1909094

Warner Home Video (UK) Limited

Report and Financial Statements

31 December 2005

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COMPANIES HOUSE 31/10/2006

Registered No.1907094

Directors

E J Byrnes (Resigned 14 August 2006)
N P McEwan (Resigned 4 August 2006)
S W Mertz
C J Young
J M Brown (Resigned 14 August 2006)
J F Cardwell (Resigned 31 December 2005)

Secretary

A K Douglas

Auditors

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

Registered Office

Warner House
98 Theobalds Road
London WC1X 8WB

Directors' report

The directors present their report and financial statements for the period ended 31 December 2005.

Results and dividends

The loss on ordinary activities after taxation, amounted to £317,657 (2004 – £6,992,854 profit).

The directors do not recommend the payment of an interim dividend (2004 – £49,687,598).

Principal activity

The principal activity of this company was the sale of pre-recorded video cassettes and Digital Versatile Discs (DVDs). On 25 June 2004, this activity was acquired by Warner Bros. Entertainment UK Limited (formerly known as Warner Bros. Distributors Limited). After this date, the company did not trade.

Directors and their interests

The directors of the company who served during the period ended 31 December 2005 were as follows:

E J Byrnes (Resigned 14 August 2006)
N P McEwan (Resigned 4 August 2006)
S W Mertz
C J Young
J M Brown (Resigned 14 August 2006)
J F Cardwell (Resigned 31 December 2005)

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

Auditors

Ernst & Young LLP will be reappointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 Companies Act 1985.

By order of the Board

Secretary

2 6 OCT 2006

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Practice.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 financial statements;
- 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 that disclose with reasonable accuracy at any time the financial position of the company and 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 Warner Home Video (U.K.) Limited

We have audited the company's financial statements for the period ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 17. 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 auditors' 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 and 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

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom generally accepted accounting practice) as set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK).

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 other transactions 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 International Standards on Auditing (UK) 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 judgments 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.

Independent auditors' report

to the members of Warner Home Video (U.K.) Limited (continued)

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 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

Date: 30 October 2006

Profit and loss account

for the period ended 31 December 2005

	Notes	*Period ended 31 December 2005 £000*	*Period ended 26 November 2004 £000*
Turnover	2	–	100,455
Cost of sales		–	(70,841)
Gross profit		–	29,614
Distribution costs		–	(5,832)
Administrative expenses		(22)	(15,552)
		(22)	(21,384)
Operating (loss)/profit	3	(22)	8,230
Interest receivable	6	203	1,609
Interest payable	7	(18)	(72)
		185	1,537
Profit on ordinary activities before taxation		163	9,767
Tax on profit on ordinary activities	8	(481)	(2,774)
(Loss)/Profit on ordinary activities after taxation	14	(318)	6,993
Interim dividends paid	9	-	(49,688)
(Loss) retained for the financial period		(318)	(42,695)
Retained profit brought forward	14	830	43,525
Retained profit carried forward	14	512	830

Statement of total recognised gains and losses

for period ended 31 December 2005

There are no recognised gains or losses other than the loss attributable to shareholders of the company of £317,657 in the period ended 31 December 2005 and loss of £42,694,744 in the period ended 26 November 2004.

Balance sheet

at 31 December 2005

	Notes	31 December 2005 £000	26 November 2004 £000
Fixed assets			
Tangible assets	10	–	–
Current assets			
Debtors	11	472	1,627
Cash at bank and in hand		3,720	2,703
		4,192	4,330
Creditors: amounts falling due within one year	12	(3,680)	(3,500)
Net current assets		512	830
Total assets less current liabilities		512	830
Capital and reserves			
Called up share capital	13	–	–
Profit and loss account	14	512	830
Shareholder's funds	14	512	830

Director

2 6 OCT 2006

Notes to the financial statements

at 31 December 2005

1. Accounting policies

Basis of preparation

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

Accounting period

The financial statements ending 31 December 2005 cover a 13 month period from 27 November 2004 to 31 December 2005. The reason for the change was to align the reporting period to that of its parent. As a result of the change, comparative amounts for the profit and loss account, statement of total recognised gains and losses, and related notes are not entirely comparable.

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 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.

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.

Statement of cash flows

A statement of cash flows has not been prepared as the company is a wholly-owned subsidiary undertaking of another company registered in England and Wales.

Notes to the financial statements

at 31 December 2005

1. Accounting policies (continued)

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 Plan are held in a separately administered fund.

The accounting policy in respect of pension costs has been changed to reflect the requirements of FRS 17 "Retirement Benefits". The adoption of FRS 17 has not necessitated a restatement of prior period comparatives.

The contribution rate for each employer does not reflect the individual experience of the company's members in isolation, as it is not possible to identify accurately or consistently from year to year the share of pension assets relating to the company. Consequently the company has accounted for its contributions to the plan as if it were a defined contribution scheme. Contributions to the fund of the defined benefit scheme are charged to the profit and loss account as they become payable.

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.

FRS 21

In preparing the financial statements for the current period, the company has adopted FRS 21 'Post Balance Sheet Events'. Full application of FRS 21 has not required any revisions to the financial statements in either the current or prior periods.

2. Turnover

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

3. Operating (loss)/profit

This is stated after charging:

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Auditors' remuneration	2	25
Operating lease rentals	–	113

Notes to the financial statements

at 31 December 2005

4. Directors' emoluments

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Emoluments	–	142
Company contributions paid to defined benefit pension schemes	–	15
	No.	*No.*
Members of defined benefit pension schemes	–	1
	£000	*£000*
The amounts in respect of the highest paid director are as follows:		
Emoluments	–	142
Company contributions paid to defined benefit pension schemes	–	–

No directors exercised share options in the ultimate parent company, Time Warner Inc. during the period (2004 – £nil).

The Directors received no remuneration for their services to the company during the period (2004 – £142k).

Notes to the financial statements

at 31 December 2005

5. Staff costs

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Wages and salaries	–	1,934
Social security costs	–	191
Other pension costs	–	155
	–	2,280

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

	Period ended 31 December 2005 No.	*Period ended 26 November 2004 No.*
Office and management	–	20
Selling, marketing and distribution	–	23
	–	43

6. Interest receivable

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Interest receivable from group undertakings	137	1,556
Other interest receivable	66	53
	203	1,609

7. Interest payable

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Other interest payable	18	72

Notes to the financial statements

at 31 December 2005

8. Tax on profit on ordinary activities

(a) The charge based on the results for the period is as follows:

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Taxation based on the profit for the period:		
Corporation tax payable at 30%	–	2,672
Group relief payments	55	–
Under/(over) provision for prior years	426	(60)
Total current tax charge	481	2,612
Deferred tax:		
Timing differences, origination and reversal	–	162
Total deferred tax	–	162
Total tax charge on profit on ordinary activities	481	2,774

(b) Circumstances affecting current charge:

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30% (2004 – 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Profit on ordinary activities before tax	163	9,767
Tax on profit on ordinary activities at standard rate	49	2,930
Factors affecting charges:		
Disallowable expenses	6	12
Capital allowances in excess of depreciation	–	(6)
Tax under/(over) provided in previous years	426	(60)
Other timing differences	–	(264)
Total current tax (note (a) above)	481	2,612

Notes to the financial statements

at 31 December 2005

9. Dividends

	Period ended 31 December 2005 £000	*Period ended 26 November 2004 £000*
Dividends on ordinary shares:		
Interim dividends paid	–	49,688

10. Fixed Assets

	Furniture and fittings £000	*Office equipment £000*	*Computer equipment £000*	*Total £000*
Cost or valuation:				
At 26 November 2004 & at 31 December 2005	213	81	591	885
Depreciation:				
At 26 November 2004 & at 31 December 2005	213	81	591	885
Net book value:				
At 26 November 2004 & at 31 December 2005	–	–	–	–

11. Debtors

	31 December 2005 £000	*26 November 2004 £000*
Corporation tax receivable	472	1,510
Consortium relief receivable	–	117
	472	1,627

12. Creditors: amounts falling due within one year

	31 December 2005 £000	*26 November 2004 £000*
Amounts due to group undertakings	3,373	2,444
Accruals	2	–
Group relief payable	305	960
Consortium relief payable	–	96
	3,680	3,500

Notes to the financial statements

at 31 December 2005

13. Share capital

	31 December 2005	*26 November 2004*
	£	*£*
Authorised, allotted, called up and fully paid:		
100 Ordinary shares of £1 each	100	100

14. Reconciliation of shareholder's funds and movement on reserves

	Share capital	*Profit Profit and loss account*	*Total*
	£000	*£000*	*£000*
At 26 November 2004	–	830	830
Loss for the period	–	(318)	(318)
At 31 December 2005	–	512	512

15. 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 (2004 – £nil).

Notes to the financial statements

at 31 December 2005

16. Pensions

The Time Warner UK Pension Plan is a multi-employer defined benefit plan. The total overall combined contribution rate from employers to the plan will vary depending on the experience of the plan and hence any surplus or deficit in the plan will be revealed when actuarial valuations are completed from time to time. Following the actuarial valuation as at 5 April 2005, the contribution rate payable by the company has been set based on discussions among the participating companies, so that the total contributions from all employers equal the required funding rate.

The assets of the plan are invested as a whole and are not segregated by participating employer. Consequently information concerning that part of the plan's assets attributable to the company is not available.

The company has discussed the position with the plan's actuaries and in accordance with FRS 17 has taken their advice that the company treat its participation in the plan as if it were a defined contribution scheme. The surplus on the whole plan under FRS 17 at 31 December 2005 is £2.4m (2004 - deficit of £20.8m).

Further information concerning the scheme as a whole can be found in the report and financial statements of Time Warner Holdings Limited, which are available from the company secretary, Time Warner House, 44 Great Marlborough Street, London W1F 7JL.

The total pension cost to the company for the period ended 31 December 2005 amounted to £nil (period ended 26 November 2004 - £155,102).

17. Ultimate parent undertaking

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

At 31 December 2005, Time Warner Inc., 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 is a member and for which the group financial statements are drawn up. Copies of Time Warner Inc.'s financial statements can be obtained from One Time Warner Center, New York, NY10019, USA.