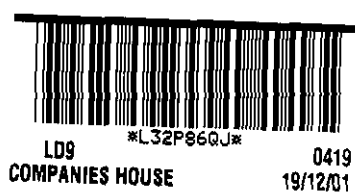


PALACE MUSIC COMPANY LIMITED

Report and Accounts

30 November 1995



Palace Music Company Limited

Registered No. 635310

DIRECTORS

B W Hitchens

J Hammond (Resigned 30 May 1997)

A D F Gummer (Appointed 29 January 1993; Resigned 8 January 1998)

M Lavin (Appointed 4 January 2000)

J M Dyball (Appointed 8 January 1998)

SECRETARY

S Skinner

AUDITORS

Ernst & Young LLP

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

Until January 1998

129 Park Street

London

W1

From January 1998

Griffin House

161 Hammersmith Road

London

W6 8BS

Palace Music Company Limited

DIRECTORS' REPORT

The revised Directors' Report below replaces the original Directors' Report for the company for the year ended 30 November 1995.

In accordance with the regulations of the Companies Act, the Directors' Report for the year ended 30 November 1995 has been revised as at 26 September 1996, being the date on which the original Directors' Report was approved by the Board of Directors and not at the date of the revision. Therefore, under the Regulations, the revised Directors' Report does not deal with events between 26 September 1996 and 7 December 2001.

The original Directors' Report as at 30 November 1995, failed to comply with the Companies Act in two respects:

- 1) The review of business stated that the Company ceased to trade on 1 December 1992 and is dormant when the company was not dormant.
- 2) The Directors' Report stated that a resolution was passed at the Annual General Meeting on 25 January 1993, stating that the Company, having been dormant since 1 December 1992, resolved to make itself exempt from the provisions of Part VII of the Companies Act 1995 relating to the audit of accounts and from the obligation to appoint auditors. As the company is not dormant, the company cannot claim this exemption.

Amendments have been made to the Directors' Report in order to remedy the above defects as follows:

- 1) The review of business has been amended to reflect that the Company was not dormant during the year.
- 2) The Company has not claimed the exemption from the provisions of Part VII of the Companies Act 1985 relating to the audit of accounts and the obligation to appoint auditors and thus auditors have been appointed.

The Directors' present their revised Report and Accounts of the Company for the year ended 30 November 1995.

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 1995.

Palace Music Company Limited

DIRECTORS' REPORT

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

7 December 2001

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 revised accounts of Palace Music Company Limited on pages 6 to 8 which have been prepared under the historical cost convention and on the basis of accounting policies set out on page 7. The revised accounts replace the original accounts approved by the Directors' on 26 September 1996, which were unaudited.

Respective Responsibilities of Directors' and Auditors

As described on page 4, the Company's directors' are responsible for the preparation of the accounts in accordance with applicable United Kingdom Law and Accounting Standards. It is our responsibility to form an independent opinion, based on our audit, on these revised accounts and to report our opinion to you. We are also required to report whether in our opinion the original accounts failed to comply with the requirements of the Companies Act 1985, in the respects identified by the directors'. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Audit Practices Board and by our profession's ethical guidance.

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 a 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:

1. The revised accounts give a true and fair view, seen at the date that the original accounts were approved, of the state of affairs of the company as at 30 November 1995 and have been properly prepared in accordance with the provisions of the Companies Act 1985 as they have effect under the Companies (Revision of Defective Accounts and Report) Regulations 1990: and
2. The original accounts for the year ended 30 November 1995 failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors in note 1 on page 7.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor

London

7 December 2001

Palace Music Company Limited

BALANCE SHEET at 30 November 1995

	<i>Notes</i>	<i>1995</i> £	<i>1994</i> £
CURRENT ASSETS			
Debtors	6	2	2
NET CURRENT ASSETS		<u>2</u>	<u>2</u>
CAPITAL AND RESERVES			
Called up share capital	7	2	2
SHAREHOLDERS' FUNDS	8	<u>2</u>	<u>2</u>

Michael A. Cair

Director

7 December 2001

Palace Music Company Limited

NOTES TO THE ACCOUNTS

at 30 November 1995

1. REVISED ACCOUNTS

The revised accounts on pages 6 to 8 replace the original accounts of the company for the year ended 30 November 1995. The revised accounts are now the statutory accounts for the year ended 30 November 1995.

In accordance with the regulations of the Companies Act, the accounts for the year ended 30 November 1995 have been revised at 26 September 1996, being the date on which the original accounts were approved by the Board of Directors and not at the date of this note. Therefore, under the regulations these accounts do not deal with events between 26 September 1996 and 7 December 2001.

The original accounts as at 30 November 1995 failed to comply with the Companies Act in two categories:

1. The balance sheet stated that the company was dormant during the year.
2. The accounting policy section did not disclose the nature of an exploitation agreement with a fellow subsidiary undertaking.

Amendments have been made to the original accounts in order to remedy the above defects as follows:

1. The balance sheet no longer stated that the company was dormant during the year.
2. Note 2, the accounting policies note discloses the Exploitation Agreement with a fellow subsidiary undertaking

2. 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 (1994 £nil).

3. 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.

4. 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.

5. EMPLOYEES AND DIRECTORS

The company had no employees other than directors. The directors remuneration was £nil (1994 - £nil).

Palace Music Company Limited

NOTES TO THE ACCOUNTS at 30 November 1995

6. DEBTORS

	1995	1994
	£	£
Due from fellow-subsiary undertaking	2	2
	<u>2</u>	<u>2</u>

7. SHARE CAPITAL

	1995	1994
	£	£
Authorised: 100 ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>
Allotted, called up and fully paid: 100 ordinary shares of £1 each	2	2
	<u>2</u>	<u>2</u>

8. RECONCILIATION OF SHAREHOLDERS FUNDS

	1995	1994
	£	£
At 1 December 1994 and 30 November 1995	2	2
	<u>2</u>	<u>2</u>

9. PARENT UNDERTAKING AND ULTIMATE PARENT UNDERTAKING

The parent undertaking, which is also the ultimate parent undertaking, of the largest group of undertakings for which group accounts are drawn up and of which the undertaking is a member is Time Warner Inc, incorporated in the United States of America, and the parent undertaking of the smallest such group is Time Warner Limited, registered in England and Wales. Copies of Time Warner Inc.'s accounts can be obtained from:

Shareholder Relations
Time Warner Inc.
75 Rockefeller Plaza
New York, NY 10019
USA