

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about this document you should consult your stockbroker, or an independent financial adviser authorised under the Financial Services Act 1986, without delay.

If you have sold all your shares in THORN EMI plc, please hand this document, together with the accompanying Form of Proxy, to the purchaser, or to the stockbroker or other agent through whom the sale was effected, for onward transmission to the purchaser.



THORN EMI plc

Proposed Acquisition

of the

SBK Music Publishing Copyrights

through the acquisition of

SBK Entertainment World, Inc.

Notice of an Extraordinary General Meeting of the Company, to be held at the London Marriott Hotel, 10 Grosvenor Square, London W1 at 12 noon on Wednesday, 1st February, 1989, is set out on page 13.

To be valid, Forms of Proxy for use at the Extraordinary General Meeting must be received no later than 12 noon on Monday, 30th January, 1989.

THORN EMI plc

(Registered in England No. 229231)

Registered Office:
4 Tenterden Street
London W1A 2AY

6th January, 1989

Proposed Acquisition of the SBK Music Publishing Copyrights

To the holders of the Ordinary Shares and the 7 per cent. Convertible Redeemable Second Cumulative Preference Shares 1992/99 and, for information only, to the holders of the Unsecured Loan Stocks of THORN EMI plc ("THORN EMI" or "the Company").

Dear Shareholder,

INTRODUCTION

It was announced on 5th January, 1989 that THORN EMI had entered into an agreement to acquire a major U.S.-based portfolio of music publishing copyrights for a cash consideration of approximately \$337 million (£187 million). The acquisition will be funded in part through the proposed Euro-issue of £103 million redeemable convertible preference shares by a Dutch Antilles subsidiary of THORN EMI, and the balance from existing financing arrangements. The acquisition is to be effected by one or more wholly-owned subsidiaries of THORN EMI purchasing SBK Entertainment World, Inc. ("SBK"), a U.S. holding company owned by Stephen C. Swid, Martin N. Bandier and Charles A. Koppelman. In addition, EMI Music will establish a joint record production venture with Mr Bandier and Mr Koppelman.

Owing to its size, completion of the acquisition, which is expected to take place in April 1989, is conditional upon, *inter alia*, approval by THORN EMI shareholders in General Meeting. The purpose of this letter is to set out the reasons for, and details of, the proposed acquisition and to recommend that you approve the proposed acquisition at the Extraordinary General Meeting of the Company to be held at the London Marriott Hotel, 10 Grosvenor Square, London W1 at 12 noon on Wednesday, 1st February, 1989.

MUSIC COPYRIGHTS

(i) Background

Music publishing copyrights in the Western World consist of rights over the use of particular musical works. The copyright comes into existence automatically on the creation of a new work, and is usually owned initially by the writer; it normally runs during the life of the writer and for a fixed period after his or her death, typically 50 years, depending on local legislation. It may be assigned by the owner to a music publisher in return for a negotiated share of future royalties.

Music copyrights entitle the owner to receive royalty income from a variety of sources, including the reproduction of the work as recorded music, e.g. LPs, tapes and CDs; its public performance, e.g. on television and radio; its use in the soundtracks of motion pictures, advertisements, home video cassettes and other audio-visual works; and from the publication and sale of printed sheet music.

Music publishers are primarily engaged in (i) acquiring copyrights and/or administration rights to new and existing music, (ii) promoting the songs and other music in their catalogues for use in entertainment media, (iii) collecting the royalties and licence fees payable by third parties for the use of their music, and (iv) paying royalties to composers and other appropriate parties as required by the contracts which assign copyrights and/or administration rights to the publisher.

(ii) The SBK Copyright Portfolio

The copyright portfolio being acquired represents a major collection of music publishing copyrights and consists of some 250,000 individual compositions. The portfolio includes classic music from MGM musicals such as "That's Entertainment" and "The Wizard of Oz"; soundtracks from classic United Artists films like the James Bond series, "Hair", the Pink Panther series, the Rocky films and several Beatles films such as "A Hard Day's Night" and "Help"; soundtracks from a number of Twentieth Century Fox films and television shows including Batman, Dragnet and Dr Kildare; and familiar songs such as "New York, New York", "Singin' in the Rain", "Over the Rainbow", "Santa Claus is coming to Town", "Have yourself a Merry Little Christmas" and "Blue Moon".

Also in the portfolio are the works of Miklos Rosza, John Williams, Andre Previn, Henry Mancini and Marvin Hamlisch; and titles written by rhythm and blues artists including Fats Domino, Ike and Tina Turner, and Bobby Wornack.

The present owners have added a number of current artists such as Tracy Chapman and Luther Vandross.

Gross royalty income less royalty expense (known as "net publishers' share" or "NPS") earned by the portfolio was \$28.9 million for the year to 31st December, 1986, \$36.7 million in 1987 (including approximately \$3 million of exceptional income), and is expected to be at least \$37.0 million in 1988. NPS for the nine months to September 1988 was \$27.5 million, compared with \$25.3 million for the same period in 1987, an increase of 9 per cent. In 1987, 38 per cent. of SBK's gross royalty income was earned in the United States, 50 per cent. in Europe and 12 per cent. in the rest of the world.

A limited selection of the better known items from the SBK portfolio is shown in Section IV of this document.

EMI MUSIC

EMI Music is a long-established and well known name in the music business worldwide, with a full range of activities from music publishing to recording, production and manufacture. In recent years, there has been substantial investment in EMI Music which has been charged against profits: its structure has been reorganised, management strengthened and significant investment in new repertoire undertaken. The benefits of these initiatives are demonstrated by its much improved performance in the last eighteen months.

EMI MUSIC PUBLISHING

EMI Music Publishing is a separately-managed business unit within EMI Music. It owns a portfolio of over 300,000 individual copyrights, built up over many years, including the rights to such classics as "Star Dust" and the "Warsaw Concerto". In addition, EMI Music Publishing has a strong portfolio of popular music copyrights including the works of Carole King, David Gates, Scott Cutler, Europe, Duran Duran, Cheap Trick, Lou Reed, David Bowie, Queen, Bros, Kate Bush, Paul Weller, Status Quo, Crowded House, Barry Manilow and Jimmy Jam/Terry Lewis. A limited selection of items from this portfolio is shown in Section IV of this document.

EMI Music Publishing employs some 300 people and operates in 23 countries, with its headquarters in New York. Revenue from EMI Music Publishing's existing portfolio is similar in value to SBK's. The business has fully computerised administrative systems, with capacity for significant expansion, and actively markets its music catalogue throughout the world.

REASONS FOR THE PURCHASE OF THE COPYRIGHTS

Over the last four years, THORN EMI has focused on its businesses in Rental and Retail, Music, Lighting, and Technology, in each of which it is or intends to be an internationally competitive force. The international position of these businesses has been strengthened both through organic growth and through targeted acquisitions. The results can be seen in the Group's improved performance in recent years; profits before tax for the year to 31st March, 1988 were £225.3 million, compared to £159.5 million for the previous year, an increase of 41 per cent., with all businesses contributing to this improvement.

The purchases of Rent-A-Center in the U.S. and six European rental operations have provided a substantial broadening of the Rental and Retail business. Similarly, acquisitions for Lighting, including Holophane in France, Jarnkonst in Sweden and the lighting division of Howard Smith Industries in Australia, have expanded its international operations. The acquisition of the copyright portfolio achieves a similar expansion for EMI Music Publishing's business.

Music publishing is a business generating stable and high quality income. Moreover, the revenue from copyright usage is expected to increase as new formats for musical reproduction such as compact discs and digital audio tape become more widely used. This will be reinforced by the development of broadcasting media such as satellite and cable TV which will create additional demand for music both for programmes and for advertisements.

The acquisition of the SBK portfolio will offer further benefits:

- It represents an important portfolio of the highest quality which complements EMI Music Publishing's catalogue.
- It positions EMI Music Publishing more competitively in the industry, with a highly experienced management team.
- It will enable the administration of the two businesses to be integrated, giving rise to considerable economies. EMI Music Publishing operates in all of the 16 countries where SBK is present.

- It secures a stable and growing income stream for THORN EMI, derived mainly from the U.S. and Europe, and will enhance the quality of EMI Music's profits.

The acquisition is not expected to lead to any dilution in earnings per share in the first year, and should enhance earnings thereafter. The expense of combining the businesses during 1989 and other acquisition-related costs, which are not expected to exceed \$20 million, will be treated as part of the cost of acquisition.

TERMS AND FINANCING OF THE ACQUISITION

The purchase consideration is to be a maximum of \$337 million, based on the portfolio being acquired achieving NPS of at least \$37 million for the year to 31st December, 1988. In the event of a shortfall the consideration will be reduced in accordance with an agreed formula, but no adjustment will be made if NPS exceeds the target figure. The purchase consideration will also be reduced by the amount of any net liabilities in the audited consolidated balance sheet of SBK at 31st December, 1988. All SBK's non-music publishing businesses and its New York headquarters will be purchased from SBK by the present owners prior to completion.

The acquisition will be funded in part through the proposed Euro-issue of £103 million 5¾ per cent. redeemable convertible preference shares 2004 by a Dutch Antilles subsidiary of THORN EMI, and the balance from existing financing arrangements. The redeemable convertible preference shares will be guaranteed by THORN EMI and will be convertible into Ordinary Shares of THORN EMI at a price of 745p per Ordinary Share, representing a premium of 16.4 per cent. over the mid-price of the Ordinary Shares on The Stock Exchange at the time the terms of the issue were fixed, i.e. 640p.

Holders of the redeemable convertible preference shares will have the right to require redemption of their shares at a premium on the fifth or the tenth anniversary of the date of issue to give, in either case, a gross redemption yield of 10.5 per cent. (on a semi-annual basis). Full conversion of the redeemable convertible preference shares would involve the issue of 13,825,503 Ordinary Shares in THORN EMI, representing 4.98 per cent. of the current issued Ordinary Share capital.

The acquisition is subject, *inter alia*, to approval by THORN EMI shareholders in General Meeting and to certain regulatory approvals. Completion will take place when the accounts of the SBK group for the year to 31st December, 1988 have been finalised.

FINANCIAL INFORMATION ON SBK

Financial information on SBK may be found in the Accountants' Report in Section I of this document.

The acquisition of SBK represents the purchase of a copyright portfolio, the administration of which will be integrated with EMI Music Publishing's existing business. For this reason, the financial information disclosed in Section I of this document is confined to royalty revenue and expense, the key data generally used in the financial assessment of copyrights.

As explained in the Accountants' Report, insufficient financial information is available in respect of accounting periods prior to 1st January, 1986 to provide figures comparable with those for subsequent periods.

ACCOUNTING POLICY

The Board of THORN EMI has determined that music publishing copyrights purchased on or after 1st April, 1988, including the SBK copyrights, will be treated as an intangible asset in THORN EMI's consolidated balance sheet. There will be no retrospective revaluation of copyrights acquired before that date. The capitalised amount of copyrights will only be subject to amortisation to the extent that royalty income generated by the combined portfolio is insufficient to support its book value.

CURRENT TRADING AND FUTURE PROSPECTS

THORN EMI's interim results for the six months to 30th September, 1988 were announced on 8th December, 1988. These showed profits before tax of £95.2 million compared with £60.7 million for the same period last year, an improvement of 57 per cent. Earnings per share in this period were 19.9p (13.7p), an increase of 45 per cent., and an interim dividend of 7.5p per share (6.0p) was declared, representing an increase of 25 per cent. As reported at the time, the second half has started well, with the financial position remaining strong.

On 13th December, 1988, it was announced that THORN EMI had entered into a preliminary agreement regarding the disposal of INMOS Ltd—further information is contained in Section III of this document.

UNSECURED LOAN STOCKS

In view of certain restrictive covenants in the Unsecured Loan Stocks of THORN EMI, it has been agreed with the trustees, The Whitehall Trust Limited, that, unless within three months after the completion of the proposed acquisition of the SBK copyright portfolio THORN EMI has obtained stockholder sanction

in each case for amendments to the covenants or to repayment on other terms, it will repay the Loan Stocks at par. The par value of the outstanding Unsecured Loan Stocks is £16.4 million in aggregate.

EXTRAORDINARY GENERAL MEETING

Set out on page 13 of this document is a Notice convening an Extraordinary General Meeting of the Company to be held at the London Marriott Hotel, 10 Grosvenor Square, London W1 at 12 noon on Wednesday, 1st February, 1989. At this meeting a resolution will be proposed to approve the acquisition of the copyright portfolio by means of the purchase of the share capital of SBK.

You will find enclosed with this document a Form of Proxy for use in connection with the Extraordinary General Meeting. Forms of Proxy should be completed and returned in accordance with the instructions thereon so that they arrive at the Company's Registrar, National Westminster Bank PLC, Registrar's Dept., P.O. Box No. 82, Caxton House, Redcliffe Way, Bristol BS99 7YA as soon as possible and in any event not later than 12 noon on Monday, 30th January, 1989. The completion and return of a Form of Proxy will not preclude you from attending and voting at the meeting should you so wish.

FURTHER INFORMATION

Your attention is drawn to the further information set out in Sections I to IV which includes a pro forma statement of net assets reflecting the acquisition of the copyright portfolio.

RECOMMENDATION

The Board, which has been advised by Lazard Brothers & Co., Limited and Goldman Sachs International Limited, considers the acquisition of the copyrights to be in the best interests of the Company. Your Directors recommend shareholders to vote in favour of the resolution to approve the proposed acquisition of the portfolio, as they intend to do in respect of their own beneficial holdings.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Graham Wilkins', with a horizontal line underneath the name.

Sir Graham Wilkins
Chairman

SECTION I

ACCOUNTANTS' REPORT ON SBK ENTERTAINMENT WORLD, INC.

EW Ernst & Whinney
Chartered Accountants

Becket House
1 Lambeth Palace Road
London SE1 7EU

The Directors,
THORN EMI plc

The Directors,
Lazard Brothers & Co., Limited

6th January, 1989

Gentlemen

1. Introduction

We report in connection with the proposal that THORN EMI plc ("THORN EMI"), through a U.S. subsidiary or subsidiaries, should acquire the entire issued stock of SBK Entertainment World, Inc. ("SBK") in accordance with the terms and conditions set out in the letter dated 6th January, 1989 from the Chairman to the shareholders of THORN EMI.

SBK commenced trading on 6th November, 1986 when it acquired the music publishing business and related activities of CBS Inc. ("CBS"). Consolidated accounts for SBK and its subsidiaries ("the SBK group") were prepared under U.S. Generally Accepted Accounting Principles at 31st December, 1986 and 1987. These accounts were audited by Richard A. Eisner & Company, Certified Public Accountants. No audited financial statements of the SBK group have been prepared for any period since 31st December, 1987.

Prior to 6th November, 1986 the music publishing business of SBK formed part of a division of CBS, the accounts of which were not subject to separate audit. For the period 1st January to 5th November, 1986, sufficient unaudited financial information is available to provide figures comparable with subsequent periods. For earlier periods insufficient financial information is available to enable reasonably comparable figures to be presented.

Prior to completion of the acquisition agreement the vendors have agreed to purchase from SBK its headquarters in New York and its non-music publishing businesses. Following completion, THORN EMI will integrate the administrative and computer systems of SBK with those of EMI Music Publishing; the Directors of THORN EMI consider that the costs associated with the combined businesses will not significantly exceed the costs currently being incurred by EMI Music Publishing alone. In these circumstances, it would be inappropriate to present to shareholders in this report profit and loss accounts reflecting past levels of costs. Furthermore, the acquisition of SBK will lead to widespread change in its balance sheet which similarly renders past balance sheets irrelevant.

For the reasons explained above, the content of this report is restricted to the net royalty revenue of the SBK group for the two years ended 31st December, 1987.

The financial information in this report is based on unaudited accounts of SBK for the period 1st January to 5th November, 1986 and on the audited accounts of SBK for the period ended 31st December, 1986 and the year ended 31st December, 1987. We have made such adjustments as we consider appropriate; in particular to exclude income relating to businesses which are not to be acquired. Our work has been carried out in accordance with the Auditing Guideline: "Prospectuses and the reporting accountant".

In our opinion the financial information gives a true and fair view of the net royalty revenue of SBK for the period from 6th November, 1986 to 31st December, 1986 and for the year ended 31st December, 1987.

2. Accounting Policies

(a) Basis of consolidation

The financial information is consolidated to incorporate income of SBK and its subsidiaries. All significant inter-company transactions have been eliminated.

(b) Revenue recognition

Income of the SBK group relates to royalties earned from mechanical, performance, synchronization and other licence rights. This income is collected directly or indirectly by various collection societies from licencees throughout the world and is stated after deducting collection commissions retained by the societies. Royalty income is recognised only when reported to SBK.

(c) Royalty expense

Royalty expense represents amounts accruing to authors, composers and lyricists in accordance with agreements. Such expenses are recognised at the same time as the related royalty revenue.

(d) Transactions in currencies other than U.S. dollars

Revenue and expense items in currencies other than U.S. dollars are converted into U.S. dollars at the average rates of exchange prevailing during the period.

(e) Advance royalties

Advance royalty payments are treated as an asset when the past performance and current popularity of the compositions and artists to whom the advances relate provide a sound basis for estimating that the advances are recoverable from future royalties. These advances are reviewed annually and written off if they are no longer considered recoverable.

3. Statements of Net Royalty Revenue

(i) The summarised net royalty revenue of the SBK group for the two years ended 31st December, 1987 is as follows:

	Year ended 31st December, 1986			1987
	\$000			\$000
	10 months to 5th November (unaudited)	2 months to 31st December	Total	
Gross royalty income	51,987	10,063	62,050	71,114
Royalty expense	27,926	5,178	33,104	34,403
Net publishers' share	24,061	4,885	28,946	36,711
Advance royalties written off and develop- ment costs of new copyrights	2,745	645	3,390	3,876
Net royalty revenue	<u>21,316</u>	<u>4,240</u>	<u>25,556</u>	<u>32,835</u>

(ii) Geographical analysis

The SBK group operates in 16 countries throughout the world. Gross royalty income for the year ended 31st December, 1987 by geographic location was as follows:

	Gross royalty income	
	\$000	%
United States	26,888	37.8
Europe	35,336	49.7
Other	8,890	12.5
	<u>71,114</u>	<u>100</u>

(iii) Royalty commitments

At 31st December, 1987 advance royalty payments treated as assets amounted to \$9,467,000. At the same date the SBK group had commitments to writers to make minimum future advances as follows:

	\$000
1988	11,801
1989	9,452
1990	2,025
1991	340
	<u>23,618</u>

Yours faithfully

ERNST & WHINNEY

SECTION II

PRO FORMA STATEMENT OF NET ASSETS

The following is an illustrative pro forma statement of the net assets of THORN EMI after taking account of the proposed acquisition of the SBK portfolio of copyrights. The figures are based on THORN EMI's audited consolidated balance sheet as at 31st March, 1988 and do not take into account any subsequent changes in its net asset value apart from the proposed acquisition.

The figures for the acquisition are based on the following assumptions:

- a) Basic acquisition price of £187 million (\$337 million)
- b) Provision of £11 million (\$20 million) required for integration and other costs of acquisition
- c) SBK net working capital liabilities have not changed since 31st December, 1987.
- d) Net purchase consideration funded partly by the proposed Euro-issue of £103 million redeemable convertible preference shares by a Dutch Antilles subsidiary of THORN EMI, and the remainder by short term borrowings.

	<i>Note</i>	<i>31-3-88</i>	<i>£ million Acquisition</i>	<i>Pro forma</i>
FIXED ASSETS				
Tangible assets		933		933
Intangible assets	2	—	198	198
Investments		52		52
Retail financing subsidiary		18		18
		1,003		1,201
CURRENT ASSETS				
Stocks		385		385
Debtors		525	13	538
Investments		32		32
Cash at bank and in hand		89		89
		1,031		1,044
CREDITORS due within one year				
Borrowings		(58)	(62)	(120)
Other creditors		(890)	(35)	(925)
		(948)		(1,045)
NET CURRENT ASSETS (LIABILITIES)				
		83		(1)
CREDITORS due after more than one year				
Borrowings		(121)		(121)
Other creditors		(26)		(26)
		(147)		(147)
PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred taxation		(26)		(26)
Other provisions		(142)	(11)	(153)
		(168)		(179)
MINORITY INTERESTS	3	(126)	(103)	(229)
NET ASSETS	4	645		645

NOTES

1. Dollars converted to sterling at \$1.80 to £1
2. Copyright portfolio capitalised as intangible fixed asset
3. Minority interests include \$200 million Auction Preferred Stock in U.S. finance subsidiary and the proposed Euro-issue described in (d) above
4. Net assets are shown after deduction of minority interests

SECTION III

ADDITIONAL INFORMATION

1. Directors and other interests in THORN EMI

- (a) No Director of THORN EMI is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of THORN EMI and its subsidiaries and which were effected by any of such companies during the current or immediately preceding financial year or were effected by any such companies during an earlier financial year and remain in any respect outstanding or unperformed.
- (b) THORN EMI Inc. has entered into a service agreement with Dr H. J. Maxmin which is terminable by THORN EMI Inc. in normal circumstances by not less than 18 months written notice expiring on or after 31st March, 1991. No other service agreements between the Directors of THORN EMI and THORN EMI or any of its subsidiaries have been entered into or varied since 8th September, 1988 (being the date of the last Annual General Meeting of THORN EMI and the most recent date on which the service contracts of the THORN EMI Directors were made available for inspection).
- (c) The interests, all of which are beneficial, of the Directors of THORN EMI and their immediate families in the share capital of THORN EMI shown in the register maintained under the provisions of the Companies Act 1985 on 31st December, 1988 are shown below:—

	<i>Ordinary Shares</i>	<i>Options over Ordinary Shares</i>
Sir Graham Wilkins	18,255	177,500
C. G. Southgate	45,434	286,041*
M. R. Angus	1,000	—
Sir William Barlow	1,233	—
J. D. F. Barnes	614	—
H. J. Maxmin	613	176,541*
T. Mayer	11,000	87,723*
V. B. Menon	400	29,500
R. H. H. Nellist	5	127,250
Sir Ian Trethowan	400	—

*Includes Ordinary Shares under the Savings-Related Share Option Scheme.

In addition to the holdings shown above, Sir Graham Wilkins, Dr H. J. Maxmin and Mr R. H. H. Nellist were interested in respectively 406, 100 and 100 7 per cent. Convertible Redeemable Second Cumulative Preference Shares 1992/99.

- (d) So far as THORN EMI is aware, there are no persons who, directly or indirectly, jointly or severally, exercise or could exercise control over THORN EMI. Save for the Prudential Group of Companies, which has notified THORN EMI that it holds 14,839,798 Ordinary Shares representing approximately 5.4 per cent. of the issued ordinary share capital, THORN EMI is not aware of any person who directly or indirectly is currently interested in 5 per cent. or more of the existing share capital of THORN EMI.
- (e) The total emoluments receivable by the Directors of THORN EMI will not be varied in consequence of the acquisition of SBK.

2. Material Contracts of THORN EMI

The contracts (not being contracts entered into in the ordinary course of business) which have been entered into by THORN EMI or its subsidiaries since 6th January, 1987 but before 7th August, 1987 and which are or may be material were set out or referred to in the Additional Information section of the circular to shareholders dated 7th August, 1987 in connection with the acquisition of Rent-A-Center, Inc. Since 7th August, 1987 the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by THORN EMI or its subsidiaries and are, or may be, material:

- (a) Agreement dated 14th September, 1987 between (1) Granada Group plc and (2) THORN EMI for the acquisition by THORN EMI of the whole of the issued share capitals of Telerent A/S, Granada-France S.A., Telerent Italiana SpA, Telerent Iberica S.A. and Telerent Suisse S.A. for a consideration of approximately £53 million in cash;
- (b) A facility agreement dated 22nd October, 1987 between (1) Trinity House Finance plc (2) THORN EMI (3) Kleinwort Benson Limited (4) Algemene Bank Nederland NV and others (the Committed Banks) and (5) Algemene Bank Nederland NV and others (the Tender Panel Members) whereby a £100 million revolving credit facility was made available to Trinity House Finance plc;
- (c) Agreement dated 28th April, 1988 between (1) THORN EMI (2) THORN EMI Finance plc (3) Barclays de Zoete Wedd Limited and National Westminster Bank PLC (4) International Westminster Bank PLC (the Facility Agent) (5) International Westminster Bank PLC (the Tender Agent) (6) Barclays Bank PLC and others (the Committed Banks) and (7) Algemene Bank Nederland NV and others (the Tender Panel Members) whereby THORN EMI Finance plc was granted a £450 million multi-currency option facility;
- (d) Since 16th May, 1988 pursuant to offers made by THORN EMI for the whole of the issued share capital of Holophane S.A. not already owned by THORN EMI and all the issued shares of Europhane S.A. not already owned by Holophane S.A. THORN EMI has acquired to date 98.79 per cent. of the total issued share capital of Holophane S.A. and 14.84 per cent. of the total issued share capital of Europhane S.A. (84.93 per cent. of the issued share capital of Europhane S.A. being already owned by Holophane S.A.). The total cost to THORN EMI of these acquisitions (including professional and other fees) was approximately FF935 million in cash;

- (e) Agreement dated 9th September, 1988 whereby THORN EMI agreed to sell to Swedish Ericsson Company Limited ("Swedish Ericsson") the 51 per cent. of the issued share capital of Thorn Ericsson Telecommunications (Holdings) Limited not already owned by Swedish Ericsson for a consideration payable to THORN EMI amounting to approximately £30 million. The consideration, which includes payments for support services, was paid in cash on completion except that £4 million is payable in two instalments over the next two years;
- (f) Agreement dated 4th January, 1989 between (1) THORN EMI North America Inc. and (2) M. N. Bandier and others whereby THORN EMI North America Inc. agreed to purchase all of the issued shares of SBK Entertainment World, Inc. for \$337 million (subject to adjustment) ("the SBK Agreement");
- (g) Guaranty dated 4th January, 1989 between (1) THORN EMI and (2) M. N. Bandier and others under which THORN EMI guaranteed the performance by THORN EMI North America Inc. of its obligations under the SBK Agreement.

3. Miscellaneous

- (a) Save as disclosed herein, there has been no significant change in the financial or trading position of the THORN EMI Group since 8th December, 1988, the date of publication of the latest interim financial statement of THORN EMI.
- (b) On 13th December, 1988 it was announced that THORN EMI and SGS-Thomson Microelectronics BV (SGS-Thomson) had reached a preliminary agreement regarding the proposed disposal of INMOS Ltd and its subsidiaries (including the INMOS division in the U.S.) to the holding company of the SGS-Thomson group, associated with a participation by THORN EMI in the equity of such holding company. The preliminary agreement is subject to the approval of the respective boards of THORN EMI and SGS-Thomson, SGS-Thomson's shareholders and various regulatory authorities. Full details will be released in due course.
- (c) Material Litigation
 - (i) The Robert Stigwood Organisation Limited and The Robert Stigwood Group Limited commenced proceedings in 1981 against a former subsidiary of THORN EMI alleging breach of a contract, said to have been entered into by an exchange of telexes, for the making of a film. Damages claimed amount to approximately \$6.9 million, together with interest and if the claim, which is being vigorously defended by THORN EMI, were to be successful, a corresponding amount of the consideration received on the sale of the subsidiary would become refundable;
 - (ii) EMI Records Limited and Capitol Records Inc. are defendants to a number of actions brought in the United Kingdom and the U.S. by Apple Records Inc., Apple Corp. Limited and other individuals relating to the sale and exploitation of Beatles sound recordings. These actions are not considered likely to result in any liability in excess of provisions held;
 - (iii) Under the terms of the sale agreement relating to a former subsidiary, THORN EMI is defending an action brought in the U.S. in connection with the supply by that subsidiary of hydraulic systems for the conversion of steam hammers. The claim has been recently quantified by the Plaintiff at \$22.5 million. It is being vigorously defended and any damages recoverable are likely to be substantially less than those claimed;
 - (iv) THORN EMI has been notified of a possible claim relating to allegedly defective cookers sold by a former subsidiary. The claim has yet to be quantified and liability is disputed;
 - (v) Save as disclosed above, the Directors are not aware of any legal or arbitration proceedings pending or threatened against any member of the THORN EMI Group which may have or have had in the twelve months preceding the date of this document a significant effect on the THORN EMI Group's financial position.
- (d) Lazard Brothers & Co., Limited and Goldman Sachs International Limited have given, and have not withdrawn, their respective written consents to the issue of this document with the inclusion herein of the reference to each of them in the form and context in which they are included.
- (e) Ernst & Whinney has given, and has not withdrawn, its written consent to the issue of this document with the inclusion herein of the references to itself and to its letter in the form and context in which they are included.
- (f) The Directors are of the opinion that, having regard to available bank and other facilities, the working capital of the THORN EMI Group, as enlarged by the proposed acquisition of SBK, will be sufficient for its present requirements.
- (g) At the close of business on 30th November, 1988, THORN EMI and its subsidiaries had outstanding gross borrowings totalling £580 million, comprising secured term loans of £8 million, unsecured term loans of £435 million, unsecured other borrowings of £36 million and unsecured term loans of the retail financing subsidiary totalling £101 million. In addition, subsidiaries of THORN EMI had finance lease obligations of £29 million. At the same date, THORN EMI and its subsidiaries had cash balances totalling £119 million.

Save as disclosed in this document and apart from intra-group indebtedness, neither THORN EMI nor its subsidiaries had outstanding on 30th November, 1988 any loan capital (whether issued or created and unissued), term loans, other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, finance lease obligations, mortgages, charges or (except in the ordinary course of business) guarantees or other material contingent liabilities.

4. Documents available for inspection

Copies of the following documents may be inspected at THORN EMI's Registered Office and at the offices of Rowe & Maw, 20 Black Friars Lane, London EC4V 6HD, during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 1st February, 1989:—

- (a) The Memorandum and Articles of Association of THORN EMI;
- (b) The audited consolidated financial statements of THORN EMI for the two financial years ended 31st March, 1988 and the unaudited interim statement for the six months ended 30th September, 1988;
- (c) The material contracts referred to in paragraph 2 above;
- (d) The service contract of Dr H. J. Maxmin referred to in paragraph 1 above;
- (e) The Trust Deeds and other documents constituting the debt securities of THORN EMI;
- (f) The letters of consent referred to in paragraphs 3(d) and 3(e) above;
- (g) The Report of Ernst & Whinney as set out in Section I of this document, together with a statement of the adjustments made in connection therewith; and
- (h) The audited consolidated financial statements of SBK for the period ended 31st December, 1986 and the year ended 31st December, 1987.

SECTION IV

A LIMITED SELECTION OF THE BETTER KNOWN ITEMS FROM THE SBK AND EMI MUSIC PUBLISHING COPYRIGHT PORTFOLIOS

SBK

An Affair To Remember
Almost Like Being In Love
April Love
The Bells Are Ringing
Blue Moon
Deep Purple
Dr. Zhivago Theme ("Somewhere My Love")
Don't Blame Me
Don't Sit Under The Apple Tree
Don't It Make My Brown Eyes Blue
Ebb Tide
Everything I Have Is Yours
Five Foot Two Eyes Of Blue
From Russia With Love
Have Yourself A Merry Little Christmas
I'm Always Chasing Rainbows
In A Little Spanish Town
Laura

Love Is A Many-Splendored Thing
Mockingbird
Moonlight Serenade
Never On Sunday
New York, New York
One O'Clock Jump
Over The Rainbow
Theme From The Pink Panther
The Shadow Of Your Smile
Windmills Of Your Mind
What's New Pussy Cat
Witchcraft
You Are My Lucky Star
Wizard Of Oz
Singin' In The Rain
For Your Eyes Only
The Good, The Bad And The Ugly

EMI MUSIC PUBLISHING

Alive And Kicking
Running Up The Hill
Absolute Beginners
A Kind Of Magic
Sanctify Yourself
I Want To Break Free
We Are The Champions
My Baby Just Cares For Me
Come On Over To My Place
Notorious
On Broken Wings
Always On My Mind
(I've Had) The Time Of My Life
What Have You Done For Me Lately
Never-ending Story

Seven Wonders
Never Say Never Again
Everything I Own
I'll Be Alright Without You
You've Lost That Lovin' Feelin'
The Way We Were
Take Good Care Of My Baby
Look At Your Hands
You're Still My Man
Suspicious Minds
Twist And Shout
Point Of No Return
Dynasty – Opening And Closing Themes
I Left My Heart In San Francisco

THORN EMI plc

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of the above-named Company will be held in the London Marriott Hotel, 10 Grosvenor Square, London W1 on Wednesday 1st February, 1989 at 12 noon to consider and if thought fit pass the following resolution which will be proposed as an Ordinary Resolution:

ORDINARY RESOLUTION

THAT the proposed acquisition by THORN EMI North America Inc. and/or any other subsidiary or subsidiaries of the Company of the share capital of SBK Entertainment World, Inc. ("the Acquisition") referred to in the circular to shareholders dated 6th January, 1989 and the execution and performance by the Company and/or any of its subsidiaries of any agreement required to give effect to the Acquisition be and are hereby approved.

By Order of the Board

ROBIN CHARLTON

Secretary

4 Tenterden Street
London W1A 2AY

Dated 6th January, 1989

Note:

A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and on a poll vote instead of him/her. A proxy need not be a member. A Form of Proxy is enclosed. Completion and lodging of a Form of Proxy will not preclude a member from attending and voting at the meeting in person.

