

EMI Records Limited

68172

Registered No. 68172

DIRECTORS

G J Hopkins	(resigned 7 August 1995)
J A King	
I L Emberey	(resigned 18 July 1995)
I L Hanson	(appointed 7 August 1995)
W Macmillan	(appointed 28 September 1995)

SECRETARY

G J Hopkins	(resigned 7 August 1995)
I L Hanson	(appointed 7 August 1995)

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

REGISTERED OFFICE

EMI House
43 Brook Green
London W6 7EF



The directors submit their annual report and accounts for the year ended 31 March 1995.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 6.

The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENT

The company continues to be engaged in the manufacture, sale and distribution of all forms of recorded music. These activities are unlikely to change in the foreseeable future.

The company acquired Food Limited, a record company, on 12 April 1994.

FIXED ASSETS

The significant additions to tangible fixed assets during the year arose principally from the purchase of a new production site in Swindon and new headquarters in Brook Green. The company had authorised and contracted for a further £19,201,000 of expenditure on Brook Green at year end.

Details of the company's fixed assets are in notes 9 and 10 of the accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company are listed on page 1.

The directors are not subject to retirement by rotation or otherwise.

The only interest held by the directors in office at the year end in the share capital and loan stocks of the company's ultimate parent undertaking, THORN EMI plc, or any subsidiary undertakings thereof, were Ordinary shares and Options to purchase Ordinary shares of THORN EMI plc, granted in accordance with the provisions of that company's Share Option Schemes, as follows:

	31 March 1995		31 March 1994	
	Ordinary shares	Options over Ordinary shares	Ordinary shares	Options over Ordinary shares
Mr G J Hopkins	2,466	69,764	—	69,516
Mr J A King	—	2,348	—	1,298
Mr I L Emberey	—	8,692	—	865

During the year, Mr G J Hopkins was granted 4,931 Ordinary shares and a further Option over 248 Ordinary shares. Mr J A King was granted 3,447 Ordinary shares and a further Option over 1,050 Ordinary shares. Mr I L Emberey was granted a further Option over 7,827 Ordinary shares. All Ordinary shares and Options granted were in THORN EMI plc.

Mr G J Hopkins had an interest in 200 Ordinary shares of 25 pence each in Thames Television plc at 31 March 1995 and 31 March 1994.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The company's ultimate parent has maintained insurance to cover the directors' and officers' liability as defined by Section 310(3) (a) Companies Act 1985 (as amended).

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 into 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

In accordance with section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Ernst & Young shall be deemed to be reappointed as auditors.

By order of the board



Company Secretary

30 April 1996

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; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the accounts comply with the above requirements.

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 EMI Records Limited

We have audited the accounts on pages 6 to 16, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 4 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.

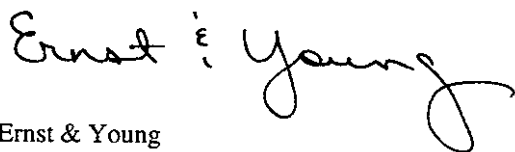
Basis of opinion

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 31 March 1995 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

20 April 1996

EMI Records Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 March 1995

	Notes	1995 £000	1994 £000
TURNOVER	2	208,890	160,596
Cost of sales		(150,882)	(114,849)
GROSS PROFIT		58,008	45,747
Distribution costs		(11,120)	(10,114)
Administrative expenses		(56,870)	(35,261)
Other operating income	6	8,291	11,984
		(59,699)	(33,391)
NET OPERATING RESULT	3	(1,691)	12,356
Interest payable and similar charges	7	(15,974)	(11,891)
RESULT BEFORE TAXATION		(17,665)	465
Tax on result on ordinary activities	8	—	—
RESULT ON ORDINARY ACTIVITIES AFTER TAXATION		(17,665)	465
RETAINED RESULT FOR THE YEAR		(17,665)	465
STATEMENT OF RETAINED LOSSES			
Balance at 1 April 1994		(83,628)	(84,093)
Retained result for the year		(17,665)	465
Balance at 31 March 1995		(101,293)	(83,628)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses in the year other than the loss attributable to shareholders of the company of £17,665,000 in the year ended 31 March 1995 and the profit of £465,000 in the year ended 31 March 1994.

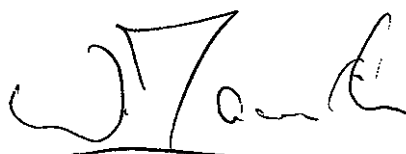
EMI Records Limited

BALANCE SHEET

at 31 March 1995

	Notes	1995 £000	1994 £000
FIXED ASSETS			
Tangible assets	9	49,009	32,911
Investments	10	50,100	48,631
		<u>99,109</u>	<u>81,542</u>
CURRENT ASSETS			
Stocks	11	5,832	3,887
Debtors	12	269,320	243,297
Cash at bank and in hand		524	4,038
		<u>275,676</u>	<u>251,222</u>
CREDITORS: amounts falling due within one year	13	(463,924)	(404,919)
NET CURRENT LIABILITIES		<u>(188,248)</u>	<u>(153,697)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(89,139)</u>	<u>(72,155)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	(9,549)	(8,868)
		<u>(98,688)</u>	<u>(81,023)</u>
CAPITAL AND RESERVES			
Called up share capital	15	2,605	2,605
Profit and loss account		(101,293)	(83,628)
SHAREHOLDERS' FUNDS		<u>(98,688)</u>	<u>(81,023)</u>

Director


30 April 1996

NOTES TO THE ACCOUNTS

at 31 March 1995

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention and on a going concern basis supported by a statement of intent from the ultimate parent undertaking to provide all necessary financial support to enable the company's operations to continue for the foreseeable future.

The accounts have been prepared in accordance with applicable accounting standards.

Consolidated accounts of the company and its subsidiary undertakings are not presented since the company is a wholly owned subsidiary undertaking of another company that prepares group accounts and is incorporated in England and Wales.

Cash flow statement

A cash flow statement has not been prepared as the company is a wholly owned subsidiary of a parent undertaking, registered in England and Wales, which prepares a consolidated cash flow statement.

Investments

Investments in subsidiary and associated undertakings are stated at cost less, where relevant, a provision to reflect any permanent diminution in value.

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 result for the year.

Depreciation

Depreciation of property, plant and 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 33.33%

Motor vehicles at 25%

Stocks and work in progress

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

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. Payments to artists which constitute introductory expenses are held within trade debtors and are amortised over the shorter of the period of the contract or twenty years.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

1. ACCOUNTING POLICIES (continued)

Leasing

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

Pension costs

The company contributes to the THORN EMI plc defined benefit pension scheme. The expected costs of pensions are charged to the profit and loss account so as to spread the costs over the service lives of the participating employees. The costs are assessed in accordance with the advice of qualified actuaries.

Restatement of prior year comparatives

During the year, the company changed the way certain costs are allocated in the profit and loss account. Accordingly, the comparative figures on page 6 have been restated. The original figures were:

Cost of sales	£108,443,000
Gross profit	£52,153,000
Distribution costs	£19,304,000
Administrative expenses	£32,477,000

2. TURNOVER

Turnover includes sales to third parties and group undertakings and associates, and 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, and arises solely in the United Kingdom.

3. NET OPERATING RESULT

Is stated after charging/(crediting):

	1995 £000	1994 £000
Depreciation	8,092	7,102
Amortisation of intangible assets	—	2,178
Operating leases — Plant and machinery	524	1,143
— Land and buildings	1,586	1,664
Other equipment rental — Plant and machinery	59	416
Audit fees	91	87
Other professional fees paid to auditors	229	569
Management charges paid	26,162	23,829
Management charges received	(12,120)	(11,309)
Operating exceptional items (see below)	508	1,224
Exchange loss/(gain) on foreign currency loans	290	(1,268)
Operating exceptional items are made up as follows:		
Reorganisation costs	444	934
Provision for future closure of operations	64	(185)
Provision against cost of investment	—	475
Write off of system costs	4,787	—
	<u>5,295</u>	<u>1,224</u>

Other professional fees paid to auditors and capitalised in the year were £219,000 (1994 – £414,000).

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

4. EMPLOYEES

	1995 No.	1994 No.
(a) The average number of employees including directors was	1,225	1,293
	1995 £000	1994 £000
(b) Staff costs:		
Wages and salaries	36,754	33,617
Social security costs	2,745	3,070
Other pension costs	49	193
	39,548	36,880

This includes remuneration paid to directors of the company of £402,423 (1994 – £343,519). See note 5.

5. DIRECTORS' EMOLUMENTS

	1995 £	1994 £
Total remuneration, including pension contributions	402,423	343,519
The emoluments, excluding pension contributions, of the directors are as follows:		
	1995 £000	1994 £000
Highest paid director	167	160
The emoluments of UK directors fell within the following bands:		
	1995 No.	1994 No.
£80,001 – £85,000	–	1
£100,001 – £105,000	–	1
£110,001 – £115,000	1	–
£120,001 – £125,000	1	–
£155,001 – £160,000	–	1
£165,001 – £170,000	1	–

6. OTHER OPERATING INCOME

	1995 £000	1994 £000
Interest receivable from group undertakings	7,930	3,735
Dividends receivable from subsidiary undertakings	–	7,982
Other interest receivable and similar income	361	267
	8,291	11,984

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

7. INTEREST PAYABLE

	1995	1994
	£000	£000
Bank overdraft repayable within 5 years	2,176	1,807
Interest payable to group undertakings	13,798	9,999
Interest on finance leases	—	85
	<u>15,974</u>	<u>11,891</u>

8. TAX ON RESULT ON ORDINARY ACTIVITIES

The company is primarily liable for 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 parent undertaking, THORN EMI plc, that the latter will assume responsibility for any such taxation for accounting periods up to 31 March 1995, so long as the company remains a subsidiary undertaking. In view of the undertaking received, no disclosure is made in these accounts of any potential liability to taxation.

9. TANGIBLE FIXED ASSETS

	Freehold property £000	Short term leasehold property £000	Long leasehold property £000	Equipment plant and vehicles £000	Total £000
Cost:					
At 1 April 1994	11,241	1,663	783	61,601	75,288
Additions	15,319	—	—	14,303	29,622
Disposals	(2,305)	(129)	(783)	(4,826)	(8,043)
At 31 March 1995	<u>24,255</u>	<u>1,534</u>	<u>—</u>	<u>71,078</u>	<u>96,867</u>
Depreciation:					
At 1 April 1994	2,909	618	110	38,740	42,377
Disposals	(1,600)	(129)	(126)	(756)	(2,611)
Provided during the year	207	165	16	7,704	8,092
At 31 March 1995	<u>1,516</u>	<u>654</u>	<u>—</u>	<u>45,688</u>	<u>47,858</u>
Net book value:					
At 31 March 1995	<u>22,739</u>	<u>880</u>	<u>—</u>	<u>25,390</u>	<u>49,009</u>
At 31 March 1994	<u>8,332</u>	<u>1,045</u>	<u>673</u>	<u>22,861</u>	<u>32,911</u>

The net book value of equipment, plant and vehicles above includes an amount of £203,000 (1994 – £407,000) in respect of assets held under finance leases and hire purchase contracts.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

10. INVESTMENTS

	<i>Subsidiary undertakings £000</i>
Cost:	
At 1 April 1994	52,034
Additions	1,469
	<u>53,503</u>
Provision:	
At 31 March 1995	<u>3,403</u>
Net book value:	
At 31 March 1995	<u>50,100</u>
At 1 April 1994	<u>48,631</u>

In the opinion of the directors, the aggregate value of investments in subsidiary undertakings is not less than the amount at which it is stated in the accounts.

The principal subsidiary undertakings at 31 March 1995 were:

<i>Company</i>	<i>Country of Registration</i>	<i>Nature of business</i>	<i>Proportion of shares</i>
EMI Music International Services Limited	England	Service Co	100%
Chrysalis Records International Ltd	England	Record Co	100%
EMI Global Ltd	England	Record Co	100%
Food Ltd	England	Record Co	100%

The above are holdings of ordinary shares.

11. STOCKS

	<i>1995 £000</i>	<i>1994 £000</i>
Raw materials and components	2,348	947
Work in progress	105	104
Finished goods	3,379	2,836
	<u>5,832</u>	<u>3,887</u>

Stocks are stated at cost less provisions for obsolete and slow moving items.

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

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

12. DEBTORS

	1995	1994
	£000	£000
Trade debtors	38,292	37,020
Fellow subsidiary undertakings	62,940	48,862
Subsidiary undertakings	1,129	2,332
Parent undertaking	459	631
Other debtors	19,587	4,181
Prepayments and accrued income	2,069	2,409
Dividends receivable	—	7,982
Interest free loans to fellow subsidiary undertakings	2,510	3,167
Interest free loans to parent undertaking	127	127
Interest bearing loans to fellow subsidiary undertakings	290	—
Interest bearing loans to subsidiary undertakings	17,512	12,181
Interest bearing loan to parent undertaking	124,405	124,405
	<u>269,320</u>	<u>243,297</u>

Included in other debtors is an amount of £8,192,000 which is due after more than one year (1994 – £nil).

Loans in fellow subsidiary undertakings are not the subject of a loan note nor are they repayable under fixed terms. Therefore, they may be recoverable after more than one year.

13. CREDITORS

	1995	1994
	£000	£000
Amounts falling due within one year:		
Bank overdrafts	41,130	25,891
Trade creditors	22,214	21,890
Royalties payable	60,554	51,005
Fellow subsidiary undertakings	22,536	24,696
Subsidiary undertakings	8,315	13
Parent undertaking	267	1,055
Social security	456	402
VAT and other indirect taxes	429	469
Other payroll costs	1,460	2,202
Accruals and deferred income	52,374	25,943
Interest free loan from parent undertaking	32,725	35,832
Interest bearing loan from parent undertaking	211,319	206,991
Interest free loans from subsidiary undertaking	10,145	8,530
	<u>463,924</u>	<u>404,919</u>

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

14. PROVISION FOR LIABILITIES AND CHARGES

	<i>£000</i>
Provisions as at 1 April 1994	8,868
Charged to profit and loss	5,690
Utilised during year	(3,029)
Released during year	(1,980)
Provisions as at 31 March 1995	<u>9,549</u>

The balance as at 31 March 1995 includes provisions for future closure of operations of £3,017,000 (1994 – £2,897,000).

15. SHARE CAPITAL

	<i>1995</i>	<i>1994</i>
	<i>£000</i>	<i>£000</i>
Ordinary shares of £1 each		
Authorised	3,340	3,340
Allotted, called up and fully paid	<u>2,605</u>	<u>2,605</u>

16. FINANCIAL COMMITMENTS

At 31 March 1995 the following future expenditure had been authorised:

	<i>1995</i>	<i>1994</i>
	<i>£000</i>	<i>£000</i>
Land and buildings		
Contracted	21,609	215
Non contracted	3,864	11,432
	<u>25,473</u>	<u>11,647</u>
Other		
Contracted	84,852	79,690
Non contracted	7,391	907
	<u>92,243</u>	<u>80,597</u>

Other expenditure largely refers to performance related commitments to pay advances to artists and repertoire owners.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1995

17. OPERATING LEASE COMMITMENTS

At 31 March 1995, annual commitments under operating leases in respect of land and buildings were as follows:

	1995 £000	1994 £000
Expiring in less than one year	427	—
Expiring in the second to fifth years inclusive	660	1,410
Expiring after the fifth year	817	817
	<u>1,904</u>	<u>2,227</u>

Of the amounts expiring after the fifth year, £57,000 is subject to a rent review in 1999 and £610,000 is subject to a rent review in 2002.

At 31 March 1995 annual commitments under other operating leases were as follows:

	1995 £000	1994 £000
Expiring in less than one year	—	1,100
Expiring in the second to fifth years inclusive	187	809
Expiring after the fifth year	—	—
	<u>187</u>	<u>1,909</u>

18. PENSION COMMITMENTS

The UK employees of EMI Records Limited are eligible for membership of the THORN EMI Pension Fund. This is a funded defined benefit scheme, and contributions to the fund are made by THORN EMI plc in accordance with the recommendations of independent actuaries based on pension costs across the THORN EMI plc group. Contributions made by the company during the year to THORN EMI plc for its employees' pension costs totalled £49,000 (1994 – £193,000).

A valuation of the scheme was performed by the actuaries as at 31 March 1994. An actuarial surplus was identified and has resulted in THORN EMI plc making no payments to the pension fund in the year ending 31 March 1995. Further details of the scheme and the valuation are included in the accounts of THORN EMI plc.

19. CONTINGENT LIABILITIES

Within the music industry a variety of claims arise from time to time in the normal course of business. Some have little or no foundation in fact or law and others cannot be quantified. Provisions have been made in the accounts for those claims against the company which the Directors consider are likely to result in significant liabilities.

The company has provided a guarantee to its clearing bank in respect of borrowings of other THORN EMI plc UK Group Companies. Such guarantee is limited to the amount of cash held by the company with the Bank. At 31 March 1995 no liability existed.

NOTES TO THE ACCOUNTS

at 31 March 1995

20. PARENT UNDERTAKING

The company is exempt from preparing group accounts as it is itself a subsidiary undertaking.

The parent undertaking of the group of undertakings for which group accounts are drawn up and of which the company is a member is THORN EMI plc which is the ultimate parent undertaking and is registered in England and Wales. Copies of THORN EMI plc's accounts can be obtained from THORN EMI plc, 4 Tenterden Street, Hanover Square, London W1A 2AY, England.