

Report and Accounts

Warner Home Video (U.K.) Limited

27 November 1998



Warner Home Video (U.K.) Limited

Registered No. 1907094

DIRECTORS

W N Lieberfarb
E J Byrnes
R J Sanders
N P McEwan
E H Senat
C J Young

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 27 November 1998.

RESULTS AND DIVIDENDS

The profit on ordinary activities, after taxation, amounted to £5,304,000 (1997 – £1,813,000).

The directors recommend the payment of a final dividend for the period, amounting to £5,000,000. This leaves retained earnings of £5,198,000 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

Warner Home Video rental revenues were up considerably on 1997 levels compared with modest growth in the market as a whole. The increase was due to the strength of WHV releases in 1998 and similar revenues are expected in 1999.

Warner Home Video maintained its share of the retail market and revenues were consistent with 1997 levels. 1999 revenues are expected to remain in line with 1998 due to increased sales of the Digital Video Disc format (DVD), which was launched in 1998.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the period ended 27 November 1998 were as follows:

W N Lieberfarb	
E J Byrnes	
R J Sanders	(appointed 30 June 1998)
N P McEwan	
E H Senat	(appointed 13 November 1998)
C J Young	(appointed 13 November 1998)
M C Heap	(resigned 30 June 1998)

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

YEAR 2000

The Time Warner Entertainment Group is currently working to resolve the potential impact of the Year 2000 on the processing of time-sensitive information by its computerised information systems. Year 2000 issues may arise if computer and digital storage systems have been written using two digits (rather than four) to define the applicable year. In such cases, programs that have time-sensitive logic may recognise a date using "00" as the year 1900 rather than the year 2000, which would result in miscalculations or system failures.

The management is in the process of completing a review of significant software and equipment used in the company's operations and, to the extent practicable, in the operations of its key business partners. Management has already begun to implement certain measures designed to address the key risks in advance of critical dates and without disruption to the underlying business activities. Priority is given to those systems, which could cause a significant financial or legal impact on the company's business if they were to fail.

Costs of addressing potential problems have not been material to date and, based on preliminary information, are not currently expected to have a material adverse impact on the company's financial position. The directors conclude that all appropriate actions are being taken to resolve all significant Year 2000 issues on a timely basis.

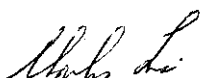
Warner Home Video (U.K.) Limited

DIRECTORS' REPORT

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.

By order of the board



Secretary

26 May 1994

Warner Home Video (U.K.) Limited

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 6 to 13, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 8.

Respective responsibilities of directors and auditors

As described on page 4 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.

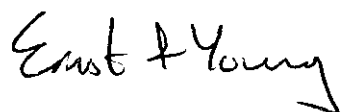
Basis of opinion

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 27 November 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

27 May 1999

Warner Home Video (U.K.) Limited

PROFIT AND LOSS ACCOUNT

for the period ended 27 November 1998

		<i>Period to 27 November 1998</i>	<i>Period to 28 November 1997</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
TURNOVER	2	84,418	76,559
Cost of sales		51,633	52,360
		<u>32,785</u>	<u>24,199</u>
Distribution costs		4,870	3,173
Administrative expenses		19,911	18,972
		<u>24,781</u>	<u>22,145</u>
OPERATING PROFIT	3	8,004	2,054
Interest receivable	6	81	611
Interest payable	7	(298)	—
		<u>(217)</u>	<u>611</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		7,787	2,665
Tax on profit on ordinary activities	8	2,483	852
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		5,304	1,813
Dividends – final proposed		(5,000)	—
		<u>304</u>	<u>1,813</u>
RETAINED PROFIT BROUGHT FORWARD		4,894	3,081
RETAINED PROFIT CARRIED FORWARD		<u>5,198</u>	<u>4,894</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

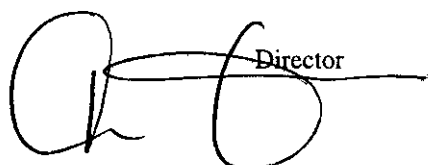
There are no recognised gains or losses other than the profit attributable to shareholders of the company of £5,304,000 in the period ended 27 November 1998 and the profit of £1,813,000 in the period ended 28 November 1997.

Warner Home Video (U.K.) Limited

BALANCE SHEET

at 27 November 1998

		27 November 1998 £000	28 November 1997 £000
	Note		
FIXED ASSETS			
Tangible assets	9	108	98
CURRENT ASSETS			
Debtors	10	39,802	33,080
Stocks	11	4,665	2,784
Cash at bank and in hand		64	539
		44,531	36,403
CREDITORS: amounts falling due within one year	12	39,441	31,607
NET CURRENT ASSETS		5,090	4,796
TOTAL ASSETS LESS CURRENT LIABILITIES		5,198	4,894
CAPITAL AND RESERVES			
Called up share capital (£100)	14	—	—
Profit and loss account	16	5,198	4,894
Shareholders' funds	16	5,198	4,894


 Director
 26 May 1999

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 27 November 1998

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 1998.

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 27 November 1998

3. OPERATING PROFIT

This is stated after charging:

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Auditors' remuneration	16	20
Depreciation	72	44
Operating lease rentals	105	103
	<u> </u>	<u> </u>

4. DIRECTORS' EMOLUMENTS

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Emoluments	371	313
	<u> </u>	<u> </u>

Company contributions paid to defined contribution pension schemes	12	20
	<u> </u>	<u> </u>

Company contributions paid to defined benefit pension schemes	12	16
	<u> </u>	<u> </u>

	<i>Period to 27 November 1998 No.</i>	<i>Period to 28 November 1997 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 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
--	--	--

The amounts in respect of the highest paid director are as follows:

Emoluments	146	210
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	—	20
	<u> </u>	<u> </u>

One director exercised share options during the period (1997 – one).

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 27 November 1998

5. STAFF COSTS

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Wages and salaries	2,518	1,902
Social security costs	211	347
Other pension costs	151	157
	<u>2,880</u>	<u>2,406</u>

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

	<i>Period to 27 November 1998 No.</i>	<i>Period to 28 November 1997 No.</i>
Office and management	23	21
Selling, marketing and distribution	39	37
	<u>62</u>	<u>58</u>

6. INTEREST RECEIVABLE

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Interest receivable from group undertaking	75	611
Other interest receivable	6	—
	<u>81</u>	<u>611</u>

7. INTEREST PAYABLE

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Interest payable to group undertaking	298	—
	<u>298</u>	<u>—</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 27 November 1998

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<i>Period to 27 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Based on the profit for the period:		
Corporation tax	2,319	19
Group relief payable	—	1,008
Double taxation relief	(18)	(19)
	<u>2,301</u>	<u>1,008</u>
Overseas taxation	18	19
Under/(over) provision for corporation tax in prior periods	164	(175)
	<u>2,483</u>	<u>852</u>

There was no potential liability to deferred taxation at either 27 November 1998 or 28 November 1997.

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 28 November 1997	193	61	420	674
Additions	—	19	63	82
At 27 November 1998	<u>193</u>	<u>80</u>	<u>483</u>	<u>756</u>
Depreciation:				
At 28 November 1997	193	29	354	576
Provided during the period	—	2	70	72
At 27 November 1998	<u>193</u>	<u>31</u>	<u>424</u>	<u>648</u>
Net book value:				
At 27 November 1998	<u>—</u>	<u>49</u>	<u>59</u>	<u>108</u>
At 28 November 1997	<u>—</u>	<u>32</u>	<u>66</u>	<u>98</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 27 November 1998

10. DEBTORS

	27 November 1998 £000	28 November 1997 £000
Trade debtors	22,325	22,140
Amounts due from parent undertakings	13,809	8,135
Amount due from group undertaking	1,986	—
Prepayments and accrued income	200	156
Other debtors	232	205
Corporation tax receivable	—	1,739
Group relief receivable	—	492
ACT recoverable	1,250	213
	<u>39,802</u>	<u>33,080</u>

11. STOCKS

Stocks consist of finished goods held for resale.

12. CREDITORS: amounts falling due within one year

	27 November 1998 £000	28 November 1997 £000
Bank overdraft	4,829	—
Amounts due to parent undertaking	—	4,795
Amounts due to fellow subsidiary undertakings	5,938	5,545
Accruals	19,762	18,441
Other taxes and social security costs	1,982	1,688
Corporation tax payable	1,752	—
Group relief payable	48	1,008
Consortium relief payable	130	130
Dividend payable	5,000	—
	<u>39,441</u>	<u>31,607</u>

13. OTHER FINANCIAL COMMITMENTS

At 27 November 1998 the company had annual commitments under non cancellable operating leases as set out below:

	27 November 1998 £000	28 November 1997 £000
Operating leases which expire:		
Within one year	85	12
Within two to five years	92	109
In over five years	—	—
	<u>177</u>	<u>121</u>

Warner Home Video (U.K.) Limited

NOTES TO THE ACCOUNTS

at 27 November 1998

14. SHARE CAPITAL

	27 November 1998	28 November 1997
	£	£
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	100	100

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).

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Profit and loss account £000	Total £000
At 29 November 1996	—	3,081	3,081
Profit for the period	—	1,813	1,813
At 28 November 1997	—	4,894	4,894
Profit for the period	—	5,304	5,304
Dividends	—	(5,000)	(5,000)
At 27 November 1998	—	5,198	5,198

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 £nil (1997 – £539,000).

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.