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AMENDED

CHAPPELL MORRIS LIMITED

Report and Accounts

30 November 1998



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# Chappell Morris Limited

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Registered No. 409829

## **DIRECTORS**

A D F Gummer (appointed 29 January 1993, resigned 8 January 1998)

J M Dyball (appointed 8 January 1998)

M A Lavin (appointed 4 January 2000)

B W Hitchens

## **SECRETARY**

S Skinner

## **AUDITORS**

Ernst & Young LLP

Becket House

1 Lambeth Palace Road

London SE1 7EU

## **REGISTERED OFFICE**

Until January 1998

129 Park Street

London

W1

From January 1998

Griffin House

161 Hammersmith Road

London

W6 8BS

**DIRECTORS' REPORT**

The directors submit their report together with the revised accounts of the company for the year ended 30 November 1998.

**RESULTS AND DIVIDENDS**

The company has not traded during the year and has made a profit of £1,719 during the year (1997 – £nil). The directors do not propose to declare a dividend in respect of the year ended 30 November 1998 (1997 – £nil).

**REVIEW OF THE BUSINESS**

The company did not trade on its own account during the year, nor is it intended to do so in the foreseeable future.

**DIRECTORS AND THEIR INTERESTS**

The directors of the company during the year ended 30 November 1998 were as listed on page 1.

At no time during the year did any director have any interest in the shares or debentures of the company or any other group undertaking. There has been no movement in directors' interests since 30 November 1997.

**YEAR 2000**

Chappell Morris Limited is currently working to resolve the potential impact of the Year 2000 on the processing of time-sensitive information by its computerised information system. Year 2000 issues may arise if computer and digital storage systems have been written using two digits (rather than four) to define the applicable year. In such cases, programs that have been time sensitive logic may recognise a date using "00" as the year 1900 rather than the year 2000, which would result in miscalculations or system failures. 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 would expose us to further risk in the event that there is a failure by the other parties to remedy their own Year 2000 issues.

The management is in the process of completing a review of significant software and equipment used in the company's operations and to the extent practicable, in the operation of its key business partners. Management has already begun to implement certain measures designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems, which could cause significant financial or legal impact on the company's business if they were to fail.

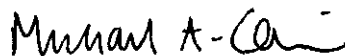
Costs of addressing potential problems have not been material to date and, based on preliminary information, are not currently expected to have a material adverse impact on the company's financial position. The directors conclude that all appropriate actions are being taken to resolve all significant Year 2000 issues on a timely basis.

DIRECTORS' REPORT

**AUDITORS**

On 28 June 2001, Ernst & Young transferred its business to a Limited Liability Partnership, incorporated under the Limited Liability Partnership Act 2000, known as Ernst & Young LLP. The Directors' have consented to treating the appointment of Ernst & Young as the company's auditors as extending to Ernst & Young LLP with effect from 28 June 2001.

On behalf of the Board



Director

7 December 2001

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; 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 Chappell Morris Limited.

We have audited the revised accounts of Chappell Morris Limited on pages 6 to 10, which have been prepared under the historical cost convention and on the basis of accounting policies set out on page 8. The revised accounts replace the original accounts approved by the Directors' on 6 April 1999 upon which an unqualified audit opinion was given dated 6 April 1999.

### ***Respective Responsibilities of Directors' and Auditors***

As described on page 4, the Company's directors' are responsible for the preparation of the accounts in accordance with applicable United Kingdom Law and Accounting Standards. It is our responsibility to form an independent opinion, based on our audit, on these revised accounts and to report our opinion to you. We are also required to report whether in our opinion the original accounts failed to comply with the requirements of the Companies Act 1985, in the respects identified by the directors'. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Audit Practices Board and by our profession's ethical guidance.

### ***Basis of Opinion***

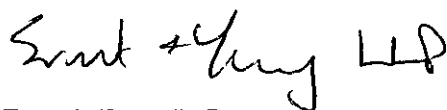
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by 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 a 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:

1. The revised accounts give a true and fair view, seen at the date that the original accounts were approved, of the state of affairs of the company as at 30 November 1998 and have been properly prepared in accordance with the provisions of the Companies Act 1985 as they have effect under the Companies (Revision of Defective Accounts and Report) Regulations 1990: and
2. The original accounts for the year ended 30 November 1998 failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors in note 1 on page 8.



Ernst & Young LLP  
Registered Auditor  
London

7 December 2001

# Chappell Morris Limited

## PROFIT AND LOSS ACCOUNT for the year ended 30 November 1998

	<i>Notes</i>	<i>1998</i> <i>£'000</i>	<i>1997</i> <i>£'000</i>
Interest income on overpaid tax		2	—
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	5	2	—
Tax on profit on ordinary activities	6	—	—
<b>PROFIT FOR THE FINANCIAL YEAR</b>		2	—
Dividends payable		—	—
<b>PROFIT RETAINED FOR THE FINANCIAL YEAR</b>		2	—
<b>RETAINED PROFIT BROUGHT FORWARD</b>		—	—
<b>RETAINED PROFIT CARRIED FORWARD</b>		2	—

A statement of total recognised gains and losses has not been presented as there are no gains and losses other than those dealt with in the profit and loss account.

# Chappell Morris Limited

## BALANCE SHEET at 30 November 1998

	Notes	1998 £'000	1997 £'000
<b>FIXED ASSETS</b>			
Investments	7	—	—
<b>CURRENT ASSETS</b>			
Debtors	8	3	67
		<u>3</u>	<u>67</u>
<b>CREDITORS: amounts falling due within one year</b>	9	—	66
		<u>—</u>	<u>66</u>
<b>NET CURRENT ASSETS</b>		3	1
		<u>3</u>	<u>1</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3</u>	<u>1</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	1	1
Profit and loss account		2	—
		<u>3</u>	<u>1</u>
<b>SHAREHOLDERS' FUNDS</b>	11	<u>3</u>	<u>1</u>



Director

7 December 2001



NOTES TO THE ACCOUNTS  
at 30 November 1998

**1. REVISED ACCOUNTS**

The revised accounts on pages 6 to 10 replace the original accounts of the company for the year ended 30 November 1998. The revised accounts are now the statutory accounts for the year ended 30 November 1998.

In accordance with the regulations of the Companies Act, the accounts for the year ended 30 November 1998 have been revised at 6 April 1999 being the date on which the original accounts were approved by the Board of Directors and not at the date of this note. Therefore, under the regulations these accounts do not deal with events between 6 April 1999 and 7 December 2001.

The original accounts as at 30 November 1998 failed to comply with the Companies Act as follows:

- The accounting policy section did not disclose the nature of an exploitation agreement with a fellow subsidiary undertaking.

Amendments have been made to the original accounts in order to remedy the above defect as follows:

- Note 2, the accounting policies note discloses the Exploitation Agreement with a fellow subsidiary undertaking

**2. ACCOUNTING POLICIES**

*Accounting convention*

The accounts are prepared under historical cost convention in accordance with applicable accounting standards.

*Basis of Preparation*

Under an Exploitation Agreement dated 1 December 1992 Warner/Chappell Music International Limited, a fellow subsidiary undertaking, accepted the benefit and burden of the company's rights and obligations under its current and future contracts with third parties. Under the Exploitation Agreement the company's directors' have the right to set an annual fee chargeable to Warner/Chappell Music International Limited. In the current year this fee was set at £nil (1997 £nil).

*Group accounts*

Group accounts are not prepared as the company is exempt from the requirement by virtue of section 228 of the Companies Act 1985. It is included in the group accounts of a parent undertaking registered in England and Wales.

*Investments*

Investments are stated at cost less amounts written off.

*Statement of cash flows*

The company, being a wholly owned subsidiary of an EC parent undertaking, which prepares a statement of cash flows in accordance with Financial Reporting Standard No. 1 ("FRS 1") is taking advantage of the exemption in FRS 1 not to provide a statement of cash flows.

# Chappell Morris Limited

## NOTES TO THE ACCOUNTS at 30 November 1998

### 3. DIRECTORS' REMUNERATION

The directors' remuneration was £nil (1997 – £nil).

Auditors' remuneration is borne by Warner Chappell Music Limited another group company.

### 4. STAFF COSTS

The company has no employees other than directors.

### 5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

In the terms of the agreement entered into with Warner Chappell Music International Limited dated 1 December 1992, Warner Chappell Music International Limited is responsible for the payment of all costs and expenses of the company.

### 6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The taxation charge which is based on profits for the year is made up as follows:

	1998 £'000	1997 £'000
Corporation tax at 31%	–	–
	<u>–</u>	<u>–</u>

### 7. INVESTMENT AT COST

The company has a 50% interest in the share capital of Patricia Music Limited, which is registered in England and Wales.

In the accounts of Patricia Music at 30 June 1998, the most recent accounting period end, the aggregate amount of capital and reserves was £503 and the profit reported for the year ended 30 June 1998 was £nil.

### 8. DEBTORS

	1998 £'000	1997 £'000
Due from fellow-subsiary undertaking	3	53
Group relief receivable	–	14
	<u>3</u>	<u>67</u>

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

	1998 £'000	1997 £'000
Group relief payable	–	66
	<u>–</u>	<u>66</u>

# Chappell Morris Limited

## NOTES TO THE ACCOUNTS at 30 November 1998

### 10. SHARE CAPITAL

	1998	1997
	£'000	£'000
Authorised, allotted, called up and fully paid:		
1,000 ordinary shares of £1 each	1,000	1,000
1,000 ordinary shares of 10p each	100	100
	<u>1,100</u>	<u>1,100</u>

Each holder of the £1 ordinary shares and the 10p ordinary shares has one vote per share held. The profits of the company available for dividend and resolved by the company to be distributed in respect of any financial year shall be applied as to one-fortieth in the payment of dividends to the holders of ordinary shares of £1 each and thirty nine-fortieths to the payment of dividends to the holders of ordinary shares of 10p each. In a winding up the surplus assets of the company shall be applied in paying one-fortieth to the holders of the ordinary shares of £1 each and the remaining thirty nine-fortieths to the holders of the ordinary shares of 10p each.

### 11. RECONCILIATION OF SHAREHOLDERS' FUNDS

	1998	1997
	£'000	£'000
At 1 December 1997	1	1
Profit for the year	2	—
Dividends	—	—
	<u>3</u>	<u>1</u>

### 12. PARENT UNDERTAKING AND ULTIMATE PARENT UNDERTAKING

The parent undertaking, which is also the ultimate parent undertaking, of the largest group of undertakings for which group accounts are drawn up and of which the company is a member is Time Warner Inc., incorporated in the United States of America. The parent undertaking of the smallest such group is Warner Music International Services Limited, registered in England and Wales. Copies of Time Warner Inc.'s accounts can be obtained from:

Shareholder Relations  
Time Warner Inc.  
75 Rockefeller Plaza  
New York, NY 10019  
USA