

Sanctuary Records Group Limited

REPORT AND FINANCIAL STATEMENTS

30 September 2001



Sanctuary Records Group Limited

DIRECTORS AND OFFICERS

DIRECTORS

J Cokell
R Semon
EJN Cook
R Smallwood
AJ Taylor
MJ Haxby
HH Davies

COMPANY SECRETARY

SEA Standing

REGISTERED OFFICE

A29 Barwell Business Park
Leatherhead Road
Chessington
Surrey
KT9 2NY

AUDITORS

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

Sanctuary Records Group Limited

DIRECTORS' REPORT

The directors submit their report and the financial statements of Sanctuary Records Group Limited for the year ended 30 September 2001.

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 AND FUTURE DEVELOPMENTS

The company has an excellent trading year and the directors are confident of the future prospects.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounts to £6,350,000 (2000 : loss £360,000) and will be transferred to the company's reserves.

The directors do not recommend the payment of a dividend in respect of the year ended 30 September 2001 (2000: £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year are:

J Cokell
R Semon
EJN Cook
R Smallwood (appointed 29 December 2000)
AJ Taylor
MJ Haxby
HH Davies

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.

Messrs Smallwood, Taylor and Haxby are directors of the ultimate parent company, The Sanctuary Group plc, and their interests in the shares and options in the ultimate parent company are disclosed in the financial statements of that company.

As at 30 September 2001, none of the other directors held any interests in the shares of the company.

The shareholdings of the other directors in The Sanctuary Group plc are as follows:

	Ordinary shares of 12.5p each	
	2001	2000
J Cokell	916,318	913,242
R Semon	916,318	913,242
EJN Cook	916,318	913,242
HH Davies	827,016	824,239

Sanctuary Records Group Limited

DIRECTORS' REPORT

FIXED ASSETS

The movements in fixed assets during the year are detailed in notes 8, 9 and 10 to the financial statements.

CHARITABLE DONATIONS

Charitable donations made during the year amounted to £250 (2000 : £1,075).

INTRODUCTION OF THE EURO

The company is able to handle Euro transactions as required.

AUDITORS

A resolution to reappoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board



EJN Cook
Director

14 January 2002

Sanctuary Records Group Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. 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 requirements of 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' REPORT TO THE MEMBERS OF SANCTUARY RECORDS GROUP LIMITED

We have audited the financial statements on pages 6 to 19.

Respective responsibilities of directors and auditors

As described on page 4 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.

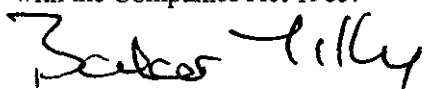
Basis of opinion

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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 30 September 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BAKER TILLY

Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

14 January 2002

Sanctuary Records Group Limited

PROFIT AND LOSS ACCOUNT

for the year ended 30 September 2001

	Notes	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
TURNOVER	1	27,115	13,833
Cost of sales		(14,886)	(8,834)
Gross profit		12,229	4,999
Administrative expenses		(6,029)	(5,807)
		6,200	(808)
Other operating income	2	-	430
OPERATING PROFIT/(LOSS)		6,200	(378)
Share of profits in associated undertakings		114	-
Other interest receivable and similar income	3	165	23
Interest payable and similar charges	4	(129)	(5)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	5	6,350	(360)
Taxation	7	-	-
RETAINED PROFIT/(LOSS) FOR THE YEAR	17	6,350	(360)

The operating profit for the year arises from the company's 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.

Sanctuary Records Group Limited

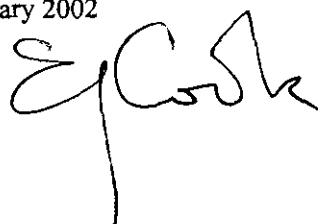
BALANCE SHEET

30 September 2001

	Notes	2001 £'000	2000 £'000
FIXED ASSETS			
Intangible assets	8	226	25
Tangible assets	9	945	1,116
Investments	10	9,170	6,211
		<u>10,341</u>	<u>7,352</u>
CURRENT ASSETS			
Stocks	11	2,351	1,826
Debtors	12	27,341	19,041
Cash at bank and in hand		115	17
		<u>29,807</u>	<u>20,884</u>
CREDITORS: Amounts falling due within one year	13	(24,663)	(19,091)
NET CURRENT ASSETS		<u>5,144</u>	<u>1,793</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,485	9,145
CREDITORS: Amounts falling due after more than one year	14	(15)	(25)
NET ASSETS		<u>15,470</u>	<u>9,120</u>
CAPITAL AND RESERVES			
Called up share capital	15	344	344
Share premium account	15	10,997	10,997
Other reserves	17	859	859
Profit and loss account	17	3,270	(3,080)
EQUITY SHAREHOLDERS' FUNDS	16	<u>15,470</u>	<u>9,120</u>

Approved by the board on 14 January 2002
and signed on its behalf by

EJN Cook Director



Sanctuary Records Group Limited

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 a wholly owned subsidiary undertaking of the ultimate parent company, The Sanctuary Group plc, which is incorporated in Great Britain.

CASHFLOW STATEMENT

The company is a wholly owned subsidiary of the ultimate parent company The Sanctuary Group plc and is included in the consolidated financial statements of The Sanctuary Group plc. 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

Sanctuary Records Group Limited

ACCOUNTING POLICIES

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.

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

1 TURNOVER AND PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and profit/(loss) before taxation were all derived from its principal activity. Sales were made in the following geographical markets:

Segmental analysis by destination:	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
United Kingdom	12,032	6,909
European Community	6,206	3,461
Rest of Europe	708	170
North America	7,608	3,030
Rest of World	561	263
	<u>27,115</u>	<u>13,833</u>

Segmental analysis by product type:	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
Audio	25,272	13,023
Visual	1,843	810
	<u>27,115</u>	<u>13,833</u>

2 OTHER OPERATING INCOME

	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
Rent receivable	-	149
Exchange gain	-	70
Other operating income	<u>-</u>	<u>219</u>

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

3	OTHER INTEREST RECEIVABLE AND SIMILAR INCOME	Year ended	Period ended
		30 September 2001 £'000	30 September 2000 £'000
	Interest receivable – external	12	23
	Interest receivable – group related	153	-
		<u>165</u>	<u>23</u>
4	INTEREST PAYABLE AND SIMILAR CHARGES	Year ended	Period ended
		30 September 2001 £'000	30 September 2000 £'000
	On bank loans, overdrafts and other loans repayable within five years:		
	Finance leases and hire purchase contracts	3	4
	Overdrafts and bank loans and others	126	1
		<u>129</u>	<u>5</u>
5	PROFIT/(LOSS) ON ORDINARY ACTIVITIES	Year ended	Period ended
		30 September 2001 £'000	30 September 2000 £'000
	Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
	Depreciation for the period:		
	Tangible owned fixed assets	358	307
	Tangible fixed assets held under finance leases	16	10
	Amortisation of intangible fixed assets	7	4
	Auditors' remuneration for:		
	Audit	35	35
	Other services to company and UK subsidiaries	-	63
	Operating leases – other	201	280
	Operating leases – plant and machinery	23	21
	Profit on disposal of fixed assets	(7)	(4)
		<u></u>	<u></u>

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.

Sanctuary Records Group Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2001

6 EMPLOYEES

Year ended 30 September 2001 No.	Period ended 30 September 2000 No.
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The average monthly number of persons (including directors) employed by the company during the year was:

Administration	44	38
Production	4	3
Sales and marketing	28	21
Warehousing	10	7
	<u>86</u>	<u>69</u>

The average monthly number of persons (including directors) employed by the company during the period was:

United Kingdom	86	69
	<u>86</u>	<u>69</u>

Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
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Staff costs for above persons:

Wages and salaries	2,607	1,616
Social security costs	277	163
Other pension costs	72	61
	<u>2,956</u>	<u>1,840</u>

Sanctuary Records Group Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2001

6	EMPLOYEES (continued)	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
	DIRECTORS' REMUNERATION		
	Director's emoluments including pension contributions comprises:		
	Salary payments	434	281
	Pension contributions	18	27
		<u>452</u>	<u>308</u>

Messrs Smallwood, Taylor and Haxby are directors of the ultimate parent company, The Sanctuary Group plc, and their interests are disclosed in the financial statements of that Company. No recharges are made to the Company for their services. It is not possible to make an accurate apportionment of any emoluments in respect of the company and its subsidiaries.

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

	Year ended 30 September 2001 £'000	Period ended 30 September 2000 £'000
Highest paid director – emoluments	200	132
Highest paid director – pension contributions	8	12

No director waived emoluments in respect of the year ended 30 September 2001 or the period ended 30 September 2000.

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

7 TAXATION

No charge to corporation tax arises due to the availability of tax losses brought forward.

There is no provision for deferred tax at the period end, nor is there an unprovided potential liability for deferred taxation (2000: £nil) for the company. The provision for deferred taxation principally related to tax relief on advance royalties prepaid. There is an unprovided deferred tax asset on the tax losses carried forward of £1,998,000 (2000: £3,599,000).

8 INTANGIBLE FIXED ASSETS

	£'000
Cost or valuation	
1 October 2000	5,889
Additions	208
30 September 2001	<u>6,097</u>
Depreciation	
1 October 2000	5,864
Charged in the year	7
30 September 2001	<u>5,871</u>
Net book value	
30 September 2001	<u>226</u>
30 September 2000	<u>25</u>

Sanctuary Records Group Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2001

9 TANGIBLE FIXED ASSETS

	Leasehold Premises £'000	Fixtures, fittings & equipment £'000	Total £'000
Cost or valuation			
1 October 2000	31	2,687	2,718
Additions	-	259	259
Disposals	-	(185)	(185)
30 September 2001	31	2,761	2,792
Depreciation			
1 October 2000	14	1,588	1,602
Charged in the year	1	373	374
Disposals	-	(129)	(129)
30 September 2001	15	1,832	1,847
Net book value			
30 September 2001	16	929	945
30 September 2000	17	1,099	1,116

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 £31,607 (2000: £47,410) in respect of assets held under finance leases.

10 INVESTMENTS

	Cost £	Provision £	Net Book Value £
Investments in subsidiaries			
1 October 2000	7,972	(1,761)	6,211
Additions	3,143	(184)	2,959
30 September 2001	11,115	(1,945)	9,170

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

10 INVESTMENTS (*continued*)

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

	Percentage of ordinary share capital held at 30 September 2001	Country of incorporation and principal country in which company operates
Castle Copyrights Limited	100%	Great Britain
Castle Music Publishing Limited	100%	Great Britain
Sanctuary Records GmbH	100%	Germany
Glassbag Limited (Trading as Fantastic Plastic)	50%	Great Britain
Sanctuary Digital Rights Limited	100%	Great Britain
Castle Communications (Deutschland) GmbH	100%	Germany

The following subsidiary undertakings were dormant as at 30 September 2001:

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

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

11 STOCKS	2001 £'000	2000 £'000
Finished goods	2,351	1,826

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

12	DEBTORS	2001 £'000	2000 £'000
	Due within one year:		
	Trade debtors	6,355	4,819
	Other debtors and prepayments	3,331	1,052
	Amounts due from parent or fellow subsidiary undertakings in respect of group relief	1,072	1,072
	ACT recoverable	4	4
	Amounts due from subsidiary undertakings	7,778	6,021
		<u>18,540</u>	<u>12,968</u>
	Advance royalty prepaid	8,801	6,073
		<u>27,341</u>	<u>19,041</u>

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.

13	CREDITORS: Amounts falling due within one year	2001 £'000	2000 £'000
	Liability under hire purchase agreements (note 19)	12	22
	Trade creditors	8,067	5,856
	Amount owed to parent and subsidiary undertakings	15,661	12,153
	Corporation tax	171	171
	Other taxation and social security	357	112
	Other creditors	145	188
	Accruals and deferred income	196	410
	Rights commitments	54	179
		<u>24,663</u>	<u>19,091</u>
14	CREDITORS: Amounts falling due in more than one year	2001 £'000	2000 £'000
	Liability under hire purchase agreements (repayable over one and under two years) (note 19)	15	25

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

15	SHARE CAPITAL	2001 £'000	2000 £'000
	Authorised:		
	7,500,000 ordinary shares of 5 pence each (2000: 7,500,000)	375	375
	600,000 11.25% cumulative redeemable preference shares of £1 each	600	600
		<u>975</u>	<u>975</u>
	Allotted, issued and fully paid:		
	6,885,255 ordinary shares of 5 pence each (2000: 6,885,255)	<u>344</u>	<u>344</u>
	Share premium account	<u>10,997</u>	<u>10,997</u>
16	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2001 £'000	2000 £'000
	Profit/(loss) for the financial year	6,350	(360)
	Opening shareholders' funds	9,120	9,480
	Closing shareholders' funds	<u>15,470</u>	<u>9,120</u>
17	RESERVES	Profit and loss account £'000	Other reserves £'000
	1 October 2000	(3,080)	859
	Retained profit for the year	6,350	-
	30 September 2001	<u>3,270</u>	<u>859</u>
18	COMMITMENTS UNDER OPERATING LEASES		
	At 30 September 2001 the company had annual commitments under non-cancellable operating leases as follows:		
		2001 £'000	2000 £'000
	Plant and machinery		
	expiring in the first year	-	6
	expiring in the second to fifth year	18	18
	Land and buildings		
	expiring after five years	201	200
		<u>219</u>	<u>224</u>

Sanctuary Records Group Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2001

19	FINANCE LEASES	2001 £'000	2000 £'000
	Repayable within one year of balance sheet date (note 13)	12	22
	Repayable between two and five years of balance sheet date (note 14)	15	25
		<u>27</u>	<u>47</u>

Included in fixed assets are fixtures and equipment held under finance leases. As at 30 September 2001, the gross book value of these assets was £47,000 (2000: £47,000). Associated accumulated depreciation amounted to £16,000 (2000: £Nil) and depreciation of £16,000 (2000: £29,000) has been charged to the profit and loss account for the year.

20 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 that may arise to have a material impact on the company's results, cash flow or financial condition.

The company, along with other subsidiary companies of The Sanctuary Group plc, has guaranteed the overdraft of the group which at 30 September 2001 amounted to £Nil (2000: £2,437,000).

21 RELATED PARTY TRANSACTIONS

The company is a wholly owned subsidiary of the ultimate parent company The Sanctuary Group plc and is included in the consolidated financial statements of The Sanctuary Group plc, which are publicly available. The company has chosen to take advantage of the exemption in Financial Reporting Standard ('FRS') No. 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.

There were no transactions with the ultimate parent company The Sanctuary Group plc or any other related party which are required to be disclosed under Financial Reporting Standard No.8.

22 IMMEDIATE PARENT COMPANY

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

23 ULTIMATE PARENT COMPANY

The ultimate parent company and largest group to consolidate these financial statements is The Sanctuary Group plc, incorporated in the United Kingdom. Copies of The Sanctuary Group plc consolidated financial statements can be obtained from the Company Secretary at Sanctuary House, 45-53 Sinclair Road, London W14 0NS.