

CASTLE MUSIC LIMITED
(Formerly Castle Communications PLC)

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 1998

Registered No: 00911474



Castle Music Limited (formerly Castle Communications PLC)
Financial statements for the year ended 31 December 1998

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Castle Music Limited (formerly Castle Communications PLC)

Directors' report for the year ended 31 December 1998.

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The directors present their report together with the audited financial statements for the year ended 31 December 1998.

Principal activities

The company continues to operate in the entertainment industry worldwide, acquiring both music and video rights and marketing these by the release of its own label compact discs, cassettes, records and video cassettes by the sub-licensing, direct sale or other exploitation of the rights.

Review of business

During the year to 31 December 1998 the company's turnover was £13,997,000 as compared to £16,728,000 for the year ended 31 December 1997. The profit on ordinary activities before taxation rose to £15,027,000 (1997: loss £11,448,000).

Castle Music Limited's parent company, AEC Holdings (UK) Limited, was acquired by Rutland Trust PLC on 23 July 1998. The share purchase agreement provided for a purchase price for the shares of \$1. Concurrent with the acquisition of the shares, Law 961 Limited, the holding company set up by Rutland Trust PLC to acquire the Group, made a loan to the acquired companies of \$28.15 million and caused such amounts to be paid to Chase Manhattan Bank in satisfaction of part of the companies' indebtedness to that bank. The Chase Manhattan Bank forgave the remaining debt. In addition, all debts owed to the Alliance Entertainment Corporation, the previous owner of the Group, were also forgiven.

As a result of the above transaction, Castle Music Limited received £7,620,000 from Law 961 Limited, from which it paid £7,180,000 to the Chase Manhattan Bank, who forgave the remaining £7,820,000 of the outstanding debt. The remaining £440,000 was used to satisfy an outstanding service contract. In addition, Alliance Entertainment Corporation forgave £9,500,000 of net inter-company debt. The result was that the company generated exceptional income of £17,320,000 due to forgiven debt.

On 25 November 1998 the company changed its name to Castle Music Limited.

Future developments

The group has re-positioned itself as a leading independent catalogue exploitation company in the UK. The reduction in turnover is expected to be offset by a corresponding reduction in the level of write-offs associated with unrecouped investments in the rights underlying both the visual and front-line audio businesses.

The company will continue to exploit its rights through the manufacture and sale of finished product in the form of CDs, LPs, cassettes and other new media, and by licensing.

Results and dividends

The profit for the year after taxation amounts to £14,923,000 and will be transferred to the company's reserves (1997: loss deducted from reserves £11,687,000).

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 1998 (1997: £nil).

Directors and directors' interests

The directors who held office during the year are:

J Cokell	
E J N Cook	
R Semon	Appointed 25 November 1998
A A Docherty	Appointed 25 November 1998
C B Dowling (Australian)	Appointed 25 November 1998
N D Morrill	Appointed 25 November 1998
C Joyce (American)	Resigned 31 March 1998

There were no contracts of significance existing during the year or at the year-end in which a director of the company was materially interested.

Mr Dowling is an officer of the ultimate parent company, Rutland Trust PLC, and his interests in the shares and options in the ultimate parent company are disclosed in the financial statements of that Company.

As at 31 December 1998, none of the other directors held any interests in the shares of the company or in the shares of the ultimate parent company.

Fixed assets

The movements in fixed assets during the year are detailed in notes 10, 11, and 12 to the financial statements.

Charitable donations

Charitable donations made during the year amounted to £1,400 (1997: £3,100).

Creditor payment policy

The company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). Trade creditors at the year end represented 55 days (1997: 62 days) of purchases.

For other suppliers, the company's policy is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible, UK subsidiaries follow the same policy.

Year 2000

The Directors are aware of the year 2000 issue and have taken steps to address it by ensuring that all internal systems have been reviewed and are seeking assurances from significant suppliers, distributors and customers that they are formulating appropriate strategies to deal with the problem.

The Board has considered the likely impact on the activities of the Group and has considered the action required to address the issue. The Group will have a fully integrated computer system which is expected to be certified compliant by the end of the second quarter 1999.

The Board believe that no significant additional expenditure will be required over and above the £350,000 as disclosed in note 19. As the costs incurred are part of an overall programme to upgrade the Group's systems to meet its changing commercial needs, these costs will be capitalised. During 1998, £20,000 was spent on upgrading desktop computers to ensure Year 2000 compatibility. This cost was capitalised.

Given the complexity of the problem, it is not possible for any organisation to guarantee that no year 2000 problems will remain because at least some level of failure may still occur. However, the Board believe that an acceptable state of readiness will be achieved.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently. Reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

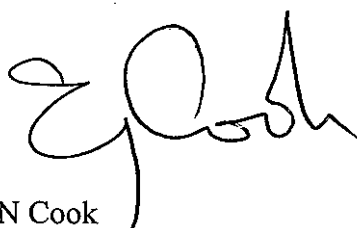
The directors are responsible for keeping proper accounting records, that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of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

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand, on 1 July 1998, Coopers & Lybrand resigned as auditors to the Company and the directors appointed the newly created firm, PricewaterhouseCoopers, to fill the casual vacancy created by the resignation.

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the board



E J N Cook

Company Secretary

25 May 1999

Report of the auditors to the members of Castle Music Limited

We have audited the financial statements on pages 6 to 23 which have been prepared under the historical cost convention, and the accounting policies set out on pages 9, 10 and 11.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

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. 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.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

1 Embankment Place

London

WC2N 6NN

14 June 1999

**Profit and loss account
for the year ended 31 December 1998**

		Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
	Notes		
Turnover	1	13,997	16,728
Cost of sales – operating pre exceptional		(10,544)	(10,768)
Cost of sales – exceptional	2	-	(8,153)
Cost of sales		(10,544)	(18,921)
Gross profit/(loss)		3,453	(2,193)
Administrative expenses		(5,925)	(8,388)
		(2,472)	(10,581)
Other operating income – operating pre exceptional	5	292	-
Other operating income – exceptional	5	17,320	-
Other operating income		17,612	-
Operating profit/(loss)		15,140	(10,581)
Other interest receivable and similar income	7	608	618
Interest payable and similar charges	8	(721)	(1,485)
Profit/(loss) on ordinary activities before taxation	6	15,027	(11,448)
Taxation on profit/(loss) on ordinary activities	9	(104)	(239)
Retained profit/(loss) for the year		14,923	(11,687)

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The profit on ordinary activities before taxation is derived from continuing operations.

No separate statement of total recognised gains and losses has been presented as all such gains and losses have been dealt with in the profit and loss account.

Castle Music Limited (formerly Castle Communications PLC)

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Balance sheet at 31 December 1998

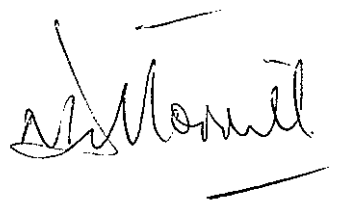

	Notes	1998 £'000	1997 £'000
Fixed assets			
Intangible assets	10	35	39
Tangible assets	11	546	1,010
Investments	12	6,211	6,241
		<u>6,792</u>	<u>7,290</u>
Current assets			
Stocks	13	1,191	1,684
Debtors	14	14,647	15,383
Cash at bank and in hand		127	544
		<u>15,965</u>	<u>17,611</u>
Creditors: amounts falling due within one year	15	<u>(14,681)</u>	<u>(31,689)</u>
Net current assets/(liabilities)		<u>1,284</u>	<u>(14,078)</u>
Total assets less current liabilities		8,076	(6,788)
Creditors: amounts falling due after more than one year	15	(13)	(72)
Provisions for liabilities and charges	16	-	-
Net assets/(liabilities)		<u>8,063</u>	<u>(6,860)</u>
Capital and reserves			
Called up share capital	17	344	344
Share premium account	18	10,997	10,997
Other reserves	18	859	859
Profit and loss account	18	<u>(4,137)</u>	<u>(19,060)</u>
Equity shareholders' funds/(deficit)		<u>8,063</u>	<u>(6,860)</u>

The financial statements on pages 6 to 23 were approved by the Board of Directors on 25 May 1999 and were signed on its behalf by:

Director



Director

Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit/(loss) for the financial year	14,923	(11,687)
Opening shareholders' (deficit)/funds	<u>(6,860)</u>	<u>4,827</u>
Closing shareholders' funds/(deficit)	<u>8,063</u>	<u>(6,860)</u>

Principal accounting policies

Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting, and in accordance with applicable Accounting Standards in the United Kingdom applied on a consistent basis.

Going concern

The financial statements have been prepared on the going concern basis which assumes that the company and all its subsidiary undertakings will continue in operational existence for the foreseeable future having adequate funds to meet their obligations as they fall due.

Consolidated financial statements

In accordance with section 228 of the Companies Act 1985, consolidated financial statements are not prepared as the company is ultimately a wholly owned subsidiary undertaking of Rutland Trust PLC, which is incorporated in Great Britain.

Cashflow statement

The company is ultimately a wholly owned subsidiary of Rutland Trust PLC and is included in the consolidated financial statements of Rutland Trust PLC, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cashflow statement under the terms of Financial Reporting Standard 1 (revised 1996).

Turnover

Turnover comprises the invoiced value of sales of records, compact discs and audio and video cassettes and the sale of distribution rights, excluding value added tax.

Licensing

Where media rights are licensed for a fixed or guaranteed sum, turnover is recognised at the point the sale agreement is concluded and the master tapes are delivered and profit is calculated by matching the guaranteed sum with the associated costs of the rights. Royalties payable are accrued for at the time turnover is recognised.

Intangible assets (copyrights)

Visual copyrights are carried at cost, less amortisation. The costs of such copyrights are amortised on a straight line basis over their estimated useful lives. Under normal circumstances the useful life is estimated at the lesser of 20 years or the actual period of copyright. In certain instances, where the directors consider such a policy is inappropriate, the period may be reduced to 5 years to reflect the fact that the useful life of the copyright can be prudently estimated to be only this long. Where the directors anticipate that the future sales revenue from individual copyrights will be insufficient to recover any unamortised costs, such costs are written off immediately.

Intangible assets (trademarks)

Trademarks are valued at cost and are amortised on a straight line basis over their estimated useful lives, normally being ten years.

Tangible fixed assets

Depreciation is provided on tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

Short leasehold premises	over the period of lease
Equipment, fixtures and motor vehicles	between 2 and 5 years

In the event of a permanent diminution in value, immediate provision is made.

Stocks

Stocks comprise finished goods, which are valued at the lower of cost and net realisable value.

Advance royalty payments

Advance royalty payments for rights for records, compact discs, audio cassettes and sell-through videos are written off on the basis of units sold, in line with the terms specified in the licence agreement. Where the directors anticipate that future sales will be insufficient to recoup advance royalty payments, the amount considered to be irrecoverable is written off immediately.

Pensions

The company contributes towards personal pension schemes in respect of certain senior employees, the costs of which are charged in the profit and loss account as incurred.

Deferred taxation

Deferred taxation arising from timing differences between profits as computed for taxation purposes and profits as stated in the accounts is provided under the liability method to the extent that a liability is likely to arise in the foreseeable future.

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the group substantially all the benefits and risk of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is shown as an obligation under finance lease. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful lives of equivalent owned assets.

Foreign exchange differences

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

**Notes to the financial statements
for the year ended 31 December 1998****1 Turnover****Segmental analysis by destination:**

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
United Kingdom	7,632	9,865
European Community	3,720	4,568
Rest of Europe	572	914
North America	1,899	1,038
Rest of World	174	343
Sales to third parties	13,997	16,728

Segmental analysis by product type:

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Audio	13,702	14,890
Visual	295	1,838
Sales to third parties	13,997	16,728

The company's turnover and profit/(loss) before taxation were all derived from its principal activity and originated in the United Kingdom.

2 Cost of sales - exceptional

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Video provisions	-	3,093
Audio rights provisions	-	4,605
Stock provision	-	455
	-	8,153

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3 Directors' remuneration

Mr Dowling is an officer of the ultimate parent company, Rutland Trust PLC, and his interests are disclosed in the financial statements of that Company. No recharges are made to the Company for his services. It is not possible to make an accurate apportionment of any emoluments in respect of the company and its subsidiaries.

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Directors' emoluments including pension contributions comprises:		
Fees	-	8
Salary payments	292	295
Pension contributions	18	5
	<u>310</u>	<u>308</u>

The directors' fees and other emoluments disclosed above includes amounts paid to:

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Highest paid director – emoluments	185	147
Highest paid director – pension contributions	<u>16</u>	<u>2</u>

No director waived emoluments in respect of the year ended 31 December 1998 or the year ended 31 December 1997.

4 Employees information

The average weekly number of persons (including executive directors) employed by the company during the year was:

	Year ended 31 December 1998 Number	Year ended 31 December 1997 Number
United Kingdom	<u>63</u>	<u>87</u>

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By category:

	Year ended 31 December 1998 Number	Year ended 31 December 1997 Number
Administration	35	48
Production	3	5
Promotion	-	3
Sales	17	20
Warehousing	8	11
	<u>63</u>	<u>87</u>
	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Staff costs:		
Wages and salaries	1,794	1,824
Social security	160	194
Other pension costs	26	29
	<u>1,980</u>	<u>2,047</u>

5 Other operating income

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Rent receivable	137	-
Exchange gain	155	-
Other operating income – operational	<u>292</u>	<u>-</u>
Exceptional Income	17,320	-
	<u>17,612</u>	<u>-</u>

As a result of the transaction whereby Rutland Trust PLC acquired AEC Holdings (UK) Limited and its subsidiaries, Chase Manhattan Bank forgave £7,820,000 of outstanding debt and Alliance Entertainment Corporation forgave £9,500,000 of net inter-company debt. The result was that the company generated exceptional income of £17,320,000 due to forgiven debt.

6 Profit on ordinary activities before taxation

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation for the year:		
Tangible owned fixed assets	528	502
Tangible fixed assets held under finance leases	79	191
Amortisation of intangible fixed assets	6	2,134
Exchange losses for the year	-	453
Auditors' remuneration for:		
Audit	80	107
Other services to company and UK subsidiaries	243	36
Operating leases – other	374	351
Operating leases - plant & machinery	29	31
(Profit)/loss on disposal of fixed assets	6	(15)

Remuneration of the company's auditors for provision of non-audit services to the company and its UK subsidiary undertakings covers taxation compliance and advisory fees and other non-statutory audit services.

7 Other interest receivable and similar income

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
Interest receivable – external	8	18
Interest receivable – group related	600	600
	<u>608</u>	<u>618</u>

8 Interest payable and similar charges

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
On bank loans, overdrafts and other loans repayable within five years:		
Finance leases and hire purchase contracts	10	23
Overdrafts and bank loans	711	1,462
	<u>721</u>	<u>1,485</u>

9 Tax charge on profit on ordinary activities

	Year ended 31 December 1998 £'000	Year ended 31 December 1997 £'000
United Kingdom corporation tax at 31% (1997: 31.5%)		
Current	211	(1)
Deferred	(546)	-
Prior year adjustments		
Current	-	152
Overseas taxation	-	88
Deferred	546	
ACT written back	(107)	-
	<u>104</u>	<u>239</u>
Reconciliation of tax charge		
Profit/(loss) on ordinary activities at UK statutory rate of 31% (1997: 31.5%)	4,658	(3,606)
Effect of permanent differences	(2,903)	121
Prior year adjustments	350	188
Unrecognised trading losses	(1,894)	3,474
Other items	(107)	62
	<u>104</u>	<u>239</u>

10 Intangible assets - Copyrights

Cost	£'000
At 1 January 1998	9,762
Additions	2
Disposals	-
At 31 December 1998	9,764
Amortisation	
At 1 January 1998	9,723
Charge for the year	6
Disposals	-
At 31 December 1998	9,729
Net book value	
At 31 December 1998	35
At 31 December 1997	39

11 Tangible fixed assets

	Leasehold premises £'000	Equipment, fixtures and motor vehicles £'000	Total £'000
Cost			
At 1 January 1998	31	3,573	3,604
Additions	-	159	159
Disposals	-	(54)	(54)
At 31 December 1998	31	3,678	3,709
Depreciation			
At 1 January 1998	10	2,584	2,594
Charge for the year	2	605	607
Disposals	-	(38)	(38)
At 31 December 1998	12	3,151	3,163
Net book value			
At 31 December 1998	19	527	546
At 31 December 1997	21	989	1,010

The net book value of leasehold premises described above relates to a lease which had less than 50 years to run at the balance sheet date. The net book value of tangible fixed assets includes an amount of £83,000 (1997: £171,000) in respect of assets held under finance leases.

12 Investments

	Cost	Provision	Net book Value
	£'000	£'000	£'000
At 1 January 1998	7,972	(1,731)	6,241
Provisions	-	(30)	(30)
At 31 December 1998	7,972	(1,761)	6,211

The investment values of the subsidiary undertakings are supported by the net assets of the individual companies.

	Percentage of ordinary share capital held at 31 December 1998	Country of incorporation and principal country in which company operates
Castle Copyrights Limited	100%	Great Britain
Castle Music Publishing Limited	100%	Great Britain
Castle Communications (Deutschland) GmbH	100%	Germany
Glassbag Limited (Trading as Fantastic Plastic)	50%	Great Britain

On 20 August 1998, the Company acquired a 50 % stake in the shareholding of Glassbag Limited for £50.

The following subsidiary undertakings were dormant as at 31 December 1998:

Hendring Limited	99.4%	Great Britain
Eastern Light Productions Limited	100%	Great Britain
Kaz Records Limited	100%	Great Britain
Dojo Limited	100%	Great Britain
Knight Records Limited	100%	Great Britain
Castle Target International Limited	100%	Great Britain
Castle Home Video Limited	100%	Great Britain

All group companies incorporated in Great Britain are registered in England and Wales. All group companies operate in the entertainment industry.

13 Stocks

	1998	1997
	£'000	£'000
Stocks comprise:		
Finished goods	1,191	1,684

14 Debtors

	1998	1997
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	3,686	4,205
Other debtors and prepayments	423	469
Amounts due from parent or fellow subsidiary undertakings in respect of group relief	1,177	1,222
Amounts due from subsidiary undertakings	6,234	6,383
	11,520	12,279
Advance royalty payments prepaid	3,127	3,104
	14,647	15,383

In the opinion of the directors, advance royalty payments prepaid are recoupable over the unexpired period of the relevant licences, some of which exceed one year. In the directors' opinion any allocation between amounts falling due in less than or after one year would not be meaningful.

15 Creditors

	1998	1997
	£'000	£'000
Amounts falling due within one year:		
Bank loans	-	15,000
Liability under hire purchase agreements (note 21)	53	79
Trade creditors	4,554	3,574
Amounts owed to parent and subsidiary undertakings	9,176	11,697
Corporation tax	171	115
Other taxation and social security	86	57
Other creditors	231	-
Accruals and deferred income	410	1,167
	<u>14,681</u>	<u>31,689</u>
Amounts falling due after more than one year:		
Liability under hire purchase agreements (repayable over one and under two years) (note 21)	13	72
	<u>13</u>	<u>72</u>

As a result of the transaction whereby Rutland Trust PLC acquired AEC Holdings (UK) Limited and its subsidiaries, Castle Music Limited paid £7,180,000 to the Chase Manhattan Bank, who forgave the remaining £7,820,000 of the outstanding bank loan. In addition, Alliance Entertainment Corporation forgave £9,500,000 of net inter-company debt. This has been replaced by a £7,620,000 inter-company debt due to Law 961 Limited.

16 Provisions for liabilities and charges

	1998	1997
	£'000	£'000
Deferred taxation		
Amounts provided:		
Tax effect of timing differences	-	691
Tax effect of losses carried forward	-	(691)
	<u>-</u>	<u>-</u>

There is no unprovided potential liability for deferred taxation (1997: nil) for the company. The provision for deferred taxation principally relates to tax relief on advance royalties prepaid. The unprovided deferred tax asset on the tax losses carried forward was £4,202,000 (1997: £6,081,000).

17 Share capital

	1998 £'000	1997 £'000
Authorised		
7,500,000 ordinary shares of 5p each (1997 7,500,000)	375	375
600,000 11.25% cumulative redeemable preferences shares of £1 each	600	600
	<u>975</u>	<u>975</u>
Allotted, called up and fully paid		
6,885,255 ordinary shares of 5p each (1997 6,885,255)	<u>344</u>	<u>344</u>

18 Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 1998	10,997	859	(19,060)
Profit for the year after taxation	-	-	14,923
At 31 December 1998	<u>10,997</u>	<u>859</u>	<u>(4,137)</u>

19 Capital and other commitments

	1998 £'000	1997 £'000
Authorised but not contracted expenditure :		
Year 2000 IT systems upgrade	<u>350</u>	<u>-</u>

20 Financial commitments

	1998		1997	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases				
Commitments in next financial year from leases expiring:				
Within one year of the balance sheet date	-	-	-	9
Within two to five years of the balance sheet date	-	20	-	26
In more than five years of the balance sheet date	374	-	362	-
	<u>374</u>	<u>20</u>	<u>362</u>	<u>35</u>

21 Finance leases

Included in fixed assets are fixtures and equipment held under finance leases. As at 31 December, the gross book value of these assets was £197,000 (1997: £364,000). Associated accumulated depreciation amounted to £114,000 (1997: £193,000) and depreciation of £79,000 (1997: £191,000) has been charged to the profit and loss account for the year. Amounts repayable under finance leases are analysed as follows:

	1998	1997
	£'000	£'000
Repayable within one year of balance sheet date (note 15)	53	79
Repayable between two and five years of balance sheet date (note 15)	13	72
	<u>66</u>	<u>151</u>

22 Contingent liabilities and post balance events

The company has a number of contingent liabilities arising from third party claims. The directors are of the opinion that, while the outcome of the claims cannot be predicted with any certainty, they do not expect any liability that may arise to have a material impact on the company's results, cash flow or financial condition.

The Castle Music group of companies has entered a composite cross guarantee with other group companies in order to secure banking facilities. Under the terms of this guarantee each company is jointly and severally liable, with all other group companies, for any liability to the group's bankers, Coutts & Co., which cannot be met by the company in whose name the liability exists.

23 Related party transactions

The company is ultimately a wholly owned subsidiary of Rutland Trust PLC and is included in the consolidated financial statements of Rutland Trust PLC, which are publicly available. The company has chosen to take advantage of the exemption in Financial Reporting Standard ('FRS') 8 which allows the financial statements of the subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, not to disclose details of transactions that are part of the group.

The company has however identified a number of transactions that are required to be disclosed under Financial Reporting Standard No. 8. The details of transactions with directors and director related parties and pension arrangements are disclosed elsewhere in these financial statements. There have been no other transactions identified which require disclosure.

24 Ultimate Parent Company

The immediate parent company is AEC Holdings (UK) Limited, a company incorporated and registered in the United Kingdom.

On 25 June 1998, the US Bankruptcy Court approved the proposed acquisition of AEC Holdings (UK) Limited by Rutland Trust PLC. As such, under the terms of the agreement, the ultimate parent company and controlling party changed to Rutland Trust PLC on completion of the transaction.

Rutland Trust PLC, a company incorporated in the United Kingdom, are the smallest and largest group to consolidate these financial statements. Copies of Rutland Trust PLC consolidated financial statements can be obtained from the Company Secretary at Rutland House, Rutland Gardens, London SW7 1BX.