

Report and Accounts

EMI Records Limited

31 March 1997



ERNST & YOUNG

EMI Records Limited

Registered No. 68172

DIRECTORS

J A King
I L Hanson

SECRETARY

I L Hanson

AUDITORS

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

REGISTERED OFFICE

EMI House
43 Brook Green
London W6 7EF

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended 31 March 1997.

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.

FIXED ASSETS

The significant disposals of tangible fixed assets during the year arose principally from the sale of the recording studios.

Details of the company's fixed assets are in notes 8 and 9 of the accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company at 31 March 1997 are listed below. The only interest held by the directors in the share capital and loan stocks of the company's ultimate parent undertaking at that date, EMI plc, or any subsidiary undertakings thereof, were ordinary shares and options to purchase ordinary shares of EMI plc, granted in accordance with the provisions of that company's share option schemes, as follows:

	At 31 March 1997		At 1 April 1996 or date of appointment	
	Options over		Options over	
	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
J A King	1,389	16,722	—	14,098
I L Hanson	—	940	1,683	2,164

During the year, Mr J A King converted 1,389 of his options over ordinary shares into ordinary shares. He renounced the remaining 12,709 options over ordinary shares under the demerger arrangements, and was awarded 16,772 fresh options over ordinary shares of 27 March 1997.

Mr I L Hanson exercised his options over 1,224 shares.

Mr W Macmillan resigned as a director on 27 March 1997.

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

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.

DIRECTORS' REPORT

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.

SUPPLIER PAYMENT POLICY

The company negotiates payment terms with its suppliers on an individual basis, with the normal spread being payment at the end of the month following delivery plus 30 or 60 days. Agreement to the applicable payment terms is secured in every case.

The company emphasises the importance of prompt payment to small-sized businesses in line with UK Governmental and CBI initiatives.

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

12 NOV 1987

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 15, 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.

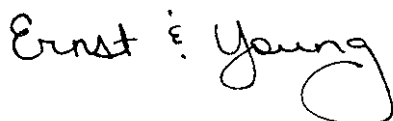
Basis of opinion

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 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

12 NOV 1997

EMI Records Limited

PROFIT AND LOSS ACCOUNT for the year ended 31 March 1997

	Notes	1997 £000	1996 £000
TURNOVER	2	159,369	184,037
Cost of sales		(53,096)	(100,031)
GROSS PROFIT		106,273	84,006
Distribution costs		(9,276)	(9,895)
Administrative expenses		(89,876)	(77,836)
Other operating income		3,050	3,475
NET OPERATING PROFIT	3	10,171	(250)
Interest receivable from group undertakings		9,479	9,693
Interest payable and similar charges	6	(20,215)	(20,943)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(565)	(11,500)
Tax on loss on ordinary activities	7	—	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(565)	(11,500)
Dividends		—	—
RETAINED LOSS FOR THE YEAR		(565)	(11,500)
STATEMENT OF RETAINED LOSSES			
Balance at 1 April		(112,793)	(101,293)
Retained loss for the year		(565)	(11,500)
Balance at 31 March		(113,358)	(112,793)

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 £565,000 in the year ended 31 March 1997 and the loss of £11,500,000 in the year ended 31 March 1996.

EMI Records Limited

BALANCE SHEET

at 31 March 1997

	Notes	1997 £000	1996 £000
FIXED ASSETS			
Tangible assets	8	64,189	80,423
Investments	9	50,100	50,100
		<u>114,289</u>	<u>130,523</u>
CURRENT ASSETS			
Stocks	10	4,311	3,624
Debtors	11	303,779	307,388
Cash at bank and in hand		8,992	4,690
		<u>317,082</u>	<u>315,702</u>
CREDITORS: amounts falling due within one year	12	(536,532)	(550,171)
NET CURRENT LIABILITIES		<u>(219,450)</u>	<u>(234,469)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(105,161)</u>	<u>(103,946)</u>
PROVISIONS FOR LIABILITIES AND CHARGES	13	(5,592)	(6,242)
		<u>(110,753)</u>	<u>(110,188)</u>
CAPITAL AND RESERVES			
Called up share capital	14	2,605	2,605
Profit and loss account		(113,358)	(112,793)
SHAREHOLDERS' FUNDS		<u>(110,753)</u>	<u>(110,188)</u>

Director

John Hewson

12 NOV 1997

NOTES TO THE ACCOUNTS
at 31 March 1997

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.

Leasing

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

NOTES TO THE ACCOUNTS
at 31 March 1997

1. ACCOUNTING POLICIES (continued)

Restatement of prior year comparatives

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

	1996 £000
Turnover	184,037
Cost of sales	(127,603)
Gross profit	56,434
Distribution costs	(18,072)
Administrative expenses	(42,087)
Other income	3,475
Net operating loss	(250)

Pension costs

The company contributes to the EMI Group 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 of the group scheme are assessed in accordance with the advice of qualified actuaries.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties, group undertakings and associates. It is attributable to one continuing activity wholly within the UK.

3. NET OPERATING LOSS

Is stated after charging/(crediting):

	1997 £000	1996 £000
Loss on sale of studios	1,338	—
Depreciation	10,397	9,670
Operating leases	28	50
- Plant and machinery		
- Land and buildings	1,441	930
Other equipment rental - Plant and machinery	430	197
Audit fees	95	94
Other professional fees paid to auditors	102	140
Operating exceptional items (see below)	—	487
Exchange loss/(gain) on foreign currency loans	1,148	(113)
Operating exceptional items are made up as follows:		
Reorganisation costs	—	—
Provision for future closure of operations	—	353
Write off of system costs	—	134
	—	487

Other professional fees paid to auditors and capitalised in the year were £nil (1996 - £219,000).

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

4. EMPLOYEES

Staff costs:

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Wages and salaries	41,266	41,319
Social security costs	3,099	3,192
Other pension costs	332	950
	<u>44,697</u>	<u>45,461</u>

This includes remuneration paid to directors of the company of £378,029 (1996 – £444,677). See note 5.

	<i>1997</i> <i>No.</i>	<i>1996</i> <i>No.</i>
The average number of employees including directors was	<u>1,072</u>	<u>1,247</u>

5. DIRECTORS' REMUNERATION

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Remuneration	378	523
Company contributions to pension	–	14
	<u>378</u>	<u>537</u>

The remuneration, excluding pension contributions, of the highest paid director were £162,052 (1996 – £120,436). The highest paid director's accrued retirement benefits under the defined pension benefit scheme is £1,440 (1996 – £2,988).

	<i>1997</i> <i>No.</i>	<i>1996</i> <i>No.</i>
The following number of directors are accruing benefits under the defined benefit pension scheme	<u>2</u>	<u>2</u>

6. INTEREST PAYABLE AND SIMILAR CHARGES

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Bank overdraft wholly repayable within five years	3,551	5,071
Interest payable to group undertakings	16,664	15,872
	<u>20,215</u>	<u>20,943</u>

7. TAX ON LOSS 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, EMI Group plc, that the latter will assume responsibility for any such taxation, 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.

EMI Records Limited

NOTES TO THE ACCOUNTS at 31 March 1997

8. TANGIBLE FIXED ASSETS

	<i>Freehold property £000</i>	<i>Short term leasehold property £000</i>	<i>Equipment, plant and vehicles £000</i>	<i>Total £000</i>
Cost:				
At 1 April 1996	38,577	1,213	84,632	124,422
Additions	106	—	7,270	7,376
Disposals	(8,145)	(1,213)	(21,384)	(30,742)
At 31 March 1997	30,538	—	70,518	101,056
Depreciation:				
At 1 April 1996	1,942	374	41,683	43,999
Provided during the year	550	—	9,847	10,397
Disposals	(1,021)	(374)	(16,134)	(17,529)
At 31 March 1997	1,471	—	35,396	36,867
Net book value:				
At 31 March 1997	29,067	—	35,122	64,189
At 31 March 1996	36,635	839	42,949	80,423

9. INVESTMENTS

	<i>Subsidiary undertakings £000</i>
Cost:	
At 31 March 1997 and 1 April 1996	53,503
Provision:	
At 31 March 1997 and 1 April 1996	3,403
Net book value:	
At 31 March 1997 and 1 April 1996	50,100

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 1997 were as follows:

<i>Company</i>	<i>Country of Registration</i>	<i>Nature of business</i>	<i>Ordinary shares owned</i>
EMI Music International Services Ltd	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%

EMI Records Limited

NOTES TO THE ACCOUNTS at 31 March 1997

10. STOCKS

	1997 £000	1996 £000
Raw materials and components	3,517	1,959
Work in progress	187	97
Finished goods	607	1,568
	<u>4,311</u>	<u>3,624</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.

11. DEBTORS

	1997 £000	1996 £000
Trade debtors	67,312	66,595
Fellow subsidiary undertakings	48,274	65,220
Subsidiary undertakings	13,737	15,813
Parent undertaking	3,343	14
Other debtors	6,635	9,934
Prepayments and accrued income	521	268
Interest free loans to parent undertaking	336	318
Interest bearing loans to subsidiary undertakings	31,073	24,821
Interest bearing loan to parent undertaking	132,548	124,405
	<u>303,779</u>	<u>307,388</u>

Loans to 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.

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

12. CREDITORS: amounts falling due within one year

	1997 £000	1996 £000
Bank overdrafts	17,735	62,920
Trade creditors	41,614	28,493
Royalties payable	58,276	81,037
Fellow subsidiary undertakings	11,617	43,956
Subsidiary undertakings	8,174	8,400
Parent undertaking	2,673	165
Other taxes including VAT and social security costs	1,177	1,633
Accruals and deferred income	31,055	49,014
Interest free loan from parent undertaking	37,347	36,439
Interest bearing loan from parent undertaking	283,862	206,991
Interest free loans from subsidiary undertaking	43,002	31,123
	<u>536,532</u>	<u>550,171</u>

Included in creditors is an amount of £22,476,000 which is due after more than one year (1996 - £6,170,000).

13. PROVISION FOR LIABILITIES AND CHARGES

	£000
Provisions as at 1 April 1996	6,242
Charged to profit and loss	1,919
Utilised during year	(1,955)
Released during year	(479)
Reclassified to creditors	(135)
Provisions as at 31 March 1997	<u>5,592</u>

The balance as at 31 March 1997 includes provisions for future closure of operations of £2,633,000 (1996 - £4,022,000).

14. SHARE CAPITAL

	1997 £000	1996 £000
Ordinary shares of £1 each		
Authorised	3,340	3,340
Allotted, called up and fully paid	<u>2,605</u>	<u>2,605</u>

EMI Records Limited

NOTES TO THE ACCOUNTS

at 31 March 1997

15. FINANCIAL COMMITMENTS

At 31 March 1997 the following future expenditure had been authorised:

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Land and buildings Contracted	—	1,124
Other Contracted	57,649	53,556

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

Land and buildings financial commitments last year were mainly for the relocation of the EMI Records Head Office which took place in 1996.

16. OPERATING LEASE COMMITMENTS

At 31 March 1997, annual commitments under operating leases in respect of land and buildings were as follows:

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Expiring in less than one year	64	805
Expiring in the second to fifth years inclusive	1,690	660
Expiring after the fifth year	150	150
	1,904	1,615

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

At 31 March 1997 annual commitments under other operating leases were as follows:

	<i>1997</i> <i>£000</i>	<i>1996</i> <i>£000</i>
Expiring in less than one year	—	58
Expiring in the second to fifth years inclusive	27	149
Expiring after the fifth year	—	—
	27	207

NOTES TO THE ACCOUNTS

at 31 March 1997

17. 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. EMI Group plc has been the designated principal employer of the Fund since THORN EMI plc demerged on 19 August 1996.

Contributions to the fund are made by the ultimate parent undertaking in accordance with the recommendations of independent actuaries based on pension costs across the group. The company made no contributions during the year ended 31 March 1997 to EMI Group plc for its employees' pension costs (1996 - £nil).

The latest actuarial valuation of the THORN EMI Pension 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 THORN EMI Pension Fund amounted to £1,410 million. The actuarial value of the assets was sufficient to cover 121% of the benefits that had accrued to members, after allowing for assumed increases in earnings and for improvements to the benefits of the Fund implemented with effect from 1 January 1996. 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.

With effect from 1 April 1988, employer expense in respect of the Fund has been calculated in accordance with SSAP 24 - *Accounting for Pension Costs*. 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. However, for reasons of conservatism, such expense has been taken as £nil for the two years ended 31 March 1997. The long-term annual growth rate assumptions used for calculating employer expense under SSAP 24 are shown below:

	<i>Growth relative to investment return</i>
Pay increases	(2.5)%
Pension increases	(5.0)%
Dividend increases	(4.5)%

18. 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.

At 31 March 1997, the company had provided a guarantee to its clearing bank in respect of borrowings of other EMI Group plc UK group companies. The guarantee was limited to the amount of cash held by the company with the bank. At 31 March 1997 no liability existed.

19. PARENT UNDERTAKING

The ultimate parent undertaking of the group of undertakings for which group accounts were drawn up for the year ended 31 March 1997 and of which the company was a member was EMI Group plc, registered in England and Wales.

Copies of EMI Group plc's accounts can be obtained at 4 Tenterden Street, Hanover Square, London W1A 2AY, England.

20. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under Financial Reporting Standard 8 - Related Party Disclosures (FRS 8) not to disclose related party transactions between wholly owned group undertakings.