

Paramount Home Entertainment International Limited

(Registered Number 2139689)

Directors' Report And Financial Statements Year Ended 31 December 2003



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COMPANIES HOUSE 27/05/05

Paramount Home Entertainment International Limited

Directors' Report for the year ended 31 December 2003

The director presents their report and the audited financial statements of the company for the year ended 31 December 2003.

Principal activity

The company's principal activity during the year was to provide professional and consulting services to Viacom International (Netherlands) B.V. on a cost plus 8% basis.

Review of business and future developments

No major changes are envisaged for the company in the future.

Profit and dividend

The company's profit for the financial year was \$ 855,000 (2002: \$421,000). The director does not recommend the payment of a dividend (2002: \$nil). \$ 855,000 has been transferred to reserves (2002: \$421,000).

Directors and their interests

| | Shares of the company | |
|---|-----------------------|------|
| | 2003 | 2002 |
| Paramount Home Entertainment International B.V. (PHEI BV) | 100% | 100% |

PHEI BV is also a shareholder in several of the company's fellow subsidiary undertakings.

Charitable donations

There were no charitable donations during the year (2002: \$nil).

Paramount Home Entertainment International Limited

Directors' Report for the year ended 31 December 2003 (Continued)

Statement of directors' responsibilities

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.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the next annual general meeting.

By Order of the Board



For and on behalf of Paramount Home Entertainment International B.V
R. Affourtit

22 April 2005

45 Beadon Road
London
W6 0EG

Independent auditors' report to the members of Paramount Home Entertainment International Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 is not disclosed.

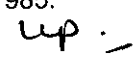
Basis of audit opinion

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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Yusuf Mousa Cooper 
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

22 April 2005

Paramount Home Entertainment International Limited

Profit And Loss Account for the year ended 31 December 2003

| | Notes | 2003 \$'000 | 2002 \$'000 |
|--|-------|----------------|----------------|
| Turnover | 3 | 9,436 | 13,737 |
| Administrative expenses | | (8,737) | (12,906) |
| Other operating income/(charges) | | 623 | (376) |
| Operating profit | 4 | 1,322 | 455 |
| Interest receivable and similar income | 7 | 9 | 101 |
| Interest payable and similar charges | 8 | (39) | (181) |
| Profit on ordinary activities before taxation | | 1,292 | 375 |
| Tax on profit on ordinary activities | 9 | (437) | 46 |
| Retained profit for the year | 15 | 855 | 421 |

The results for 2003 were derived from continuing activities.

There is no difference between the profit as reported and that on a historic cost basis.

The company had no recognised gains or losses other than those reflected in the profit and loss account above. Accordingly, no separate statement of total recognised gains and losses has been presented.

Paramount Home Entertainment International Limited

Balance Sheet as at 31 December 2003

| | Notes | 2003 \$'000 | 2002 \$'000 |
|--|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 11 | 5,383 | 6,073 |
| Current assets | | | |
| Debtors | 12 | 30,206 | 26,824 |
| Cash at bank and in hand | | 109 | 638 |
| | | 30,315 | 27,462 |
| Creditors - amounts falling due within one year | 13 | (28,506) | (27,198) |
| Net current assets | | 1,809 | 264 |
| Net assets | | 7,192 | 6,337 |
| Capital and reserves | | | |
| Called up share capital | 14 | 17 | 17 |
| Profit and loss account | 15 | 7,175 | 6,320 |
| Total equity shareholders' funds | 16 | 7,192 | 6,337 |

The financial statements on pages 6 to 19 were approved by the Board of Directors on 22 April 2005 and were signed on its behalf by:



For and on behalf of Paramount Home Entertainment International B.V.
R. Affourtit

Paramount Home Entertainment International Limited

Notes To The Financial Statements for the year ended 31 December 2003

1 Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

a) Basis of preparation

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

b) Reporting currency

Because of the international nature of the company's activities and the relative convenience with which most currencies may be exchanged for US Dollars, the records of the group are maintained in US Dollars.

Fixed assets are translated into US Dollars at the rate prevailing in the month of acquisition and are then maintained at historical US Dollar values.

Other assets and liabilities in foreign currencies of the company are translated at a rate of exchange which approximates to the rate prevailing at the balance sheet date. Transactions in foreign currencies are recorded at the rate of exchange prevailing at the date of the transaction. Exchange rate differences are dealt with in the profit and loss account. The December 2003 rate is 1.74540 (2002: 1.57940).

c) Turnover

Turnover is comprised of the invoiced value of services supplied net of value added tax. Turnover is recognised on the provision of professional and consulting services to Viacom International (Netherlands) B.V., a fellow subsidiary undertaking.

d) Tangible fixed assets

Tangible fixed assets are stated at cost. Depreciation is charged on a straight-line basis to write off the cost of the assets (less the estimated residual value) over their estimated useful lives.

Useful economic lives are:

| | | |
|------------------------|---|----------------------|
| Office equipment | - | 3 - 10 years |
| Motor vehicles | - | 3 years |
| Leasehold improvements | - | Over period of lease |

Paramount Home Entertainment International Limited

Notes To The Financial Statements for the year ended 31 December 2003

(Continued)

1 Accounting Policies (Continued)

e) Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is provided in full on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

f) Pension costs

The company participates in a group pension scheme arrangement which provides defined benefits. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pension over the estimated service life of the employees.

g) Leasing and hire purchase commitments

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

2 Cash Flow Statement And Related Party Disclosures

The company is a subsidiary undertaking where 90% or more of the voting rights are controlled within the Viacom Inc. Group and is included in the consolidated financial statements of that group, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996). The company is also exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the Viacom Inc. Group or investees of that group (see note 19).

Paramount Home Entertainment International Limited

Notes To The Financial Statements for the year ended 31 December 2003

(Continued)

3 Turnover

Analysis of turnover by geographical location:

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Netherlands | 9,436 | 13,737 |
| | 9,436 | 13,737 |
| Turnover includes: | | |
| Income receivable from fellow subsidiary undertakings | 9,436 | 13,737 |

Turnover is recognised on the provision of professional and consulting services to Viacom International (Netherlands) B.V., a fellow subsidiary undertaking.

4 Operating Profit

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Operating profit for the year is stated after charging/(crediting): | | |
| Depreciation of tangible fixed assets (Note 11) | 2,012 | 2,177 |
| Operating lease rentals | 763 | 1,176 |
| – land & buildings | | |
| – Other | 24 | 22 |
| Profit on disposal of fixed assets | (54) | (13) |
| Auditors' remuneration | 59 | 62 |
| – audit services - statutory accounts | | |
| Foreign exchange (gains)/losses | (98) | 81 |

Paramount Home Entertainment International Limited

Notes To The Financial Statements for the year ended 31 December 2003

(Continued)

5 Employee Information

Staff costs during the year were as follows:

| | 2003 \$'000 | 2002 \$'000 |
|-------------------------|----------------|----------------|
| Wages and salaries | 2,275 | 3,370 |
| Social security costs | 279 | 362 |
| Pension costs (Note 18) | 54 | 75 |
| Staff costs | 2,608 | 3,807 |

The average number of persons employed by the company during the year was as follows:

| | 2003 Number | 2002 Number |
|--|----------------|----------------|
| Finance and Management Information Systems | 14 | 22 |
| Product Services/Marketing | 9 | 12 |
| Other | 7 | 12 |
| | 30 | 46 |

6 Directors' Emoluments

The directors did not receive any emoluments through this company (2002: nil).

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

7 Interest Receivable And Similar Income

| | 2003 \$'000 | 2002 \$'000 |
|--------------------------|----------------|----------------|
| Bank interest receivable | 9 | 101 |
| | 9 | 101 |

8 Interest Payable And Similar Charges

| | 2003 \$'000 | 2002 \$'000 |
|-----------------------|----------------|----------------|
| Bank interest payable | 39 | 181 |
| | 39 | 181 |

9 Tax On Profit On Ordinary Activities

| | 2003 \$'000 | 2002 \$'000 |
|--|----------------|----------------|
| Tax on profit on ordinary activities: | | |
| The charge/(credit) for the year is based on the results for the year and is comprised of the following: | | |
| UK Corporation Tax on profits of the year at 30% (2002: 30%) | 330 | 98 |
| Adjustment in respect of previous periods | 174 | (155) |
| Total current tax charge/(credit) | 504 | (57) |
| Deferred tax: | | |
| Origination and reversal of timing differences | (63) | 42 |
| Adjustment in respect of previous periods | (25) | (31) |
| Total deferred tax (credit)/ charge | (88) | 11 |
| Total tax charge/(credit) | 437 | (46) |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

9 Tax On Profit On Ordinary Activities (continued)

The tax assessed for the year varied from the amount computed by applying the standard rate of corporation tax in the UK (30%) to the profit on ordinary activities before tax. The differences were attributed to the following factors:

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Profit on ordinary activities before tax | 1,292 | 375 |
| Profit on ordinary activity multiplied by the standard rate of tax in the UK in 2003 of 30% (2002: 30%) | 388 | 112 |
| Effects of: | | |
| Expenses not deductible for tax purposes | (121) | 28 |
| Capital allowances in excess of depreciation | (12) | (12) |
| Utilisation of ACT | - | (30) |
| Other short term timing differences | 75 | - |
| Adjustment to tax charge in respect of previous periods | 174 | (155) |
| Total current tax charge/(credit) for the year | 504 | (57) |

Deferred tax is measured on a non discounted basis at the tax rate which is expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date.

The deferred tax (credit)/charge was mainly as a result of the tax effect of timing differences as follows:

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Accelerated capital allowances | 12 | 12 |
| Advanced corporation tax | - | 30 |
| Other timing differences | (75) | - |
| Adjustment in respect of previous periods | (25) | (31) |
| Total deferred tax (credit)/charge | (88) | 11 |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

10 Deferred Taxation

The elements of deferred taxation provided for in the financial statements are as follows:

| | 2003 \$'000 | 2002 \$'000 |
|---------------------------------|----------------|----------------|
| Accelerated capital allowances | 169 | 156 |
| Other timing differences | 75 | - |
| Total deferred tax asset | 244 | 156 |

Deferred tax asset:

| | | |
|--------------------------------------|--------------|--------------|
| At 1 January 2003 | (156) | (167) |
| Adjustment in respect of prior years | (25) | (31) |
| Charged against profit for the year | (63) | 42 |
| At 31 December 2003 | (244) | (156) |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

11 Tangible Fixed Assets

| | Leasehold improvements \$ '000 | Office Equipment and Machinery \$ '000 | Motor vehicles \$ '000 | Total \$ '000 |
|--|--------------------------------------|--|---------------------------|------------------|
| Cost | | | | |
| Balance at 1 January 2003 | 731 | 12,107 | 374 | 13,212 |
| Additions | 29 | 1,393 | 95 | 1,517 |
| Disposals | (198) | (50) | (147) | (395) |
| Balance at 31 December 2003 | 562 | 13,450 | 322 | 14,334 |
| Accumulated Depreciation | | | | |
| Balance at 1 January 2003 | 102 | 6,688 | 349 | 7,139 |
| Charge for the year | 92 | 1,871 | 49 | 2,012 |
| Disposals | (3) | (50) | (147) | (200) |
| Balance at 31 December 2003 | 191 | 8,509 | 251 | 8,951 |
| Net Book Value | | | | |
| Net Book Value at 31 December 2003 | 371 | 4,941 | 71 | 5,383 |
| Net Book Value at 31 December 2002 | 629 | 5,419 | 25 | 6,073 |

12 Debtors

| | 2003 \$'000 | 2002 \$'000 |
|------------------------------------|----------------|----------------|
| Deferred tax (see Note 10) | 244 | 156 |
| Amounts owed by group undertakings | 29,378 | 26,258 |
| Value added tax receivable | 489 | 133 |
| Other debtors | 15 | 70 |
| Prepayments and accrued income | 80 | 207 |
| | 30,206 | 26,824 |

Amounts owed by group undertakings are interest free, unsecured and repayable on demand.

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

13 Creditors

| | 2003 \$'000 | 2002 \$'000 |
|------------------------------------|----------------|----------------|
| Trade creditors | 172 | 496 |
| Amounts owed to group undertakings | 23,622 | 22,958 |
| Corporation tax payable | 175 | 61 |
| Social security | 129 | 41 |
| Accruals and deferred income | 1,378 | 945 |
| Other payables | 3,030 | 2,697 |
| | 28,506 | 27,198 |

Amounts owed to group undertakings are interest free, unsecured and repayable on demand.

14 Share Capital

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Authorised: | | |
| 1,000 ordinary shares of £100 each | 156 | 156 |
| Allotted, called up and fully paid | | |
| 100 ordinary shares of £100 each | 17 | 17 |

15 Reserves

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Profit and loss account at 31 December 2002 | 6,320 | 5,899 |
| Retained profit for the year | 855 | 421 |
| Profit and loss account at 31 December 2003 | 7,175 | 6,320 |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

16 Reconciliation Of Movements In Shareholders' Funds

| | 2003 \$'000 | 2002 \$'000 |
|-------------------------------------|----------------|----------------|
| Profit for the financial year | 855 | 421 |
| Net increase in shareholders' funds | 855 | 421 |
| Opening shareholders' funds | 6,337 | 5,916 |
| Closing shareholders' funds | 7,192 | 6,337 |

| | Share capital \$'000 | Profit and loss account \$'000 |
|------------------------------|-------------------------|--------------------------------------|
| 1 January 2003 | 17 | 6,320 |
| Retained profit for the year | - | 855 |
| At 31 December 2003 | 17 | 7,175 |

17 Operating lease commitments

At 31 December 2003 the company was committed to make payments during the next year under non-cancellable operating leases as follows:

| | 2003 \$'000 | 2002 \$'000 |
|------------------------------|----------------|----------------|
| Leases which expire: | | |
| - within one year | | |
| Building | 507 | 442 |
| Other | 2 | 2 |
| - between two and five years | | |
| Buildings | 507 | 883 |
| Other | 2 | 13 |
| | 1,018 | 1,340 |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

18 Pensions

The company participates in a group pension scheme arrangement, The CIC, UCI and UIP Companies Pension Plan, which provides defined benefits for certain United Kingdom employees. The assets of this funded scheme are held in a separate trustee administered fund. The contributions are assessed in accordance with the advice of an independent qualified actuary.

The most recent valuation was as of 31 December 2003, using the projected unit method of valuation and has been updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003.

The major financial assumptions used in the calculations at 31 December 2003 were:

| | 2003 | 2002 | 2001 |
|--------------------------------------|-------|-------|-------|
| Rate of increase in salaries | 4.75% | 4.25% | 4.50% |
| Rate of increase in pensions payment | 2.75% | 2.25% | 2.50% |
| Discount rate | 5.50% | 5.50% | 6.00% |
| Inflation assumption | 2.75% | 2.25% | 2.50% |

The fair value of the assets in the scheme and the expected rates of return at 31 December 2003 were:

| | Long-term rate of return Expected | Fair Value | Long-term rate of return Expected | Fair Value | Long-term rate of return Expected | Fair Value |
|---|---|----------------|---|----------------|---|----------------|
| | 2003 | 2003 \$'000 | 2002 | 2002 \$'000 | 2001 | 2001 \$'000 |
| Equities | 8.50% | 4,346 | 8.50% | 4,099 | 7.50% | 4,780 |
| Bonds | 5.50% | 933 | 5.50% | 357 | 6.00% | 271 |
| Index-linked gilts | 4.75% | 435 | - | - | 5.00% | 16 |
| Cash | 2.75% | 81 | 2.25% | 180 | 2.50% | 233 |
| Total market value of assets | | 5,795 | | 4,636 | | 5,300 |
| Present value of scheme liabilities | | (8,518) | | (6,758) | | (5,219) |
| Deficit before any allowance for deferred tax liability | | (2,723) | | (2,122) | | 81 |
| Related deferred tax asset/(liability) | | 817 | | 636 | | (24) |
| Net pension liability/asset under FRS 17 | | (1,906) | | (1,486) | | 57 |

The actuarial value of assets represents 70% (2002: 70.3%) of the combined value of the benefits that have accrued to members, after allowing for expected future increases in salaries.

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

18 Pensions (continued)

Details of experience gains and losses for the year ended 31 December 2003:

| History of experience gains and losses | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Difference between the expected and actual rate of return on assets | 253 | (1,674) |
| Percentage of the total market value of the pension scheme assets | 4.4% | 36.1% |
| Experience gains on scheme liabilities | 585 | 13 |
| Percentage of the present value of the scheme liabilities | 6.9% | 0.2% |
| Total amount recognized in the Statement of Total Recognised Gains and Losses | (255) | (2,114) |
| Percentage of the present value of the scheme liabilities | 3.0% | (31.3%) |

Had FRS 17 been adopted in the current year, the following amount would have been recorded in the profit and loss account for the year ended 31 December 2003:

| Operating Profit | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Current service cost | (171) | 250 |
| Total operating charge | (171) | 250 |
| Other finance income | 2003 \$'000 | 2002 \$'000 |
| Expected return on assets | 410 | 417 |
| Interest cost | (415) | (344) |
| Total net return | (5) | 73 |
| Statement of total recognized gains and losses | 2003 \$'000 | 2002 \$'000 |
| Actual return less expected return on pension scheme assets | 253 | (1,674) |
| Change in assumption | (1,093) | (453) |
| Experience gains arising on scheme liabilities | 585 | 13 |
| | (255) | (2,114) |

Paramount Home Entertainment International Limited

Notes to the financial statements for the year ended 31 December 2003

(Continued)

18 Pensions (continued)

| Movement in deficit during the year | 2003 \$'000 | 2002 \$'000 |
|-------------------------------------|----------------|----------------|
| Surplus at start of year | (2,346) | 87 |
| Operating charge of the year | (171) | (250) |
| Other financing income | (5) | 73 |
| Employer contributions | 54 | 82 |
| Actuarial loss | (255) | (2,114) |
| Deficit at end of the year | (2,723) | (2,122) |

If the above amounts had been recognised in the financial statements, the net asset and profit and loss reserve at 31 December 2003 would be as follows:

| | 2003 \$'000 | 2002 \$'000 |
|---|----------------|----------------|
| Net assets excluding SSAP 24 pension asset | 7,192 | 6,123 |
| Pension (liability)/asset under FRS 17 | (1,906) | (1,486) |
| Net assets including pension asset under FRS 17 | 5,286 | 4,637 |
| Profit and loss reserve excluding SSAP 24 pension asset | 7,175 | 6,106 |
| Pension asset/(liability) under FRS 17 | (1,906) | (1,486) |
| Profit and loss reserve | 5,269 | 4,620 |

The pension charge for the period was \$ 54,000 (2002: \$ 75,000)

19 Ultimate Parent Undertaking

The Company is a subsidiary undertaking of Paramount Home Entertainment International B.V. incorporated in the Netherlands.

Paramount Home Entertainment International B.V. is owned by Viacom Inc., a company incorporated in the USA, through its subsidiary Viacom International (Netherlands) B.V. The consolidated financial statements of Viacom Inc. are available to the public and may be obtained from 1515 Broadway, New York, 10036, USA.

The ultimate controlling party of the company is National Amusements Inc. incorporated in the USA, the parent undertaking of Viacom Inc.