

# THORN

## Thorn plc

### Interim Accounts

(Prepared in accordance with S.272 CA 1985)

for the period from

1 April 1997

to

18 July 1997



Thorn plc, Thorn House, 124 Bridge Road,  
Chertsey, Surrey KT16 8LZ  
Telephone 01932 573700  
Registered in England and Wales No. 3182775

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

*for the period from 1 April 1997 to 18 July 1997*

These accounts have been prepared, in accordance with Section 272 Companies Act 1985, to enable the Directors to ensure that there are adequate distributable reserves to effect the capital reorganisation detailed in note 17. 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 these 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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## 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 reorganisations 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

Pensions costs 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 both the period ended 18 July 1997 and the year to 31 March 1997.

### 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

The Company has undertaken to discharge the liability to corporation tax of the majority of its wholly-owned United Kingdom subsidiaries. Their United Kingdom tax liabilities are therefore dealt with in these accounts. 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 period from 1 April 1997 to 18 July 1997*

		Period ended 18 Jul 97	Year ended 31 Mar 97
	<i>Notes</i>	£m	£m
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Administration expenses	<i>1-4</i>	(1.6)	(8.9)
Operating loss			
Continuing operations		(1.6)	(8.9)
Non-operating exceptional items:			
Cost of fundamental restructuring - demerger	<i>5</i>	-	(19.3)
Dividends (equity) receivable from subsidiary		66.0	145.0
Profit before finance charges		64.4	116.8
Finance income	<i>6</i>	0.1	0.4
Profit on ordinary activities before taxation		64.5	117.2
Taxation on profit on ordinary activities	<i>7</i>	-	(29.7)
Profit on ordinary activities after taxation		64.5	87.5
Dividends (equity)	<i>8</i>	-	(57.0)
Transfer to profit and loss reserve	<i>16</i>	64.5	30.5

**BALANCE SHEET**

at 18 July 1997

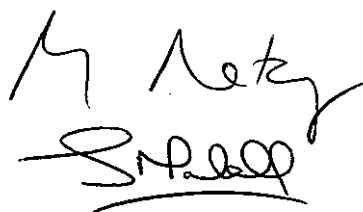
		18 Jul 97	31 Mar 97
	Notes	£m	£m
<b>Fixed assets</b>			
Tangible fixed assets	9	5.2	5.2
Investments	10	108.3	108.3
		113.5	113.5
<b>Current assets</b>			
Debtors : amounts falling due within one year	11	164.5	100.0
Debtors : amounts falling due after more than one year	11	10.3	10.3
Cash at bank and in hand	12	5.5	9.7
		180.3	120.0
Creditors: amounts falling due within one year			
Other creditors	13	(82.2)	(86.0)
<b>Net current assets</b>		98.1	34.0
<b>Total assets less current liabilities</b>		211.6	147.5
<b>Provisions for liabilities and charges</b>			
Other provisions	14	(8.3)	(8.7)
		203.3	138.8
<b>Capital and reserves</b>			
Called-up share capital	15	108.3	108.3
Profit and loss reserve	16	95.0	30.5
		203.3	138.8

ME Metcalf

S Marshall

Directors

Date : 18 July 1997



# CASH FLOW STATEMENT

for the period from 1 April 1997 to 18 July 1997

	Period ended 18 Jul 97	Period ended 18 Jul 97	Year ended 31 Mar 97
Notes	£m	£m	£m
Net cash outflow from operating activities		(161.1)	(6.9)
Returns on investments and servicing of finance			
Interest received	0.1		0.4
Dividends received from subsidiary undertakings	161.0		50.0
Net cash inflow from returns on investments and servicing of finance		161.1	50.4
Tax paid		(4.0)	(12.4)
Investing activities			
Purchase of tangible fixed assets	(0.2)		(4.8)
Sale of tangible fixed assets	-		0.2
Transfer of tangible fixed assets	-		(0.9)
Net cash outflow from investing activities		(0.2)	(5.5)
Equity dividends paid		-	(15.9)
(Decrease) increase in liquid resources	12	(4.2)	9.7

Note: The reconciliation of operating loss to net cash outflow from operating activities is as follows:

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Operating loss	(1.6)	(8.9)
Depreciation charge	0.2	0.3
Amounts provided - normal	-	2.5
Provisions transferred from subsidiary undertakings	-	3.6
Provisions utilised:		
Insurance and other	-	(0.2)
Disposals and fundamental reorganisations	(0.4)	(16.5)
Decrease (increase) in working capital:		
Debtors	(159.5)	(5.0)
Creditors	0.2	17.3
Net cash outflow from operating activities	(161.1)	(6.9)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

*for the period from 1 April 1997 to 18 July 1997*

There are no recognised gains or losses in the period other than the retained profit of £64.5m (profit in year to 31 March 1997 : £87.5m).

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

*for the period from 1 April 1997 to 18 July 1997*

	Shareholders' funds £m
At 31 March 1997	138.8
Retained profit for the period	64.5
At 18 July 1997	203.3

## NOTES TO THE ACCOUNTS

### 1 Analysis of profit and loss account

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Net operating expenses:		
Administration expenses	1.6	13.0
Other operating expenses (income)	-	(4.1)
	1.6	8.9

### 2 Operating loss

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Operating loss is stated after charging:		
Depreciation of tangible fixed assets	0.2	0.3

### 3 Fees to auditors

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Audit fees	-	0.1
Other fees paid to Ernst & Young: UK	-	0.1
	-	0.2

### 4 Staff Costs

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Directors' and employees' costs:		
Wages and salaries	0.7	1.6
Social security costs	-	0.2
Other pension costs (see Note 19)	-	-

The average number of employees for the period was 45 (year ended 31 March 1997: 26).

### 5 Non-operating exceptional items

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£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 income

	Period ended 18 Jul 97	Year ended 31 Mar 97
	£m	£m
Interest receivable on:		
Bank account	0.1	0.4
	0.1	0.4

### 7 Taxation

Thorn plc has undertaken to discharge the liability to corporation tax of the majority of its wholly-owned UK subsidiaries. As taxation is assessed on an annual basis, no meaningful tax charge can be determined for the period to 18 July 1997. The taxation charge of £29.7m, for the year ended 31 March 1997, represents the taxation of the majority the UK businesses and not just the business of Thorn plc.

### 8 Dividends

	Period ended		Year ended	
	18 Jul 97	18 Jul 97	31 Mar 97	31 Mar 97
	£m	p per share	£m	p per share
Ordinary dividends (net):				
Interim	-	-	15.9	3.7
Final	-	-	41.1	9.6
	-	-	57.0	13.3

### 9 Tangible fixed assets

	Freehold property	Plant, equipment and vehicles	Total
	£m	£m	£m
Cost at 31 March 1997	3.6	1.7	5.3
Additions	-	0.2	0.2
Cost at 18 July 1997	3.6	1.9	5.5
Depreciation at 31 March 1997	0.1	-	0.1
Charge for the period	-	0.2	0.2
Depreciation at 18 July 1997	0.1	0.2	0.3
Net book values at 18 July 1997	3.5	1.7	5.2
Net book values at 31 March 1997	3.5	1.7	5.2

The net book values shown above include land at £2.1m (31 March 1997 : £2.1m).

## NOTES TO THE ACCOUNTS

### 10 Fixed asset investments

	Cost of shares	Net book value
	£m	£m
Investments in subsidiary undertaking		
At 31 March 1997 and 18 July 1997 : Unlisted investments	108.3	108.3

### 11 Debtors

	18 Jul 97	31 Mar 97
	£m	£m
Due within one year:		
Trade debtors	0.1	0.7
Amounts owed by subsidiary undertakings	162.4	2.5
Dividend due from subsidiary	-	95.0
Other debtors	0.8	0.4
Prepayments and accrued income	1.2	1.4
	164.5	100.0
Due after more than one year:		
Corporate taxation recoverable	10.3	10.3
	10.3	10.3
Total	174.8	110.3

### 12 Liquid resources

	18 Jul 97	31 Mar 97
	£m	£m
Cash at bank and in hand	5.5	9.7

#### Movement in liquid resources

	Liquid resources 31 Mar 97	Cash flow	Liquid resources 18 Jul 97
	£m	£m	£m
Cash at bank and in hand	9.7	(4.2)	5.5

## NOTES TO THE ACCOUNTS

### 13 Other creditors: amounts falling due within one year

	18 Jul 97	31 Mar 97
	£m	£m
Trade creditors	0.2	0.2
Amounts owed to subsidiary undertakings	14.4	14.6
Corporation tax	23.6	27.6
Other taxes including VAT and social security costs	-	0.2
Dividends payable	41.1	41.1
Other creditors	-	0.3
Accruals and deferred income	2.9	2.0
	82.2	86.0

### 14 Other provisions for liabilities and charges

	Insurance and other	Closure and reorganisation	Demerger related costs	Total
	£m	£m	£m	£m
At 31 March 1997	2.5	3.4	2.8	8.7
Provisions utilised	-	-	(0.4)	(0.4)
At 18 July 1997	2.5	3.4	2.4	8.3

### 15 Share capital

	Authorised 18 Jul 97	Allotted, called-up & fully paid 18 Jul 97
	£m	£m
Ordinary Shares of 25p each	175.0	108.3

	Number	Nominal value
	m.e.	£m
Ordinary Shares in issue	433.2	108.3
At 31 March 1997 and at 18 July 1997	433.2	108.3

Note : There has been no change in the share capital during the period ended 18 July 1997 (see note 17).

## 16 Reserves

	Profit and loss reserve
	£m
At 31 March 1997	30.5
Retained profit for the period	64.5
At 18 July 1997	95.0

## 17 Post balance sheet event

On 28 May 1997 the Company announced a proposed capital reorganisation to return approximately 14.3% of its then market capitalisation (as adjusted to exclude the final dividend) to Shareholders. The capital reorganisation was approved by Shareholders on 14 July 1997.

The reorganisation, which will become effective on 21 July 1997, involves a sub-division of each existing Ordinary Share into a B Share and an Ordinary Share, a consolidation of the Ordinary Shares arising from the sub-division on a six-for-seven basis and an offer on behalf of the Company to repurchase the B Shares.

After giving effect to the capital reorganisation, but not the repurchase offer, the Company will have outstanding 371,275,235 Ordinary Shares, nominal value 5¼p each, and 433,154,441 B Shares, nominal value 20<sup>1</sup>/<sub>14</sub>p each.

The B Shares will have no voting rights, except in relation to the winding up of the Company, and carry a preferential non-cumulative dividend of 78% of LIBOR. The Ordinary Shares following the capital reorganisation will be identical in all respects to the Ordinary Shares prior to the capital reorganisation, except for the change in the nominal value and the rights of the B Shares.

Costs incurred of £1.2m, in relation to the capital reorganisation, are included in debtors which, together with up to £0.4m of stamp duty which will be payable by the Company on the repurchase of the B Shares, will be written off directly to reserves on completion of the reorganisation.

## 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 £1,089.4m, of which £990.2m are guaranteed bank facilities arranged by group companies, £72.3m are guaranteed loans between group companies and £21.2m 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 Pension Fund ("the Fund") whose assets are held in a separate trustee-administered fund. The Fund was established on 1 April 1997 following the splitting of the THORN EMI Pension Fund as a result of the demerger of the THORN EMI Group.

The Thorn 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. 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.

An 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 being 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 increases	5.0%
Dividend increases	4.5%