

Warner Home Video (U.K.) Limited

Registered No. 1907094

DIRECTORS

W N Lieberfarb

E J Byrnes

M V Heap

N P McEwan

SECRETARY

T C Lima

AUDITORS

Ernst & Young

Becket House

1 Lambeth Palace Road

London SE1 7EU

REGISTERED OFFICE

135 Wardour Street

London W1V 4AP

ERNST & YOUNG



Warner Home Video (U.K.) Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 24 November 1995.

RESULTS AND DIVIDENDS

The profit on ordinary activities, after taxation, amounted to £2,705,000 (1994 – profit of £5,119,000).

During the period an interim dividend of £5,600,000 was paid. The directors do not recommend the payment of a final dividend for the period. This leaves retained earnings of £5,203,000 to be carried forward.

PRINCIPAL ACTIVITY

The company's principal activity during the period continued to be the sale of pre-recorded video cassettes. The directors will continue to exploit this business to its full potential.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The rental market seems to have levelled during 1995 after the market started to decline in 1989. Despite the 1995 market condition Warner Home Video (U.K.) Limited has managed to increase its market share.

The Retail market has experienced a small increase of less than 2% during 1995. However, Warner Home Video (U.K.) Limited has seen a substantial increase in market share during the year as a result of continued strong catalogue sales and exceptional performance from our premium business. The company is now well placed to continue exploitation of both new products and its deep catalogue throughout 1996.

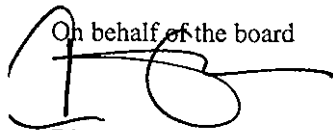
DIRECTORS AND THEIR INTERESTS

The directors of the company during the period ended 24 November 1995 were those listed on page 1. There are no directors' interests requiring disclosure under the Companies Act 1985.

AUDITORS

In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 3 December 1993. Accordingly, Ernst & Young will be deemed to be reappointed as auditors.

On behalf of the board



Director

22 August 1996

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 Warner Home Video (U.K.) Limited

We have audited the accounts on pages 5 to 12, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

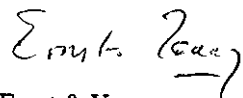
Basis of opinion

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 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 24 November 1995 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

27 August 1996

Warner Home Video (U.K.) Limited

PROFIT AND LOSS ACCOUNT

for the period ended 24 November 1995

		<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
	<i>Notes</i>		
TURNOVER	2	65,112	55,593
Cost of sales		46,801	37,802
		18,311	17,791
Other operating income		83	111
		18,394	17,902
Distribution costs		2,364	1,732
Administrative expenses		12,282	11,014
		14,646	12,746
OPERATING PROFIT	3	3,748	5,156
Interest receivable	6	482	287
Interest payable	7	(18)	(30)
		464	257
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		4,212	5,413
Tax on profit on ordinary activities	8	1,507	294
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		2,705	5,119
Dividends	9	5,600	3,250
		(2,895)	1,869
RETAINED PROFIT BROUGHT FORWARD		8,098	6,229
RETAINED PROFIT CARRIED FORWARD		5,203	8,098

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

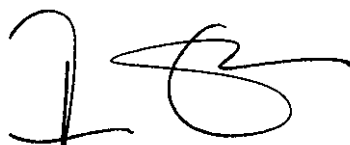
There are no recognised gains or losses other than the profit attributable to shareholders of the company of £2,705,000 in the period ended 24 November 1995 and profit of £5,119,000 in the period ended 25 November 1994.

Warner Home Video (U.K.) Limited

BALANCE SHEET

at 24 November 1995

		24 November 1995 £000	25 November 1994 £000
	<i>Note</i>		
FIXED ASSETS			
Tangible assets	10	73	52
CURRENT ASSETS			
Debtors	11	16,694	15,848
Stocks	12	1,446	828
Cash at bank and in hand		7,721	2,615
		25,861	19,291
CREDITORS: amounts falling due within one year	13	20,731	11,245
NET CURRENT ASSETS		5,130	8,046
TOTAL ASSETS LESS CURRENT LIABILITIES		5,203	8,098
CAPITAL AND RESERVES			
Called up share capital (£100)	15	—	—
Profit and loss account	17	5,203	8,098
		5,203	8,098



Director

22 August 1996

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

1. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Accounting period

The company prepares accounts for either 52 or 53 week periods ending within one week of 30 November.

Depreciation

The company provides depreciation at rates which are calculated to write off the cost of the assets by equal annual instalments as follows:

Furniture and fittings	—	25% on cost
Office equipment	—	25% on cost
Computer equipment	—	33% on cost

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Stocks

Stocks are stated at the lower of cost, being invoiced purchase price, and net realisable value.

Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Foreign currencies

Transactions in foreign currencies have been translated at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Pensions

The company is a member of the Time Warner UK Pension Plan which requires contributions to be made to a separately administered fund. Contributions to this fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension costs which are identified as a result of actuarial valuations are amortised over the average expected working lives of employees in proportion to their expected payroll costs.

Leasing commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

2. TURNOVER

Turnover, which arose in the United Kingdom and is from continuing activities, is stated net of value added tax and represents income receivable from the sale of pre-recorded video cassettes.

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

3. OPERATING PROFIT

(a) This is stated after charging:

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Directors' remuneration	306	282
Auditors' remuneration	17	15
Depreciation	38	65
Operating lease rentals	83	108
	<u> </u>	<u> </u>

4. DIRECTORS' REMUNERATION

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Fees	—	—
Other emoluments (including pension contributions)	306	282
	<u> </u>	<u> </u>

The emoluments of the highest paid director, excluding pension contributions, were £181,083 (1994 – £164,000). There was no chairman of the company during the period.

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	<i>1995 No.</i>	<i>1994 No.</i>
£nil – £5,000	2	2
£85,001 – £90,000	—	1
£90,001 – £95,000	1	—
£160,001 – £165,000	—	1
£180,001 – £185,000	1	—
	<u> </u>	<u> </u>

5. STAFF COSTS

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Wages and salaries	1,385	1,212
Social security costs	163	155
Other pension costs	102	96
	<u> </u>	<u> </u>
	1,650	1,463
	<u> </u>	<u> </u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

5. STAFF COSTS (continued)

The average weekly number of employees during the period was made up as follows:

	<i>Period to 24 November 1995 No.</i>	<i>Period to 25 November 1994 No.</i>
Office and management	17	17
Selling, marketing and distribution	30	29
	<u>47</u>	<u>46</u>

6. INTEREST RECEIVABLE

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Interest receivable from group undertaking	480	278
Bank interest	2	9
	<u>482</u>	<u>287</u>

7. INTEREST PAYABLE

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Other interest payable	18	30
	<u>18</u>	<u>30</u>

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Based on the profit for the period:		
Corporation tax payable at 33% (1994 – 33%)	1,463	11
Double taxation relief	(17)	(11)
	<u>1,446</u>	<u>—</u>
Overseas taxation	17	11
Under provision for corporation tax in prior periods	44	283
	<u>1,507</u>	<u>294</u>

In 1994, other group undertakings undertook to surrender their losses for tax purposes to the company for no consideration.

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

8. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

There was no potential liability to deferred taxation at either 24 November 1995 or 25 November 1994.

9. DIVIDENDS

	<i>Period to 24 November 1995 £000</i>	<i>Period to 25 November 1994 £000</i>
Interim, paid	5,600	3,250
Final, proposed	—	—
	<u>5,600</u>	<u>3,250</u>

10. FIXED ASSETS

	<i>Furniture and fittings £000</i>	<i>Office equipment £000</i>	<i>Computer equipment £000</i>	<i>Total £000</i>
Cost or valuation:				
At 25 November 1994	192	27	288	507
Additions	1	—	58	59
At 24 November 1995	<u>193</u>	<u>27</u>	<u>346</u>	<u>566</u>
Depreciation:				
At 25 November 1994	183	23	249	455
Provided during the period	7	2	29	38
At 24 November 1995	<u>190</u>	<u>25</u>	<u>278</u>	<u>493</u>
Net book value at 24 November 1995	<u>3</u>	<u>2</u>	<u>68</u>	<u>73</u>
Net book value at 25 November 1994	<u>9</u>	<u>4</u>	<u>39</u>	<u>52</u>

11. DEBTORS

	<i>24 November 1995 £000</i>	<i>25 November 1994 £000</i>
Trade debtors	8,640	7,364
Amounts due from parent undertakings	7,801	7,902
Amounts due from fellow subsidiary undertakings	—	373
Prepayments and accrued income	145	118
Recoverable overseas taxation	76	70
Other debtors	32	21
	<u>16,694</u>	<u>15,848</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

12. STOCKS

Stocks consist of finished goods held for resale.

13. CREDITORS: amounts falling due within one year

	24 November 1995	25 November 1994
	£000	£000
Amounts due to parent undertaking	5,517	—
Amounts due to fellow subsidiary undertakings	1,806	1,607
Accruals	10,386	7,733
Other taxes and social security costs	1,111	1,484
Corporation tax payable	1,911	421
	<u>20,731</u>	<u>11,245</u>

14. OTHER FINANCIAL COMMITMENTS

At 24 November 1995 the company had annual commitments under non cancellable operating leases as set out below:

	24 November 1995	25 November 1994
	£000	£000
Operating leases which expire:		
Within one year	14	34
Within two to five years	24	36
In over five years	—	—
	<u>38</u>	<u>70</u>

15. SHARE CAPITAL

	24 November 1995	25 November 1994
	£	£
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>

16. STATEMENT OF CASH FLOWS

A statement of cash flows has not been prepared as the company is a wholly owned subsidiary of another company registered in England and Wales (see note 20).

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 24 November 1995

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	<i>Share capital £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
At 27 November 1993	—	6,229	6,229
Profit for the period	—	5,119	5,119
Dividend	—	(3,250)	(3,250)
At 25 November 1994	—	8,098	8,098
Profit for the period	—	2,705	2,705
Dividend	—	(5,600)	(5,600)
At 24 November 1995	—	5,203	5,203

18. CONTINGENT LIABILITIES

- (a) The company has entered into a group 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 liabilities elsewhere in the group, amounted to £22.5 million (1994 – £5,423,000).
- (b) On 26 July 1994 the company together with other group undertakings guaranteed the obligations of a parent undertaking, Time Warner Entertainment Limited, pursuant to a £45 million, five year, bank revolving credit and term loan facility. At 24 November 1995 the amount drawn down under this facility by Time Warner Entertainment Limited was £1 million.

19. PENSIONS

The company is one of the sponsoring employers of the Time Warner UK Pension Plan which is a defined benefit scheme. The assets of the scheme are held in a separately administered fund.

The pension costs relating to the plan are assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of the plan was at 6 April 1993 and details of this actuarial valuation are disclosed in the accounts of Time Warner Entertainment Limited.

20. ULTIMATE PARENT UNDERTAKING

Time Warner Entertainment 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 Entertainment Limited is registered in England and Wales and copies of its accounts can be obtained from the Registrar of Companies in Cardiff.

The largest group in whose accounts the company is consolidated is Time Warner Entertainment Company, L.P., limited partnership incorporated in the United States of America.

The ultimate parent undertaking is Time Warner Inc., a company incorporated in the United States of America.