

PALACE MUSIC COMPANY LIMITED

Report and Financial Statements

30 September 2005



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COMPANIES HOUSE 28/07/2006

Palace Music Company Limited

Registered No. 635310

DIRECTORS

J M Dyball

M A Lavin

SECRETARY

Olswang Cosec Limited

AUDITORS

Ernst & Young LLP

1 More London Place

London SE1 2AF

REGISTERED OFFICE

Seventh floor

90 High Holborn

London

WC1V 6XX

Palace Music Company Limited

DIRECTORS' REPORT

The Directors present their report and financial statements of the company for the year ended 30 September 2005.

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.

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



Director

Date: 24-7-06

Palace Music Company 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;
- 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
PALACE MUSIC COMPANY LIMITED**

We have audited the company's financial statements for the year ended 30 September 2005 which comprise the Balance Sheet, and the related notes 1 to 8. 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.

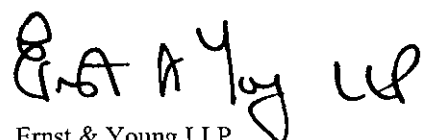
Basis of audit opinion

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 30 September 2005 and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
London

26th July 2006

Palace Music Company Limited

BALANCE SHEET at 30 September 2005

	Notes	2005 £	2004 £
CURRENT ASSETS			
Debtors	5	2	2
		<u>2</u>	<u>2</u>
CAPITAL AND RESERVES			
Called up share capital	6	2	2
		<u>2</u>	<u>2</u>
SHAREHOLDERS' FUNDS	7	2	2
		<u>2</u>	<u>2</u>

Director *Muham A. Geni*

Date: *24-7-06*

Palace Music Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 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 in accordance with applicable accounting standards.

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.

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 (2004 £nil).

Statement of Cash flows

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.

Related parties

The company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with fellow wholly-owned subsidiary undertakings.

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

Under the 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 (2004 - £nil).

5. DEBTORS

	2005	2004
	£	£
Due from fellow-subsiidiary undertaking	2	2
	=====	=====

Palace Music Company Limited

NOTES TO THE FINANCIAL STATEMENTS

at 30 September 2005

6. SHARE CAPITAL

	2005	2004
	£	£
Authorised:		
100 ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
Allotted, called up and fully paid:		
2 ordinary shares of £1 each	2	2
	<u> </u>	<u> </u>

7. RECONCILIATION OF SHAREHOLDERS FUNDS

	2005	2004
	£	£
At 1 October 2004 and 30 September 2005	2	2
	<u> </u>	<u> </u>

8. PARENT UNDERTAKING AND ULTIMATE PARENT UNDERTAKING

Warner/Chappell Music International Limited 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.