

# **Warner Home Video (U.K.) Limited**

## **Report and Financial Statements**

28 November 2003



# Warner Home Video (U.K.) Limited

Registered No. 1907094

## **Directors**

E J Byrnes  
N P McEwan  
S W Mertz  
C J Young  
J M Brown  
J F Cardwell

## **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

 ERNST & YOUNG

## Directors' report

The directors present their report and financial statements for the period ended 28 November 2003.

### Results and dividends

The profit on ordinary activities, after taxation, amounted to £11,928,240 (2002 – £8,955,190).

The directors do not recommend the payment of a final dividend for the period (2002 – £nil). This leaves retained earnings of £43,525,480 to be carried forward.

### Principal activity

The company's principal activity during the year continued to be the sale of pre-recorded video cassettes and Digital Versatile Discs (DVDs). The directors will continue to exploit this business to its full potential.

### Review of the business and future developments

Warner Home Video (WHV) revenues increased from 2002 due to strong new releases and growth in existing titles in 2003, mainly driven by growth in the DVD format. Revenues for 2004 are expected to show growth over 2003.

### Directors and their interests

The directors of the company who served during the period ended 28 November 2003 were as follows:

E J Byrnes	
N P McEwan	
S W Mertz	
C J Young	
J M Brown	(appointed 11 September 2003)
J F Cardwell	(appointed 18 August 2003)
W Lieberfarb	(resigned 31 December 2002)
Ronald Sanders	(resigned 18 August 2003)

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

### Creditor payment policy and practice

It is the company's normal practice that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. As at 28 November 2003, the company has an average of 28 days' (2002 – 28 days) purchases outstanding in trade creditors.

### Events since the balance sheet date

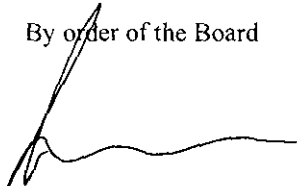
On 25 June 2004 Warner Bros. Entertainment UK Limited acquired the business of Warner Home Video (UK) Ltd. Warner Home Video (UK) now trades as a division of Warner Bros. Entertainment UK Limited.

## Directors' report

### 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

06 DEC 2004

## Statement of directors' responsibilities in respect of the financial statements

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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 which disclose with reasonable accuracy at any time the financial position of the company and to 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 28 November 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, and the related notes 1 to 19. These financial statements have been prepared on the basis of 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**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 transactions with the company 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 United Kingdom 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 financial statements. It also includes an assessment of the significant estimates and judgements 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.

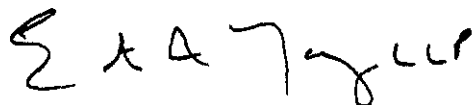
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity 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 of the state of affairs of the company as at 28 November 2003 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
London

17 December 2004

**Profit and loss account**

for the period ended 28 November 2003

		<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
	<i>Notes</i>		
<b>Turnover</b>	2	235,912	221,734
Cost of sales		(164,928)	(152,905)
<b>Gross Profit</b>		70,984	68,829
Distribution costs		(13,784)	(13,875)
Administrative expenses		(41,428)	(42,709)
		(55,212)	(56,584)
<b>Operating profit</b>	3	15,772	12,245
Interest receivable	6	1,291	761
Interest payable	7	(136)	(75)
		1,155	686
<b>Profit on ordinary activities before taxation</b>		16,927	12,931
Tax on profit on ordinary activities	8	(4,999)	(3,976)
<b>Profit on ordinary activities after taxation</b>	16	11,928	8,955
<b>Retained profit brought forward</b>	16	31,597	22,642
<b>Retained profit carried forward</b>	16	43,525	31,597



## **Statement of total recognised gains and losses**

**for period ended 28 November 2003**

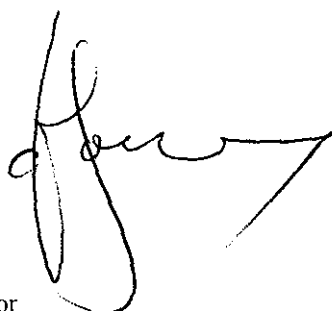
There are no recognised gains or losses other than the profit attributable to shareholders of the company of £11,928,240 in the period ended 28 November 2003 and profit of £8,955,190 in the period ended 29 November 2002.

# Balance sheet

at 28 November 2003

		28 November 2003 £000	29 November 2002 £000
	Notes		
<b>Fixed assets</b>			
Tangible assets	9	—	3
<b>Current assets</b>			
Debtors	10	111,506	97,808
Stocks	11	6,128	4,141
Cash at bank and in hand		154	6,947
		<u>117,788</u>	<u>108,896</u>
<b>Creditors: amounts falling due within one year</b>	12	(74,263)	(77,302)
<b>Net current assets</b>		<u>43,525</u>	<u>31,594</u>
<b>Total assets less current liabilities</b>		<u>43,525</u>	<u>31,597</u>
<b>Capital and reserves</b>			
Called up share capital (£100)	14	—	—
Profit and loss account	16	43,525	31,597
<b>Shareholder's funds</b>	16	<u>43,525</u>	<u>31,597</u>

ERNST & YOUNG



Director

06 DEC 2004

## Notes to the financial statements

at 28 November 2003

### 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 company prepares financial statements 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 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.

#### 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.

## Notes to the financial statements

at 28 November 2003

### 2. Turnover

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

### 3. Operating profit

This is stated after charging:

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Auditors' remuneration	25	22
Depreciation	3	46
Operating lease rentals	173	161

### 4. Directors' emoluments

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Emoluments	221	196
Company contributions paid to defined contribution pension schemes	—	—
Company contributions paid to defined benefit pension schemes	19	18
	<i>No.</i>	<i>No.</i>
Members of defined contribution pension schemes	—	—
Members of defined benefit pension schemes	1	1

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

	<i>£000</i>	<i>£000</i>
Emoluments	221	196
Company contributions paid to defined contribution pension schemes	—	—

No directors exercised share options in the ultimate parent company, Time Warner Inc. during the period (2002 – nil).

## Notes to the financial statements

at 28 November 2003

## 5. Staff costs

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Wages and salaries	3,378	3,082
Social security costs	293	282
Other pension costs	262	256
	<u>3,933</u>	<u>3,620</u>

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

	<i>Period ended 28 November 2003 No.</i>	<i>Period ended 29 November 2002 No.</i>
Office and management	35	39
Selling, marketing and distribution	39	35
	<u>74</u>	<u>74</u>

## 6. Interest receivable

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Interest receivable from group undertakings	1,291	597
Other interest receivable	—	164
	<u>1,291</u>	<u>761</u>

## 7. Interest payable

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Interest payable to group undertakings	112	64
Other interest payable	24	11
	<u>136</u>	<u>75</u>

## Notes to the financial statements

at 28 November 2003

### 8. Tax on profit on ordinary activities

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

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
<i>Taxation based on the profit for the period:</i>		
Corporation tax payable at 30%	4,623	3,812
Group relief payments	480	107
Under/(over) provision for prior years	29	(12)
Double taxation relief	(62)	(19)
Overseas tax suffered	62	19
<b>Total current tax charge</b>	<b>5,132</b>	<b>3,907</b>
<i>Deferred tax:</i>		
Timing differences, origination and reversal	(133)	69
<b>Total deferred tax</b>	<b>(133)</b>	<b>69</b>
<b>Total tax charge on profit on ordinary activities</b>	<b>4,999</b>	<b>3,976</b>

(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% (2002 – 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below:

	<i>Period ended 28 November 2003 £000</i>	<i>Period ended 29 November 2002 £000</i>
Profit on ordinary activities before tax	16,927	12,931
<b>Tax on profit on ordinary activities at standard rate</b>	<b>5,078</b>	<b>3,879</b>
<i>Factors affecting charges:</i>		
Disallowable expenses	39	48
Capital allowances in excess of depreciation	(14)	(8)
Tax under/(over) provided in previous years	29	(12)
<b>Total current tax (note (a) above)</b>	<b>5,132</b>	<b>3,907</b>

## Notes to the financial statements

at 28 November 2003

### 8. Tax on profit on ordinary activities (continued)

(c) Deferred tax

<i>Period ended</i>	<i>Period ended</i>
<i>28 November</i>	<i>29 November</i>
<i>2003</i>	<i>2002</i>
<i>£000</i>	<i>£000</i>

The deferred tax included in the balance sheet is as follows:

Included in debtors	199	66
	<u>          </u>	<u>          </u>

Analysed as:

Accelerated capital allowances	46	66
Short term timing differences	153	-
	<u>          </u>	<u>          </u>
Deferred tax asset	199	66
	<u>          </u>	<u>          </u>

<i>Period ended</i>
<i>28 November</i>
<i>2003</i>
<i>£000</i>

Analysis of movement in deferred tax asset:

At start of the period	66
Credited to profit and loss account	133
	<u>          </u>
At end of period	199
	<u>          </u>

## Notes to the financial statements

at 28 November 2003

## 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 2002	213	81	591	885
Additions	—	—	—	—
At 28 November 2003	213	81	591	885
Depreciation:				
At 29 November 2002	213	81	588	882
Provided during the year	—	—	3	3
At 28 November 2003	213	81	591	885
Net book value:				
At 28 November 2003	—	—	—	—
At 29 November 2002	—	—	3	3

## 10. Debtors

	<i>28 November 2003 £000</i>	<i>29 November 2002 £000</i>
Trade debtors	76,741	65,194
Amount due from group undertakings	30,493	27,500
Prepayments and accrued income	107	3,752
Other debtors	2,242	1,296
Corporation tax receivable	1,475	—
Group relief receivable	132	—
Consortium relief receivable	117	—
Deferred tax	199	66
	<u>111,506</u>	<u>97,808</u>

## 11. Stocks

	<i>28 November 2003 £000</i>	<i>29 November 2002 £000</i>
Finished goods held for resale	6,128	4,141
	<u>6,128</u>	<u>4,141</u>



## Notes to the financial statements

at 28 November 2003

### 12. Creditors: amounts falling due within one year

	28 November 2003 £000	29 November 2002 £000
Bank overdraft	–	4,663
Trade creditors	6,695	4,733
Amounts due to group undertakings	21,396	23,176
Accruals	28,690	31,254
Other taxes and social security costs	13,789	12,627
Corporation tax payable	2,362	317
Group relief payable	1,235	532
Consortium relief payable	96	–
	<u>74,263</u>	<u>77,302</u>

### 13. Other financial commitments

At 28 November 2003 the company had annual commitments under non cancellable operating leases as set out below:

	28 November 2003 £000	29 November 2002 £000
Operating leases which expire:		
Within one year	43	3
Within two to five years	209	261
In over five years	–	–
	<u>252</u>	<u>264</u>

### 14. Share capital

	28 November 2003 £	29 November 2002 £
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).

## Notes to the financial statements

at 28 November 2003

### 16. Reconciliation of shareholder's funds and movement on reserves

	Share capital £000	Profit and loss account £000	Total £000
At 30 November 2001	–	22,642	22,642
Profit for the period	–	8,955	8,955
At 29 November 2002	–	31,597	31,597
Profit for the period	–	11,928	11,928
At 28 November 2003	–	43,525	43,525

### 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 (2002 – £nil).

### 18. 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 the surplus or deficit revealed at actuarial valuations. Following the actuarial valuation as at 5 April 2002, the contribution rate payable by Warner Home Video (UK) Limited has been set based on discussions within the group so that the total contributions from all employers equal the funding rate. The contribution rate 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 the assets relating to the company. Consequently the company has accounted for its contributions to the plan as if it were a defined contribution scheme.

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 assets attributable to Warner Home Video (UK) Limited is not available.

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.

### 19. 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 28 November 2003, 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, NY 10019, USA.