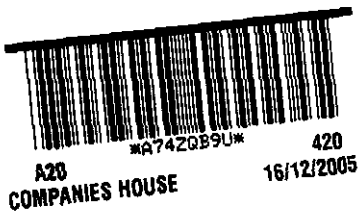
Report and Financial Statements

Funghi Records Limited

1 October 2004



Funghi Records Limited

Registered No. 2941321

DIRECTORS
N Phillips
K Mullock
J Watson
K Marshall

SECRETARY
Olswang Cosec Limited
90 High Holborn
London
WC1V 6XX

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

BANKERS
Barclays Bank PLC
Mayfair Business Centre
11 Stanhope Gate
London W1A 4EE

REGISTERED OFFICE
90 High Holborn
London
WC1V 6XX

DIRECTORS' REPORT

The directors present their report and financial statements for the 10 months ended 1 October 2004.

PRINCIPLE ACTIVITY
The principal business activity of the company is the sale of recorded music.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS
The loss for the period, after tax, amounted to £90,632 (2003 – £3,384). The directors do not recommend the payment of a dividend (2003 – £nil).

The directors do not envisage any changes to the company's activities in the foreseeable future.

DIRECTORS AND THEIR INTERESTS
The Directors of the Company who served during the year were as follows:

K. Mullock
K. Marshall
N. Phillips
J. Watson

There are no other directors' interests requiring disclosure under the Companies Act 1985.

COMPANY SECRETARY
On 1 March 2004 Bronwen Jones resigned as company secretary and was replaced by Anne Mansbridge. On 1 July 2004 Anne Mansbridge resigned and was replaced by Olswang Cosec Limited.

AUDITORS
A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board

K Mullock 

Director

Date: 6-12-05

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 Funghi Records Limited

We have audited the Company's financial statements for the period ended 1 October 2004 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 8. These financial statements have been prepared under 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 auditor's 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'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 1 October 2004 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
Registered Auditor
London

20 January 2005

PROFIT AND LOSS ACCOUNT
for the 10 months ended 1 October 2004

	Notes	*period ended 1 October 2004* £	*period ended 30 November 2003* £
TURNOVER	2	(103)	125
Cost of sales		(86,523)	(66)
Gross (loss)/profit		(86,626)	59
Administrative expenses	3	(3,984)	(3,436)
Distribution expenses		(22)	(7)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(90,632)	(3,384)
Tax on loss on ordinary activities	4	–	–
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(90,632)	(3,384)
Retained loss brought forward		(847,484)	(844,100)
RETAINED LOSS CARRIED FORWARD		(938,116)	(847,484)

All activities are continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company had no recognised gains or losses other than the loss of £90,632 for the period ended 1 October 2004 and the loss of £3,384 for the period ended 30 November 2003.

BALANCE SHEET
at 1 October 2004

	Notes	*1 October 2004* £	*30 November 2003* £
CREDITORS: amounts falling due after more than one year	5	(938,016)	(847,384)
		(938,016)	(847,384)
CAPITAL AND RESERVES			
Called-up share capital	6	100	100
Profit and loss account	7	(938,116)	(847,484)
Equity shareholders' funds	7	(938,016)	(847,384)

K Mullock
Director

Date: 6-12-05

NOTES TO THE ACCOUNTS
at 1 October 2004

1. ACCOUNTING POLICIES

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

Accounting period
The company previously prepared accounts for either 52 or 53 week periods ending within one week of 30 November. During the period the company changed its accounting reference date, and now prepares accounts for periods ending within one week of 30 September. These accounts are prepared for the 44 week period to 1 October 2004.

Accounting convention
The financial statements are prepared under the historical cost convention and in accordance with accounting standards applicable in United Kingdom.

Going concern
The financial statements are prepared on the going concern basis because Warner Music UK Limited has committed to provide financial support to the company to enable it to meet its debts as they fall due, and for the foreseeable future.

Artist advances
Advances are expensed as incurred for unproven artists. For proven artists only amounts likely to be recovered are carried as assets.

Royalty income
Credit is taken for royalty income that has been received from or declared by licensees and other parties by the period end.

Royalties payable
Royalties payable are calculated on the basis of the artists' share of the income received by the company after allowing for advances paid.

Foreign currency
Monetary assets and liabilities denominated in foreign currencies are retranslated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

Deferred income
Advances received are included as deferred income until they are recouped or until recoupment becomes unlikely on the expiry of the related licence agreement.

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.

Cash flow statement
The company has taken advantage of the exemption in Financial Reporting Standard No.1 Revised ("FRS1"). A cash flow statement has not been prepared because as at the period end the company was a wholly owned subsidiary of WMG Acquisition Corp., 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 group undertakings.

NOTES TO THE ACCOUNTS
at 1 October 2004

2. TURNOVER

Turnover, substantially all of which originates in the United Kingdom and within a single class of business, represents the invoiced amount of goods sold and royalties receivable stated net of valued added tax.
Sales by destination were as follows:

	period ended 1 October 2004 £	*period ended 30 November 2003* £
United Kingdom	(103)	125

During the period the total sales less discounts was £444 and the total returns was £547 resulting in the net sales of £(103).

3 ADMINISTRATIVE EXPENSES

Administrative expenses include:

	period ended 1 October 2004 £	*period ended 30 November 2003* £
Auditors' remuneration	3,721	3,383

There are no employees of the company other than the directors. The directors received no remuneration for their services during the period (2003 - £nil).

4 TAX ON LOSS ON ORDINARY ACTIVITIES

	period ended 1 October 2004 £	*period ended 30 November 2003* £
a) The charge based on the results for the period is as follows:		
Taxation based on the loss for the period:		
Corporation Tax payable	–	–
Group relief receipts	–	–
Over provision for prior years	–	–
Total Current Tax	–	–

NOTES TO THE ACCOUNTS
at 1 October 2004

4. TAX ON LOSS ON ORDINARY ACTIVITIES (continued)

b) Circumstances affecting current tax charge

The standard rate of current tax for the period based on the UK standard rate of corporation tax is 30% (2003 30%). The current tax credit for the period differs from the standard rate for the reasons in the reconciliation below.

	period ended 1 October 2004 £	*period ended 30 November 2003* £
Loss on Ordinary activities before tax	(90,632)	(3,384)
Tax on loss on ordinary activities at standard rate	(27,190)	(1,015)
Factors affecting charge:		
Group relief surrendered for nil consideration	27,190	1,015
Total Current Tax (note a above)	–	–

c) Deferred Tax

The company has incurred taxable losses which are available to offset against future taxable profits. A deferred tax asset has not been recognised in respect of these losses as, based on budgets, the company does not anticipate taxable profits to arise within the immediate future. It is anticipated that the losses will gradually be recovered as the business moves into profit. The estimated value of the deferred tax asset not recognised at 1 October 2004 measured at a standard rate of 30% is £224,000.

5 CREDITORS: amounts falling due after more than one year

	1 October 2004 £	*30 November 2003* £
Due to other group undertakings	938,016	847,384

6 Share capital

	1 October 2004 £	*30 November 2003* £
Called-up share capital		
Authorised:		
100 ordinary shares of £1 each	100	100
Allotted and fully paid:		
100 ordinary shares of £1 each	100	100

7 RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	*Profit and loss account* £	*Total share-holders' funds* £
At 1 July 2002	100	(844,100)	(844,000)
Loss for the period	–	(3,384)	(3,384)
At 30 November 2003	100	(847,484)	(847,384)
Loss for the period	–	(90,632)	(90,632)
At 1 October 2004	100	(938,116)	(938,016)

8 PARENT UNDERTAKING AND CONTROLLING PARTY

The company is 100% owned by A+E Records Limited, the immediate parent undertaking. WMG Acquisition (UK) Limited, registered in England and Wales, is the parent undertaking and the parent undertaking of the smallest group of undertakings for which the group accounts are drawn up. Copies of WMG Acquisition (UK) Limited's accounts can be obtained from Olswang Cosec Limited, 90 High Holborn, London WC1V 6XX.

On 1 March 2004 Time Warner Inc., the company's ultimate parent undertaking, announced the sale of its Warner recorded music businesses and Warner Music publishing businesses ("Warner Music Group"). As a result, on 1 October 2004 WMG Acquisition Corp., 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.'s financial statements can be obtained from 1209 Orange Street, Wilmington, DE 19801, USA.