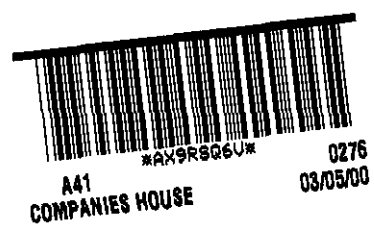


DIPLOMAT MUSIC LIMITED
(Registered in England No. 875521)

DIRECTORS' REPORT AND AUDITED ACCOUNTS

30TH JUNE 1999



DIPLOMAT MUSIC LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts of the company for the year ended 30th June 1999.

1. RESULTS AND DIVIDENDS

The profit for the year is set out in the profit and loss accounts on page 4. The directors do not propose to declare a dividend in respect of the year ended 30th June 1999.

2. REVIEW OF THE BUSINESS

The principal activity of the business during the year continued to be music publishing. The directors do not anticipate any change in the future.

3. DIRECTORS

The directors of the company during the year were:

B W Hitchens
J M Dyball
J R Manners (appointed 21st June 1999)

4. DIRECTORS' INTEREST IN SHARE CAPITAL

At no time during the year did any director have any interest in the shares of the company. There has been no movement in directors' interests since 1st July 1998.

5. AUDITORS

Elliotts have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment will be submitted at the annual general meeting.

DIPLOMAT MUSIC LIMITED

REPORT OF THE DIRECTORS

6. 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 the 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:

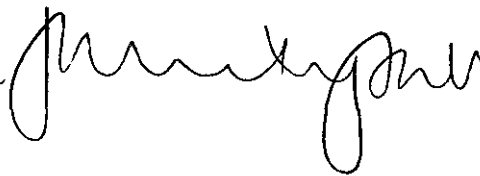
- select suitable accounting policies and then apply them consistently;
- make judgement and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts 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.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

BY ORDER OF THE BOARD

J M DYBALL
Director



Dated: 28/4/00

REPORT OF THE AUDITORS TO THE MEMBERS OF

DIPLOMAT MUSIC LIMITED

We have audited the accounts on pages 4 to 8, which have been prepared under the historical cost convention and the accounting policies set out on page 6.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 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 30th June 1999 and of its results for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Elliotts

ELLIOTTS

Registered Auditor
Centre Hights
137 Finchley Road
London NW3 6JG

Date

2nd May 2000

DIPLOMAT MUSIC LIMITED
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH JUNE 1999

	Notes	1999 £	1998 £
Turnover		-	109
Cost of sales		-	-
		<hr/>	<hr/>
Gross profit		-	109
Administrative expenses		738	876
		<hr/>	<hr/>
Operating Loss	3	(738)	(767)
Interest Receivable		2,603	2,781
Interest Payable		(145)	(199)
		<hr/>	<hr/>
Profit on ordinary activities before tax		1,720	1,815
Tax on Profit on Ordinary Activities	5	(357)	(381)
		<hr/>	<hr/>
Retained profit brought forward		1,363 48,004	1,434 46,570
		<hr/>	<hr/>
Retained profit carried forward		<u>49,367</u>	<u>48,004</u>

None of the company's activities were acquired or discontinued during the current and previous years.

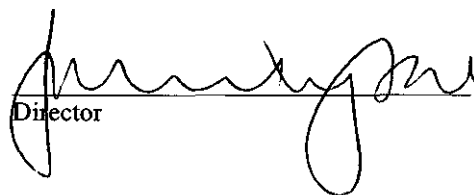
A Statement of Total Recognised Gains and Losses has not been presented as there are no gains and losses other than those dealt with in the profit and loss account.

The notes on pages 6 to 8 form part of these financial statements.

DIPLOMAT MUSIC LIMITED
BALANCE SHEET
AT 30TH JUNE 1999

	Notes	1999 £	1998 £
Current assets:			
Cash at bank		51,410	53,569
		<hr/>	<hr/>
		51,410	53,569
Creditors: amounts falling due within one year	6	(1,943)	(5,465)
		<hr/>	<hr/>
Net current assets		<u>49,467</u>	<u>48,104</u>
Capital and reserves:			
Share Capital	7	100	100
Profit and Loss Account		49,367	48,004
		<hr/>	<hr/>
Shareholders' funds	8	<u>49,467</u>	<u>48,104</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective March 1999)


Director J.M. DYBALL

Dated: 28/4/00

The notes on pages 6 to 8 form part of these financial statements.

DIPLOMAT MUSIC LIMITED

NOTES TO THE ACCOUNTS AT 30TH JUNE 1999

1. ACCOUNTING POLICIES

Accounting convention

These accounts are prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective March 1999).

Exemption has been taken from preparing a cashflow statement on the grounds that the company qualifies as a small company.

Royalties income

Credit is taken for royalty income which has been received or declared by users prior to the year end.

2. TURNOVER

Turnover represents gross royalty income notified. The geographical area to which turnover relates are as follows:

	1999 £	1998 £
United Kingdom	nil	109
Rest of World	nil	nil
	<hr/> £ nil	<hr/> £ 109
	<hr/> <hr/>	<hr/> <hr/>

3. OPERATING LOSS

This is stated after charging;

	1999 £	1998 £
Administration expenses		
Auditors' remuneration	750	600
Sundry expenses	(12)	276
	<hr/> £ 738	<hr/> £ 876
	<hr/> <hr/>	<hr/> <hr/>

4. EMPLOYEES

The company had no employees during the year (1998 - NIL). No directors remuneration was paid during the year (1998 - NIL).

DIPLOMAT MUSIC LIMITED

NOTES TO THE ACCOUNTS AT 30TH JUNE 1999

5. TAX ON PROFITS ON ORDINARY ACTIVITIES

The charge for corporation tax is made up as follows;

	1999	1998
	£	£
Based on the profits for the year:		
Corporation tax at 20.75% (1998 – 21%)	357	381
	<hr/>	<hr/>
	£ 357	£ 381
	<hr/>	<hr/>

6. CREDITORS: amounts falling due within one year

	1999	1998
	£	£
Related company – Warner Chappell Music Ltd	836	3,566
Corporation tax	357	704
Accruals	750	1,195
	<hr/>	<hr/>
	£ 1,943	£ 5,465
	<hr/>	<hr/>

7. SHARE CAPITAL

	1999	1998
	£	£
Authorised, allotted, called up and fully paid:		
50 'A' shares of £1 each	50	50
50 'B' shares of £1 each	50	50
	<hr/>	<hr/>
	£ 100	£ 100
	<hr/>	<hr/>

8. RECONCILIATION OF SHAREHOLDERS' FUND AND RESERVES

	1999	1998
	£	£
Balance as at 1 July 1998	48,104	46,670
Profit for the year	1,363	1,434
	<hr/>	<hr/>
Balance as at 30 June 1999	£ 49,467	£ 48,104
	<hr/>	<hr/>

DIPLOMAT MUSIC LIMITED

NOTES TO THE ACCOUNTS AT 30TH JUNE 1999

9. ULTIMATE PARENT UNDERTAKING

The directors regard Time Warner Inc., which is incorporated in the United States of America, as the company's ultimate parent undertaking.

Time Warner Inc. is the parent undertaking of the largest group for which group accounts are prepared. The group accounts can be obtained from:

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

Time Warner Limited, which is registered in England and Wales, is the parent undertaking of the smallest group for which group accounts are prepared. Accounts can be obtained from the Registrar of Companies in Cardiff.