

Warner Bros. Distributors Limited

Registered No. 259661

DIRECTORS

R J Fox
T C Lima
E H Senat
C J Young
E E Frumkes

SECRETARY

D R Brander

AUDITORS

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

BANKERS

Barclays Bank PLC
Barclays Business Centre
Hanover Square Branch
8/9 Hanover Square
London W1A 4ZW

REGISTERED OFFICE

135 Wardour Street
London W1V 4AP



Warner Bros. Distributors Limited

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 28 November 1998.

RESULTS AND DIVIDENDS

The profit for the period, after taxation, amounted to £6,588,000 (1997 – profit of £5,101,000).

The directors do not recommend payment of a dividend. This leaves retained earnings of £22,137,000 to be carried forward.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The company is principally engaged in the distribution of cinematograph films. The directors intend that the company will continue to expand its policy of film distribution.

FIXED ASSETS

The company sold its freehold and short leasehold property during the period for £6.3 million which is in excess of the net book value and which realised a gain on disposal.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the period were as shown on page 1.

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

YEAR 2000

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

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

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

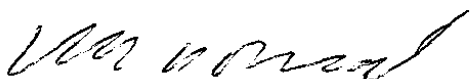
Warner Bros. Distributors Limited

DIRECTORS' REPORT

AUDITORS

In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 3 December 1993. Accordingly, Ernst & Young shall be deemed to be reappointed as auditors.

By order of the Board



Secretary

23 June 1999

Warner Bros. Distributors Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Warner Bros. Distributors Limited

We have audited the accounts on pages 6 to 16, which have been prepared under the historical cost convention as modified by the revaluation of freehold and short leasehold land and buildings and on the basis of the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

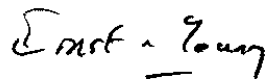
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 28 November 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
London

27 June 1999

Warner Bros. Distributors Limited

PROFIT AND LOSS ACCOUNT

for the period ended 28 November 1998

		<i>Period to 28 November 1998</i>	<i>Period to 29 November 1997</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
TURNOVER	2	102,231	120,360
Cost of sales		95,079	110,853
Gross profit		7,152	9,507
Administrative expenses		12,882	12,101
Other operating income		(5,730) 13,147	(2,594) 10,734
OPERATING PROFIT	3	7,417	8,140
Profit on disposal of fixed assets	4	1,508	—
Interest receivable	7	390	116
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		9,315	8,256
Tax charge on profit on ordinary activities	8	(2,727)	(3,155)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		6,588	5,101
Dividends		—	(3,500)
PROFIT RETAINED FOR THE FINANCIAL PERIOD	14	6,588	1,601

Warner Bros. Distributors Limited

PROFIT AND LOSS ACCOUNT

for the period ended 28 November 1998

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	<i>1998</i> <i>£000</i>	<i>1997</i> <i>£000</i>
Reported profit on ordinary activities before taxation	9,315	8,256
Realisation of property revaluation gains from previous periods	4,431	—
Difference between a historical cost depreciation charge and the actual depreciation charge of the period calculated on the revalued amount	—	50
Historical cost profit on ordinary activities before tax	<u>13,746</u>	<u>8,306</u>
Historical cost profit for the period retained after tax	<u>11,019</u>	<u>1,651</u>

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

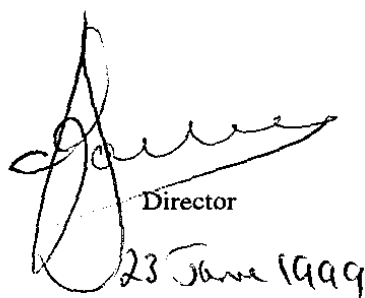
There are no recognised gains or losses other than the profit attributable to shareholders of the company of £6,558,000 in the period ended 28 November 1998 and of £5,101,000 in the period ended 29 November 1997.

Warner Bros. Distributors Limited

BALANCE SHEET

at 28 November 1998

		28 November 1998	29 November 1997
	Notes	£000	£000
FIXED ASSETS			
Tangible assets	9	2,290	5,941
Investments	10	—	—
		<u>2,290</u>	<u>5,941</u>
CURRENT ASSETS			
Debtors	11	54,289	51,508
Cash at bank and in hand		10,715	307
		<u>65,004</u>	<u>51,815</u>
CREDITORS: amounts falling due within one year	12	42,293	39,343
NET CURRENT ASSETS		<u>22,711</u>	<u>12,472</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>25,001</u>	<u>18,413</u>
CAPITAL AND RESERVES			
Called up share capital	13	1	1
Capital reserve	14	2,863	2,863
Revaluation reserve	14	—	4,181
Profit and loss account	14	22,137	11,368
Shareholders' funds		<u>25,001</u>	<u>18,413</u>


Director
23 June 1999

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

1. ACCOUNTING POLICIES

Accounting period

The company prepares accounts for either 52 or 53 week periods ending within one week of 30 November.

Accounting convention

The accounts are prepared under the historical cost convention, modified to include the revaluation of freehold and short leasehold land and buildings. The accounts have been prepared in accordance with applicable accounting standards.

Film licence income

Non-returnable advances receivable under film licence agreements are recognised evenly over the period of the licence.

Depreciation

The company provides depreciation in equal annual instalments over the estimated lives of the assets at the following rates:

Freehold land and buildings	—	over 50 years
Short-leasehold land and buildings	—	over the remaining lease term
Leasehold improvements	—	over 5 years
Furniture, fittings and equipment	—	over 3 to 5 years

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange 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.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Leasing commitments

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

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.

Related parties

The company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with fellow wholly owned group undertakings.

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

2. TURNOVER

Turnover represents gross film rental income earned, and film licence income, excluding valued added tax. No credit is taken in the accounts for film rental income until billings are prepared based on exhibitors' returns.

An analysis of turnover by geographical market is given below:

	<i>Period to 28 November 1998</i>		<i>Period to 29 November 1997</i>	
	<i>£000</i>	<i>%</i>	<i>£000</i>	<i>%</i>
United Kingdom and Eire	22,746	22.25	19,154	15.91
America and Canada	79,334	77.60	101,098	84.00
Other territories	151	0.15	108	0.09
	<u>102,231</u>	<u>100.00</u>	<u>120,360</u>	<u>100.00</u>

3. OPERATING PROFIT

This is stated after charging/(crediting):

	<i>Period to 28 November 1998 £000</i>	<i>Period to 29 November 1997 £000</i>
Directors' remuneration (see note 5)	223	217
Operating lease rentals – plant and machinery	156	163
– land and buildings	1,801	1,483
Auditors' remuneration	18	18
Depreciation	669	601
Management fees	(11,356)	(9,999)

4. EXCEPTIONAL ITEMS

	<i>Period to 28 November 1998 £000</i>	<i>Period to 29 November 1997 £000</i>
Profit on disposal of land and buildings	1,508	–

The effect on the taxation charge for the year of the exceptional items recognised below operating profit is disclosed in note 8.

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

5. DIRECTORS' REMUNERATION

	<i>Period to 28 November 1998 £000</i>	<i>Period to 28 November 1997 £000</i>
Emoluments	198	186
Company contributions paid to defined benefit pension schemes	25	31
	<i>1998 No.</i>	<i>1997 No.</i>
Members of defined benefit pension schemes	2	2

6. STAFF COSTS

	<i>Period to 28 November 1998 £000</i>	<i>Period to 29 November 1997 £000</i>
Wages and salaries	6,775	6,005
Social security costs	595	539
Other pension costs	599	690
	7,969	7,234

The average monthly number of employees during the period was 152 (1997 – 151). All were engaged in administration and marketing.

7. INTEREST RECEIVABLE

	<i>Period to 28 November 1998 £000</i>	<i>Period to 29 November 1997 £000</i>
Interest receivable from group undertakings	381	85
Bank interest receivable	9	9
Other interest receivable	–	22
	390	116

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

The charge in the profit and loss account comprises:

	<i>Period to 28 November 1998 £000</i>	<i>Period to 29 November 1997 £000</i>
Based on the profit for the period		
Corporation tax	(3,089)	(2,968)
Double tax relief	175	—
	(2,914)	(2,968)
Overseas taxation	(175)	68
	(3,089)	(2,900)
Corporation tax over/(under) provided in previous periods	362	(255)
	(2,727)	(3,155)

The tax effect in the profit and loss account relating to the exceptional items recognised below operating profit is a charge of £593,000, which is reflected in the above provision.

9. TANGIBLE FIXED ASSETS

	<i>Assets in the course of construction £000</i>	<i>Freehold land and buildings £000</i>	<i>Short Leasehold land and buildings £000</i>	<i>Fixtures and fittings £000</i>	<i>Equipment £000</i>	<i>Total £000</i>
Cost or valuation:						
At 29 November 1997	—	1,521	5,607	1,108	2,983	11,219
Additions	1,185	—	188	4	415	1,792
Transfers	—	—	—	—	6	6
Disposals	—	(1,521)	(3,856)	(879)	(1)	(6,257)
At 28 November 1998	1,185	—	1,939	233	3,403	6,760
Depreciation:						
At 29 November 1997	—	264	1,888	934	2,192	5,278
Provided during the year	—	—	226	72	371	669
Transfers	—	—	—	—	2	2
Disposals	—	(264)	(372)	(842)	(1)	(1,479)
At 28 November 1998	—	—	1,742	164	2,564	4,470
Net book value:						
At 28 November 1998	1,185	—	197	69	839	2,290
At 29 November 1997	—	1,257	3,719	174	791	5,941

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

9. TANGIBLE FIXED ASSETS (continued)

The freehold and short leasehold land and buildings which were valued on an open market basis as at 23 April 1987 in the sum of £5.7 million were sold during the period for £6.3 million.

For the freehold and short leasehold land and buildings included at valuation:

	<i>Freehold land and buildings £000</i>	<i>Short leasehold land and buildings £000</i>
Historical cost:		
At 29 November 1997	27	2,669
Disposals	(27)	(2,669)
At 28 November 1998	—	—
Cumulative depreciation based on cost:		
At 29 November 1997	—	969
Disposals	—	(969)
At 28 November 1998	—	—

10. INVESTMENTS

(a) Investment in subsidiary undertakings:

	<i>£</i>
Cost:	
At 28 November 1998 and 29 November 1997	100

The investment represents 100% of the ordinary share capital of Lorimar-Telepictures International Limited, a company registered in England and Wales.

Group accounts have not been prepared as the company is a wholly owned subsidiary undertaking of another company registered in England and Wales (see note 20). Consequently, these accounts present information about the company as an individual undertaking and not about its group.

(b) Investment in associated undertaking:

	<i>28 November 1998 £</i>	<i>29 November 1997 £</i>
Investment at cost	75	75

The investment in associated undertaking comprises an investment in Filmbank Distributors Limited and represents 50% of the Ordinary share capital. Filmbank Distributors Limited is engaged in the distribution of filmed entertainment in non-theatrical markets.

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS at 28 November 1998

11. DEBTORS

	<i>28 November 1998 £000</i>	<i>29 November 1997 £000</i>
Trade debtors	2,388	1,477
Other debtors	1,335	3,101
Prepayments and accrued income	643	397
Amounts owed by group undertakings	49,854	44,837
Amounts owed by associated undertakings	69	71
ACT recoverable	—	1,625
	<u>54,289</u>	<u>51,508</u>

12. CREDITORS: amounts falling due within one year

	<i>28 November 1998 £000</i>	<i>29 November 1997 £000</i>
Bank overdraft	20	1,383
Trade creditors	4,750	3,764
Other taxes and social security costs	359	30
Corporation tax	2,819	3,105
Accruals	1,639	1,092
Amounts owed to associated undertakings	120	—
Amounts owed to group undertakings	32,586	29,094
ACT payable	—	875
	<u>42,293</u>	<u>39,343</u>

13. SHARE CAPITAL

	<i>28 November 1998 £</i>	<i>29 November 1997 £</i>
Authorised, allotted, called up and fully paid: 1,100 Ordinary shares of £1 each	<u>1,100</u>	<u>1,100</u>

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

14. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £000	Capital reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
Balance at 30 November 1996	1	2,863	4,231	9,717	16,812
Profit for the period	—	—	—	5,101	5,101
Dividend payable	—	—	—	(3,500)	(3,500)
Transfer to profit and loss account	—	—	(50)	50	—
Balance at 29 November 1997	1	2,863	4,181	11,368	18,413
Profit for the period	—	—	—	6,588	6,588
Realised revaluation surplus	—	—	(4,181)	4,181	—
Balance at 28 November 1998	1	2,863	—	22,137	25,001

15. CAPITAL COMMITMENTS

There were no capital commitments contracted for and not provided in the accounts at either 28 November 1998 or 29 November 1997.

16. OTHER FINANCIAL COMMITMENTS

The company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	28 November 1998	29 November 1997	28 November 1998	29 November 1997
	£000	£000	£000	£000
Operating leases which expire:				
Within one year	817	—	20	45
In the second to fifth years inclusive	—	—	80	112
In over five years	1,551	1,544	—	—
	2,368	1,544	100	157

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 drawn 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 £10,938,000.

18. CASH FLOW STATEMENT

A cash flow statement has not been prepared as the company is a wholly owned subsidiary of another company registered in England and Wales (see note 20).

Warner Bros. Distributors Limited

NOTES TO THE ACCOUNTS

at 28 November 1998

19. PENSIONS

The company is one of the sponsoring employers of the Time Warner UK Pension Plan which is a defined benefit scheme. The assets of the scheme are held in a separately administered fund.

The pension cost relating to the plan is assessed in accordance with the advice of a qualified actuary using the projected unit method. The latest actuarial assessment of the plan was at 6 April 1996 and details of this actuarial valuation are disclosed in the accounts of Time Warner Entertainment Limited.

20. ULTIMATE PARENT UNDERTAKING

Time Warner Entertainment Limited is the parent undertaking of the smallest group of undertakings of which the company is a member and for which group accounts are drawn up. Time Warner Entertainment Limited is registered in England and Wales and copies of its accounts can be obtained from the Registrar of Companies in Cardiff.

The largest group in whose accounts the company is consolidated is Time Warner Entertainment Company L.P., a limited partnership incorporated in the United States of America.

The ultimate parent undertaking is Time Warner Inc., a company incorporated in the United States of America.