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Time Warner Entertainment Limited

Report and Financial Statements

30 November 2002



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Time Warner Entertainment Limited

Registered No. 2713676

Directors

P J Hosemann

S Mertz

M A Smith

J Macdonald Stewart (appointed 25 April 2003)

Secretary

B E S Jones

Auditors

Ernst & Young LLP

1 More London Place

London SE1 2AF

Registered Office

Interpark House

7 Down Street

London W1J 7AJ

Directors' report

The directors present their report and group financial statements for the year ended 30 November 2002.

Results and dividends

The group profit for the year, after taxation and minority interests, amounted to £17,370,000 (2001 – £6,116,000 restated).

The directors do not recommend the payment of a final dividend (2001 – £17,700,000).

Principal activities

The group's principal activities during the year were the production, distribution and exhibition of filmed entertainment and the exploitation of other related activities.

Review of the business and future developments

The directors consider the results for the year to be satisfactory.

It is the group's intention to continue to exploit new business opportunities as and when appropriate projects arise.

Fixed assets

The movement on fixed assets during the year is detailed in notes 12 and 13 to the financial statements.

Post balance sheet events

On 23 May 2003 the group sold its interest in 36 multiplex cinemas to Speanbridge UK (Holdings) Limited and Vue Entertainment Holdings Limited, both companies incorporated in England and Wales, for net consideration of £85,858,022.

From November 2003 the company has been a wholly owned subsidiary of Time Warner Holdings Limited, a company registered in England and Wales. For the year ended 30 November 2003 Time Warner Entertainment Limited will no longer prepare group financial statements due to its exemption under s228 of the Companies Act but will present information as to the company as an individual undertaking. Time Warner Holdings Limited will prepare group financial statements.

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Employee involvement

During the year, the policy of providing employees with information about the group has been continued and employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

Directors and their interests

The directors who served during the year ended 30 November 2002 are shown on page 1.

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

Directors' report

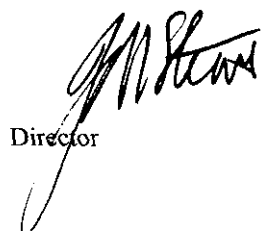
Charitable contributions

During the year, the group made charitable contributions totalling £1,000 (2001 – £250).

Auditors

The company has passed a resolution under section 386 of the Companies Act 1985 not to reappoint auditors annually. Ernst & Young LLP have expressed their willingness to continue in office for the forthcoming year.

By order of the Board

 13/04/04
Director

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 group and of the profit or loss of the group 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;
- 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the members of Time Warner Entertainment Limited

We have audited the group's financial statements for the year ended 30 November 2002 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Group Balance Sheet, Company Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 32. 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 group 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 group'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 (continued)
to the members of Time Warner Entertainment Limited

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 November 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

EY LLP

Ernst & Young LLP
Registered Auditor
London

13 April 2004

Group profit and loss account

for the year ended 30 November 2002

		2002	2001
			as restated
	Notes	£000	£000
Turnover			
Turnover: group and share of joint ventures' turnover		632,498	453,931
Less: share of joint ventures' turnover		(33,692)	(22,896)
Group turnover	2	598,806	431,035
Cost of sales		(482,730)	(331,235)
Gross profit		116,076	99,800
Distribution costs		13,875	9,619
Administrative expenses		102,947	94,934
Other operating charges		-	946
		116,822	105,499
		(746)	(5,699)
Other operating income		27,581	21,994
Group operating profit	3	26,835	16,295
Profit from interests in associated undertakings	2	996	2,670
Loss from interests in joint ventures	2	(1,488)	(2,077)
Total operating profit: group and share of joint ventures and associates		26,343	16,888
Loss on disposal of associates		-	(433)
Provision against investment		-	(4,278)
Income from investments	6	-	4
Interest receivable	7	4,850	2,934
Interest payable	8	(2,266)	(2,142)
		2,584	(3,915)
Profit on ordinary activities before taxation	2	28,927	12,973
Tax on profit on ordinary activities	10	(8,399)	(5,925)
Profit on ordinary activities after taxation		20,528	7,048
Minority interests		(3,158)	(932)
Profit for the financial year attributable to members of the parent undertaking	24	17,370	6,116
Dividends	9	-	(17,700)
Retained profit/ (loss) for the year		17,370	(11,584)

Group statement of total recognised gains and losses

for the year ended 30 November 2002

	2002	2001 <i>as restated</i>
	£000	£000
Profit for the year excluding share of profits/(losses) of joint ventures and associates	18,553	7,460
Share of joint ventures losses for the year	(2,211)	(3,956)
Share of associates' profit/(loss) for the year	1,028	2,612
Profit for the financial year	17,370	6,116
Currency translation difference on foreign currency net investments	5	4
Total recognised gains and losses relating to the year	17,375	6,120
Prior year adjustment	310	
Total recognised gains and losses since last report	17,685	

Reconciliation of shareholders' funds

for the year ended 30 November 2002

	2002	Group 2001 <i>as restated</i>	2002	Company 2001
	£000	£000	£000	£000
Profit for the financial year	17,370	6,116	22,279	19,315
Dividends	-	(17,700)	-	(17,700)
Other recognised gains and losses	5	4	-	-
Net movement of shareholders' funds	17,375	(11,580)	22,279	1,615
Shareholders' funds at 1 December as restated*	135,324	146,904	62,714	61,099
Shareholders' funds at 30 November	152,699	135,324	84,993	62,714

* Shareholders' funds at 1 December 2001 were originally £135,014,000 before adding a prior year adjustment of £310,000. £161,000 relates to the period pre 1 December 2000 and £149,000 relates to the year ended 30 November 2001.

Group balance sheet

at 30 November 2002

		2002	2001
			as restated
	Notes	£000	£000
Fixed assets			
Tangible assets	12	63,249	70,598
Investments	13	4,328	4,088
		<u>67,577</u>	<u>74,686</u>
Current assets			
Film inventories	14	25,227	31,714
Stocks	15	4,357	6,560
Debtors: amounts falling due within one year	16	234,198	242,798
Debtors: amounts falling due after more than one year	17	95,000	—
Term deposit		13,879 }	—
Finance lease creditor	21	(13,879) }	—
Cash at bank and in hand		8,901	16,617
		<u>367,683</u>	<u>297,689</u>
Creditors: amounts falling due within one year	18	<u>(230,153)</u>	<u>(183,466)</u>
Net current assets		<u>137,530</u>	<u>114,223</u>
Total assets less current liabilities		<u>205,107</u>	<u>188,909</u>
Creditors: amounts falling due after more than one year	19	<u>(1,680)</u>	<u>(1,742)</u>
Provisions for liabilities and charges	22	<u>(25,262)</u>	<u>(26,059)</u>
		<u>(26,942)</u>	<u>(27,801)</u>
Minority interests		<u>178,165</u>	<u>161,108</u>
		<u>(25,466)</u>	<u>(25,784)</u>
		<u>152,699</u>	<u>135,324</u>
Capital and reserves			
Called up share capital	23	27,150	27,150
Other reserves	24	37,111	37,111
Profit and loss account	24	88,438	71,063
Shareholders' funds:			
Equity		125,550	108,175
Non-equity		27,149	27,149
Shareholders' funds		<u>152,699</u>	<u>135,324</u>

Director



13/04/04

Company balance sheet

at 30 November 2002

	Notes	2002 £000	2001 £000
Fixed assets			
Investments	13	120,676	110,423
Current assets			
Debtors: amounts falling due within one year	16	22,555	45,470
Debtors: amounts falling due after more than one year	17	76,532	76,532
Cash at bank and in hand		3,550	—
		102,637	122,002
Creditors: amounts falling due within one year	18	(8,320)	(148,711)
Net current assets/ (liabilities)		94,317	(26,709)
Total assets less current liabilities		214,993	83,714
Creditors: amounts falling due after more than one year	19	(130,000)	(21,000)
		84,993	62,714
Capital and reserves			
Called up share capital	23	27,150	27,150
Other reserves	24	28,470	28,470
Profit and loss account	24	29,373	7,094
Shareholders' funds:			
Equity		57,844	35,565
Non-equity		27,149	27,149
Shareholders' funds		84,993	62,714

Director

 13/04/04

Group statement of cash flows

for the year ended 30 November 2002

	Notes	2002 £000	2001 £000
Net cash inflow/ (outflow) from operating activities	25	22,182	(13,771)
Returns on investments and servicing of finance			
Interest received		4,097	1,987
Interest paid		(1,170)	(200)
Income received on other investments		-	4
		2,927	1,791
Taxation			
Corporation and overseas tax paid		(10,393)	(20,577)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(1,984)	(1,427)
Disposal of tangible fixed assets		385	-
Purchase of fixed asset investments		(4)	-
Repayment of loan stock by associated undertaking		410	206
Disposal of fixed asset investments		17	-
Disposal of associated undertakings		-	12,029
		(1,176)	10,808
Equity dividends paid		(17,700)	-
Net cash (outflow) before financing	26	(4,160)	(21,749)
Financing			
Capital provided by minority interest	26	47	1,858
Repayment of funding to minority interest partner		(3,523)	(4,120)
Repayment of finance leases		(80)	(81)
		(3,556)	(2,343)
(Decrease) in cash	26	(7,716)	(24,092)

Reconciliation of net cash flow to movement in net debt

for the year ended 30 November 2002

	<i>Notes</i>	<i>2002</i> <i>£000</i>	<i>2001</i> <i>£000</i>
(Decrease) in cash		(7,716)	(24,092)
Cash inflow from capital and loans provided by minority interest partner		(47)	(1,858)
Repayment of capital and loans to minority interest partner		3,523	4,120
Repayment of capital element of finance lease		80	81
Change in net debt arising from cash flows	26	<u>(4,160)</u>	<u>(21,749)</u>

Notes to the financial statements

at 30 November 2002

1. Accounting policies

Basis of preparation

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

Basis of consolidation

The group financial statements consolidate the financial statements of Time Warner Entertainment Limited and all its subsidiary undertakings drawn up to 30 November each year. No profit and loss account is presented for Time Warner Entertainment Limited as permitted by section 230 of the Companies Act 1985.

Advantage has been taken of the merger relief offered by section 131 of the Companies Act 1985 in respect of the fair value of the net assets acquired in excess of the nominal value of the shares issued in connection with the acquisition of the various subsidiaries in 1992. This combination was accounted for as an acquisition.

Entities in which the group holds an interest on a long-term basis and are jointly controlled by the group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the group financial statements, joint ventures are accounted for using the gross equity method.

Entities, other than subsidiary undertakings or joint ventures, in which the group has a participating interest and over whose operating and financial policies the group exercises a significant influence, are treated as associates. In the group financial statements, associates are accounted for using the equity method.

Other investments are stated at cost less any provision for permanent diminution in value.

Acquisitions and disposals of all investments are accounted for on the date of completion.

Goodwill

Depending on the circumstances of each acquisition, purchased and consolidated goodwill prior to 30 November 1998 was either set off directly against reserves or amortised through the profit and loss account over periods of up to 20 years using the straight line method.

Positive goodwill arising on acquisitions since 1 December 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life up to a presumed maximum of 20 years.

Depreciation

Depreciation is provided on all tangible fixed assets, excluding freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	—	over 25 to 50 years
Leasehold land and buildings	—	over the lease term or 25 years, if appropriate
Plant and machinery	—	over 3 to 15 years
Film master negatives and film finance leases	—	the percentage represented by the net income received as a proportion to the total estimate of net income which will accrue to the company from the film; any deficit of estimated future revenues is recognised immediately.

Notes to the financial statements

at 30 November 2002

1. Accounting policies (continued)

Stocks

Stocks are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value. Net realisable value is based on estimated selling price less further costs expected to be incurred to completion and disposal.

Film revenues and costs

Revenue from the theatrical distribution of films is recognised as the films are exhibited. Revenue from theatrical films exhibited on television is recognised when the films are first available for telecasting by the licensee, provided certain conditions of sale have been met. Home video revenue, less a provision for returns, is recognised when the home videos are sold.

Film inventories are stated at the lower of unamortised cost or estimated realisable value, using the individual film forecast method. The cost of a film includes the direct costs to produce or purchase the film, an allocation of studio production overhead, and interest capitalised during the production period.

Under the individual film forecast method, the cost of each film is allocated to the theatrical and various other markets in which the film is to be exhibited based on the proportion that the revenues expected to be earned from each market bear to management's estimate of the total revenues to be earned. Similarly, the cost of each film is amortised, and the related participations and residuals are accrued, based on the proportion that revenues earned in the accounting period bear to management's estimate of the total revenue to be earned. Such estimates are revised periodically and losses, if any, are provided for in full.

Deferred taxation

The accounting policy in respect of deferred tax has been changed to reflect the requirements of FRS 19 "Deferred Taxation". The adoption of FRS19 has necessitated a restatement of prior year comparatives.

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 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.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. 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.

Assets, liabilities and transactions relating to distinct operations denominated in foreign currencies are translated into sterling at year end rates of exchange and the exchange differences arising on the retranslation of opening net assets taken directly to reserves. All other differences are taken to the profit and loss account.

Film finance leases

Film master negatives subject to finance lease arrangements are included in tangible fixed assets at the amount of the cash purchase price of such assets. The capital element of future rentals is treated as a liability and the interest element is charged to the profit and loss account over the periods of the leases based on the average capital amount outstanding and the interest rate implicit in the leasing arrangements.

Notes to the financial statements

at 30 November 2002

1. Accounting policies (continued)

Other leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

Sale and leaseback transactions

The group has adopted the linked presentation to record third party assets and liabilities held in connection with film sale and leaseback transactions in the balance sheet. The related interest income and finance lease interest payable are recognised over the term of the deposit and the life of the lease (normally 15 years).

Pensions

The company and majority of its subsidiary undertakings are members of the Time Warner UK Pension Plan which requires contributions to be made to a separately-administered fund. Contributions to this fund are charged in the profit and loss account so as to spread the cost of pensions over the employees' working lives. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs.

Notes to the financial statements

at 30 November 2002

2. Turnover and segmental analysis (continued)

	Cinema operation		Home video		Film production and distribution, and other		Total 2002	Total 2001 as restated £000
	2002	2001	2002	2001	2002	2001		
	£000	£000	£000	£000	£000	£000	£000	£000
NET ASSETS								
Net assets by segment:								
	111,407	97,425	31,597	22,642	43,611	47,533	186,615	167,600
Net assets of joint ventures and associated undertakings	(12,733)	(10,522)	—	—	4,283	4,030	(8,450)	(6,492)
Minority interests							178,165	161,108
							(25,466)	(25,784)
Total net assets							152,699	135,324

Notes to the financial statements

at 30 November 2002

2. Turnover and segmental analysis (continued)

TURNOVER	United Kingdom and Eire		Europe and rest of the world		United States of America		Total	
	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000	2002 £000	2001 £000
Turnover by destination:								
Sales to third parties:								
Continuing operations	382,005	281,556	2,281	1,857	248,212	170,518	632,498	453,931
Less: share of joint ventures' turnover	(33,692)	(22,896)	-	-	-	-	(33,692)	(22,896)
	<u>348,313</u>	<u>258,660</u>	<u>2,281</u>	<u>1,857</u>	<u>248,212</u>	<u>170,518</u>	<u>598,806</u>	<u>431,035</u>
Turnover by origin:								
Continuing operations:								
Total sales	919,443	656,746	614	612	-	-	920,057	657,358
Intra-segment sales	(247,667)	(189,596)	-	-	-	-	(247,667)	(189,596)
Inter-segment sales	(39,892)	(13,831)	-	-	-	-	(39,892)	(13,831)
Less: share of joint ventures' turnover	(33,692)	(22,896)	-	-	-	-	(33,692)	(22,896)
	<u>598,192</u>	<u>430,423</u>	<u>614</u>	<u>612</u>	<u>-</u>	<u>-</u>	<u>598,806</u>	<u>431,035</u>
Sales to third parties								

Notes to the financial statements

at 30 November 2002

2. Turnover and segmental analysis (continued)

	<i>United Kingdom and Eire</i>		<i>Europe and rest of the world</i>		<i>Total</i>	<i>Total</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
	<i>as restated</i>					<i>as restated</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
PROFIT						
Segment profit	26,829	16,238	6	57	26,835	16,295
(Loss)/ profit before tax of joint venture and associated undertakings	(492)	593	—	—	(492)	593
Group operating profit					26,343	16,888
Loss on disposal of associates					—	(433)
Net interest and income from investments					2,584	796
Provision against investments					—	(4,278)
Profit on ordinary activities before taxation					28,927	12,973
NET ASSETS						
Net assets by segment	186,417	167,389	198	211	186,615	167,600
Net assets of joint ventures and associated undertakings	(8,450)	(6,492)	—	—	(8,450)	(6,492)
Minority interests					178,165 (25,466)	161,108 (25,784)
					152,699	135,324

Notes to the financial statements

at 30 November 2002

3. Group operating profit

This is stated after charging:

	2002 £000	2001 £000
Auditors' remuneration – audit services	176	160
– non-audit services	10	44
Depreciation of owned fixed assets	8,662	11,540
Depreciation of leased assets	61	60
Amortisation of completed films	20,281	15,437
Operating leases rentals – land and buildings	9,611	9,284
– plant and machinery	569	307

The depreciation charge for 2001 of £11,600,000 included an impairment charge of £2,495,000 relating to a cinema.

4. Directors' remuneration

	2002 £000	2001 £000
Emoluments	649	529
Company contributions paid to defined benefit pension scheme	39	39
	No.	No.
Members of defined benefit pension scheme	3	3

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

	£000	£000
Emoluments	307	204
Company contributions paid to defined benefit pension scheme	12	3

During the year the highest paid director exercised share options in the ultimate parent undertaking.

During the year two directors exercised share options in the ultimate parent undertaking (2001 – none).

The remuneration disclosed above is the total remuneration received by directors for their services to the Time Warner Entertainment Limited group, the Time Warner Limited group and other group undertakings.

Notes to the financial statements

at 30 November 2002

5. Staff costs

	2002 £000	2001 £000
Wages and salaries	31,110	29,313
Social security costs	2,645	2,360
Other pension costs	2,299	1,628
	<u>36,054</u>	<u>33,301</u>

The average weekly number of employees during the year was as follows:

	No.	No.
Office and management	215	226
Selling, marketing and distribution	239	219
Theatre operations	834	770
	<u>1,288</u>	<u>1,215</u>

6. Income from investments

	2002 £000	2001 £000
Listed	—	4

7. Interest receivable

	2002 £000	2001 £000
Bank and other interest	2,142	1,451
Interest receivable on term deposits	330	—
Interest payable on finance leases	(330)	—
Receivable from group undertakings	2,424	1,366
	<u>4,566</u>	<u>2,817</u>
Share of joint venture interest	284	117
	<u>4,850</u>	<u>2,934</u>

Notes to the financial statements

at 30 November 2002

8. Interest payable

	2002 £000	2001 £000
Bank loans and overdrafts	1,094	200
Payable to parent and group undertakings	244	–
Group interest payable and similar charges	1,338	200
Share of joint venture interest	928	1,942
	<u>2,266</u>	<u>2,142</u>

9. Dividends

	2002 £000	2001 £000
Equity dividends on ordinary shares:		
Final proposed	–	17,700
	<u>–</u>	<u>17,700</u>

10. Tax on profit on ordinary activities

(a) The charge based on the profit for the year is as follows:

	2002 £000	2001 <i>as restated</i> £000
Taxation based on the profit for the year		
Corporation tax	12,030	8,275
Double taxation relief	(132)	(104)
Group relief payments	139	53
(Over) provision for prior years	(809)	(143)
Overseas taxation suffered	132	104
Joint venture undertakings	79	54
Associated undertakings	(32)	58
Total current tax charge	<u>11,407</u>	<u>8,297</u>
Deferred tax		
Timing differences, origination and reversal	(3,008)	(2,372)
Total deferred tax	<u>(3,008)</u>	<u>(2,372)</u>
Total tax charge on profit on ordinary activities	<u>8,399</u>	<u>5,925</u>

Notes to the financial statements

at 30 November 2002

10. Tax on profit on ordinary activities (continued)

(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:

	2002 £000	2001 £000
Profit on ordinary activities before tax	28,927	12,973
Tax on profit on ordinary activities at standard rate	8,678	3,892
Factors affecting the tax charge:		
Disallowable expenses/ non-taxable income	1,036	4,072
Capital allowances in excess of depreciation	(491)	(1,169)
Other timing differences	2,970	1,621
Higher taxes on overseas income	23	24
Tax overprovided in prior years	(809)	(143)
Total current tax (note (a) above)	11,407	8,297

11. Profit attributable to members of the parent undertaking

The retained profit dealt with in the financial statements of the parent undertaking was £22,279,000 (2001 – £1,615,000).

Notes to the financial statements

at 30 November 2002

12. Tangible fixed assets

Group

	<i>Land and buildings</i>	<i>Plant and machinery</i>	<i>Film finance leases</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 30 November 2001	86,919	44,549	2,402	133,870
Additions	603	1,381	—	1,984
Disposals	(385)	(488)	—	(873)
Exchange adjustment	—	9	—	9
At 30 November 2002	87,137	45,451	2,402	134,990
Depreciation:				
At 30 November 2001	28,355	32,515	2,402	63,272
Provided during the year	3,516	5,207	—	8,723
Disposals	—	(262)	—	(262)
Exchange adjustment	—	8	—	8
At 30 November 2002	31,871	37,468	2,402	71,741
Net book value:				
At 30 November 2002	55,266	7,983	—	63,249
At 30 November 2001	58,564	12,034	—	70,598

Included within the net book value of plant and machinery above is an amount of £47,000 (2001 - £108,000) in respect of assets held under finance leases.

Notes to the financial statements

at 30 November 2002

12. Tangible fixed assets (continued)

Group

The net book value of land and buildings comprise:

	<i>Freehold land and buildings £000</i>	<i>Long leasehold land and buildings £000</i>	<i>Short leasehold land and buildings £000</i>	<i>Total £000</i>
Cost:				
At 30 November 2001	18,070	30,522	38,327	86,919
Additions	23	116	464	603
Disposals	—	—	(385)	(385)
At 30 November 2002	18,093	30,638	38,406	87,137
Depreciation:				
At 30 November 2001	4,457	9,516	14,382	28,355
Provided during the year	514	1,077	1,925	3,516
At 30 November 2002	4,971	10,593	16,307	31,871
Net book value:				
At 30 November 2002	13,122	20,045	22,099	55,266
At 30 November 2001	13,613	21,006	23,945	58,564

The group has adopted FRS 11, Impairment of Fixed Assets and Goodwill. Included within the accumulated depreciation provision for short leasehold land and buildings and equipment is an accumulated impairment charge of £7,931,000 relating to cinemas. A pre-tax discount rate of 10% has been applied in the calculation of the value in use of these assets.

Notes to the financial statements

at 30 November 2002

13. Investments

Group

	2002 £000	2001 £000
Joint ventures (a)	—	—
Associated undertakings (b)	4,283	4,030
Other fixed asset investments (c)	45	58
	<u>4,328</u>	<u>4,088</u>

(a) Joint ventures:

	<i>Share of net tangible assets £000</i>
Share of net liabilities at 30 November 2001	(10,522)
Share of losses of joint ventures	(2,211)
Share of net liabilities at 30 November 2002	<u>(12,733)</u>
Provision for losses at 30 November 2001	10,522
Increase in provision for the year	2,211
Provision for losses at 30 November 2002	<u>12,733</u>
Net book value at 30 November 2002	<u>—</u>
Net book value at 30 November 2001	<u>—</u>

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

Additional disclosures for joint ventures which, in aggregate, exceed the 25% threshold.

	2002 £000	2001 £000
Share of assets:		
Share of fixed assets	39,290	30,446
Share of current assets	1,990	2,831
	<u>41,280</u>	<u>33,277</u>
Share of liabilities:		
Liabilities due within one year or less	(6,649)	(8,415)
Liabilities due after more than one year	(47,364)	(35,384)
	<u>(54,013)</u>	<u>(43,799)</u>
Share of net liabilities	<u>(12,733)</u>	<u>(10,522)</u>
	2002 £000	2001 £000
Share of turnover:	33,692	22,896
	<u>33,692</u>	<u>22,896</u>
Share of loss before taxation	(2,132)	(3,902)
Share of taxation	(79)	(54)
Share of loss after taxation	<u>(2,211)</u>	<u>(3,956)</u>

(b) Associated undertakings:

	Share of net tangible assets £000
At 30 November 2001	4,030
Repayment of loan stock	(410)
Share of profits of associated undertakings, after tax	1,028
Exchange loss on retranslation	(365)
At 30 November 2002	<u>4,283</u>

The group's share of retained losses of associated undertakings at 30 November 2002 is £13,070,000 (2001 – £14,730,000).

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

(c) Other fixed asset investments:

	<i>Listed on the London Stock Exchange £000</i>
Cost:	
At 30 November 2001	13,666
Additions	4
Disposals	(13,625)
At 30 November 2002	45
Amounts written off	
At 30 November 2001	13,608
Disposals	(13,608)
At 30 November 2002	—
Net book value:	
At 30 November 2002	45
At 30 November 2001	58

The market value of the investments listed on the London Stock Exchange at 30 November 2002 was £45,000 (2001 – £1,151,000); if they had been sold at this value there would have been no liability to corporation tax on any capital gain arising from the sale.

The group has an 8% interest in two partnerships set up to produce and distribute films (see note 27).

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

Company

	<i>Subsidiary undertakings</i>	<i>Associated undertakings</i>	<i>Other investments</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:				
At 30 November 2001	106,342	24,260	8,403	139,005
Additions	10,000	—	—	10,000
Repayment	—	(410)	—	(410)
Disposals	—	—	(8,374)	(8,374)
Exchange adjustment	—	(1,986)	—	(1,986)
At 30 November 2002	116,342	21,864	29	138,235
Amounts written off:				
At 30 November 2001	—	20,208	8,374	28,582
Written back during the year	—	(1,028)	—	(1,028)
Disposals	—	—	(8,374)	(8,374)
Exchange adjustment	—	(1,621)	—	(1,621)
At 30 November 2002	—	17,559	—	17,559
Net book value:				
At 30 November 2002	116,342	4,305	29	120,676
At 30 November 2001	106,342	4,052	29	110,423

Other investments represent investments listed on the London Stock Exchange. The market value of these investments at 30 November 2002 was £29,000 (2001 – £1,146,000); if they had been sold at this value there would have been no liability to corporation tax on the capital gain arising from the sale.

Details of investments in which the group or the company holds more than 20% of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Time Warner Entertainment UK Limited	England and Wales	Ordinary shares	100%	Dormant
Warner Bros. Distributors Limited	England and Wales	Ordinary shares	100%	Film Distribution
Warner Bros. Productions Limited	England and Wales	Ordinary shares	100%	Film Production
Warner Home Video (UK) Limited	England and Wales	Ordinary shares	100%	Film Distribution Pre-recorded DVDs and Video Cassettes
Warner Bros. Theatres (Holdings) Limited*	England and Wales	Ordinary shares	100%	Management Services

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Warner Village Properties Limited*	England and Wales	Ordinary shares	50.01%	Property Holding
Warner Village Exhibition Limited*	England and Wales	Ordinary shares	50.01%	Film Exhibition
Warner Village (D&B) Limited*	England and Wales	Ordinary shares	50.01%	Construction
Warner Village Trustees Limited*	England and Wales	Ordinary shares	50.01%	Trustee Company
Warner Bros. Cinemas (Holdings) Limited*	England and Wales	Ordinary shares	100%	Holding Company
Warner Bros. Investment (Holdings) Limited	England and Wales	Ordinary shares	100%	Holding Company
Warner Bros. Theatres (UK) Limited	England and Wales	Ordinary shares	100%	Management Services
Warner Bros. Theatres Limited	England and Wales	Ordinary shares	100%	Investment Company
Warner Bros. Consumer Products (UK) Limited	England and Wales	Ordinary shares	100%	Licensing
Warner Bros. Feature Animation (UK) Limited	England and Wales	Ordinary shares	100%	Dormant
Lorimar-Telepictures International Limited*	England and Wales	Ordinary shares	100%	Television Programming Distribution
TWE Finance Limited	England and Wales	Ordinary shares	100%	Finance
TWE Mayfair Limited	England and Wales	Ordinary shares	100%	Investment
HBO UK Limited	England and Wales	Ordinary shares	100%	Finance and Investment
HBO Enterprises UK Limited	England and Wales	Ordinary shares	100%	Finance and Investment
Warner Bros. International Television Italia s.r.l.	Italy	Ordinary shares	100%	Film Distributors
Warner Bros. Channel Limited	England and Wales	Ordinary shares	100%	Dormant
Nabland Limited*	England and Wales	Ordinary shares	100%	Limited Partner in Film Partnership
Rainbowcheer Limited*	England and Wales	Ordinary shares	100%	General Partner in Film Partnership

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Subsidiary undertakings				
Hobby Films Limited*	England and Wales	Ordinary shares	100%	Film Production
Warner Home Video Limited	England and Wales	Ordinary shares	100%	Dormant
Deep Blue Productions Limited*	England and Wales	Ordinary shares	100%	Film Production
Sloane Square Films Limited	England and Wales	Ordinary shares	100%	Film Production
Warner Bros. Productions (Boulet) Limited	England and Wales	Ordinary shares	100%	Film Production
Harry Potter Limited*	England and Wales	Ordinary shares	100%	Dormant
Bridge Productions Limited*	England and Wales	Ordinary shares	100%	Dormant
Frightmares Productions Limited*	England and Wales	Ordinary shares	100%	Dormant
Frightmares Productions (IOM) Limited*	England and Wales	Ordinary shares	100%	Dormant

The group, through a subsidiary undertaking, has an interest in the capital of the following partnerships and joint venture undertakings:

<i>Name of undertaking</i>	<i>Proportion of voting rights held</i>	<i>Nature of business</i>
Warner Village Exhibition Properties Joint Venture	50.01%	Property Venture
Warner Village Exhibition Operating Assets Joint Venture	50.01%	Asset Rental
Warner Village Exhibition Management Partnership	50.01%	Management Venture
Warner Village Investments Limited Partnership	50%	Finance Venture

The principal office of the Warner Village Exhibition Management Partnership, Warner Village Exhibition Properties Joint Venture and Warner Village Exhibition Operating Assets Joint Venture is Warner House, 98 Theobald's Road, London WC1X 8WB. The group exercises a dominant influence over the partnerships as it holds 50.01% of the voting rights of the partnership. Furthermore the affirmative vote of all of the members of the subsidiary undertaking, which holds the investment, present and entitled to vote, is required in order to approve any matter. Therefore the partnership is included as a subsidiary undertaking.

Notes to the financial statements

at 30 November 2002

13. Investments (continued)

The principal office of the Warner Village Investments Limited Partnership is PO Box 3340, Dawson Road, Roadtown, Tortola, British Virgin Islands. Time Warner Entertainment Limited exercises a dominant influence over the partnership and it is, therefore, included as a subsidiary undertaking.

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Associated undertakings				
The Bountiful Company Limited	England and Wales	Ordinary and 'A' Ordinary shares	50%	Film Production
Channel Five Holdings Limited*	England and Wales	Ordinary shares	50%	Dormant
Filmbank Distributors Limited*	England and Wales	Ordinary shares	50%	Film Distributors
Filmbank Limited*	England and Wales	Ordinary shares	50%	Dormant
Joint ventures				
Warner Village (Design & Build) Limited*	England and Wales	Ordinary shares	50%	Construction
Warner Village Cinemas Limited*	England and Wales	Ordinary shares	50%	Film Exhibition
Warner Village Cinema Management Partnership*			50%	Management Venture
Warner Village Cinemas Properties Joint Venture*			50%	Property Venture
Warner Village Cinemas Operating Assets Joint Venture*			50%	Asset Rental Venture

The principal office of the Warner Village Cinema Management Partnership, Warner Village Cinemas Properties Joint Venture and Warner Village Cinemas Operating Assets Joint Venture is Warner House, 98 Theobald's Road, London WC1X 8WB.

*Held by a subsidiary undertaking.

Notes to the financial statements

at 30 November 2002

14. Film inventories

Group

	2002 £000	2001 £000
Completed films – cost	494,692	494,691
– less amortisation	(484,785)	(464,504)
	<u>9,907</u>	<u>30,187</u>
Films under production	15,320	1,527
	<u>25,227</u>	<u>31,714</u>

15. Stocks

Group

	2002 £000	2001 £000
Finished goods and goods for resale	4,357	6,560

The difference between the purchase price or production cost of stocks and their replacement cost is not material.

16. Debtors: amounts falling due within one year

	Group		Company	
	2002 £000	2001 £000	2002 £000	2001 £000
Trade debtors	87,795	78,978	–	125
Other debtors	5,531	6,440	491	163
Prepayments and accrued income	16,817	10,583	–	–
Group relief receivable	–	–	459	731
Corporation tax	9,058	10,711	6,550	8,838
Due from subsidiary undertakings	–	–	15,040	35,592
Due from joint venture undertakings	6,328	6,343	–	–
Due from group undertakings	100,337	113,177	15	21
Due from related undertakings	8,332	16,566	–	–
	<u>234,198</u>	<u>242,798</u>	<u>22,555</u>	<u>45,470</u>

Notes to the financial statements

at 30 November 2002

17. Debtors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£000	£000	£000	£000
Due from subsidiary undertakings	–	–	76,532	76,532
Due from group undertakings	95,000	–	–	–
	<u>95,000</u>	<u>–</u>	<u>76,532</u>	<u>76,532</u>

18. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£000	£000	£000	£000
Bank overdrafts	–	–	–	13,862
Trade creditors	80,099	101,512	–	–
Due to group undertakings	78,205	6,038	7,697	116,995
Due to associated undertakings	78	176	–	–
Due to related undertakings	1,639	–	–	–
Corporation tax payable	3,452	4,016	–	–
Other taxes and social security costs	14,104	8,841	–	–
Other creditors	3,230	2,651	489	11
Accruals	49,332	41,983	134	143
Deferred income	14	469	–	–
Obligations under finance leases (note 21)	–	80	–	–
Dividends	–	17,700	–	17,700
	<u>230,153</u>	<u>183,466</u>	<u>8,320</u>	<u>148,711</u>

19. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£000	£000	£000	£000
Loans (note 20)	–	–	130,000	21,000
Deferred contribution	1,680	1,742	–	–
	<u>1,680</u>	<u>1,742</u>	<u>130,000</u>	<u>21,000</u>

The deferred contribution relates to the development of a multiplex theatre to which developers have made a contribution. This amount is being amortised over the period of the lease and commenced on the opening of the theatre.

Notes to the financial statements

at 30 November 2002

20. Loans

	<i>Group</i>		<i>Company</i>	
	2002	2001	2002	2001
	£000	£000	£000	£000
Amounts owed to subsidiary undertakings:				
<u>Repayable within five years</u>				
Unsecured interest bearing loan at Barclays Bank Plc base rate plus 0.25% repayable on 26 October 2004	–	–	21,000	21,000
Unsecured interest bearing loan at Barclays Bank Plc base rate plus 0.25% repayable on 31 October 2007	–	–	109,000	–
	<u>–</u>	<u>–</u>	<u>130,000</u>	<u>21,000</u>

21. Leases

Obligations under finance leases:

<i>Group</i>	2002	2001
	£000	£000
Amounts payable:		
Within one year	1,043	83
In two to five years	4,718	–
In more than five years	14,673	–
	<u>20,434</u>	<u>83</u>
Less finance charge allocated to future periods	(6,555)	(3)
	<u>13,879</u>	<u>80</u>
Finance leases are analysed as follows:		
Current obligations (note 18)	–	80
Linked presentation (current assets – group balance sheet)	13,879	–
	<u>13,879</u>	<u>80</u>

Annual commitments under non-cancellable operating leases are as follows:

<i>Group</i>	<i>Land and buildings</i>		<i>Other</i>	
	2002	2001	2002	2001
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	–	–	106	102
Between two and five years	–	–	561	137
After more than five years	9,944	9,661	–	–
	<u>9,944</u>	<u>9,661</u>	<u>667</u>	<u>239</u>

Notes to the financial statements

at 30 November 2002

22. Provisions for liabilities and charges

Analysis of movement in provisions for liabilities and charges:

	<i>Losses from joint ventures £000</i>	<i>Deferred tax £000</i>	<i>Group Total £000</i>
At 30 November 2001 as restated	10,522	15,537	26,059
Provided during the year	2,211	—	2,211
Utilised during the year	—	(3,008)	(3,008)
At 30 November 2002	<u>12,733</u>	<u>12,529</u>	<u>25,262</u>

Analysis of the deferred taxation balance that is included in provisions for liabilities and charges above is:

	2002 £000	2001 as restated £000
Short term timing differences	2,268	5,816
Capital allowances in excess of depreciation	10,261	9,721
	<u>12,529</u>	<u>15,537</u>

23. Share capital

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2002 £000	2001 £000	2002 £000	2001 £000
Ordinary shares of £1 each	50,000	50,000	1	1
Redeemable preference shares of £1 each	50,000	50,000	27,149	27,149
	<u>100,000</u>	<u>100,000</u>	<u>27,150</u>	<u>27,150</u>

The Preference shares are convertible to ordinary shares at the shareholders option at any time, and are redeemable at the company's option at any time after 6 May 1996, but before 6 May 1991, at the nominal value per share.

The preference shares carry the right of one vote for each preference share held and the Ordinary shares 100,000 votes for each Ordinary share held. Each Preference share is entitled to receive by way of a dividend, £1 for every £100,000 received on an ordinary share and the same proportion on a winding-up of the company.

Notes to the financial statements

at 30 November 2002

24. Reserves

<i>Group</i>	<i>Other reserves £000</i>	<i>Profit and loss account £000</i>
At 30 November 2001- as previously reported	37,111	70,753
Prior year adjustment	—	310
At 30 November 2001- as restated	37,111	71,063
Profit for the year	—	17,370
Dividends	—	—
Exchange differences on retranslation of net investment in subsidiary and associated undertakings	—	5
At 30 November 2002	37,111	88,438

<i>Company</i>	<i>Other reserves £000</i>	<i>Profit and loss account £000</i>
At 30 November 2001	28,470	7,094
Profit for the year	—	22,279
Dividend paid	—	—
At 30 November 2002	28,470	29,373

25. Reconciliation of operating profit to net cash inflow/ (outflow) from operating activities

<i>Group</i>	<i>2002 £000</i>	<i>2001 £000</i>
Operating profit	26,343	16,888
Depreciation	8,723	11,600
Amortisation of film inventories	20,281	15,437
Loss on sale of tangible fixed assets	226	22
(Decrease) in deferred income, less amount released in year	(455)	(1,873)
Share of profit/ (loss) after tax of joint ventures and associated undertakings	492	(593)
(Increase)/decrease in debtors	(87,584)	(70,640)
(Increase) in film inventories	(13,794)	(2,870)
Decrease in stocks	2,203	1,760
Increase in creditors	65,378	16,481
Foreign exchange	369	17
Net cash inflow/ (outflow) from operating activities	22,182	(13,771)

Notes to the financial statements

at 30 November 2002

26. Analysis of net debt

	<i>At 30 November 2001 £000</i>	<i>Cash flow £000</i>	<i>At 30 November 2002 £000</i>
Cash at bank and in hand	16,617	(7,716)	8,901
	<u>16,617</u>	<u>(7,716)</u>	<u>8,901</u>
Obligations under finance leases	(80)	80	-
Capital provided by minority interest partner	(79,538)	(47)	(79,585)
Repayment of capital and loans to minority interest partner	26,265	3,523	29,788
	<u>(36,736)</u>	<u>(4,160)</u>	<u>(40,896)</u>

27. Contingent liabilities

The group and company have entered into a group composite accounting agreement with their 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 Time Warner Entertainment group members who are also parties to these arrangements. At the balance sheet date, funds deposited by the group and company into the system, and potentially at risk to cover liabilities elsewhere in the group, amounted to £95,136,000 (2001 – £48,856,000) for the group and £3,550,000 (2001 – £nil) for the company. The company has provided a further guarantee in respect of the above agreement. This guarantee covers borrowings drawn down under the terms of the above agreement by all the parties to the agreement, less any funds deposited by the same parties under the terms of the agreement. At the balance sheet date the liability under this guarantee was £nil (2001 – £nil).

The company has also acted as guarantor to leases of property occupied by subsidiary undertakings, the minimum annual rental payments of which amount to £9,127,000 (2001 – £8,249,000). Since May 2001 the company has been indemnified against minimum annual rental payments of £2,569,000 (2001 – £2,562,000) by the purchasers of a subsidiary undertaking.

A group company has acted as guarantor to leases of property occupied by other group undertakings, the minimum annual rental payments of which amount to £4,620,000. It has also acted as guarantor to leases of property occupied by an undertaking part owned by the group's ultimate holding company, the minimum annual rental payments of which amount to £4,013,000.

Notes to the financial statements

at 30 November 2002

28. Pensions

The company is one of the sponsoring employers of the Time Warner UK Pension Plan, which is a multi-employer defined benefit scheme. The scheme is self-administered and funded to cover past and future pension liabilities, including expected future earnings and pension increases, in respect of service up to the balance sheet date. The scheme is subject to independent valuations at least every three years, on the basis of which a qualified actuary certifies the rate of the employers' contributions, which together with the specified contributions payable by the employees and proceeds from the scheme's assets, are sufficient to fund the benefits payable under the scheme. The assets of the scheme are held in separately administered funds.

The last full actuarial valuation for the Time Warner UK Pension Plan was prepared as at 5 April 2002. The main assumptions used by the actuary at 5 April 2002 were:

Rate of increase in salaries	–	3.9% to 4.9%
Rate of increase for pensions in payment	–	2.6% to 2.9%
Rate of return on investments	–	5.8% to 7.2%

The total market value of the assets of the whole plan was £50.5 million. The valuation showed that the assets at 5 April 2002, were adequate to secure 88% of the benefits payable to pensioners, members who had left service with deferred benefits and the benefits which contributing members had earned in respect of pensionable service to and pensionable salary at that date. As a result of this valuation, contributions from employees remain unchanged and employers' contributions were set at rates between 11.9% and 16.3% of pensionable salary depending on the division of the group that the pension scheme member is employed by.

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. 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 employers. Participating employers are principally the subsidiaries of the group and the subsidiaries of Time Warner Limited. Consequently information concerning the part of the plan assets attributable to the group is not available.

The disclosures at 30 November 2001 were based on a projection of the actuarial valuation as at 6 April 1999 updated to 30 November 2001, when the assets were apportioned on an approximated and reasonable basis between participating employers to reflect their relative experience. Although in 2001 it was possible to calculate the group's share of plan assets on a reasonable basis, it has proven impossible to determine a basis for allocating the plan assets at 30 November 2002 that is both consistent and reasonable as required by FRS17. As a consequence the amended disclosures reflect the position of the plan as a whole rather than that of the group.

The valuation was updated at 30 November 2002. The additional transitional disclosures required by FRS17 for the plan as a whole are set out below:

Actuarial assumptions

	<i>30 November 2002</i>	<i>30 November 2001</i>
Rate of increase of salaries:		
staff	3.3%	3.4%
executives	4.3%	4.4%
Rate of increase in pensions in payment	2.3%	2.4%
Discount rate	5.7%	5.6%
Inflation assumption	2.3%	2.4%

Notes to the financial statements

at 30 November 2002

28. Pensions (continued)

Actual and expected rate of return on assets

	<i>Expected long term rate of return 30 November 2002 % p.a.</i>	<i>Approximate proportion of assets at 30 November 2002 %</i>	<i>Expected long term rate of return 30 November 2001 % p.a.</i>	<i>Approximate proportion of assets at 30 November 2001 %</i>
Equities	7.7%	78%	6.7%	81%
Bonds	5.2%	16%	5.2%	13%
Cash	4.0%	6%	4.0%	6%
Total	7.1%	100%	6.3%	100%

The actual return of plan assets for the year ended 30 November 2002 was (14.0%).

Impact on net assets if FRS17 pension liability was recognised

	<i>30 November 2002 £000</i>	<i>30 November 2001 £000</i>
Market value of scheme assets	46,574	47,504
Present value of scheme liabilities	(61,303)	(61,689)
Deficit in scheme	(14,729)	(14,185)
Related deferred tax	4,419	4,256
Net FRS17 pension liability	(10,310)	(9,929)
Net assets excluding pension liability	152,699	135,324
Net assets including pension liability	142,389	125,395

Impact on net assets if FRS17 pension liability was recognised

	<i>30 November 2002 £000</i>	<i>30 November 2001 £000</i>
Profit and loss reserve excluding pension liability	88,438	71,063
Net FRS17 pension liability	(10,310)	(9,929)
Profit and loss reserve if FRS17 pension liability is recognised	78,128	61,134

Notes to the financial statements

at 30 November 2002

28. Pensions (continued)

Amounts to be charged to profit and loss account under FRS17

	30 November 2002
Current employer contribution rate	13.7%
Current service cost as a percentage of basic salary	14.7%
	£000
Current service cost	4,613
Past service cost	-
Total charge to operating profit	4,613
Expected return on assets	(3,181)
Interest on liabilities	3,332
Total finance (income)/ charge	151
Total profit and loss charge	4,764

Amounts to be included in statement of total recognised gains and losses under FRS17

	30 November 2002 £000
Actual return less expected return on assets	(10,528)
Experience gains and losses	6,000
Changes in assumptions	3,193
Actuarial loss to be recognised in statement of total recognised gains and losses	(1,335)

Analysis of movement in deficit during the year

	£000
Deficit in scheme at 1 December 2001	(14,185)
Current service cost	(4,613)
Contributions paid	5,555
Past service cost	-
Other finance income/ (charge)	(151)
Actuarial gain/ (loss)	(1,335)
Deficit in scheme at 30 November 2002	(14,729)

Notes to the financial statements

at 30 November 2002

28. Pensions (continued)

History of experience gains and losses

Difference between the expected and actual return on scheme assets:	
Amount	(£10,528,000)
As a % of scheme assets	(22.6%)
Total amount recognised in the statement of total recognised gains and losses:	
Amount	£6,000,000
As a % of present value of the scheme liabilities	9.8%
Experience gains and losses on scheme liabilities	
Amount	(£1,335,000)
As a % of present value of the scheme liabilities	(2.2%)

The next actuarial valuation of the Time Warner UK Pension Plan is due as at 5 April 2005, the outcome of which when available, will indicate the level of contributions to be paid by the employing companies with effect from that date onwards.

29. Capital commitments

Group

	2002	2001
	£000	£000
Contracted for but not provided in the financial statements	—	—

30. Related party transactions

On 28 February 2001 Warner Village Exhibition Limited ("WVE") entered into loan agreements to lend £1.75 million to Warner Bros. Theatres Holding Limited ("WBTH") and £1.75 million to Village Roadshow Theatres Europe Limited ("VRTE"). Interest is charged on the loans at base rate plus 1% per annum. On 28 February 2002 WBTH and VRTE both repaid the loan.

On 1 March 2002 WVE entered into loan agreements to lend £1.75 million to WBTH and £1.75 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

On 29 May 2001 WVE entered into loan agreements to lend £1.5 million to WBTH and £1.5 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum. On 28 May 2002 WBTH and VRTE both repaid the loan.

On 30 May 2002 WVE entered into loan agreements to lend £1.5 million to WBTH and £1.5 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

On 14 August 2001 WVE entered into loan agreements to lend £2.25 million to WBTH and £2.25 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum. On 13 August 2002 WBTH and VRTE both repaid the loan.

On 15 August 2002 WVE entered into loan agreements to lend £2.25 million to WBTH and £2.25 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

Notes to the financial statements

at 30 November 2002

30. Related party transactions (continued)

On 25 November 2002 WVE entered into loan agreements to lend £1.5 million to WBTH and £1.5 million to VRTE. Interest is charged on the loans at base rate plus 1% per annum.

A licence fee of £2.1 million each was payable to Time Warner Entertainment Company L.P. and Village Roadshow Hungary Rt., a VRTE related company (2001 – £1.9 million).

At the balance sheet date amounts of £0.5 million each were owed to both Time Warner Entertainment Company L.P. and Village Roadshow Hungary Rt. (2001 – £3.1 million each) in respect of licence fees.

VRTE, a company which has an interest in some of the subsidiary and joint ventures detailed in note 13, and Warner Bros. Theatres (UK) Limited, provided Warner Village Exhibition Management Partnership, WVE and Warner Village (D&B) Limited with consultancy and other services during the year.

In the normal course of conducting their businesses the Time Warner Entertainment group has had various transactions with members of the Time Warner Inc., group of undertakings, generally on terms resulting from the negotiations between the affected businesses. In the opinion of the directors such transactions are not material.

31. Post balance sheet events

Details of material post balance sheet events are provided in the Directors' Report.

32. Ultimate parent undertaking

The next largest group in whose financial statements the company is consolidated at 30 November 2002 is Time Warner Entertainment Company, L.P., a limited partnership incorporated in the United States of America.

At 30 November 2002, 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 Time Warner Inc.'s financial statements can be obtained from 75 Rockefeller Plaza, New York, NY 10019, USA.