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THORN

Thorn plc

Initial Accounts
for the period to
30 November 1996



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Chertsey, Surrey KT16 8LZ
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STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the Directors to prepare accounts prior to the payment of a company's first dividend if the payment is to be made before the company files its first period end accounts. These accounts must give a true and fair view of the state of affairs of the Company and of the profit or loss 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
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors confirm that they have complied with the above requirements in preparing the accounts.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and 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.

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AUDITORS' REPORT

Report of the auditors to the members of Thorn plc

We have audited the accounts of pages 4 to 16 which have been prepared under the historical cost convention and the accounting policies set out on page 4

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

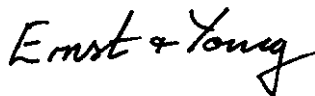
Basis of opinion

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

We planned and performed the 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 initial accounts for the 8 month period to 30 November 1996 have been properly prepared within the meaning of section 273 of the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

Date : 20 January 1997

ACCOUNTING POLICIES

Basis of preparation

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

Reorganisation and integration costs

Costs relating to fundamental reorganisation are charged as non-operating exceptional items. Other reorganisation costs are charged against operating profit and are separately disclosed where material due to their size or incidence.

Pension costs

Employees of Thorn plc are entitled to join the THORN EMI Pension Fund ("the Fund") whose assets are held in a separate trustee administered fund.

The company accounts for pension costs on the basis of the pension costs across the Thorn plc group ("the Group") as a whole. Pensions costs, which are determined in accordance with Statement of Standard Accounting Practice 24 - Accounting for Pension Costs (SSAP24), are charged to the profit and loss account so as to spread the cost of pensions over the working lives of the employees within the Group. Valuation surpluses or deficits are amortised over the expected remaining working life within the Group of the relevant employees (estimated to be 8 years in respect of the UK). The amortisation of valuation surpluses is restricted to an amount equal to the regular pension cost. Accordingly, employer expense in respect of the main scheme, which covers employees in the UK, has been taken as nil for the periods ended 30 November 1996 for reasons of conservatism.

Depreciation of tangible fixed assets

Depreciation of tangible fixed assets is calculated on cost at rates estimated to write off the cost less the estimated residual value of 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 and long-term leasehold property	2%
Plant, equipment and vehicles	10 - 33%

Taxation

Deferred taxation is calculated using the liability method in respect of timing differences arising primarily from the difference between the accounting and tax treatments of depreciation. Provision is made, or recovery anticipated, where timing differences are expected to reverse without replacement in the foreseeable future.

PROFIT AND LOSS ACCOUNT

for the 8 months ended 30 November 1996

		Total	Exceptional and non-recurring items	Before exceptional items
		1996	1996	1996
	Notes	£m	£m	£m
Turnover		-	-	-
Cost of sales		-	-	-
Gross profit		-	-	-
Administration expenses	1-4	(8.0)	-	(8.0)
Operating profit				
Continuing operations		(8.0)	-	(8.0)
Non-operating exceptional items:				
Cost of fundamental restructuring - demerger	5	(19.3)	(19.3)	-
Dividends (equity) receivable from subsidiary		50.0	-	50.0
Profit before finance charges		22.7	(19.3)	42.0
Finance charges	6	(0.1)	-	(0.1)
Profit on ordinary activities before taxation		22.6	(19.3)	41.9
Taxation on profit on ordinary activities	7	-	-	-
Profit on ordinary activities after taxation		22.6	(19.3)	41.9
Dividends (equity)	8	(15.8)	-	(15.8)
Transfer to (from) profit and loss reserve	17	6.8	(19.3)	26.1

BALANCE SHEET*at 30 November 1996*

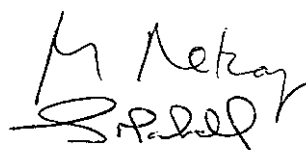
	Notes	1996 £m
Fixed assets		
Tangible fixed assets	9	4.9
Investments	10	108.3
		113.2
Current assets		
Debtors : amounts falling due within one year	11	6.9
Cash at bank and in hand	12	26.6
		33.5
Creditors: amounts falling due within one year		
Other creditors	14	(22.1)
		(22.1)
Net current assets (liabilities)		11.4
Total assets less current liabilities		124.6
Provisions for liabilities and charges		
Other provisions	15	(9.5)
		115.1
Capital and reserves		
Called-up share capital	16	108.3
Profit and loss reserve	17	6.8
		115.1

ME Metcalf

S Marshall

Directors

Date :


20th January 1997

CASH FLOW STATEMENT

for the 8 months ended 30 November 1996

	Notes	1996 £m	1996 £m
Net cash outflow from operating activities			(18.3)
Returns on investments and servicing of finance			
Interest paid		(0.1)	
Dividends received from subsidiary undertakings		50.0	
Net cash inflow from returns on investments and servicing of finance			49.9
Tax paid			-
Investing activities			
Purchase of tangible fixed assets		(4.1)	
Transfer of tangible fixed assets		(0.9)	
Net cash outflow from investing activities			(5.0)
Increase in cash and cash equivalents	12		26.6
*Net of cash and cash equivalents			

Note: The reconciliation of operating profit to net cash inflow from operating activities is as follows:

	1996 £m
Operating profit	(8.0)
Depreciation charge	0.1
Writedown of fixed assets	-
Amounts provided	1.6
Provisions transferred from group companies	3.6
Provisions utilised:	
Disposals and fundamental reorganisations	(15.0)
Decrease (increase) in working capital:	
Debtors	(6.9)
Creditors	6.3
Net cash outflow from operating activities	(18.3)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES*for the 8 months ended 30 November 1996*

	1996
	£m
Profit for the financial period	22.6
Other recognised (losses) gains	-
Total recognised gains and losses relating to the period	22.6

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS*for the 8 months ended 30 November 1996*

	1996
	£m
Profit for the financial period	22.6
Dividends	(15.8)
Other recognised (losses) gains	-
Shares issued for non-cash consideration	108.3
Net increase in shareholders' funds for the period	115.1
Opening shareholders' funds	-
Closing shareholders' funds	115.1

NOTES TO THE ACCOUNTS

1 Analysis of profit and loss account

			1996
	Continuing	Discontinued	Total
	£m	£m	£m
Net operating expenses:			
Administration expenses	8.0	-	8.0
Other operating (income) expenses	-	-	-
	8.0	-	8.0
Net operating expenses are analysed as:			
- normal	8.0	-	8.0
- exceptional	-	-	-

2 Operating profit

	1996
	£m
Operating profit is stated after charging:	
Depreciation of tangible fixed assets	0.1

3 Fees to auditors

	1996
	£m
Audit fees	-
Other fees paid to Ernst & Young:	
UK	0.1
	0.1

4 Staff Costs

	1996
	£m
Directors' and employees' costs:	
Wages and salaries	0.6
Social security costs	0.1
Other pension costs (see Note 19)	-

The average number of employees for the period was 21.

5 Non-operating exceptional items

	1996
	£m
Cost of fundamental restructuring - demerger	19.3

The costs of fundamental restructuring represent Thorn plc's share of the total Demerger costs of the THORN EMI Group.

NOTES TO THE ACCOUNTS

6 Finance charges

	1996
	£m
Interest payable on:	
Bank overdrafts and loans repayable within five years	0.1
	0.1

7 Taxation

Thorn plc has undertaken to discharge the liability to corporation tax of all of its wholly-owned UK subsidiaries. As taxation is assessed on an annual basis, no meaningful tax charge can be determined at the 30 November 1996 initial balance sheet date. The liability to tax will be assessed on completion of its first accounting reference period, 31 March 1997.

8 Dividends

	1996	1996
	p per share	£m
Ordinary dividends (net):		
Proposed Interim	3.7	15.8

9 Tangible fixed assets

	Freehold property	Plant equipment and vehicles	Total
	£m	£m	£m
Cost at 31 March 1996	-	-	-
Additions	3.4	0.7	4.1
Net transfers (to) from Group companies	-	0.9	0.9
Cost at 30 November 1996	3.4	1.6	5.0
Depreciation at 31 March 1996	-	-	-
Charge for year	-	0.1	0.1
Depreciation at: 30 November 1996	-	0.1	0.1
Net book values: 30 November 1996	3.4	1.5	4.9
			1996
			£m
The net book values shown above include the following:			
Freehold Properties in the course of construction (including land at £2.1m)			3.4

NOTES TO THE ACCOUNTS

10 Fixed asset investments

	1996
	£m
Investments comprise:	
Subsidiary undertakings	108.3
	108.3
Unlisted investments	108.3
	108.3
Investments in subsidiary undertakings	
	Cost of shares Net book value
	£m £m
At 31 March 1996	- -
Additions	108.3 108.3
At 30 November 1996	108.3 108.3

11 Debtors

	1996
	£m
Due within one year:	
Amounts owed by subsidiary undertakings	1.4
Advance corporation tax recoverable	4.0
Other debtors	1.2
Prepayments and accrued income	0.3
	6.9

NOTES TO THE ACCOUNTS

12 Cash and cash equivalents

The following definitions have been used:

Cash: Cash in hand and deposits repayable on demand.

Cash equivalents: Short-term investments, which are readily convertible into known amounts of cash without notice and which were within 90 days of maturity when acquired, less bank loans and overdrafts repayable within 90 days from the date of advance.

	Cash and cash equivalents £m
Cash at bank and in hand	26.6
At 30 November 1996	26.6

Movement of cash and cash equivalents

	1996 £m	Movement in year £m
Cash at bank and in hand	26.6	26.6
	26.6	26.6

Analysis of changes in cash and cash equivalents during the period

	1996 £m
Opening balance	-
Net cash inflow	26.6
Closing balance	26.6

Reconciliation of movement in cash and cash equivalents to movement in net borrowings

	1996 £m
Increase in cash and cash equivalents	26.6
Movement in net cash and cash equivalents	26.6
Opening net cash and cash equivalents	-
Closing net cash and cash equivalents	26.6

NOTES TO THE ACCOUNTS

13 Analysis of changes in finance during the period

	Share capital and share premium	Non-cash equivalents	1996 Total finance
	£m	£m	£m
Opening balance	-	-	-
Shares issued for non-cash consideration	108.3	-	108.3
Closing balance	108.3	-	108.3

14 Other creditors: amounts falling due within one year

	1996 £m
Trade creditors	0.6
Advance corporation tax	4.0
Other taxes including VAT and social security costs	0.1
Dividends payable	15.8
Other creditors	0.1
Accruals and deferred income	1.5
	22.1

15 Other provisions for liabilities and charges

	Warranty reorganisation and other	Disposal and fundamental reorganisation	Total
	£m	£m	£m
At 31 March 1996	-	-	-
Provisions transferred from other group companies.	3.6	-	3.6
Provisions utilised	-	(15.0)	(15.0)
Charged against:			
Operating profit	1.6	-	1.6
Exceptional items	-	19.3	19.3
At 30 November 1996	5.2	4.3	9.5

NOTES TO THE ACCOUNTS

16 Share capital

	Authorised	Allotted, called-up & fully paid
	1996	1996
	£m	£m
Ordinary Shares of 25p each	175.0	108.3
Ordinary Shares in issue:	Number	Nominal value
	m	£m
At 31 March 1996	-	-
Shares issued during the period on:		
Demerger of THORN EMI	433.2	108.3
At 30 November 1996	433.2	108.3

17 Reserves

	Profit and loss reserve
	£m
At 31 March 1996	-
Retained profit for the period	6.8
At 30 November 1996	6.8

18 Contingent liabilities

- (i) The Directors are not aware of any legal or arbitration proceedings pending or threatened against Thorn plc which may have any liability significantly in excess of provisions in the accounts.
- (ii) Guarantees, bills discounted and other contingent liabilities total £711.3m, of which £606.8m are guaranteed bank facilities arranged by group companies, £72.3m are guaranteed loans between group companies and £32.2m are guaranteed letters of credit in the US. In addition Thorn plc guarantees certain transactions in financial instruments undertaken in the normal course of business.
- (iii) As part of the arrangements for the demerger of the rental and rental purchase business of the EMI Group plc (formerly THORN EMI plc) Thorn plc has provided certain indemnities and guarantees in connection with the acquisition by it of such business.
- (iv) A number of subsidiary undertakings of Thorn plc are currently the subject of legal proceedings to which Thorn plc is not a party.

19 Pension arrangements

Employees of Thorn plc are entitled to join the THORN EMI Pension Fund ("the Fund") whose assets are held in a separate trustee administered fund.

The THORN EMI Pension Fund is based in the UK and is of the defined benefit type. The Fund is open to permanent staff over the age of 18 employed by the Company and certain subsidiaries in the UK and also to employees of the EMI Group plc group of companies. Benefits provided by the Fund are based on final pensionable pay. Pensions payable from the Fund are guaranteed to increase by 5% per annum, or by the cost of living if less. Members contribute to the Fund at the rate of 4% of pensionable pay.

The latest actuarial valuation of the 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 Fund amounted to £1,410m. The actuarial value of the assets was sufficient to cover 121% of the value of the benefits that had accrued to members, after allowing for assumed increases in earnings and to 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. An actuarial valuation of the Fund is expected to be carried out as at 31 March 1997

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. For reasons of conservatism, such expense has been taken as nil since incorporation. The long-term annual growth rate assumptions used for calculating employer expense under SSAP 24 are shown below:

	Growth relative to investment return
Pay increases	(2.5)%
Pension decreases	(5.0)%
Dividend increases	(4.5)%

20 Related party transactions

Thorn plc is the ultimate holding company for a number of companies within the Thorn group of companies. As such it has been involved in certain related party transactions.

Thorn plc became active on the 19 August 1996 when it acquired Thorn UK Ltd from THORN EMI plc. At this date the assets and liabilities of Thorn Worldwide Ltd, which is owned by Thorn UK Ltd, were transferred into Thorn plc at a cost of £5.9m.

Thorn plc also settled transactions with external parties on behalf of Thorn High Street Properties Ltd, owned by Thorn UK Ltd, that does not have its own bank account. During the period Thorn plc has paid £4.0m, and received £3.2m, on behalf of Thorn High Street Properties Ltd leaving a balance owed by the subsidiary of £0.8m.

In addition there have been a number of transactions made by Thorn plc on behalf of Thorn UK Ltd, or companies controlled through Thorn UK Ltd, or vice versa. This includes £1.7m VAT paid on behalf of Thorn UK Ltd. At the 30 November 1996 £0.6m was owed by other group companies.