

AEC Holdings (UK) Limited

REPORT AND FINANCIAL STATEMENTS

for the year ended

30 September 2003



AEC Holdings (UK) Limited

DIRECTORS AND OFFICERS

DIRECTORS

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

COMPANY SECRETARY

SEA Standing

REGISTERED OFFICE

Sanctuary House
45-53 Sinclair Road
London W14 0NS

AUDITORS

Baker Tilly
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

AEC Holdings (UK) Limited

DIRECTORS' REPORT

The directors present their report together with the audited financial statements for the year ended 30 September 2003.

PRINCIPAL ACTIVITIES

The company operates as the holding company for the Sanctuary Records group of companies.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The group traded as expected during the year.

RESULTS AND DIVIDENDS

The profit for the year before taxation amounted to £nil (2002: £nil).

The profit of £nil (2002: £nil) has been transferred from the profit and loss account.

The directors do not recommend the payment of a dividend (2002: £nil).

DIRECTORS AND DIRECTORS' INTERESTS

The directors who held office during the year were as follows:

J Cokell
R Semon
EJN Cook
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 Taylor and Cokell are officers of the ultimate parent company, The Sanctuary Group plc. Their interests in the shares and options in that company are disclosed in its statutory accounts.

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

	Ordinary shares of 12.5p each	
	30.09.03	30.09.02
R Semon	-	920,195
EJN Cook	-	916,318
HH Davies	830,516	830,516
MJ Haxby	289,720	289,720

AEC Holdings (UK) Limited

DIRECTORS' REPORT

INTRODUCTION OF THE EURO

All relevant parts of the company are 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



S E Standing
Company Secretary

19 January 2004

AEC Holdings (UK) 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AEC HOLDINGS (UK) LIMITED

We have audited the financial statements on pages 6 to 12.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinion we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities on page 4.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 affairs of the company at 30 September 2003 and of the company's result 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

19 January 2004

AEC Holdings (UK) Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 September 2002

	Notes	2003 £'000	2002 £'000
Administrative expenses		-	-
Other operating income		-	-
OPERATING PROFIT	1	<u>-</u>	<u>-</u>
Interest payable and similar charges		-	-
Taxation		-	-
RETAINED PROFIT FOR THE YEAR		<u>-</u>	<u>-</u>

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.

AEC Holdings (UK) Limited

BALANCE SHEET

30 September 2003

	<i>Notes</i>	2003 £'000	2002 £'000
FIXED ASSETS			
Investments	3	4,448	4,448
CURRENT ASSETS			
Debtors	4	383	743
CREDITORS: Amounts falling due within one year	5	(8,986)	(9,346)
NET CURRENT LIABILITIES		(8,603)	(8,603)
TOTAL ASSETS LESS CURRENT LIABILITIES		(4,155)	(4,155)
CAPITAL AND RESERVES			
Called up share capital	6	9,695	9,695
Profit and loss account	7	(13,850)	(13,850)
EQUITY SHAREHOLDERS' FUNDS	8	(4,155)	(4,155)

Approved by the board on 19 January 2004
and signed on its behalf



EJN Cook Director

AEC Holdings (UK) 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 company relies on the continued support of its ultimate parent company, The Sanctuary Group plc. The directors continue to adopt the going concern concept in preparing the financial statements.

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.

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.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

AEC Holdings (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2003

1 PROFIT ON ORDINARY ACTIVITIES

Auditors' remuneration was borne by the subsidiary undertaking, Sanctuary Records Group Limited.

2 DIRECTORS' REMUNERATION

There were no employees during the year (2002: nil).

Messrs Cokell, Semon and Cook, are also directors of Sanctuary Records Group Limited, and were remunerated by that company and their remuneration is fully disclosed in that company's financial statements.

No director waived emoluments in respect of the year ended 30 September 2003 or the period ended 30 September 2002.

AEC Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2003

3 INVESTMENTS

	Cost £'000	Provision £'000	Net Book Value £'000
1 October 2002 and 30 September 2003	4,448	-	4,448

The company's investment in the Sanctuary Records Group of companies is carried at the original cost less provision for diminution in value.

	Percentage of ordinary share capital held at 30 September 2003	Country of incorporation and principal country in which company operates
<i>Sanctuary Records Group Limited</i>	100%	<i>Great Britain</i>

The following subsidiary undertakings are investments held by Sanctuary Records Group Limited:

Sanctuary Copyrights Limited	100%	Great Britain
Castle Music Publishing Limited	100%	Great Britain
Castle Communications (Deutschland) GmbH i.L.	100%	Germany
Sanctuary Digital Rights Limited	100%	Great Britain
Glassbag Limited (Trading as Fantastic Plastic)	50%	Great Britain
Sanctuary Records	100%	Germany

The following subsidiary undertakings were dormant as at 30 September 2003:

Hendring Limited	99.4%	Great Britain
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

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

AEC Holdings (UK) Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 September 2003

4	DEBTORS	2003 £'000	2002 £'000
	Due within one year:		
	Amounts due from subsidiary undertakings	-	360
	Amounts due from fellow subsidiary undertakings in respect of group relief	383	383
		<u>383</u>	<u>743</u>
5	CREDITORS: Amounts falling due within one year	2003 £'000	2002 £'000
	Amounts owed to parent undertaking	8,986	9,346
6	SHARE CAPITAL	2003 £'000	2002 £'000
	Authorised:		
	15,000,000 ordinary shares of £1 each	15,000	15,000
	Allotted, issued and fully paid:		
	9,694,546 ordinary shares of £1 each	9,695	9,695
7	PROFIT AND LOSS ACCOUNT	2003 £'000	2002 £'000
	1 October 2002	(13,850)	(13,850)
	Retained profit for the year	-	-
	30 September 2003	<u>(13,850)</u>	<u>(13,850)</u>
8	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	2003 £'000	2002 £'000
	Profit for the financial year	-	-
	Opening shareholders' funds	(4,155)	(4,155)
	Closing shareholders' funds	<u>(4,155)</u>	<u>(4,155)</u>

9 CONTINGENT LIABILITIES

The Sanctuary Records Group of companies, including AEC Holdings (UK) Limited, 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, Bank of Scotland, which cannot be met by the company in whose name the liability exists. At 30 September 2003, the net liability of the group amounted to £59,452,000 (2002: £41,857,000).

AEC Holdings (UK) Limited

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 September 2003

10 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.

11 ULTIMATE PARENT COMPANY

The ultimate and immediate parent company and largest and smallest group to consolidate these financial statements is The Sanctuary Group plc, incorporated in the United Kingdom.

Copies of the group financial statements of The Sanctuary Group plc are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.