Castle Communications plc

Financial Statements

for the year ended 31 December 1996

Registered no: 911474

Castle Communications plc

Financial statements for the year ended 31 December 1996

Directors' report

The directors present their report together with the financial statements for the year ended 31 December 1996.

Principal activities

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

Review of business

During the year to 31 December 1996 the company's turnover was £33,497,000 as compared to £46,281,000 for the 18 months to 31 December 1995. This represents a pro-rata increase of 8.5%. Having taken account of the company's income from shares in group undertakings, the profit on ordinary activites before interest rose to £2,001,000 (1995: £1,180,000). Interest expense was consistent with the previous year. The retained loss for the year of £7,997,000 (1995: loss £224,000) has been transferred to reserves.

At 31 December 1996 the group reassessed its strategy with regard to visual rights. As a consequence it ceased to sell video finished product as of 31 March 1997 and instead will exploit these rights solely via licensing arrangements in the future. The costs associated with this decision of £11,494,000 are detailed under note 10 to the Financial Statements as Fundamental Group Reorganisation.

On 13th July 1997 Alliance Entertainment Corporation, the company's ultimate parent company, filed to reorganise under Chapter 11 of the United States bankruptcy code in order to reorganise its core business and to restructure its long term debt, revolving credit facilities and trade creditor obligations.

The company itself was specifically excluded from the filing due to its status as a non-domestic entity in the US and continues to trade normally.

Future developments

The company will continue to exploit its audio property 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 loss for the year after taxation amounted to £7,997,000 (1995: £224,000). A deficit of £7,997,000 will be transferred to the company's reserves (1995: deficit £224,000).

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 1996 (1995: £1,216,000).

Directors and directors' interests

Members of the Board who held office throughout the year were T R Shand, J B Paul, E B Newman (American), A K Narang (American), J J Bianco (American) and I M Henderson. J R Beecher resigned as a director on 30 November 1996. I K Holder resigned as a director on 13 February 1996. T R Shand resigned as a director on 31 January 1997. J B Paul resigned as a director on 9 May 1997. E B Newman and I M Henderson resigned as directors on 30 May 1997. J Cokell was appointed a director on 1 February 1997. E J N Cook was appointed a director on 3 March 1997. C Joyce was appointed a director on 30 May 1997. T Dahltorp was appointed a director on 28 June 1997. T Dahltorp, J J Bianco and A K Narang (American) resigned as directors on 15 November 1997.

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

Messrs Newman, Narang, Bianco and Henderson are officers of the ultimate holding company Alliance Entertainment Corp. and their interests in the shares and options in the ultimate holding company are disclosed in the financial information of the US parent Alliance Entertainment Corp., submitted to the Securities Exchange Commission.

As at 31 December 1996, none of the directors held any interests in the shares of the company.

The directors' interests in the shares and options of the ultimate parent company, Alliance Entertainment Corporation have not been disclosed as provided for by Statutory Instrument No 802, 1985.

Fixed assets

Changes in fixed assets are summarised in notes 13, 14 and 15 to the financial statements.

Charitable donations

Charitable donations made during the year amounted to £21,000 (1995: £4,000).

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

(a) settle the terms of payment with those suppliers when agreeing the terms of each transaction.

(b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and

(c) 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 and overseas subsidiaries are encouraged to adopt similar policies, by applying local best practices.

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 and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1996. 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, 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 re-appoint Coopers & Lybrand as auditors to the company will be proposed at the Annual General Meeting.

By order of the Board

E J N Cook
Secretary

19 December 1997

Report of the auditors to the members of Castle Communications plc

We have audited the financial statements on pages 6 to 26.

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 accounts.

Fundamental uncertainty

In forming our opinion, we have considered the adequacy of the disclosures made page 9 and 10 of the accounts concerning the basis of preparation. As stated therein the company has guaranteed certain debt obligations of the company's ultimate parent company Alliance Entertainment Corporation ("parent company") which on 13 July 1997 filed to reorganise under Chapter 11 of the United States bankruptcy code. The accounts have been prepared on a going concern basis and the validity of this depends on the successful completion of the financial restructuring of the immediate and ultimate parent company, a company incorporated in the USA; on the parent company and the group's banks and other lenders continuing their support by providing adequate facilities pending the successful completion of the financial restructuring; and on Chase Manhattan Bank N.A not seeking to enforce their security pending the successful completion of the financial restructuring. The accounts do not include any adjustments that would result should the group be unable to continue in operational existence. Our opinion is not qualified in this respect.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 December 1996 and the loss and total recognised losses of the company for the year then ended and have been prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors

1 Embankment Place
London
WC2N 6NN
19 December 1997

Profit and loss account
for the year ended 31 December 1996

	Notes	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Turnover	1	**33,497**	46,281
Cost of sales		**(23,130)**	(34,844)
Gross (loss)/profit		**10,367**	11,437
Administrative expenses		**(11,700)**	(10,603)
Exceptional takeover costs	7	**-**	(522)
		(1,333)	(312)
Other operating income	4	**471**	71
Operating profit/(loss)		**(862)**	383
Profit/(loss) on disposal of subsidiaries	7	**-**	97
Income from shares in group undertakings	6	**2,863**	700
(Loss)/profit on ordinary activities before interest		**2,001**	1,180
Other interest receivable and similar income	8	**615**	988
Interest payable and similar charges	9	**(1,420)**	(1,400)
Fundamental group restructuring	10	**(11,494)**	-
(Loss)/profit on ordinary activities before taxation	5	**(10,298)**	768
Tax credit on loss on ordinary activities	11	**2,301**	224
(Loss)/profit on ordinary activities after taxation		**(7,997)**	992
Dividends	12	**-**	(1,216)
Retained (loss) for the year	21	**(7,997)**	(224)

There is no difference between the profit on ordinary activities before taxation and the retained loss 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 Accounts.

Balance sheet
at 31 December 1996

	Notes	**31 December 1996 £'000**	31 December 1995 £'000
Fixed assets			
Intangible assets	13	**2,647**	6,711
Tangible assets	14	**1,547**	1,426
Investments	15	**6,448**	6,626
		10,642	14,763
Current assets			
Stocks	16	**3,155**	2,838
Debtors	17	**27,848**	31,021
Cash at bank and in hand		**371**	14
		31,374	33,873
Creditors: amounts falling due within one year	18	**(37,109)**	(34,042)
Net current (liabilities)/assets		**(5,735)**	(169)
Total assets less current liabilities		**4,907**	14,594
Creditors: amounts falling due after more than one year	18	**(80)**	(213)
Provisions for liabilities and charges	19	**-**	(1,557)
		4,827	12,824
Capital and reserves			
Called up share capital	20	**344**	344
Share premium account	21	**10,997**	10,997
Other reserves	21	**859**	859
Profit and loss account	21	**(7,373)**	624
Equity shareholders' funds		**4,827**	12,824

The financial statements on pages 6 to 26 were approved by the Board of Directors on 19 December 1997 and were signed on its behalf by:

} Director

Reconciliation of movements in shareholders' funds

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
(Loss)/Profit for the financial year	(7,997)	992
Dividends and appropriations	-	(1,216)
	(7,997)	(224)
New share capital issued	-	168
Net (decrease)/addition to shareholders' funds	(7,997)	(56)
Opening shareholders' funds	12,824	12,880
Closing shareholders' funds	4,827	12,824

Principal accounting policies

Basis of accounting

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

Going Concern

The accounts 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.

As set out in note 24 to these financial statements, the company has guaranteed certain debt obligations of the company's ultimate parent undertaking Alliance Entertainment Corporation. On 13 July 1997 Alliance Entertainment Corporation filed to reorganise under Chapter 11 of the United States bankruptcy code (see below). Accordingly the validity of the going concern assumption depends on:

- the successful completion of the financial restructuring of the company's immediate and ultimate holding company Alliance Entertainment Corporation ("parent company") which is referred to below;
- the continued provision of adequate facilities by the parent company and the group's banks and other lenders pending the successful completion of the financial restructuring; and
- Chase Manhattan Bank N.A not seeking to enforce their security over the assets of the company and certain subsidiary undertakings of the company pending the successful completion of the financial restructuring.

If the group were unable to continue in operational existence, adjustments would have to be made to reduce the balance sheet values of assets to their recoverable amounts and to provide for further liabilities which might arise. Additionally, further adjustments would have to be made to reclassify fixed assets and long term liabilities as current assets and current liabilities, respectively. While the outcome of the matters set out above is uncertain for the reasons explained in this note, the directors have considered the proposed financial restructuring and are satisfied that it is appropriate for the accounts to be prepared on the going concern basis at this time.

Financial restructuring

On 13 July 1997 Alliance Entertainment Corporation, the company's immediate and ultimate parent company filed to reorganise under Chapter 11 of the United States bankruptcy code in order to reorganise its core business and to restructure its long term debt, revolving credit facilities and trade creditor obligations.

The company itself was specifically excluded from the filing due to its status as a non-domestic entity in the United States and continues to trade normally.

As part of the financial restructuring agreements, the parent company's lenders have agreed to provide lender support to the parent company and its subsidiaries until the financial restructuring becomes effective. In addition Chase Manhattan Bank N.A have agreed not to enforce their security over the group and certain subsidiary undertakings (as described in note 24) pending the successful completion of the financial restructuring.

Consolidated financial statements

In accordance with section 228 of the Companies Act 1985, consolidated financial statements are not prepared as the company is a wholly owned subsidiary undertaking of AEC Holdings (UK) Limited, which is incorporated in Great Britain.

Cash flow statement

The company is a wholly owned subsidiary undertaking of AEC Holdings (UK) Limited and the cash flows of the company are included in the consolidated cash flow statement of the holding company. Consequently the company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

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. Sales of copyrights and other media rights are also included in turnover.

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 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 over 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, and freehold properties held for resale, which are held at estimated realisable value where this is less than cost.

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.

Sale of rights

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.

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 commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations 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 1996

1 Turnover

Segmental analysis by destination:

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
United Kingdom	**17,333**	26,220
Rest of Europe	**13,486**	15,053
North America	**2,175**	2,814
Rest of World	**503**	2,194
Sales to third parties	**33,497**	46,281

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

Further segmental information has not been disclosed as in the opinion of the directors, disclosure would be seriously prejudicial to the interests of the company.

2 Director's remuneration

Messrs Newman, Narang, Bianco and Henderson are officers of the ultimate holding company Alliance Entertainment Corp., and their emoluments are disclosed in the financial information of the US parent Alliance Entertainment Corporation, submitted to the Securities Exchange Commission.

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Directors' emoluments including pension contributions comprises:		
Fees	**6**	9
Salary payments (including benefits in kind)	**635**	883
Pension contributions	**38**	39
Compensation for loss of office	**313**	-
	992	931

The director's fees and other emoluments disclosed above (excluding pension contributions) includes amounts paid to:

	Year ended 31 December 1996 £	18 months ended 31 December 1995 £
The Chairman and highest paid director	**376,151**	333,000

The number of directors (including the Chairman and highest-paid director) who received remuneration (excluding pension contributions) in the following ranges was:

			1996 Number	1995 Number
£0	-	5,000	**4**	6
£10,001	-	£15,000	**1**	-
£105,001	-	£110,000	**1**	-
£110,001	-	£115,000	**-**	1
£130,001	-	£135,000	**-**	1
£140,001	-	£145,000	**1**	-
£315,001	-	£320,000	**-**	1
£330,001	-	£335,000	**-**	1
£375,001	-	£380,000	**1**	-

No director waived emoluments in respect of the year ended 31 December 1996 or the 18 months ended 31 December 1995.

3 Employees information

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

	Year ended 31 December 1996 Number	8 months ended 31 December 1995 Number
United Kingdom	113	98

	£'000	£'000
Staff costs:		
Wages and salaries	3,667	3,993
Social security	297	413
Other pension costs	49	63
	4,013	4,469

4 Other operating income

	Year ended 31 December 1996 £'000	8 months ended 31 December 1995 £'000
Rent receivable (net of outgoings)	8	22
Profit on disposal of tangible assets	-	44
Miscellaneous income	13	5
Exchange gain	450	-
	471	71

5 Profit on ordinary activities before taxation

	Year ended 31 December 1996 £'000	18 month ended 31 December 1995 £'000
Profit on ordinary activities before taxation is stated after charging:		
Exchange loss on borrowings	-	80
Depreciation for the year:		
Tangible owned fixed assets	**420**	380
Tangible fixed assets held under finance leases	**251**	271
Amortisation of intangible fixed assets	**5,670**	640
Current year expenditure:		
Auditors' remuneration for:		
Audit	**112**	128
Other services to company and UK subsidiaries	**40**	184
Hire of leasehold properties	**322**	350
Hire of other assets - operating leases	**35**	83
(Profit)/loss on disposal of fixed assets	**56**	-

Note: 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.

6 Income from shares in group undertakings

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Dividends receivable	**2,863**	700

7 Exceptional items

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Liquidation of subsidiary	-	97
Takeover costs (included in administrative expenses)	-	(522)
	-	(425)

8 Other interest receivable and similar income

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Interest receivable	**615**	988

9 Interest payable and similar charges

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
On bank loans, overdraft and other loans repayable within five years:		
Finance leases and hire purchase contracts	**40**	58
Other	**1,380**	1,342
	1,420	1,400

10 Fundamental group reorganisation

At 31 December 1996 the group reassessed its strategy and took the decision to refocus and reduce significantly its operations with regard to visual rights. As a consequence a decision was taken to cease selling video finished product as of 31 March 1997 and instead will exploit these rights solely via licensing arrangements in the future. The financial cost of the fundamental change in the focus of the group's business was as follows:

	£'000
Redundancy provisions	369
Bad debt provisions	692
Stock provisions	251
Video rights provisions	5,368
Video intangible provisions	4,814
	11,494

11 Tax credit on loss on ordinary activities

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
United Kingdom corporation tax at 33% (1995: 33%)		
Current	**(920)**	368
Deferred	**(1,557)**	(43)
Over provisions in respect of prior years:		
Current	**20**	(430)
Deferred	**-**	(119)
Overseas taxation	**49**	-
ACT written off as irrecoverable	**107**	-
	(2,301)	(224)

12 Dividends

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Dividends on equity shares:		
Ordinary interim paid of 6.04p per share (1995: 4.5p)	**-**	416
Ordinary final proposed	**-**	800
	-	1,216

The directors have become aware that, although the company had the necessary distributable reserves, the final dividend paid on 31 December 1996 had been paid before the necessary filing of the interim accounts for the year with the Registrar of Companies. Based on the 31 December 1995 accounts, filed with the Registrar, payments totalling £Nil (1995: £392,000) were ultra vires the company and could be recoverable. An Extraordinary General Meeting was held on 13 November 1996 rectifying the position.

13 Intangible assets - Copyrights

	£'000
Cost	
At 1 January 1996	8,647
Additions	1,731
Disposals	(142)
At 31 December 1996	**10,236**
Amortisation	
At 1 January 1996	1,936
Charge for the year	5,670
Disposals	(17)
At 31 December 1996	**7,589**
Net book value	
At 31 December 1996	**2,647**
At 31 December 1995	6,711

14 Tangible fixed assets

	Leasehold premises £'000	Equipment, fixtures and motor vehicles £'000	Total £'000
Cost			
At 1 January 1996	31	2,980	3,011
Additions	-	955	955
Disposals	-	(351)	(351)
At 31 December 1996	**31**	**3,584**	**3,615**
Depreciation			
At 1 January 1996	8	1,577	1,585
Charge for the year	1	670	671
Disposals	-	(188)	(188)
At 31 December 1996	**9**	**2,059**	**2,068**
Net book value			
At 31 December 1996	**22**	**1,525**	**1,547**
At 31 December 1995	23	1,403	1,426

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 £332,000 (1995: £485,000) in respect of assets held under finance leases.

15 Investments

	Cost £'000	Provision £'000	Net book value £'000
At 1 January 1996	7,962	(1,336)	6,626
Additions	10	-	10
Provisions	-	(188)	(188)
At 31 December 1996	**7,972**	**(1,524)**	**6,448**

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The principal subsidiaries are as follows:

	Percentage of ordinary share capital held at 31 December 1996	Country of incorporation and principal country in which company operates
Castle Copyrights Limited	100%	Great Britain
Hendring Limited	99.4%	Great Britain
Eastern Light Productions Limited	100%	Great Britain
Castle Music Limited	100%	Great Britain
Dojo Limited	100%	Great Britain
Kaz Records Limited	100%	Great Britain
Big Picture Limited	50%	Great Britain
Subsidiaries of Big Picture Limited		
Dragon Media Limited	100%	Great Britain
Castle Communications (Deutschland) GmbH	100%	Germany

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

During the year, the company acquired the outstanding shares held by the minority shareholder of Eastern Light Productions Limited for £10,000.

On 31 May 1996 the company acquired 50% of the share capital of Big Picture Limited. This investment was subsequently sold on 31 March 1997.

16 Stocks

	31 December 1996 £'000	31 December 1995 £'000
Stocks comprise:		
Finished goods	**3,155**	2,738
Freehold property held for sale	**-**	100
	3,155	2,838

17 Debtors

	31 December 1996 £'000	31 December 1995 £'000
Amounts falling due within one year:		
Trade debtors	**9,776**	12,166
Other debtors and prepayments	**982**	1,272
Amounts due from parent or fellow subsidiary undertakings in respect of group relief	**1,410**	616
Amounts due from subsidiary undertakings	**8,090**	5,009
	20,258	19,063
Advance royalty payments prepaid	**7,590**	11,958
	27,848	31,021

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.

18 Creditors

	31 December 1996 £'000	31 December 1995 £'000
Amounts falling due within one year:		
Bank overdraft	-	113
Bank loans[a] (note 24)	15,000	14,000
Other loans	-	185
Liability under hire purchase agreements (note 23)	211	218
Trade creditors	8,454	7,167
Amounts owed to subsidiary undertakings	10,647	9,970
Corporation tax	152	151
Other taxation and social security	514	196
Other creditors	756	512
Accruals and deferred income	928	1,119
Dividends payable	9	9
Rights commitments	438	402
	37,109	34,042
Amounts falling due after more than one year:		
Liability under hire purchase agreements (repayable over one and under two years) (note 23)	80	213
	80	213

(a) Bank loans represent amounts drawn down under a revolving syndicate loan facility with the Chase Manhattan Bank N.A. and others and are repayable on demand. Interest is payable at a variable rate at the time when individual tranches mature and are either rolled over or repaid. Details of the security given in respect of these facilities are disclosed in note 24 to the financial statements.

19 Provisions for liabilities and charges

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Deferred taxation		
Amounts provided		
Tax effect of timing differences	**1,472**	1,557
Tax effect of losses carried forward	**(1,472)**	-
	-	1,557

	Deferred taxation £'000
At 31 December 1995	1,557
Profit and loss account	(1,557)
	-

There is no unprovided potential liability for deferred taxation (1995: nil) for the company. The provision for deferred taxation principally relates to tax relief on advance royalties prepaid. The unprovided deferred tax amounts on the tax losses carried forward was £1,495,000 (1995: nil).

20 Share capital

	31 December 1996 £'000	31 December 1995 £'000
Authorised		
7,500,000 Ordinary shares of 5p each (1995: 7,500,000)	**375**	375
600,000 11.25% cumulative redeemable preference shares of £1 each	**600**	600
	975	975
Allotted, called up and fully paid		
6,885,255 Ordinary shares of 5p each (1995: 6,885,255)	**344**	344

21 Share premium account and reserves

	Share premium account £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 1996	10,997	859	624
Loss for the year after taxation	-	-	(7,997)
Dividends	-	-	-
At 31 December 1996	**10,997**	**859**	**(7,373)**

22 Commitments

	31 December 1996		31 December 1995	
	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	**-**	**1**	-	-
Within two to five years of the balance sheet date	**-**	**30**	-	13
In more than five years of the balance sheet date	**362**	**-**	290	21
	362	**31**	290	34

23 Finance leases

Included in fixed assets are fixtures and equipment held under finance leases. As at 31 December 1996, the gross book value of these assets was £648,000 (1995: £831,000). Associated accumulated depreciation amounted to £316,000 (1995: £346,000), and depreciation of £251,000 (1995: £271,000) has been charged to the profit and loss account for the year. Finance charges for the year were £40,000 (1995: £58,000). Amounts repayable under finance leases are analysed as follows:

	Year ended 31 December 1996 £'000	18 months ended 31 December 1995 £'000
Repayable within one year of balance sheet date (note 18)	**211**	218
Repayable between two and five years of balance sheet date (note 18)	**80**	213
	291	431

24 Contingent liabilities

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 which may arise to have a material impact on the company's results, cashflow or financial condition.

On 24 July 1995, the company passed a resolution re-registering itself as a private limited company. On 24 July 1995 the company also passed a special resolution authorising the giving of financial assistance (by giving the guarantee set out below) to the company's ultimate parent, Alliance Entertainment Corporation in connection with the renegotiation of a loan agreement with the Chase Manhattan Bank N.A.

On 25 July 1995 the company entered into certain security documentation with Chase Manhattan Bank N.A. to, inter alia, secure the obligations of the company, its ultimate parent and certain other group companies to the Chase Manhattan N.A. acting as security agents under a loan agreement dated 25 July 1995. As part of these obligations Chase Manhatten N.A. have a first charge over the issued ordinary shares of the company and certain subsidiary undertakings.

On 24 July 1995 the company executed an indenture guaranteeing the obligations of the company's ultimate parent, Alliance Entertainment Corp. pursuant to the issue by Alliance Entertainment Corporation of $125 million senior subordinate notes due 2005 issued for the purposes of meeting the working capital requirements of Alliance Entertainment Corporation and its subsidiaries.

The filing under Chapter 11 of the US bankruptcy code by Alliance Entertainment Corporation, the company's ultimate company, does not affect either the security documentation or the indenture described above.

The company has entered a composite cross guarantee with other group companies in order to secure banking facilities. Under the terms of this guarantee the 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.

Post balance sheet events

On 13 July 1997 Alliance Entertainment Corporation, the company's ultimate parent company, filed to reorganise under Chapter 11 of the United States bankruptcy code in order to reorganise its core business and to restructure its long term debt, revolving credit facilities and trade creditor obligations.

The company itself was specifically excluded from the filing due to its status as a non-domestic entity in the US and continues to trade normally.

25 Ultimate parent company

The ultimate parent company is Alliance Entertainment Corporation, a company incorporated in USA and registered in USA. The immediate parent company is AEC Holdings (UK) Limited, a company incorporated and registered in the United Kingdom. Copies of the ultimate parent company's Annual Report are available to the public from Alliance Entertainment Corporation, 110 East 59th Street, New York, New York 10022, USA.