

Report and Accounts

Warner Home Video (U.K.) Limited

28 November 1997



Warner Home Video (U.K.) Limited

Registered No. 1907094

DIRECTORS

W N Lieberfarb

E J Byrnes

R J Sanders

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

Warner Home Video (U.K.) Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 28 November 1997.

RESULTS AND DIVIDENDS

The profit on ordinary activities, after taxation, amounted to £1,813,000 (1996 – profit of £5,078,000).

The directors do not recommend the payment of a final dividend for the year. Retained earnings of £4,894,000 are 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 retail business has continued to expand and revenues are again up considerably on the previous year. Warner Home Video has managed to increase its market share during the year and the company will continue to exploit new products and its strong catalogue during 1998.

Warner Home Video's share of the rental market declined in 1997 due to fewer major box office hits but expects its share to recover to 1996 levels in 1998 based on its known product slate.

DIRECTORS AND THEIR INTERESTS

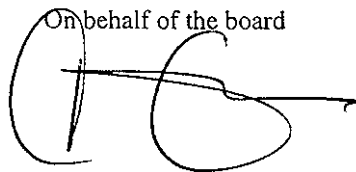
The directors of the company during the period ended 28 November 1997 were those listed on page 1. In addition, M V Heap served as a director throughout the year and resigned on 30 June 1998. R J Sanders was appointed a director on 30 June 1998.

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

21 December 1998

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 year. 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.

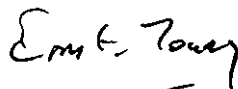
Basis of opinion

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 28 November 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'Ernst & Young'.

Ernst & Young
Registered Auditor
London

22 December 1998

Warner Home Video (U.K.) Limited

PROFIT AND LOSS ACCOUNT

for the period ended 28 November 1997

		<i>Period to 28 November 1997</i>	<i>Period to 29 November 1996</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
TURNOVER	2	76,559	70,326
Cost of sales		52,360	44,962
		<u>24,199</u>	<u>25,364</u>
Other operating income		–	267
		<u>24,199</u>	<u>25,631</u>
Distribution costs		3,173	2,881
Administrative expenses		18,972	16,237
		<u>22,145</u>	<u>19,118</u>
OPERATING PROFIT	3	2,054	6,513
Interest receivable	6	611	513
		<u>2,665</u>	<u>7,026</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		2,665	7,026
Tax on profit on ordinary activities	7	852	1,948
		<u>1,813</u>	<u>5,078</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		1,813	5,078
Dividends	8	–	(7,200)
		<u>1,813</u>	<u>(2,122)</u>
RETAINED PROFIT BROUGHT FORWARD		3,081	5,203
		<u>4,894</u>	<u>3,081</u>
RETAINED PROFIT CARRIED FORWARD		<u>4,894</u>	<u>3,081</u>

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 £1,813,000 in the period ended 28 November 1997 and profit of £5,078,000 in the period ended 29 November 1996.

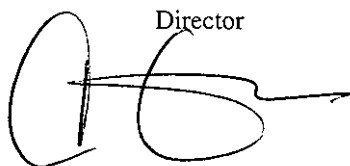
Warner Home Video (U.K.) Limited

BALANCE SHEET

at 28 November 1997

		28 November 1997	29 November 1996
	Note	£000	£000
FIXED ASSETS			
Tangible assets	9	98	61
CURRENT ASSETS			
Debtors	10	33,080	18,752
Stocks	11	2,784	1,597
Cash at bank and in hand		539	15,675
		36,403	36,024
CREDITORS: amounts falling due within one year	12	31,607	33,004
NET CURRENT ASSETS		4,796	3,020
TOTAL ASSETS LESS CURRENT LIABILITIES		4,894	3,081
CAPITAL AND RESERVES			
Called up share capital (£100)	14	—	—
Profit and loss account	16	4,894	3,081
Shareholders' funds		4,894	3,081

Director


21 December 1998

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 28 November 1997

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 28 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.

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. 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 28 November 1997

3. OPERATING PROFIT

(a) This is stated after charging:

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Auditors' remuneration	20	17
Depreciation	44	39
Operating lease rentals	103	97
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Emoluments	313	295
	<u> </u>	<u> </u>

Company contributions paid to defined contribution pension schemes	20	20
	<u> </u>	<u> </u>
Company contributions paid to defined benefit pension schemes	16	15
	<u> </u>	<u> </u>

	<i>Period to 28 November 1997 No.</i>	<i>Period to 29 November 1996 No.</i>
Members of defined contribution pension schemes	1	1
Members of defined benefit pension schemes	1	1
	<u> </u>	<u> </u>

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
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The amounts in respect of the highest paid director are as follows:

Emoluments	210	197
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	20	20
	<u> </u>	<u> </u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 28 November 1997

5. STAFF COSTS

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Wages and salaries	1,902	1,503
Social security costs	347	182
Other pension costs	157	130
	<u>2,406</u>	<u>1,815</u>

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

	<i>Period to 28 November 1997 No.</i>	<i>Period to 29 November 1996 No.</i>
Office and management	21	17
Selling, marketing and distribution	37	34
	<u>58</u>	<u>51</u>

6. INTEREST RECEIVABLE

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Interest receivable from group undertaking	611	511
Bank interest	—	2
	<u>611</u>	<u>513</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Based on the profit for the period:		
Corporation tax	19	79
Group relief payable	1,008	2,204
Double taxation relief	(19)	(22)
	<u>1,008</u>	<u>2,261</u>
Overseas taxation	19	22
Over provision for corporation tax in prior periods	(175)	(335)
	<u>852</u>	<u>1,948</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 28 November 1997

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

There was no potential liability to deferred taxation at either 28 November 1997 or 29 November 1996.

8. DIVIDENDS

	<i>Period to 28 November 1997 £000</i>	<i>Period to 29 November 1996 £000</i>
Final, proposed	—	7,200

9. 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 29 November 1996	193	27	373	593
Additions	—	34	47	81
At 28 November 1997	193	61	420	674
Depreciation:				
At 29 November 1997	193	25	314	532
Provided during the period	—	4	40	44
At 28 November 1997	193	29	354	576
Net book value:				
At 28 November 1997	—	32	66	98
At 29 November 1996	—	2	59	61

10. DEBTORS

	<i>28 November 1997 £000</i>	<i>29 November 1996 £000</i>
Trade debtors	22,140	4,404
Amounts due from parent undertakings	8,135	12,196
Prepayments and accrued income	156	198
Recoverable overseas taxation	—	68
Other debtors	205	86
Corporation tax receivable	1,739	—
Group relief receivable	492	—
ACT recoverable	213	1,800
	33,080	18,752

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 28 November 1997

11. STOCKS

Stocks consist of finished goods held for resale.

12. CREDITORS: amounts falling due within one year

	28 November 1997 £000	29 November 1996 £000
Amounts due to parent undertaking	4,795	4,283
Amounts due to fellow subsidiary undertakings	5,545	3,141
Accruals	18,441	12,669
Other taxes and social security costs	1,688	1,520
Corporation tax payable	—	1,987
Group relief payable	1,008	2,204
Consortium relief payable	130	—
Dividend payable	—	7,200
	<u>31,607</u>	<u>33,004</u>

13. OTHER FINANCIAL COMMITMENTS

At 28 November 1997 the company had annual commitments under non cancellable operating leases as set out below:

	28 November 1997 £000	29 November 1996 £000
Operating leases which expire:		
Within one year	12	—
Within two to five years	109	83
In over five years	—	—
	<u>121</u>	<u>83</u>

14. SHARE CAPITAL

	28 November 1997 £	29 November 1996 £
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	100	100
	<u>100</u>	<u>100</u>

15. 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 19).

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 28 November 1997

16. 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 24 November 1995	—	5,203	5,203
Profit for the period	—	5,078	5,078
Dividend	—	(7,200)	(7,200)
At 29 November 1996	—	3,081	3,081
Profit for the period	—	1,813	1,813
At 28 November 1997	—	4,894	4,894

17. CONTINGENT LIABILITY

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 £539,000 (1996 – £15.6m)

18. 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 1996 and details of this actuarial valuation are disclosed in the accounts of Time Warner Entertainment Limited.

19. 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., a 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.