

Quicksilver Recording Company Limited

Directors' report and financial statements

31 December 1997

Registered number 2281402



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 1997.

Results and dividends

The loss for the year after taxation amounted to £457,901 (1996: loss of £919,594) which is to be transferred to reserves. The directors do not recommend the payment of a dividend.

Principal activity and review of the business

The company continued the business of a record company in 1997. This situation is expected to continue in the coming year.

Directors and their interests

The directors who served during the year ended 31 December 1997 were as follows:

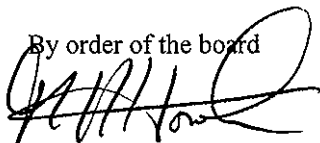
GS Barwood	(appointed 2 May 1997; resigned 12 February 1998)
C Sugrue	(appointed 28 April 1997)
TC Fisher	(resigned 2 May 1997)
AJ Lauder	(resigned 5 April 1997)
AGS Lawrie	(resigned 2 May 1997)
AG Pye	(resigned 2 May 1997)
SP Martin	(appointed 10 November 1997)

At no time during the year ended 31 December 1997 did any director have any interest which is required by section 324 of the Companies Act 1985 to be notified to the company.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M Howle
Secretary

1 Sussex Place
Hammersmith
London W6 9XS

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements 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 financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements 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 financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Quicksilver Recording Company Limited

We have audited the financial statements on pages 4 to 12.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

K/M

*Chartered Accountants
Registered Auditors*

23 November 1998

Profit and loss account

for the year ended 31 December 1997

	<i>Note</i>	1997 £	1996 £
Turnover	2	340,543	182,825
Direct costs		(878,796)	(968,732)
		<hr/>	<hr/>
Gross loss		(538,253)	(785,907)
Administration expenses		(159,828)	(502,687)
		<hr/>	<hr/>
Loss on ordinary activities before taxation	3	(698,081)	(1,288,594)
Tax on loss on ordinary activities	6	240,180	369,000
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(457,901)	(919,594)
Retained loss brought forward		(3,109,358)	(2,189,764)
		<hr/>	<hr/>
Retained loss carried forward		(3,567,259)	(3,109,358)
		<hr/> <hr/>	<hr/> <hr/>

The results set out above are all derived from continuing activities.

There is no material difference between the results as set out above and those on an unmodified historical cost basis.

Statement of total recognised gains and losses

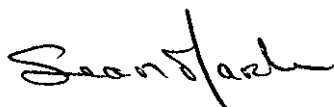
A statement of total recognised gains and losses has not been provided since there are no recognised gains or losses other than the loss for the year.

Balance sheet

at 31 December 1997

	Note	1997 £	1996 £
Fixed assets			
Tangible assets	7	-	2,921
Current assets			
Debtors	8	1,764,628	1,447,640
Cash at bank and in hand		3,069	2,169
		1,767,697	1,449,809
Creditors: amounts falling due within one year	9	(5,334,954)	(4,562,086)
Net current liabilities		(3,567,257)	(3,112,277)
Total assets less current liabilities		(3,567,257)	(3,109,356)
Capital and reserves			
Called up share capital	11	2	2
Profit and loss account	12	(3,567,259)	(3,109,358)
Equity shareholders' deficit	12	(3,567,257)	(3,109,356)

These financial statements were approved by the board of directors on 20 Nov. 1998 and were signed on its behalf by:



Sean Martin
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on a going concern basis as the company has received confirmation from PolyGram (UK) Holdings Limited, its highest UK parent undertaking, that it will continue to provide financial and other support to the extent necessary to enable the company to continue to trade and pay its liabilities as and when they become due for a period not less than one year from the date of approval of these financial statements.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds of its size.

As at least 90% of the company's voting rights are controlled within the group headed by PolyGram N.V., the company has taken advantage of the exemption contained in Financial Reporting Standard 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of PolyGram N.V., within which this company is included, can be obtained from the address given in note 15.

Royalties receivable

Amounts receivable from licenses are incorporated in the accounts as follows:

- (i) United Kingdom royalties are credited to the profit and loss account in the year in which they are received. Overseas third party royalties are credited to the profit and loss account in the year in which they are earned. Overseas group royalties are credited to the profit and loss account in the year in which they are paid.
- (ii) Non-returnable advances received from overseas licenses which the directors consider will not be recouped by royalty earnings are credited to the profit and loss account over a period to which the contracts refer.
- (iii) Non-returnable advances from overseas licensees are credited to the profit and loss account in the period in which they are recouped by the licensee.

Royalties payable

Royalties payable are charged against the relevant income of the same period.

Royalty advances and amounts in respect of product masters paid to artists are written off to the profit and loss account to the extent that, in the directors' opinion, these amounts are irrecoverable. The directors have regard to the anticipated life of the related product and its earnings potential in determining those amounts to be written off and those regarded as recoverable against future sales.

Notes (continued)

1 Accounting policies (continued)

Depreciation

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:

Plant and machinery	-	over 5 years
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Deferred taxation

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that taxation will be payable.

Pensions and other post retirement benefits

The company is a member of the Philips Pension Fund which is a funded defined benefit scheme. Contributions to this group scheme are based on a common rate throughout the Philips group and are assessed on a triennial basis in accordance with the advice of a qualified actuary using the projected unit method. Pension costs are charged to the profit and loss account so as to spread the cost over employees' working lives within the group. Actuarial surpluses and deficits are amortised on a straight line basis over the average remaining service lives of the employees.

2 Turnover

Turnover and pre-tax profit are attributable to one activity, the sale of pre-recorded music.

Turnover is derived exclusively from the United Kingdom.

3 Loss on ordinary activities before taxation

This is stated after charging:

	1997	1996
	£	£
Depreciation	2,921	3,366
	<hr/>	<hr/>

Certain administration expenses are borne by other UK group undertakings.

Notes (continued)

4 Directors' remuneration

	1997 £	1996 £
Directors' emoluments	45,083	151,249

No retirement benefits were accruing to any director under money purchase or defined benefit schemes.

5 Staff numbers and costs

The average number of employees (including directors) during the year was 4 (1996: 7).

The average payroll costs of these persons were as follows:

	1997 £	1996 £
Wages and salaries	72,059	291,159
Social security costs	3,274	12,010
	75,333	303,169

There was no pension charge during the year (1996: £nil) (note 13).

6 Tax on loss on ordinary activities

Corporation tax has been provided at 31.5% (1996: 33%).

	1997 £	1996 £
<i>Current year:</i>		
Group relief receivable	240,180	354,000
Deferred taxation	-	15,000
	240,180	369,000

Notes (continued)

7 Tangible fixed assets

	Plant and machinery	Total
	£	£
<i>Cost</i>		
At 31 December 1996 and 31 December 1997	16,634	16,634
	<hr/>	<hr/>
<i>Depreciation</i>		
At 31 December 1996	13,713	13,713
Provided during the year	2,921	2,921
	<hr/>	<hr/>
At 31 December 1997	16,634	16,634
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 December 1997	-	-
	<hr/>	<hr/>
At 31 December 1996	2,921	2,921
	<hr/>	<hr/>

8 Debtors: amounts falling due within one year

	1997	1996
	£	£
Recoverable advances and product masters	105,000	35,806
Amounts due from group undertakings	1,621,178	1,029,737
Prepayments	38,450	28,097
Group relief receivable	-	354,000
	<hr/>	<hr/>
	1,764,628	1,447,640
	<hr/>	<hr/>

Notes (continued)

9 Creditors: amounts falling due within one year

	1997 £	1996 £
Trade creditors	27,000	-
Amounts due to group undertakings	5,148,574	4,401,603
Other creditors and accruals	159,380	160,483
	<u>5,334,954</u>	<u>4,562,086</u>

10 Deferred taxation

Future tax relief not taken up in the accounts should be available on the following items:

	1997 £	1996 £
Tax losses which have not been relieved	-	-
	<u> </u>	<u> </u>
Other timing differences which should produce future tax relief	57,546	133,076
	<u>57,546</u>	<u>133,076</u>

11 Share capital

	Authorised		Allotted, called up and fully paid	
	1997 No	1996 No	1997 £	1996 £
Ordinary shares of £1 each	1,000	1,000	2	2
	<u>1,000</u>	<u>1,000</u>	<u>2</u>	<u>2</u>

Notes (continued)

12 Reconciliation of movement on equity shareholders' deficit and reserves

	Share capital £	Profit and loss £	Total £
At 1 January 1996	2	(2,189,764)	(2,189,762)
Loss for the year	-	(919,594)	(919,594)
	<hr/>	<hr/>	<hr/>
At 1 January 1997	2	(3,109,358)	(3,109,356)
Loss for the year	-	(457,901)	(457,901)
	<hr/>	<hr/>	<hr/>
At 31 December 1997	2	(3,567,259)	(3,567,257)
	<hr/>	<hr/>	<hr/>

13 Pension scheme

As explained in the accounting policies set out on page 7, the company's employees are entitled to membership of the Philips Pension Fund which is a funded defined benefit scheme.

Valuations are carried out on a triennial basis. The most recent valuation was undertaken by the independent actuaries, Bacon & Woodrow, as at 31 March 1995 using the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% per annum, that salary increases would average 7% per annum and that present and future pensions would increase at the rate of 4.5% per annum.

The 31 March 1995 valuation showed that the market value of the scheme's assets was £1,312 million and that the actuarial value of those assets represented 121% of the benefits which had accrued to members, after allowing for expected future increases in earnings.

The pensions charge for the period of £nil (1996: £nil) included £1.3 million (1996: £1.3 million) in respect of the amortisation of the actuarial surplus that is being recognised over 27 years, the average remaining service lives of employees.

There are no outstanding or prepaid contributions at either the beginning or end of the financial year as the company has followed the actuarial recommendation that its contributions to the fund be suspended until 31 December 1999. The company's and employees' contributions currently at rates of 12.3% and 6% of earnings respectively, will continue after this 'holiday' period.

Notes (continued)

14 Post balance sheet event

On 23 June 1998, Philips Electronics N.V. agreed to sell its 75% holding in PolyGram N.V. to The Seagram Co. Ltd, a company incorporated in Canada.

Completion of this transaction is subject to US, European and Dutch regulatory approval and a successful tender by The Seagram Co. Ltd for the 25% of PolyGram N.V.'s shares that are held publicly. Regulatory clearance is expected to take up to six months and if obtained would result in The Seagram Co. Ltd. becoming the company's ultimate parent.

15 Ultimate parent company and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Philips Electronics N.V. incorporated in The Netherlands.

The largest group in which the results of the company are consolidated is that headed by Philips Electronics N.V. incorporated in The Netherlands. The smallest group in which they are consolidated is that headed by PolyGram N.V. incorporated in The Netherlands. The consolidated accounts of these groups are available to the public and may be obtained from:

Philips Electronics N.V.
Corporate Finance Securities
Groenewoudseweg 1
5621 BA EINDHOVEN
The Netherlands

PolyGram N.V.
Gerrit van der Veenlaan 4
3743 DN BAARN
The Netherlands