

WARNER/CHAPPELL MUSIC LIMITED

REPORT AND FINANCIAL STATEMENTS

30TH SEPTEMBER 2005



Registered in England No. 488466

**WARNER/CHAPPELL MUSIC LIMITED**

**Registered No. 488466**

**DIRECTORS**

R Manners  
M Lavin  
E Pierson  
J Dyball  
A D Russell (resigned 10/01/06)

**SECRETARY**

Olswang Cosec Limited

**AUDITORS**

Ernst & Young LLP  
1 More London Place  
London SE1 2AF

**BANKERS**

Barclays Bank PLC  
8/9 Hanover Square  
London W1A 4ZW

**REGISTERED OFFICE**

Seventh floor  
90 High Holborn  
London  
WC1V 6XX

**WARNER/CHAPPELL MUSIC LIMITED**

**REPORT OF THE DIRECTORS**

The directors present their report and financial statements for the year ended 30th September 2005.

**RESULTS AND DIVIDENDS**

The profit for the year, after taxation, amounted to £6,093,022 (2004 - £6,624,999). The directors do not recommend the payment of a final ordinary dividend (2004 - £nil).

**PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS**

The company's principal activity during the year continued to be music publishing.

**FUTURE DEVELOPMENTS**

No change in the company's operations is envisaged in the foreseeable future.

**DIRECTORS AND THEIR INTERESTS**

The directors during the year ended 30th September 2005 were as listed on page 1.

At no time during the year did any director have any interest in the shares or debentures of the company or any other group undertaking.

**CHARITABLE CONTRIBUTIONS**

During the year a total of £1,410 (2004 - £863) was paid to charitable institutions.

**SALE OF WHOLLY OWNED SUBSIDIARY COMPANY**

On 31 May 2005 the company sold a subsidiary company, *International Music Publications Limited*, to Alfred Publishing Co, Inc.

**AUDITORS**

The company has passed elective resolutions under section 252, 366A and 386 of the Companies Act 1985 dispensing with the requirements to lay financial statements and reports before the company in a general meeting, hold annual general meetings and reappoint auditors each year.

ON BEHALF OF THE BOARD



M A LAVIN  
Director

Dated: 25-7-06

## **WARNER/CHAPPELL MUSIC LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

Company law requires the directors to prepare financial statements 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 financial statements, 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 financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 financial statements 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.

## INDEPENDENT AUDITORS' REPORT

### TO THE MEMBERS OF WARNER/CHAPPELL MUSIC LIMITED

We have audited the company's financial statements for the year ended 30 September 2005 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 24. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, 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 financial statements 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 financial statements.

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 30th September 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



ERNST & YOUNG LLP  
Registered Auditor  
London

Dated:



**WARNER/CHAPPELL MUSIC LIMITED**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 30TH SEPTEMBER 2005**

	Notes	2005 £	10 months to 30 September 2004 £
<b>TURNOVER</b>	2	63,360,783	51,645,026
Cost of sales		(53,484,216)	(42,621,417)
		<hr/>	<hr/>
Gross profit		9,876,567	9,023,609
Administrative expenses		(5,330,426)	(4,915,965)
		<hr/>	<hr/>
<b>OPERATING PROFIT</b>	3	4,546,141	4,107,644
Investment income	6	28,454	2,641
Interest receivable	7	1,177,616	807,956
Interest payable	8	(379,573)	(286,589)
Exceptional item	9	2,922,132	3,406,436
		<hr/>	<hr/>
<b>PROFIT BEFORE TAXATION</b>		8,294,770	8,038,088
Tax charge on profit	10	(2,201,748)	(1,413,089)
		<hr/>	<hr/>
<b>PROFIT AFTER TAXATION</b>		6,093,022	6,624,999
Retained loss at beginning of the year	20	(6,570,244)	(13,195,243)
		<hr/>	<hr/>
Retained loss at end of year	20	<u>(477,222)</u>	<u>(6,570,244)</u>

All activities are continuing.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

There are no gains or losses other than those stated in the profit and loss account.

**WARNER/CHAPPELL MUSIC LIMITED**

**BALANCE SHEET AT 30TH SEPTEMBER 2005**

	Notes	2005 £	2004 £
<b>FIXED ASSETS</b>			
Intangible assets	11	1,263,647	1,527,447
Tangible assets	12	615,147	724,448
Investments	13	1,133,384	1,133,484
		<hr/>	<hr/>
		3,012,178	3,385,379
		<hr/>	<hr/>
<b>CURRENT ASSETS</b>			
Debtors	14	38,210,162	23,429,845
Cash		826,878	5,127,558
		<hr/>	<hr/>
		39,037,040	28,557,403
		<hr/>	<hr/>
<b>CREDITORS: amounts falling due within one year</b>	15	(42,126,340)	(38,262,926)
<b>PROVISIONS FOR LIABILITIES &amp; CHARGES</b>	16	(400,000)	(250,000)
		<hr/>	<hr/>
<b>NET CURRENT LIABILITIES</b>		(3,489,300)	(9,955,523)
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(477,122)</u>	<u>(6,570,144)</u>
		<hr/>	<hr/>
<b>CAPITAL AND RESERVES</b>			
Equity share capital	19	100	100
Profit and loss account	20	(477,222)	(6,570,244)
		<hr/>	<hr/>
<b>EQUITY SHAREHOLDERS' DEFICIT</b>	20	<u>(477,122)</u>	<u>(6,570,144)</u>
		<hr/>	<hr/>

Michael A. C...  
Director

25.7.06

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005

1. ACCOUNTING POLICIES

A summary of the principal accounting policies, all of which have been applied consistently throughout the year, is set out below:

*Accounting convention*

The financial statements are prepared under the historical cost convention, on a going concern basis and in accordance with applicable accounting standards, the validity of which is dependent on the continued financial support of the parent undertaking. The directors of the ultimate parent undertaking have indicated that support will be made available to the company to meet its debts for the foreseeable future.

In 2004 the company changed its year end from 30 November to 30 September. Consequently, the prior year comparative figures are for a 10 month period only.

*Royalty advances*

Advances in respect of royalties payable, which are non-returnable, comprise advances to songwriters under contract. Specific provisions are made against these advances where the balance outstanding exceeds anticipated future royalty earnings.

*Royalty income and expense*

Credit is taken for royalty income which has been received from users prior to the year end. Royalty expense is accrued based on the expected royalties payable on income received.

*Depreciation*

The company provides depreciation at rates which are calculated to write off the cost of the tangible fixed assets by equal annual instalments over their estimated useful lives as follows:

Furniture and equipment	- various rates between 10% and 33%
Motor vehicles	- 25%
Leasehold improvements	- over the period of the lease

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

*Intangible fixed assets: music copyrights*

Purchased music copyrights are capitalised and amortised by equal annual instalments over the period that is expected to recover the initial cost based on projected average annual income, but not exceeding 20 years.

The carrying values of intangible fixed assets are reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Copyrights relating to plays and theatre are written off on acquisition.

*Deferred taxation*

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax balances are not discounted.



**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**

**(Continued)**

**1. ACCOUNTING POLICIES (continued)**

***Foreign currencies***

Transactions in foreign currencies are reported at the approximate rates of exchange ruling at the date on which they took place. Assets and liabilities in foreign currencies are translated at the year-end exchange rate. All differences are taken to the profit and loss account.

***Investments***

Investments are stated at cost less amounts provided for a permanent impairment in value.

***Leasing commitments***

Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

***Pensions***

The company was a member of the Time Warner UK Pension Plan until 28<sup>th</sup> February 2005. The Time Warner UK Pension Plan required contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. With effect from 1<sup>st</sup> March 2005, the company is a member of the Warner Music Pension Plan, which is a defined contribution plan.

***Joint Ventures***

Income from joint ventures is recognised in the company's profit and loss account on the basis of dividends received and receivable. The investments in joint ventures are carried at cost less amounts provided.

***Group financial statements***

In accordance with the company's exemption under Section 228 of the Companies Act, group financial statements have not been prepared since, at 30 September 2005 and for the entire financial year, the company was a wholly-owned subsidiary undertaking of WMG Acquisition (UK) Limited, registered in England and Wales, which prepares group financial statements. The financial statements present information as to the company as an individual undertaking and not as to the group.

***Related parties***

The company has taken advantage of the exemption in FRS 8 not to disclose details of transactions between wholly-owned group undertakings.

***Cash flow statement***

The company has taken advantage of the exemption in the Financial Reporting Standard No.1 Revised (FRS1). A cash flow statement has not been prepared because as at the year end, the company was a wholly owned subsidiary undertaking of WMG Acquisition Corp Inc., a company incorporated in the United States of America, which prepares a group cash flow statement.

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**

**(Continued)**

**2. TURNOVER**

Turnover represents royalties received and is attributable to one continuing activity - music publishing. The geographical areas to which turnover relates are as follows:

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
United Kingdom	38,023,959	29,162,040
Rest of world	25,336,824	22,482,986
	<u>63,360,783</u>	<u>51,645,026</u>

**3. OPERATING PROFIT**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
This is stated after charging/(crediting):		
Auditors' remuneration - audit work	56,385	55,160
Depreciation	134,041	122,147
Amortisation of copyrights	311,800	255,241
Loss/(gain) on foreign exchange	4,055	(57)
Operating lease rentals - land and buildings	582,000	485,000
Restructuring charges	111,297	1,025,671
Property lease provision (see Note 16)	150,000	250,000
	<u>1,349,578</u>	<u>2,293,476</u>

**4. DIRECTORS' REMUNERATION**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
Total: Emoluments	978,860	816,027
Pension contributions	62,199	51,788
<b>Highest paid director:</b>		
Emoluments	621,043	514,917
Pension contributions	30,572	25,477
	<u>No.</u>	<u>No.</u>
Directors participating in defined contribution pension schemes:	3	1
Directors participating in defined benefit pension schemes:	0	2

The highest paid director's accrued pension entitlement at 30th September 2005 was £nil (30<sup>th</sup> September 2004 - £nil), as all pension contributions made are to an external defined contribution plan.

Number of directors exercising share options during the year was Nil (2004 - Nil).

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**  
(Continued)

**5. STAFF COSTS**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
Wages and salaries	2,393,582	1,998,780
Social security costs	285,342	232,550
Other pension costs	132,728	155,740
Redundancy payments	111,297	318,887
	<u>2,922,949</u>	<u>2,705,957</u>

The average weekly number of employees during the year was made up as follows:

	<b>2005</b>	<b>2004</b>
	<b>No.</b>	<b>No.</b>
Commercial and administrative	<u>48</u>	<u>52</u>

**6. INVESTMENT INCOME**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
Dividend receivable from group undertaking	<u>28,454</u>	<u>2,641</u>

**7. INTEREST RECEIVABLE**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
Bank and other interest	474,208	158,502
Interest receivable from subsidiary undertaking	582,534	649,454
Interest receivable from group company	120,874	-
	<u>1,177,616</u>	<u>807,956</u>

**8. INTEREST PAYABLE**

	<b>2005</b>	<b>10 months to 30 September 2004</b>
	<b>£</b>	<b>£</b>
Interest payable to group undertaking	(376,757)	(283,869)
Other interest	(2,816)	(2,720)
	<u>(379,573)</u>	<u>(286,589)</u>

WARNER/CHAPPELL MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)

9. EXCEPTIONAL ITEM

	2005	10 months to 30 September 2004
	£	£
Provision against loan to subsidiary undertaking	-	3,406,436
Exploitation licence in respect of ex-subsidiary	2,922,132	-
	<u>2,922,132</u>	<u>3,406,436</u>

10. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2005	10 months to 30 September 2004
	£	£

a) The charge based on the results for the period is as follows:

Taxation based on the profit for the period

Corporation tax at 30% (2004 – 30%)	966,077	639,431
Double taxation relief	(596,000)	(639,431)
Group relief payments	1,234,000	796,000
Over provision for prior years	(46,630)	(342)
Overseas taxation suffered	598,301	639,431
Total Current Tax Charge	<u>2,155,748</u>	<u>1,435,089</u>

Deferred tax

Timing differences, origination and reversal	46,000	(22,000)
Total deferred tax	<u>46,000</u>	<u>(22,000)</u>

Tax on Profit on Ordinary Activities	<u>2,201,748</u>	<u>1,413,089</u>
--------------------------------------	------------------	------------------

WARNER/CHAPPELL MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)

10. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES (continued)

b) Circumstances affecting current charge

The standard rate of current tax for the year, based on the UK standard rate of corporation tax, is 30% (2004 - 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

	2005 £	10 months to 30 September 2004 £
Profit on ordinary activities before tax	8,294,770	8,038,088
Tax on profit on ordinary activities at standard rate	2,488,431	2,411,426
Factors affecting charge:-		
Disallowable expenses & non taxable income	30,000	(996,000)
Capital allowances (in excess of)/less than depreciation	(44,000)	24,000
Capital gain rolled over	(263,000)	-
UK dividend income	(8,000)	-
Non taxable income	-	(1,000)
Tax overprovided in previous years	(46,630)	(342)
Other timing differences	(1,053)	(2,995)
Total Current Tax (note a above)	2,155,748	1,435,089

c) Deferred Tax

The deferred tax included in the balance sheet is as follows:

Included in debtors	(104,000)	(150,000)
---------------------	-----------	-----------

Deferred taxation provided in the financial statements is as follows:

Accelerated capital allowances	(85,000)	(135,000)
Other timing differences	(19,000)	(15,000)
Provision for deferred tax	(104,000)	(150,000)

Analysis of Movement in provision

At 1 October 2004	(150,000)
Charged to profit and loss account	46,000
At 30 September 2005	(104,000)

WARNER/CHAPPELL MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)

11. INTANGIBLE FIXED ASSETS

	Copyrights £
Cost:	
At 1st October 2004	3,742,289
Additions	48,000
	<u>3,790,289</u>
Amortisation:	
At 1st October 2004	2,214,842
Provided during the period	311,800
	<u>2,526,642</u>
Net book values:	
At 30th September 2005	<u>1,263,647</u>
At 1st October 2004	<u>1,527,447</u>

12. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Motor vehicles £	Furniture and equipment £	Total £
Cost:				
At 1st October 2004	733,945	41,517	946,837	1,722,299
Additions	1,856	14,239	14,688	30,783
Disposals	-	(41,517)	-	(41,517)
	<u>735,801</u>	<u>14,239</u>	<u>961,525</u>	<u>1,711,565</u>
At 30th September 2005	<u>735,801</u>	<u>14,239</u>	<u>961,525</u>	<u>1,711,565</u>
Accumulated depreciation:				
At 1st October 2004	266,397	28,151	703,303	997,851
Provided during the period	59,307	9,404	65,330	134,041
Disposals	-	(35,474)	-	(35,474)
	<u>325,704</u>	<u>2,081</u>	<u>768,633</u>	<u>1,096,418</u>
At 30th September 2005	<u>325,704</u>	<u>2,081</u>	<u>768,633</u>	<u>1,096,418</u>
Net book values:				
At 30th September 2005	<u>410,097</u>	<u>12,158</u>	<u>192,892</u>	<u>615,147</u>
At 1st October 2004	<u>467,548</u>	<u>13,366</u>	<u>243,534</u>	<u>724,448</u>

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)**

**13. INVESTMENTS**

The cost of investments held at 30th September 2005 was as follows:

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Investments in subsidiary undertakings	1,116,799	1,116,899
Investment in joint venture	50	50
Listed investments	16,535	16,535
	<hr/>	<hr/>
	1,133,384	1,133,484
	<hr/>	<hr/>

**(a) Kirshner-Warner Bros Music Limited**

The company owns 50% of the issued ordinary share capital of Kirshner-Warner Bros Music Limited, a music publishing company registered in England and Wales.

	<b>£</b>
Kirshner-Warner Bros Music Limited:	
Balance at 1st October 2004 and	
30th September 2005 at cost	50
	<hr/>

The following information is relevant in respect of Kirshner-Warner Bros Music Limited for the year ended 30th September 2005:

	<b>£</b>
Aggregate amount of capital and reserves	100
	<hr/>
Profit for the period after tax	95,648
	<hr/>

*During the period, the company received dividends of £28,454 (2004 - £Nil) from its joint venture, Kirshner-Warner Bros Music Limited. At 30th September 2005, Kirshner-Warner Bros Music Limited owed the company £nil (2004 - £46,934).*

*During the year, the company also received income of £2,500 (2004 - £2,500) for royalty administration and other accounting functions performed, and income of £1,000 (2004 - £1,000) as a contribution to auditors' fees, on behalf of its joint venture Kirshner-Warner Bros Music Limited.*

*In the opinion of the directors, the value of the investment in Kirshner-Warner Bros Music Limited, including amounts owed by Kirshner-Warner Bros Music Limited to the company, is not less than the amount at which the investment is included in the financial statements.*

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**  
(Continued)

**13. INVESTMENTS (continued)**

**(b) International Music Publications Limited**

*During the year the company sold 100% of the issued ordinary share capital of International Music Publications. No profit or loss was made on the sale of the shares.*

	£
International Music Publications Limited:	
Balance at 1st October 2004 at cost	100
Disposals	(100)
	<hr/>
Balance at 30th September 2005	-
	<hr/> <hr/>

**(c) Glissando Music Limited**

*The company owns 100% of the issued share capital of Glissando Music Limited, a music publishing company registered in England and Wales.*

	£
Balance at 1st October 2004 and 30th September 2005 at cost	634,700
	<hr/> <hr/>

*In the opinion of the directors, the value of the investment in Glissando Music Limited, including amounts owed by Glissando Music Limited to the company, is not less than the amount at which the investment is included in the financial statements.*

**(d) Dizzy Heights Music Publishing Limited**

*The company owns 100% of the issued share capital of Dizzy Heights Music Publishing Limited, a music publishing company registered in England and Wales.*

	£
Balance at 1st October 2004 and 30th September 2005 at cost	482,099
	<hr/> <hr/>

*In the opinion of the directors, the value of the investment in Dizzy Heights Music Publishing Limited, including amounts owed by Dizzy Heights Music Publishing Limited to the company, is not less than the amount at which the investment is included in the financial statements.*

**(e) Warner Chappell Music Publishing Limited**

*The company owns 100% of the issued ordinary share capital of Warner Chappell Music Publishing Limited, a music publishing company registered in England and Wales. The investment is carried at £nil.*

**(f) Warner Chappell UK Limited**

*The company owns 100% of the issued ordinary share capital of Warner Chappell UK Limited, a music publishing company registered in England and Wales. The investment is carried at £nil.*

**(g) Magnet Music Limited**

*The company owns 100% of the issued ordinary share capital of Magnet Music Limited, a music publishing company registered in England and Wales. The investment is carried at £nil.*



WARNER/CHAPPELL MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)

13. INVESTMENTS (continued)

(h) Listed Investments

The listed investments are all listed in Great Britain.

The market value of the investments at 30th September 2005 was £30,035 (30th September 2004 - £28,495).

14. DEBTORS

	2005 £	2004 £
Royalty advances	18,551,905	18,177,498
Trade debtors	178,878	74,502
Owed by subsidiary undertaking	-	3,907,731
Owed by group undertakings	18,218,681	215,732
Prepayments	230,557	247,170
VAT	700,425	220,049
Corporation tax receivable	225,716	437,163
Deferred tax	104,000	150,000
	<u>38,210,162</u>	<u>23,429,845</u>

15. CREDITORS: amounts falling due within one year

	2005 £	2004 £
Trade creditors	22,382,496	20,231,644
Due to subsidiary undertaking	204,553	146,735
Due to group undertakings	16,802,018	16,217,334
Other creditors	124,053	109,912
Accruals	671,828	606,473
Group relief payable	1,851,000	875,000
Other taxes and social security costs	90,392	75,828
	<u>42,126,340</u>	<u>38,262,926</u>

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**  
(Continued)

**16. PROVISIONS FOR LIABILITIES & CHARGES**

Short term property provisions:

	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
At 1 October 2004	250,000	243,793
Utilisation during the year	-	(243,793)
Additions during the year	150,000	250,000
At 30 September 2005	<u>400,000</u>	<u>250,000</u>

The short-term property provision is the future rent expense and related costs of leasehold property for which Warner/Chappell Music Limited acts as guarantor. The guarantee was a condition of the sale of a division of a subsidiary company that occupied the premises. The current occupiers of the property have vacated due to insolvency, making Warner/Chappell Music Limited liable for the rent and related costs.

**17. CAPITAL COMMITMENTS**

The company is contracted to pay advances to songwriters in the normal course of business. The payment of these advances is dependent upon the fulfilment of certain contract requirements. Accordingly, it is not practicable to quantify the future commitments that may crystallise. Apart from advances, there are no other capital commitments.

**18. OPERATING LEASE COMMITMENTS**

	<b>Land and buildings</b>	
	<b>2005</b>	<b>2004</b>
	<b>£</b>	<b>£</b>
Leases in the name of the company		
Operating leases which expire:		
in the following year	-	-
in second to fifth years inclusive	-	-
in over five years	582,000	582,000
	<u>582,000</u>	<u>582,000</u>

**19. SHARE CAPITAL**

	Authorised		Allotted, called up and fully paid	
	2005	2004	2005	2004
	£	£	£	£
50 'A' ordinary shares of £1 each	50	50	50	50
50 'B' ordinary shares of £1 each	50	50	50	50
	<hr/>	<hr/>	<hr/>	<hr/>
	100	100	100	100
	<hr/>	<hr/>	<hr/>	<hr/>

The 'A' and 'B' Ordinary £1 shares rank pari passu and have the same voting rights and entitlement to dividends

NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005  
(Continued)

20. RECONCILIATION OF SHAREHOLDERS' DEFICIT

	Share Capital	Profit and loss Account	Total Shareholders' Funds
At 01 October 2004	100	(6,570,244)	(6,570,144)
Profit for the period	-	6,093,022	6,093,022
At 30 September 2005	<u>100</u>	<u>(477,222)</u>	<u>(477,122)</u>

21. CONTINGENT LIABILITIES

The company has entered into a composite accounting agreement with its bankers. The terms of the agreement permit the bankers, without notice, to draw down funds deposited into the system to offset borrowings drawn down from the system by other group members who are also parties to these arrangements. At the balance sheet date, funds deposited by the company into the system, and potentially at risk to cover its own overdraft liability and liabilities elsewhere in the group, amounted to £nil (2004 - £nil).

22. PENSIONS

On 28 February 2005 the company ceased participation in the Time Warner UK Pension Plan and became a member of the Warner Music Pension Plan.

The Time Warner UK Pension Plan was a multi-employer defined benefit plan. The total overall combined contribution rate from employers to the Plan varied depending on the experience of the Plan and hence the surplus or deficit revealed at actuarial valuations. Following the actuarial valuation as at 5th April 2002 the contribution rate payable by the company was set based on discussions within the Group so that the total contributions from all employers equal the required funding rate. The contribution rate does not reflect the individual experience of the company's members in isolation as it is not possible to identify accurately or consistently from year to year the share of the assets relating to the company. Consequently the company has accounted for its contributions to the Plan as if it were a defined contribution scheme.

*The Warner Music Pension Plan is a defined contribution plan.*

The total pensions cost to the company for the year ended 30 September 2005 was £132,728 (2004: £155,740)

23. PARENT UNDERTAKING AND CONTROLLING PARTY

Warner Chappell Music Group (UK) Ltd is the company's immediate parent undertaking.

On 30 September 2005 WMG Acquisition (UK) Limited was the parent undertaking of the smallest group of undertakings of which the company was a member and for which group financial statements are drawn up. WMG Acquisition (UK) Limited is registered in England and Wales and copies of its financial statements can be obtained from the registrar of companies in England and Wales.

On 30 September 2005 WMG Acquisition Corp Inc., a company incorporated in the United States of America, was the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company was a member and for which group financial statements are drawn up. Copies of WMG Acquisition Corp Inc.'s financial statements can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.

**WARNER/CHAPPELL MUSIC LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS AT 30TH SEPTEMBER 2005**

*(Continued)*

**24. SALE OF WHOLLY OWNED SUBSIDIARY COMPANY**

On 31 May 2005 the company sold a subsidiary company, International Music Publications Limited, to Alfred Publishing Co, Inc.