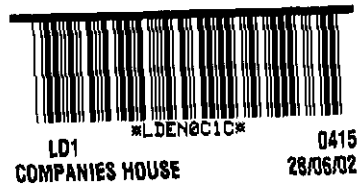


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PALACE MUSIC COMPANY LIMITED

Report and Accounts

30 November 2001



Palace Music Company Limited

Registered No. 635310

DIRECTORS

J M Dyball

B W Hitchens (resigned 31 December 2001)

M A Lavin

SECRETARY

S Skinner

AUDITORS

Ernst & Young LLP

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

Griffin House

161 Hammersmith Road

London

W6 8BS

Palace Music Company Limited

DIRECTORS' REPORT

The Directors' present their Report and Accounts of the Company for the year ended 30 November 2001.

RESULTS AND DIVIDENDS

The company has not traded during the year and has made neither a profit nor a loss. No profit and loss account has therefore been prepared.

REVIEW OF BUSINESS

The company ceased to trade on 1 December 1992.

DIRECTORS AND THEIR INTERESTS

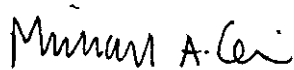
The directors of the company during the year were as listed on page 1.

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. There has been no movement in directors' interests since 30 November 2001.

AUDITORS

On 28 June 2001, Ernst & Young transferred its business to a Limited Liability Partnership, incorporated under the Limited Liability Partnership Act 2000, known as Ernst & Young LLP. The Directors' have consented to treating the appointment of Ernst & Young as the company's auditors as extending to Ernst & Young LLP with effect from 28 June 2001.

On behalf of the Board



Director

Date: 26 June 2002 

Palace Music Company Limited

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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 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 PALACE MUSIC COMPANY LIMITED

We have audited the company's accounts for the year ended 30 November 2001 which comprise the Balance Sheet and the related notes 1 to 8. These accounts have been prepared on the basis of the accounting policies set out therein.

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 accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the accounts 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 accounts, 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 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 30th November 2001 and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

ERNST & YOUNG LLP
Registered Auditor
London

Date: 26/06/02

Palace Music Company Limited

BALANCE SHEET

at 30 November 2001

	Notes	2001 £	2000 £
CURRENT ASSETS			
Debtors	5	2	2
		<u> </u>	<u> </u>
CAPITAL AND RESERVES			
Called up share capital	6	2	2
		<u> </u>	<u> </u>
SHAREHOLDERS' FUNDS	7	2	2
		<u> </u>	<u> </u>

Michael A. C.

Director

Date: *26 June 2002*

Palace Music Company Limited

NOTES TO THE ACCOUNTS

at 30 November 2001

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under historical cost convention in accordance with applicable accounting standards.

Basis of Preparation

Under an Exploitation Agreement dated 1 December 1992 Warner/Chappell Music International Limited, a fellow subsidiary undertaking, accepted the benefit and burden of the company's rights and obligations under its current and future contracts with third parties. Under the Exploitation Agreement the company's directors have the right to set an annual fee chargeable to Warner/Chappell Music International Limited. In the current year this fee was set at £nil (2000 £nil).

2. PROFIT AND LOSS ACCOUNT

The company has not traded during the year and has made neither a profit nor a loss. No profit and loss account has therefore been prepared.

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

In terms of the agreement entered into with Warner/Chappell Music International Limited dated 1 December 1992, Warner/Chappell Music International Limited is responsible for the payment of all costs and expenses of the company.

4. EMPLOYEES AND DIRECTORS

The company had no employees other than directors. The directors remuneration was £nil (2000 - £nil).

5. DEBTORS

	2001	2000
	£	£
Due from fellow-subsiidiary undertaking	2	2
	<u>2</u>	<u>2</u>

6. SHARE CAPITAL

	2001	2000
	£	£
Authorised: 100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
Allotted, called up and fully paid: 2 ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>

7. RECONCILIATION OF SHAREHOLDERS FUNDS

	2001	2000
	£	£
At 1 December 2000 and 30 November 2001	2	2
	<u>2</u>	<u>2</u>

NOTES TO THE ACCOUNTS

at 30 November 2001

8. PARENT UNDERTAKING AND ULTIMATE PARENT UNDERTAKING

Time Warner Limited is the parent undertaking of the smallest group of undertakings of which the company is a member and for which group accounts are drawn up. Time Warner Limited is registered in England and Wales and copies of its accounts can be obtained from the Registrar of Companies in England and Wales.

At 30 November 2000, Time Warner 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 is a member and for which group accounts are drawn up. Copies of Time Warner Inc.'s accounts can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.

On 11 January 2001, Time Warner Inc. was merged with America Online Inc. to form AOL Time Warner Inc. AOL Time Warner Inc. is now the ultimate parent undertaking and the parent undertaking of the largest group of undertakings of which the company is a member and for which group accounts are drawn up. Copies of AOL Time Warner Inc.'s accounts can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.