WARNER/CHAPPELL MUSIC GROUP (UK) LIMITED

(Registered in England No. 1853621)

DIRECTORS' REPORT AND AUDITED ACCOUNTS

30TH NOVEMBER 2001



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COMPANIES HOUSE 28/06/02

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts of the company for the year ended 30th November 2001.

RESULTS AND DIVIDENDS

The results for the year are set out in the profit and loss account on page 4. The directors do not propose to declare a dividend in respect of the year ended 30th November 2001 (2000 - £nil).

REVIEW OF THE BUSINESS

The principal activity of the company during the year continued to be as an investment holding company. The company acts as a holding company for subsidiary investments and group funding transactions.

DIRECTORS

The directors of the company during the year were:

B W Hitchens (resigned 31 December 2001)
J M Dyball
M A Lavin

DIRECTORS' INTERESTS

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 30th November 2001.

AUDITORS

On 28 June 2001, Ernst & Young, the Company's auditor, transferred its entire business to Ernst & Young LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Directors consented to treating the appointment of Ernst & Young as extending to Ernst & Young LLP with effect from 28 June 2001. A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

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 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.

ON BEHALF OF THE BOARD

Director

Dated: 26 June 2002

REPORT OF THE AUDITORS TO THE MEMBERS OF

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

We have audited the company's accounts for the year ended 30 November 2001 which comprise the Profit and Loss account, Balance Sheet, Statement of Total Recognised Gains and Losses and the related notes 1 to 13. 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 of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

ERNST & YOUNG LLP
Registered Auditor
London

Dated: 26/06/02

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30TH NOVEMBER 2001

	Notes	2001 £'000s	2000 £'000s
Income from shares in subsidiary undertakings		790	712
Interest receivable	4	418	465
Profit on ordinary activities before taxation		1,208	1,177
Taxation	5	141	126
Profit for the financial year		1,067	1,051
Accumulated profit/(deficit) brought forward		538	(513)
Accumulated profit carried forward		1,605	538

All activities are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 30TH NOVEMBER 2001

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

The notes on pages 6 to 10 form part of the accounts.

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

BALANCE SHEET AT 30TH NOVEMBER 2001

	Notes	2001 £'000s	2000 £'000s
Fixed assets:			
Investments	6	73,000	73,000
Current assets:			
Debtors	7	12,897	11,815
Creditors: amounts falling due within one year	8	141	126
Net current assets		12,756	11,689
Total assets less current liabilities		85,756	84,689
Capital and reserves:			
Equity share capital	9, 12	37,536	37,536
Revaluation reserve	10, 12	46,615	46,615
Profit and loss account	12	1,605	538
Shareholders' funds	12	85,756	84,689

Director

Dated: 26 June 2002

The notes on pages 6 to 10 form part of these accounts.

WARNER CHAPPELL MUSIC GROUP (UK) LIMITED

NOTES TO THE ACCOUNTS AT 30TH NOVEMBER 2001

1. ACCOUNTING POLICIES

Accounting convention

These accounts are prepared under the historical cost convention, as modified by the revaluation of investments in subsidiary undertakings and in accordance with applicable accounting standards.

Group accounts

In accordance with the company's exemption under s228 of the Companies Act, group accounts have not been prepared as the company is a wholly-owned subsidiary undertaking of Time Warner Limited, registered in England and Wales, which prepares group accounts. The accounts present information as to the company as an individual undertaking and not as to the group.

Investments

Subsidiary undertakings are valued in the parent undertaking balance sheet as a multiple of the net publishers share. This method is considered by the directors to be reasonable. The carrying values of investments are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Statement of Cash flows

The company, being a wholly-owned subsidiary of an EC parent undertaking, which prepares a statement of cash flows in accordance with Financial Reporting Standard No. 1 Revised ("FRS 1"), is taking advantage of the exemption in FRS 1 not to provide a statement of cash flows.

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. EMPLOYEES AND DIRECTORS

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

3. AUDITORS' REMUNERATION

Auditors' remuneration is borne by Warner/Chappell Music Limited, another group undertaking.

4. INTEREST RECEIVABLE

	2001 £'000s	2000 £'000s
Interest receivable from fellow subsidiary undertakings	418	465

5. TAXATION

	2001 £'000s	2000 £'000s
Group relief at 30% (2000 – 30%)	141	126

6. INVESTMENTS

	Subsidiary undertakings £'000s
Valuation:	
At 1st December 2000 and at 30th November 2001	73,000

Subsidiary undertakings

Subsidiary undertakings were revalued in 1992 as a multiple of the net publishers' share considered by the directors to be reasonable. This policy is applied to give a fair value to the investment held.

The directors are of the opinion that the value of the company's investments in its subsidiary undertakings (including amounts owed by them to the company) is not less than the book value of the investments.

The cost of the investments in subsidiary undertakings is £26,385,856 (2000 - £26,385,856).

Details of investments in subsidiary undertakings are:

Subsidiary undertakings	Country of registration	Percentage of ordinary share capital held	Nature of business
Bubbles Music Ltd	England and Wales	100%	Investment holding company
Warner/Chappell Music International Ltd	England and Wales	100%	Music publishing
Warner/Chappell Music Ltd	England and Wales	100%	Music publishing
Subsidiary undertakings of Warner/Chappell Music International Ltd			
Warner Chappell Artemis Music Ltd	England and Wales	100%	Non Trading
Ascherberg, Hopwood & Crew Ltd	England and Wales	100%	"
Burlington Music Ltd	England and Wales	100%	"
Warner Chappell Overseas Holdings Ltd	England and Wales	100%	"
Chappell Music Ltd	England and Wales	100%	"
Intersong Music Ltd	England and Wales	100%	"
Warner Chappell North America Ltd	England and Wales	100%	"
Throat Music Ltd	England and Wales	100%	"
Chappell Morris Ltd	England and Wales	100%	Music publishing
Warner Chappell Ltd	England and Wales	100%	"

6. **INVESTMENTS (Continued)**

Subsidiary undertakings	Country of registration	ordinary share capital held	Nature of business
Subsidiary undertaking of Warner/Chappell Music Ltd			
Magnet Music Ltd	England and Wales	100%	Non Trading
Warner Chappell Music Publishing Ltd	England and Wales	100%	Music publishing
Warner Chappell UK Ltd	England and Wales	100%	"
International Music Publications Ltd	England and Wales	100%	"
Associated undertakings of Warner/Chappell Music Ltd			
Kirshner-Warner Bros Music Ltd	England and Wales	50%	Music publishing
Subsidiary undertaking of Burlington Music Ltd			
Palace Music Co Ltd	England and Wales	100%	Non Trading
Associated undertakings of Warner/Chappell Music International Ltd			
Diplomat Music Ltd	England and Wales	50%	"
Jewel Music Publishing Company Ltd	England and Wales	50%	"
Patricia Music Ltd	England and Wales	50%	"

The accounting dates for all subsidiaries is 30th November except as follows: Warner Chappell Limited, Diplomat Music Limited, Jewel Music Publishing Limited and Warner Chappell UK Limited have a 30th June accounting date, Warner Chappell Music Publishing Limited has a 31st December accounting date and Warner Chappell North America Limited has a 31st May accounting date. The accounting period for all subsidiaries and associates is 12 months.

7. **DEBTORS**

	2001 £'000s	2000 £'000s
Amounts due from subsidiary undertakings	12,897	11,815

Debtors relate to amounts due after more than one year.

8. **CREDITORS:** AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £'000s	2000 £'000s
Group relief payable	141	126

9. SHARE CAPITAL

	2001 £	2000 £
Authorised:		
40,000,000 ordinary shares of £1 each	40,000,000	40,000,000
Allotted, called up and fully paid:		
37,535,527 ordinary shares of £1 each	37,535,527	37,535,527

10. REVALUATION RESERVE

During 1992 the directors undertook a review of the value of the company's investment in subsidiaries resulting in a revaluation of £46,615,000. The directors consider this revaluation to remain appropriate.

11. 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 (2000: £nil).

12. RECONCILIATION OF SHAREHOLDERS' FUNDS AND RESERVES

	Share capital £'000s	Revaluation reserve £'000s	Profit and loss account £'000s	Total £'000s
Balance at 1 December 2000	37,536	46,615	538	84,689
Profit for the year	-	-	1,067	1,067
Balance at 30 November 2001	37,536	46,615	1,605	85,756

13. PARENT UNDERTAKING AND CONTROLLING PARTY

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 Register of Companies in England and Wales.

At 30th 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 11th 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.