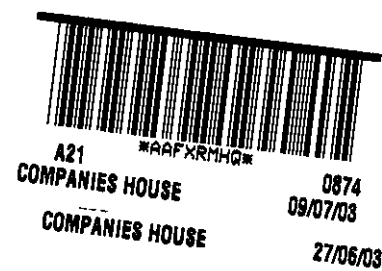


190/094

WARNER HOME VIDEO (U.K.) LIMITED

Report and Financial Statements

29 November 2002



Warner Home Video (U.K.) Limited

Registered No. 1907094

DIRECTORS

E J Byrnes
W N Lieberfarb
N P McEwan
S Mertz
R J Sanders
C J Young

SECRETARY

T C Lima

AUDITORS

Ernst & Young LLP
Becket House
1 Lambeth Palace Road
London SE1 7EU

REGISTERED OFFICE

Warner House
98 Theobalds Road
London WC1X 8WB

Warner Home Video (U.K.) Limited

DIRECTORS' REPORT

The directors present their report and financial statements for the period ended 29 November 2002.

RESULTS AND DIVIDENDS

The profit on ordinary activities, after taxation, amounted to £8,955,190 (2001 – £7,300,000).

The directors do not recommend the payment of a final dividend for the period (2001 – £nil). This leaves retained earnings of £31,597,190 to be carried forward.

PRINCIPAL ACTIVITY

The company's principal activity during the period 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 2001 due to the strength of WHV releases in 2002 and the growth of the DVD format. Revenues in 2003 are expected to be in line with 2002.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the period ended 29 November 2002 were as listed on page 1.

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 29 November 2002, the company has an average of 28 days (2001: 28 days) purchases outstanding in trade creditors.

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



16 JUN 2003

Secretary

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;
- 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 29 November 2002 which comprise Profit and Loss Account, Balance Sheet, Statement of Total Recognised Gains and Losses, 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.

REPORT OF THE AUDITORS 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 29 November 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Et x Y 7 LLP

16 JUN 2003

Registered Auditor

London

Warner Home Video (U.K.) Limited

PROFIT AND LOSS ACCOUNT (RESTATED)

For the period ended 29 November 2002

		<i>Period to</i> <i>29 November</i> <i>2002</i> <i>£000</i>	<i>(Restated)</i> <i>Period to</i> <i>30 November</i> <i>2001</i> <i>£000</i>
	<i>Notes</i>		
TURNOVER	2	221,734	145,006
Cost of sales		152,905	94,345
		<u>68,829</u>	<u>50,661</u>
Distribution costs		13,875	9,619
Administrative expenses		42,709	31,056
		<u>56,584</u>	<u>40,675</u>
OPERATING PROFIT	3	12,245	9,986
Interest receivable	6	761	548
Interest payable	7	(75)	(4)
		<u>686</u>	<u>544</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12,931	10,530
Tax on profit on ordinary activities	8	(3,976)	(3,230)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		8,955	7,300
RETAINED PROFIT BROUGHT FORWARD	16	22,642	15,342
RETAINED PROFIT CARRIED FORWARD	16	<u>31,597</u>	<u>22,642</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	<i>2002</i> <i>£000</i>	<i>(Restated)</i> <i>2001</i> <i>£000</i>
Profit on ordinary activities after tax relating to the year	8,955	7,300
Total recognised gains and losses relating to the year	<u>8,955</u>	<u>7,300</u>
Prior year adjustment (note 1)	<u>135</u>	
Total gains and losses recognised since last annual report	<u>9,090</u>	

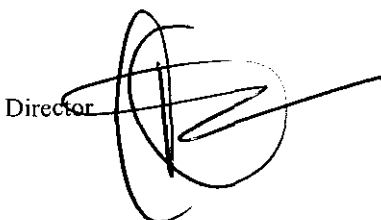
Warner Home Video (U.K.) Limited

BALANCE SHEET (RESTATED)

As at 29 November 2002

			(Restated)
	Notes	2002 £000	2001 £000
FIXED ASSETS			
Tangible assets	9	3	49
CURRENT ASSETS			
Debtors	10	97,808	61,252
Stocks	11	4,141	6,247
Cash at bank and in hand		6,947	50
		108,896	67,549
CREDITORS: amounts falling due within one year	12	77,302	44,956
NET CURRENT ASSETS		31,594	22,593
TOTAL ASSETS LESS CURRENT LIABILITIES		31,597	22,642
CAPITAL AND RESERVES			
Called up share capital (£100)	14	—	—
Profit and loss account	16	31,597	22,642
Shareholder's funds	16	31,597	22,642

Director



16 JUN 2003

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

1. ACCOUNTING POLICIES

Accounting convention

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.

Restatement of comparatives

Certain comparatives have changed to accord with the presentation adopted in the current year.

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 tax 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.

This change in accounting policy has resulted in a prior year adjustment for the company. Shareholder's funds as at 30 November 2001 have been increased by £135k and the tax charge for the year ended 30 November 2001 has decreased by £10k. Profit for the current year has been decreased by £69k as a consequence of the change in accounting policy.

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.

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 29 November 2002

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 the 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 to 29 November 2002 £000</i>	<i>Period to 30 November 2001 £000</i>
Auditors' remuneration	22	20
Depreciation	46	54
Operating lease rentals	161	116
	<u> </u>	<u> </u>

4. **DIRECTORS' EMOLUMENTS**

	<i>Period to 29 November 2002 £000</i>	<i>Period to 30 November 2001 £000</i>
Emoluments	196	177
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	—	—
	<u> </u>	<u> </u>
Company contributions paid to defined benefit pension schemes	18	17
	<u> </u>	<u> </u>
	<i>No.</i>	<i>No.</i>
Members of defined contribution pension schemes	—	—
Members of defined benefit pension schemes	1	1
	<u> </u>	<u> </u>
	<i>£000</i>	<i>£000</i>

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

Emoluments	196	177
	<u> </u>	<u> </u>
Company contributions paid to defined contribution pension schemes	—	—
	<u> </u>	<u> </u>

No directors exercised share options in the ultimate parent undertaking company, AOL Time Warner Inc. during the period (2001 - nil).

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

5. STAFF COSTS

	<i>Period to 29 November 2002 £000</i>	<i>Period to 30 November 2001 £000</i>
Wages and salaries	3,082	2,670
Social security costs	282	243
Other pension costs	256	215
	<u>3,620</u>	<u>3,128</u>

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

	<i>Period to 29 November 2002 No.</i>	<i>Period to 30 November 2001 No.</i>
Office and management	39	37
Selling, marketing and distribution	35	40
	<u>74</u>	<u>77</u>

6. INTEREST RECEIVABLE

	<i>Period to 29 November 2002 £000</i>	<i>Period to 30 November 2001 £000</i>
Interest receivable from group undertaking	597	522
Other interest receivable	164	26
	<u>761</u>	<u>548</u>

7. INTEREST PAYABLE

	<i>Period to 29 November 2002 £000</i>	<i>Period to 30 November 2001 £000</i>
Bank interest payable	64	4
VAT interest payable	11	-
	<u>75</u>	<u>4</u>

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

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

	<i>(Restated)</i>	
	<i>Period to</i>	<i>Period to</i>
	<i>29 November</i>	<i>30 November</i>
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
<u>Taxation based on the profit for the period:</u>		
Corporation tax	3,812	2,853
Group relief payable	107	387
(Over)/Under provision for prior years	(12)	-
Double taxation relief	(19)	(26)
Overseas tax suffered	19	26
Total current tax charge	3,907	3,240
<u>Deferred Tax</u>		
Timing differences, origination and reversal	69	(10)
Total deferred tax	69	(10)
Total tax charge on profit on ordinary activities	3,976	3,230

(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% (2001 - 30%). The current tax charge for the year differs from the standard rate for the reasons in the reconciliation below.

	<i>(Restated)</i>	
	<i>Period to</i>	<i>Period to</i>
	<i>29 November</i>	<i>30 November</i>
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Profit on ordinary activities before tax	12,931	10,530
Tax on profit on ordinary activities at standard rate	3,879	3,159
Factors affecting charge:-		
Disallowable expenses	48	90
Capital allowances in excess of depreciation	(8)	(9)
Tax overprovided in previous years	(12)	-
Total current tax (note (a) above)	3,907	3,240

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

(c) Deferred Tax

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

	<i>(Restated)</i>	
	<i>Period to</i>	<i>Period to</i>
	<i>29 November</i>	<i>30 November</i>
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Included in debtors	66	135
	<u>66</u>	<u>135</u>

Analysed as:

	<i>(Restated)</i>	
	<i>Period to</i>	<i>Period to</i>
	<i>29 November</i>	<i>30 November</i>
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Accelerated capital allowances	66	62
Short term timing differences	—	73
Provision for deferred tax	<u>66</u>	<u>135</u>

Analysis of movement in provision

	<i>Period to</i>
	<i>29 November</i>
	<i>2002</i>
	<i>£000</i>
Provision at the start of the period	135
Charged to profit and loss account	(69)
Provision at the end of the period	<u>66</u>

There was no potential liability to deferred taxation at either 29 November 2002 or 30 November 2001.

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

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 30 November 2001	213	81	591	885
Additions	-	-	-	-
At 29 November 2002	213	81	591	885
Depreciation:				
At 30 November 2001	201	81	554	836
Provided during the period	12	-	34	46
At 29 November 2002	213	81	588	882
Net book value:				
At 29 November 2002	-	-	3	3
At 30 November 2001	12	-	37	49

10. DEBTORS

	<i>(Restated)</i>	
	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Trade debtors	65,194	50,142
Amount due from group undertakings	27,500	7,500
Prepayments and accrued income	3,752	76
Other debtors	1,296	3,102
Corporation tax receivable	-	102
Group relief receivable	-	195
Deferred Tax	66	135
	97,808	61,252

11. STOCKS

	<i>2002</i>	<i>2001</i>
	<i>£000</i>	<i>£000</i>
Finished goods held for resale	4,141	6,247

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS at 29 November 2002

12. CREDITORS: amounts falling due within one year

	2002	2001
	£000	£000
Bank overdraft	4,663	8,818
Trade creditors	4,733	2,902
Amounts due to group undertakings	23,176	11,361
Accruals	31,254	13,036
Other taxes and social security costs	12,627	7,310
Corporation tax payable	317	1,012
Group relief payable	532	387
Consortium relief payable	—	130
	<u>77,302</u>	<u>44,956</u>

13. OTHER FINANCIAL COMMITMENTS

At 29 November 2002 the company had annual commitments under non-cancellable operating leases as set out below:

	2002	2001
	£000	£000
Operating leases which expire:		
Within one year	3	63
Within two to five years	261	58
In over five years	—	—
	<u>264</u>	<u>121</u>

14. SHARE CAPITAL

	2002	2001
	£	£
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).

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 29 November 2002

16. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENT ON RESERVES

	<i>Share Capital £000</i>	<i>Profit and Loss account £000</i>	<i>Total £000</i>
At 24 November 2000 as previously reported	–	15,217	15,217
Prior year adjustment (note 1)	–	125	125
As restated		15,342	15,342
Profit for the period as previously reported	–	7,290	7,290
Prior Year Adjustment (note 1)		10	10
At 30 November 2001	–	22,642	22,642
Profit for the period	–	8,955	8,955
At 29 November 2002 as restated	–	31,597	31,597

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 (2000 – £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 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 2002, the contribution rate payable by Warner Home Video (U.K.) Limited ("WHV") has been set based on discussions amongst the participating companies, so that the total contributions from all employers equal the required funding rate. The WHV rate does not reflect the individual experience of its employee members in isolation, but is derived from the average combined contribution 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 assets attributable to WHV is not available.

The previous disclosures at 31 December 2001 were based on a projection of the actuarial valuation as at 6 April 1999 updated to 31 December 2001, when the assets were apportioned on an approximate and reasonable basis between participating employers to reflect their relative experience. Although in 2001 it was possible to calculate WHV's share of plan assets on a reasonable basis, it has proven impossible to determine a basis for allocating the plan assets at 31 December 2002 that is both consistent and reasonable as required by FRS 17.

The company has since discussed the position with the plan actuaries and in accordance with FRS 17 have taken their advice that the company treat its participation in the plan as if it were a defined contribution scheme, resulting in the amended disclosure. The deficit on the whole plan under FRS 17 at the balance sheet date is £14.7m (2001: £14.2m). The directors are advised that under current pensions legislation, WHV will not be held liable for any part of this deficit. The plan's actuaries have advised that had the plan been wound up at the balance sheet date, there would have been no debt on the participating employers, because under the Minimum Funding Requirement basis the plan assets exceed 120% of the plan liabilities.

Warner Home Video (U.K.) Limited

NOTES TO THE FINANCIAL STATEMENTS

at 29 November 2002

Further information concerning the scheme as a whole can be found in the report and accounts for Time Warner Limited, which are available from the company secretary, Interpark House, 7 Down Street, London W1J 7AJ.

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 financial statements are drawn up. Time Warner Entertainment Limited is registered in England and Wales and copies of its financial statements can be obtained from the Registrar of Companies in Cardiff.

At 29 November 2002, AOL 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 group financial statements are drawn up. Copies of AOL Time Warner Inc.'s financial statements can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.