

EMI RECORDS LIMITEDREPORT OF THE DIRECTORS

The Directors submit the audited accounts for the financial year ended 31 March 1987 ("the year").

Results

The results for the year are set out in the profit and loss account on page 4.

Dividend

The directors recommend the payment of a final dividend of £13,286,000 (1986 £5,639,000).

Activities

The Company is engaged in the manufacture, sale and distribution of all forms of recorded music.

The growth of the Compact Disc market more than offset the loss of turnover associated with the distribution of Film Video and Computer Software Cassettes which business ceased in the first quarter of 1986. As a consequence of these changes there was an improvement in margins and a satisfactory increase in pre-tax profits. The directors foresee a continuation of profitable trading in 1987/88.

Disposal of Associate

During the year the company's 50% interest in Record Merchandisers Limited was sold to F. W. Woolworth plc (Note 9).

Post Balance Sheet Event

As at 1st April 1987 EMI Records Limited acquired the assets, contracts and obligations of the former RAK Records group.

Directors

The following served as directors of the company during the year:-

Mr K A C East	(resigned 31.12.86)
Mr C J Hodgson	
Mr P N Jamieson	(resigned 13.5.87)
Mr R Perry	(resigned 2.3.87)
Mr G C Marriott	
Mr M Haxby	(appointed 2.3.87)
Mr D Upadhyaya	(appointed 2.3.87)

The directors are not subject to retirement by rotation or otherwise and therefore continue in office.

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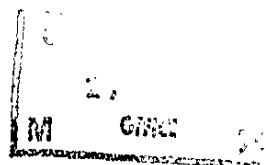
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### Directors' Interests

The only interests held by the directors in office at the year end in the share capital and loan stocks of the company's ultimate holding company THORN EMI plc, or any subsidiaries thereof, were options to purchase Ordinary Shares of THORN EMI plc, granted in accordance with the provisions of the Company's Share Option Schemes, as follows:-

<u>THORN EMI plc</u>		
<u>Options Over Ordinary Shares</u>		
	<u>1 April 1986</u>	<u>31 March 1987</u>
Mr C J Hodgson	27,500	40,250
Mr G C Marriott	18,973	31,473
Mr M J Haxby	12,097	24,597
Mr D Upadhyaya	-	1,750

### 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 in 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.

### Auditors

A resolution to re-appoint the auditors, Ernst & Whinney, will be proposed at the General Meeting.

BY ORDER OF THE BOARD



C A N Burt  
Secretary

18 May 1987

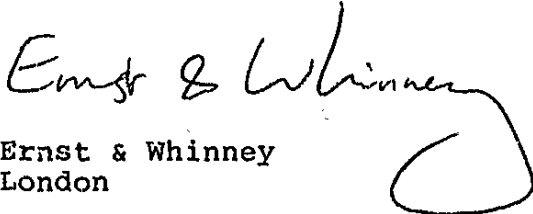
1/3 Uxbridge Road  
Hayes  
Middlesex UB4 0SY

ERNST & WHINNEY Chartered Accountants

REPORT OF THE AUDITORS TO THE MEMBERS OF EMI RECORDS LIMITED

We have audited the accounts of the Company set out on pages 4 to 15 in accordance with approved auditing standards. These accounts have been prepared under the historical cost convention.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1987 and of the profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

  
Ernst & Whinney  
London

18 May 1987

LMI RECORDS LIMITED

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 1987

	Note	1987 £000	1986 £000
TURNOVER	2	166,949	149,204
Cost of sales		(145,073)	(128,703)
GROSS PROFIT		21,876	20,501
Distribution costs		(6,735)	(9,200)
Administrative expenses		(8,299)	(7,732)
Other operating income	6	1,142	1,925
NET OPERATING INCOME	3	7,984	5,494
Interest payable	7	3	6
PROFIT BEFORE TAXATION		7,981	5,488
Taxation	8	489	289
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		7,492	5,199
Extraordinary Item	9	3,035	-
PROFIT FOR THE YEAR		10,527	5,199
Dividends	10	13,286	5,639
RETAINED LOSS FOR THE YEAR		(2,759)	(440)

STATEMENT OF RETAINED PROFITS

Balance at 1 April 1986	2,759	3,199
Retained loss for the year	(2,759)	(400)
Balance at 31 March 1987	-	2,759

## EMI RECORDS LIMITED

## BALANCE SHEET - 31 March 1987

	Note	1987 £000	1986 £000
FIXED ASSETS			
Tangible assets	11	10,850	10,858
Investments	12	100	125
		<hr/> 10,950	<hr/> 10,983
CURRENT ASSETS			
Stocks	13	7,162	3,549
Debtors	14	66,382	52,370
Cash at bank and in hand		88	2,402
		<hr/> 73,632	<hr/> 58,321
CREDITORS - amounts falling due within one year	15	79,720	61,863
		<hr/> (6,088)	<hr/> (3,542)
NET CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		4,862	7,441
CREDITORS - amounts falling due after more than one year	16	2,257	2,077
		<hr/> 2,605	<hr/> 5,364
CAPITAL AND RESERVES			
Called up share capital	17	2,605	2,605
Reserves		-	2,759
		<hr/> 2,605	<hr/> 5,364

Approved by the Board

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Directors

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18 May 1987

# EMI RECORDS LIMITED

## SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 MARCH 1987

	1987 £000	1986 £000
SOURCE OF FUNDS		
Profit before taxation	7,981	5,488
Items not involving the movement of funds		
Depreciation of tangible fixed assets	2,108	949
Total generated from operations	10,089	6,437
OTHER SOURCES		
Net book value of disposals and transfers of tangible fixed assets	129	(2,119)
Profit on disposal of investment in Associate	3,035	-
Total sources of funds	13,253	4,318
FUNDS APPLIED		
Purchase of tangible fixed assets	2,204	6,351
Taxation paid (received)	489	(172)
Dividends paid	-	2,746
Net movement on group interest free loan	6,506	2,500
	9,199	11,425
	4,054	(7,107)
INCREASE (DECREASE) IN WORKING CAPITAL		
Stocks	3,613	991
Debtors	2,539	6,543
Creditors and provisions	(8,880)	(2,568)
Amounts owing by group companies	3,159	(4,016)
Amounts owing to associate	(391)	967
	40	1,917
MOVEMENT IN LIQUID FUNDS		
Bank balances and cash	(2,314)	1,261
Bank overdraft	3,067	(1,518)
Group interest bearing funding account	3,261	(8,767)
	4,054	(7,107)

EMI RECORDS LIMITED

31 MARCH 1987

ACCOUNTING POLICIES

(a) Basis of consolidation

The accounts are prepared under the historical cost convention. Consolidated accounts of the Company and its subsidiaries are not presented since the Company is the wholly owned subsidiary of another company incorporated in England.

(b) Investments

Investments in subsidiaries are stated at cost less, where the underlying net tangible assets represented by the investment are less than cost, a provision to reduce the investment to the book amount of the net tangible assets.

(c) 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 profit of the year.

(d) Depreciation

Depreciation of property, plant, 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 33.1/3%.

Motor vehicles at 25%.

(e) Stocks and work in progress

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



(f) 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.

(g) Turnover

Turnover includes sales to third parties and group companies and associates, income from patents, copyright and trademarks. It is based on the invoiced value of goods and services supplied net of discounts and value added tax.

(h) Research and development expenditure

Research and development expenditure and recording and other repertoire costs in adding to the permanent catalogue of recorded music are written off as incurred.

(i) Reorganisation costs

The costs of reorganisation (redundancies and other rationalisation costs) to recognise the effect of changing business conditions are provided and charged against trading profit when a reorganisation decision has been made in principle.

(j) Leasing

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

# EMI RECORDS LIMITED

## NOTES ON THE ACCOUNTS - 31 MARCH 1987

### 1. HOLDING COMPANY

The Company's ultimate holding company is THORN EMI plc, incorporated in England.

### 2. PRINCIPAL ACTIVITIES AND ANALYSIS OF RESULTS

The Company's turnover and profit in the year derived from the manufacture and sale of recorded music.

Geographical analysis of turnover	1987 £000	1986 £000
United Kingdom	124,197	118,129
Rest of Europe	24,155	14,745
The Americas	11,714	9,524
Australasia	2,066	1,719
Middle East/Asia	4,218	4,594
Africa	599	493
	<hr/> 166,949	<hr/> 149,204

### 3. NET OPERATING INCOME is stated after charging:

	1987 £000	1986 £000
Depreciation	2,108	949
Equipment rental	558	431
Audit fees	62	46
Management charges	1,497	383

### 4. EMPLOYEES

	1987	1986
(a) The average number of employees including directors were	1,601	1,690
(b) Staff costs		
	£000	£000
Wages and salaries	17,981	16,374
Social security costs	1,440	1,223
Other pension costs	361	587
	<hr/> 19,782	<hr/> 18,184

This includes remuneration paid to Directors of the company of £134,000 (1986 £72,000) - see Note 5.

## 5. DIRECTORS' EMOLUMENTS

	1987 £000	1986 £000
Fees as Directors	NIL	NIL
Other Emoluments, including pension contributions	17	72
Compensation to former director	117	-
	<u>134</u>	<u>72</u>

The emoluments disclosed above include a sum payable to an overseas group company for the services of one director.

The emoluments, excluding pension contributions, of the Directors are as follows:

Chairman	NIL	NIL
Highest paid Director	6,474	60,358
	<u>        </u>	<u>        </u>
Other Directors in scale:	NUMBER	NUMBER
Not more than £5,000	3	
£5,001 to £10,000	2	1

## 6. OTHER OPERATING INCOME

	1987 £000	1986 £000
Dividend receivable from associated company	373	200
Interest receivable from group companies	698	1,613
Other interest receivable	71	112
	<u>1,142</u>	<u>1,925</u>

## 7. INTEREST PAYABLE

Bank overdraft repayable within 5 years	<u>3</u>	<u>6</u>
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## 8. TAXATION

- a) The Company is primarily liable for any 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 holding company, THORN EMI plc, that the latter will assume all liability for any such taxation for accounting periods ending up to 31st March, 1987, so long as the company remains a subsidiary. In view of the undertaking received, no disclosure is made in these accounts of any potential liability to taxation.

### b) CHARGE FOR THE YEAR

	1987 £000	1986 £000
UK corporation tax	489	289
Less Double Tax Relief	(489)	(289)
	<hr/>	<hr/>
	(-)	(-)
Overseas tax charge	489	289
	<hr/>	<hr/>
	489	289
	<hr/>	<hr/>

## 9. EXTRAORDINARY ITEM

	1987 £000	1986 £000
Sale of investment in associate	3,035	-
	<hr/>	<hr/>

## 10. DIVIDENDS

	1987 £000	1986 £000
Final - proposed	13,286	5,639
	<hr/>	<hr/>

# 11. TANGIBLE FIXED ASSETS

	Freehold Property £000	Leasehold Property £000	Plant Equipment and Vehicles £000	Total £000
Cost				
At 1 April 1986	2,972	104	17,388	20,464
Transfers from group companies	-	-	22	22
Additions	7	19	2,178	2,204
Disposals	-	(12)	(840)	(852)
At 31 March 1987	2,979	111	18,748	21,838
Depreciation				
At 1 April 1986	342	4	9,260	9,606
Transfers from group companies	-	-	28	28
Charge for year	52	5	2,051	2,108
Disposals	-	(4)	(750)	(754)
At 31 March 1987	394	5	10,589	10,988
Net book amounts at 31 March 1987	2,585	106	8,159	10,850
Net book amounts at 31 March 1986	2,630	100	8,128	10,858

## 12. INVESTMENTS

	1987 £000	1986 £000
Associated company Shares at cost	-	25
Subsidiary companies Shares at cost	100	100
	100	125

The subsidiary companies at 31 March 1987 were:-

<u>COMPANY</u>	<u>COUNTRY OF INCORPORATION</u>	<u>NATURE OF BUSINESS</u>	<u>PROPORTION OF SHARES HELD</u>
World Records Ltd	England	Non Trading	100%
Music For Pleasure Ltd	England	Non Trading	100% "A" ordinary and non-cumulative Preference

The above are holdings of ordinary shares except where otherwise indicated.

### 13. STOCKS

	1987 £000	1986 £000
Raw materials and components	1,775	1,072
Work in progress	128	152
Finished goods	5,259	2,325
	<hr/>	<hr/>
	7,162	3,549
	<hr/>	<hr/>

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

### 14. DEBTORS

	1987 £000	1986 £000
DUE WITHIN ONE YEAR		
Trade debtors	26,733	22,581
Fellow subsidiary companies	32,629	24,771
Associated company	-	2,891
Other debtors	189	1,460
Prepayments and accrued income	151	293
Interest free loan to group company	6,680	174
	<hr/>	<hr/>
	66,382	52,170
DUE AFTER MORE THAN ONE YEAR		
Other debtors	-	200
	<hr/>	<hr/>
	66,382	52,370
	<hr/>	<hr/>

15. CREDITORS - amounts falling due within one year

	1987 £000	1986 £000
Bank overdrafts	1,930	4,997
Trade creditors	16,514	10,845
Royalties payable	20,667	19,216
Holding company	440	280
Fellow subsidiary companies	8,639	7,197
Associated company	-	2,500
Social security	517	472
Accruals and deferred income	12,088	10,717
Dividend	18,925	5,639
	<u>79,720.</u>	<u>61,863</u>

16. CREDITORS - amounts falling due after one year

Fellow subsidiary	1,913	2,077
Other	344	-
	<u>2,257</u>	<u>2,077</u>

17. CALLED UP SHARE CAPITAL

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

18. CAPITAL COMMITMENTS

At 31 March 1987 the following future capital expenditure had been authorised:

Contracted	2,950	876
Not contracted	<u>2,638</u>	<u>2,677</u>
	<u>5,588</u>	<u>3,553</u>

## 19. LEASE COMMITMENTS

There were annual commitments under operating leases at March 1987 as follows:

	Land & Buildings £'000	Other £'000
Expiring within one year	34	3
Expiring within the second and fifth years inclusive	134	21
Expiring after five years	2,357	-
	<hr/> 2,525	<hr/> 24

## 20. CONTINGENT LIABILITIES

Certain contingent liabilities exist in relation to litigation. These are being contested and it is not considered that they will result in any liability significantly in excess of provisions in the accounts.

## 21. PENSION ARRANGEMENTS

The company participates in a pension scheme known as the THORN EMI Pension Fund, which is open to all employees of the company on a voluntary basis.

The Pension Fund is self-administered and externally funded and contributions are made in accordance with actuarial recommendations so as to meet benefits as and when they fall due.

A surplus arising on the Fund, following an actuarial valuation as at 5 April 1985, has been absorbed in part by an improvement in benefits, in part by a permanent reduction in members' contributions and in part by a temporary reduction in the company's contributions. This latter, temporary reduction amounted to £498,000 in 1987 (1986 £198,000). Any such temporary reductions in future contribution are conditional upon the company remaining a subsidiary of THORN EMI plc.