	192

#### *London Records 90 Limited*

London Records 90 Limited is a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and London Records 90 Limited are also subject to control from boards having a common controlling nucleus of directors.

	<i>1998 £000</i>	<i>1997 £000</i>
Amounts recharged to London Records 90 Limited for management services	5,927	4,609

This charge is in respect of administration costs including staff costs paid by FFRR Records on behalf of London Records 90 Limited.

	<i>1998 £000</i>	<i>1997 £000</i>
Assets (cars) transferred to related party at net book value	–	23
Loans owed by/(to) London Records 90 Limited	11,028	(15,357)

This loan is repayable within one year. There is no interest payable on this amount.

## FFRR Records Limited

### NOTES TO THE ACCOUNTS

at 31 December 1998

#### 19. RELATED PARTIES (continued)

##### *FFRR Music Limited*

FFRR Music Limited is a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and FFRR Music Limited are also subject to control from boards having a common controlling nucleus of directors.

	1998 £000	1997 £000
Consortium relief payable	3	3

##### *Laurel Records Limited*

Laurel Records Limited is a 100% owned subsidiary of London Records 90 Limited which is, itself, a 100% owned subsidiary of Divinestate Limited. FFRR Records Limited and Laurel Records Limited are also subject to control from boards having a common controlling nucleus of directors.

	1998 £000	1997 £000
Consortium relief payable	84	84

##### *PolyGram UK Limited*

PolyGram UK Limited owns 49% of the ordinary share capital of FFRR Records Limited. The agreement between the two companies provides for the distribution of product and the provision of certain commercial services.

	1998 £000	1997 £000
Loan owed by PolyGram UK Limited	1,393	28,154

This loan is repayable within one year and carries interest calculated at a rate equivalent to the one month London Interbank Bid (LIBID) Rate (see note 7).

	1998 £000	1997 £000
Service charge from PolyGram UK Limited	3,629	3,835

This charge forms part of the administrative expenses included in the accounts before recharges to other group undertakings. It includes directors' emoluments and costs relating to the other staff seconded to the company.