

EMI Records Limited

Registered No. 68172

DIRECTORS

J A King
I L Hanson
W Macmillan

SECRETARY

I L Hanson

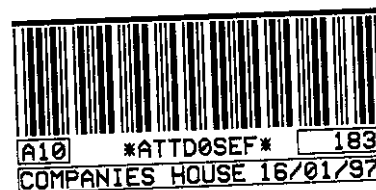
AUDITORS

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

REGISTERED OFFICE

EMI House
43 Brook Green
London W6 7EF

ERNST & YOUNG



The directors submit their report and accounts for the year ended 31 March 1996.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend.

EVENTS SINCE THE BALANCE SHEET DATE

On 19 August 1996, the company's ultimate parent undertaking, THORN EMI plc, demerged into Thorn plc and EMI Group plc. Since that date, the company's ultimate parent undertaking has been EMI Group plc.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENT

The company continues to be engaged in the manufacture, sale and distribution of all forms of recorded music. These activities are unlikely to change in the foreseeable future.

FIXED ASSETS

The significant additions to tangible fixed assets during the year arose principally from the purchase of a new production site in Swindon and new headquarters in Brook Green.

Details of the company's fixed assets are in notes 8 and 9 of the accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company at 31 March 1996 are listed below. The only interest held by the directors in the share capital and loan stocks of the company's ultimate parent undertaking at that date, THORN EMI plc, or any subsidiary undertakings thereof, were ordinary shares and options to purchase ordinary shares of THORN EMI plc, granted in accordance with the provisions of that company's share option schemes, as follows:

		<i>At 31 March 1996</i>		<i>At 1 April 1995 or date of appointment</i>
	<i>Ordinary shares</i>	<i>Options over ordinary shares</i>	<i>Ordinary shares</i>	<i>Options over ordinary shares</i>
J A King	—	14,098	—	7,298
I L Hanson (appointed 7 August 1995)	1,683	2,164	974	2,164
W Macmillan (appointed 28 September 1995)	—	1,766	—	525

During the year, Mr J A King was granted 3,027 ordinary shares and a further option over 6,800 ordinary shares. Mr I L Hanson was granted 709 ordinary shares. Mr W Macmillan was granted a further option over 1,241 ordinary shares. All ordinary shares and options granted were in THORN EMI plc.

Under the demerger arrangements, each ordinary share in THORN EMI plc converted into one ordinary share in Thorn plc and one ordinary share in EMI Group plc on 19 August 1996.

DIRECTORS AND THEIR INTERESTS (continued)

Following the demerger, options under the Executive Option Scheme remain over only EMI Group plc shares. Therefore, the number of shares under option was adjusted to reflect the demerger, either by way of adjustment or by way of a grant of additional options, by reference to the prices of EMI Group plc and Thorn plc shares averaged over the first five dealing days following the demerger.

Prior to the demerger, SAYE optionholders were offered an alternative award of shares, on condition they renounce their options, equal in value to the aggregate gain on their option, based on the total number of shares under option and calculated on the difference between the relevant option exercise price and the price of THORN EMI shares on the day the EGM to approve the demerger was held. The shares were awarded by the THORN EMI Group General Employee Benefit Trust immediately prior to the demerger, thereby being entitled to the demerger dividend of Thorn plc shares. All optionholders of the company accepted the offer and renounced all their options.

Mr I L Emberey resigned as a director on 18 July 1995. Mr G J Hopkins resigned as a director on 7 August 1995.

The directors of the company are not subject to retirement by rotation or otherwise.

EMPLOYMENT OF DISABLED PERSONS

It is company practice to encourage, wherever practicable, the employment of disabled persons and to provide appropriate opportunities for their training, career development and promotion. When employees become disabled whilst in the service of the company, every effort is made to rehabilitate them into their former jobs or some other suitable alternative.

EMPLOYEE INVOLVEMENT

The company has continued to further its employee involvement policies. These include the provision of information to employees and consultation with their representatives on matters affecting them, as well as the regular communication of financial information and details of the company's performance.

SUPPLIER PAYMENT POLICY

The company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. Agreement to the applicable payment terms is secured in every case.

The company emphasises the importance of prompt payment to small-sized businesses in line with UK Governmental and CBI initiatives.

AUDITORS

In accordance with section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Ernst & Young shall be deemed to be reappointed as auditors.

By order of the board

 4 November 1996

Company Secretary

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 confirm that the accounts comply with the above requirements.

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 EMI Records Limited

We have audited the accounts on pages 6 to 16, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 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.

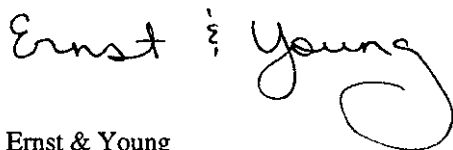
Basis of opinion

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 March 1996 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

14 November 1996

EMI Records Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1996

	Notes	1996 £000	1995 £000
TURNOVER	2	184,037	179,172
Cost of sales		(127,603)	(128,047)
GROSS PROFIT		<u>56,434</u>	<u>51,125</u>
Distribution costs		(18,072)	(17,606)
Administrative expenses		(42,087)	(47,814)
Other operating income		3,475	4,313
NET OPERATING LOSS	3	(250)	(9,982)
Interest receivable from group undertakings		9,693	7,930
Interest payable and similar charges	6	(20,943)	(15,613)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(11,500)</u>	<u>(17,665)</u>
Tax on loss on ordinary activities	7	—	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(11,500)</u>	<u>(17,665)</u>
Dividends		—	—
RETAINED LOSS FOR THE YEAR		<u>(11,500)</u>	<u>(17,665)</u>
STATEMENT OF RETAINED LOSSES			
Balance at 1 April		(101,293)	(83,628)
Retained loss for the year		(11,500)	(17,665)
Balance at 31 March		<u>(112,793)</u>	<u>(101,293)</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses in the year other than the loss attributable to shareholders of the company of £11,500,000 in the year ended 31 March 1996 and the loss of £17,665,000 in the year ended 31 March 1995.

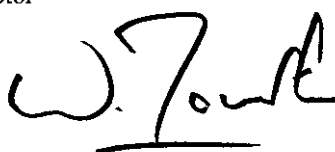
EMI Records Limited

BALANCE SHEET

at 31 March 1996

	Notes	1996 £000	1995 £000
FIXED ASSETS			
Tangible assets	8	80,423	49,009
Investments	9	50,100	50,100
		<u>130,523</u>	<u>99,109</u>
CURRENT ASSETS			
Stocks	10	3,624	5,832
Debtors	11	307,338	269,320
Cash at bank and in hand		4,690	524
		<u>315,702</u>	<u>275,676</u>
CREDITORS: amounts falling due within one year	12	<u>(550,171)</u>	<u>(463,924)</u>
NET CURRENT LIABILITIES		<u>(234,469)</u>	<u>(188,248)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(103,946)</u>	<u>(89,139)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	13	<u>(6,242)</u>	<u>(9,549)</u>
		<u>(110,188)</u>	<u>(98,688)</u>
CAPITAL AND RESERVES			
Called up share capital	14	2,605	2,605
Profit and loss account		<u>(112,793)</u>	<u>(101,293)</u>
SHAREHOLDERS' FUNDS		<u>(110,188)</u>	<u>(98,688)</u>

Director



4/11/96

NOTES TO THE ACCOUNTS

at 31 March 1996

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention and on a going concern basis supported by a statement of intent from the ultimate parent undertaking to provide all necessary financial support to enable the company's operations to continue for the foreseeable future.

The accounts have been prepared in accordance with applicable accounting standards.

Consolidated accounts of the company and its subsidiary undertakings are not presented since the company is a wholly owned subsidiary undertaking of another company that prepares group accounts and is incorporated in England and Wales.

Cash flow statement

A cash flow statement has not been prepared as the company is a wholly owned subsidiary of a parent undertaking, registered in England and Wales, which prepares a consolidated cash flow statement.

Investments

Investments in subsidiary and associated undertakings are stated at cost less, where relevant, a provision to reflect any permanent diminution in value.

Foreign currencies

All amounts denominated in foreign currencies have been translated into sterling at year end rates. All exchange adjustments relate to monetary assets and liabilities and are therefore dealt with in determining the result for the year.

Depreciation

Depreciation of property, plant and equipment and vehicles is calculated on cost or valuation at rates estimated to write off the relevant assets by equal annual amounts over their expected useful lives; effect is given, where necessary, to commercial and technical obsolescence.

The annual rates used are:

Freehold buildings at 2%

Short leasehold property over the period of the lease

Plant, machinery and furniture at rates varying from 10% to 33.33%

Motor vehicles at 25%

Stocks and work in progress

These are stated at the lower of cost and net realisable value which is arrived at by making a provision for obsolete and slow moving items. Cost includes a proportion of manufacturing overheads.

Advances and Royalties

Advances made to artists and licensors are provided against to the extent of the estimated shortfall in future royalty earnings. Royalties receivable and payable are dealt with on an accruals basis. Payments to artists which constitute introductory expenses are held within trade debtors and are amortised over the shorter of the period of the contract or twenty years.

NOTES TO THE ACCOUNTS

at 31 March 1996

1. ACCOUNTING POLICIES (continued)

Leasing

Rentals payable under operating leases are charged to the profit and loss account as incurred (Note 3).

Pension costs

The company contributes to the THORN EMI plc defined benefit pension scheme. The expected costs of pensions are charged to the profit and loss account so as to spread the costs over the service lives of the participating employees. The costs of the group scheme are assessed in accordance with the advice of qualified actuaries.

Restatement of prior year comparatives

During the year, the company changed the way certain income and costs are allocated in the profit and loss account. Accordingly, the comparative figures on page 6 have been restated. The original figures were:

	1995 £000
Turnover	208,890
Cost of sales	(150,882)
Gross profit	58,008
Distribution costs	(11,120)
Administrative expenses	(56,870)
Other operating income	8,291
Net operating loss	(1,691)
Interest receivable from group undertakings	—
Interest payable and similar charges	(15,974)
Loss on ordinary activities before taxation	(17,665)

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, group undertakings and associates. It is attributable to one continuing activity wholly within the UK.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

3. NET OPERATING LOSS

Is stated after charging/(crediting):

	1996 £000	1995 £000
Depreciation	9,670	8,092
Operating leases		
– Plant and machinery	50	524
– Land and buildings	125	1,586
Other equipment rental	81	59
Audit fees	94	91
Other professional fees paid to auditors	140	229
Management charges paid	31,726	26,162
Management charges received	(15,580)	(12,120)
Operating exceptional items (see below)	487	5,295
Exchange (gain)/loss on foreign currency loans	(113)	290
	<u>487</u>	<u>5,295</u>
Operating exceptional items are made up as follows:		
Reorganisation costs	–	444
Provision for future closure of operations	353	64
Write off of system costs	134	4,787
	<u>487</u>	<u>5,295</u>

Other professional fees paid to auditors and capitalised in the year were £nil (1995 – £219,000).

4. EMPLOYEES

	1996 No.	1995 No.
(a) The average number of employees including directors was	<u>1,247</u>	<u>1,225</u>
	1996 £000	1995 £000
(b) Staff costs:		
Wages and salaries	41,319	36,754
Social security costs	3,192	2,745
Other pension costs	950	49
	<u>45,461</u>	<u>39,548</u>

This includes remuneration paid to directors of the company of £444,677 (1995 – £402,423). See note 5.

NOTES TO THE ACCOUNTS

at 31 March 1996

5. DIRECTORS' EMOLUMENTS

	1996 £000	1995 £000
Total remuneration, including pension contributions	445	402
Compensation for loss of office	92	—
	<u>537</u>	<u>402</u>

The emoluments of UK directors fell within the following bands:

	1996 No.	1995 No.
£30,001 — £35,000	1	—
£85,001 — £90,000	1	—
£95,001 — £100,000	1	—
£100,001 — £105,000	1	—
£110,001 — £115,000	—	1
£120,001 — £125,000	1	1
£165,001 — £170,000	—	1

The emoluments, excluding pension contributions, of the highest paid director were £120,486 (1995 — £166,817).

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1996 £000	1995 £000
Bank overdraft wholly repayable within five years	5,071	1,815
Interest payable to group undertakings	15,872	13,798
	<u>20,943</u>	<u>15,613</u>

7. TAX ON LOSS ON ORDINARY ACTIVITIES

The company is primarily liable for UK Corporation Tax on its profits. However, no provision has been made in these accounts for either current or deferred taxation, as an undertaking has been received from its ultimate parent undertaking, EMI Group plc, that the latter will assume responsibility for any such taxation, so long as the company remains a subsidiary undertaking. In view of the undertaking received, no disclosure is made in these accounts of any potential liability to taxation.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

8. TANGIBLE FIXED ASSETS

	<i>Freehold property £000</i>	<i>Short term leasehold property £000</i>	<i>Equipment, plant and vehicles £000</i>	<i>Total £000</i>
Cost:				
At 1 April 1995	24,255	1,534	71,078	96,867
Additions	15,767	–	29,095	44,862
Disposals	(1,445)	(321)	(15,541)	(17,307)
At 31 March 1996	38,577	1,213	84,632	124,422
Depreciation:				
At 1 April 1995	1,516	654	45,688	47,858
Provided during the year	426	41	9,203	9,670
Disposals	–	(321)	(13,208)	(13,529)
At 31 March 1996	1,942	374	41,683	43,999
Net book value:				
At 31 March 1996	36,635	839	42,949	80,423
At 31 March 1995	22,739	880	25,390	49,009

9. INVESTMENTS

	<i>Subsidiary undertakings £000</i>
Cost:	
At 31 March 1996 and 1 April 1995	53,503
Provision:	
At 31 March 1996 and 1 April 1995	3,403
Net book value:	
At 31 March 1996 and 1 April 1995	50,100

In the opinion of the directors, the aggregate value of investments in subsidiary undertakings is not less than the amount at which it is stated in the accounts.

The principal subsidiary undertakings at 31 March 1996 were:

<i>Company</i>	<i>Country of Registration</i>	<i>Nature of business</i>	<i>Proportion of ordinary shares owned</i>
EMI Music International Services Ltd	England	Service Co	100%
Chrysalis Records International Ltd	England	Record Co	100%
EMI Global Ltd	England	Record Co	100%
Food Ltd	England	Record Co	100%

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

10. STOCKS

	<i>1996</i>	<i>1995</i>
	<i>£000</i>	<i>£000</i>
Raw materials and components	1,959	2,348
Work in progress	97	105
Finished goods	1,568	3,379
	<u>3,624</u>	<u>5,832</u>

Stocks are stated at cost less provisions for obsolete and slow moving items.

The replacement cost of the above stocks is not materially different from the value reported.

11. DEBTORS

	<i>1996</i>	<i>1995</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	66,595	38,292
Fellow subsidiary undertakings	65,220	62,940
Subsidiary undertakings	15,813	1,129
Parent undertaking	14	459
Other debtors	9,934	19,587
Prepayments and accrued income	268	2,069
Interest free loans to fellow subsidiary undertakings	—	2,510
Interest free loans to parent undertaking	318	127
Interest bearing loans to fellow subsidiary undertakings	—	290
Interest bearing loans to subsidiary undertakings	24,821	17,512
Interest bearing loan to parent undertaking	124,405	124,405
	<u>307,388</u>	<u>269,320</u>

Loans to fellow subsidiary undertakings are not the subject of a loan note nor are they repayable under fixed terms. Therefore, they may be recoverable after more than one year.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

12. CREDITORS: amounts falling due within one year

	1996 £000	1995 £000
Bank overdrafts	62,920	41,130
Trade creditors	28,493	22,214
Royalties payable	81,037	60,554
Fellow subsidiary undertakings	43,956	22,536
Subsidiary undertakings	8,400	8,315
Parent undertaking	165	267
Social security	447	456
VAT and other indirect taxes	1,633	429
Other payroll costs	1,401	1,460
Accruals and deferred income	47,166	52,374
Interest free loan from parent undertaking	36,439	32,725
Interest bearing loan from parent undertaking	206,991	211,319
Interest free loans from subsidiary undertaking	31,123	10,145
	<u>550,171</u>	<u>463,924</u>

Included in creditors is an amount of £6,304,000 which is due after more than one year (1995 - £6,170,000).

13. PROVISION FOR LIABILITIES AND CHARGES

	£000
Provisions as at 1 April 1995	9,549
Charged to profit and loss	2,253
Utilised during year	(5,641)
Released during year	(1,019)
Reclassified from creditors	1,100
Provisions as at 31 March 1996	<u>6,242</u>

The balance as at 31 March 1996 includes provisions for future closure of operations of £4,022,000 (1995 - £3,017,000).

14. SHARE CAPITAL

	1996 £000	1995 £000
Ordinary shares of £1 each		
Authorised	3,340	3,340
Allotted, called up and fully paid	<u>2,605</u>	<u>2,605</u>

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

15. FINANCIAL COMMITMENTS

At 31 March 1996 the following future expenditure had been authorised:

	1996 £000	1995 £000
Land and buildings		
Contracted		
Non contracted	1,124	21,609
	-	3,864
	<u>1,124</u>	<u>25,473</u>
Other		
Contracted		
Non contracted	53,556	84,852
	5,000	7,391
	<u>58,556</u>	<u>92,243</u>

Other expenditure largely refers to performance related commitments to pay advances to artists and repertoire owners.

Land and buildings financial commitments last year were mainly for the relocation of the EMI Records Head Office which took place in 1995.

16. OPERATING LEASE COMMITMENTS

At 31 March 1996, annual commitments under operating leases in respect of land and buildings were as follows:

	1996 £000	1995 £000
Expiring in less than one year	805	427
Expiring in the second to fifth years inclusive	660	660
Expiring after the fifth year	150	817
	<u>1,615</u>	<u>1,904</u>

Of the amounts expiring after the fifth year, £57,000 is subject to a rent review in 1999.

At 31 March 1996 annual commitments under other operating leases were as follows:

	1996 £000	1995 £000
Expiring in less than one year	58	-
Expiring in the second to fifth years inclusive	149	187
Expiring after the fifth year	-	-
	<u>207</u>	<u>187</u>

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1996

17. PENSION COMMITMENTS

The UK employees of EMI Records Limited are eligible for membership of the THORN EMI Pension Fund. This is a funded defined benefit scheme. EMI Group plc has been the designated principal employer of the Fund since THORN EMI plc demerged on 19 August 1996.

Contributions to the fund are made by the ultimate parent undertaking in accordance with the recommendations of independent actuaries based on pension costs across the group. The company made no contributions during the year ended 31 March 1996 to THORN EMI plc for its employees' pension costs (1995 - £nil).

The latest actuarial valuation of the THORN EMI Pension Fund was made by a qualified actuary at 31 March 1994 using the projected unit method. At that date, the market value of the assets of the THORN EMI Pension Fund amounted to £1,410m. The actuarial value of the assets was sufficient to cover 121% of the benefits that had accrued to members, after allowing for assumed increases in earnings and for improvements to the benefits of the Fund implemented with effect from 1 January 1995. Part of the surplus disclosed by the 1994 valuation was allocated towards the reduction of employer contributions below the long-term rate, the balance being carried forward as a reserve in the Fund.

With effect from 1 April 1988, employer expense in respect of the Fund has been calculated in accordance with SSAP 24 - *Accounting for Pension Costs*. On the basis of actuarial advice, it is calculated that employer expense would represent a credit to the profit and loss account on full application of SSAP 24 principles. However, for reasons of conservatism, such expense has been taken as nil for the years ended 31 March 1996 and 31 March 1995. The long-term annual growth rate assumptions used for calculating employer expense under SSAP 24 are shown below:

	<i>Growth relative to investment return</i>
Pay increases	(2.5)%
Pension increases	(5.0)%
Dividend increases	(4.5)%

18. CONTINGENT LIABILITIES

Within the music industry a variety of claims arise from time to time in the normal course of business. Some have little or no foundation in fact or law and others cannot be quantified. Provisions have been made in the accounts for those claims against the company which the Directors consider are likely to result in significant liabilities.

At 31 March 1996, the company had provided a guarantee to its clearing bank in respect of borrowings of other THORN EMI plc UK group companies. The guarantee was limited to the amount of cash held by the company with the bank. At 31 March 1996 no liability existed.

19. PARENT UNDERTAKING

The ultimate parent undertaking of the group of undertakings for which group accounts were drawn up for the year ended 31 March 1996 and of which the company was a member was THORN EMI plc, registered in England and Wales. THORN EMI plc demerged into Thorn plc and EMI Group plc on 19 August 1996. The company's ultimate parent undertaking since that date has been EMI Group plc, which is registered in England and Wales.

Copies of THORN EMI plc's accounts can be obtained from the company's new ultimate parent undertaking, EMI Group plc, 4 Tenterden Street, Hanover Square, London W1A 2AY, England.