

**Chrysalis Holdings Limited**

**Directors' report and financial statements**

31 August 2005

Registered number 918616



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COMPANIES HOUSE 05/05/2006

## **Directors' report and financial statements**

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## Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2005.

### Principal activities

The principal activities of the company are the provision of management and administration services to members of the Chrysalis Group of companies and acting as an investment holding company. The directors do not anticipate any changes in these activities over the coming year.

### Results and dividends

The retained loss of £13,660,543 for the year and transfer to reserves (2004: loss £68,489) are set out in the profit and loss account on page 5. The directors do not recommend the payment of a dividend (2004: nil).

### Directors and directors' interests

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

CN Wright  
NRA Butterfield (Resigned 31/12/05)  
RNL Huntingford  
PS Riley  
MD Connole (Appointed 01/01/06)

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the financial year. At 31 August 2005 and 31 August 2004, Messrs CN Wright, NRA Butterfield, RNL Huntingford and PS Riley were also directors of the ultimate parent company, Chrysalis Group PLC, and their share interests are disclosed in the directors' report of that company.

As at 31 August 2005, MD Connole held 6,956 (2004: 6,956) ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC. On 25 January 1999, MD Connole was granted options over 50,000 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £1.271 per share. On 8 December 2000, MD Connole was granted options over 50,000 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £3.20 per share. On 23 November 2001, MD Connole was granted options over 50,000 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £2.30 per share. In December 2001, MD Connole was granted options over 8,871 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC. On 1 August 2003, MD Connole was granted options over 39,473 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £2.09 per share. On 18 November 2003, MD Connole was granted options over 40,778 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £2.185 per share. On 1 August 2003, a conditional award of 14,952 Performance Shares was made to MD Connole. On 18 November 2003, a conditional award of 15,446 Performance Shares was made to MD Connole. On 29 August 2003, a conditional award of 15,022 Matching Shares was made to MD Connole. On 17 December 2003, a conditional award of 14,445 Matching Shares was made to MD Connole. On 3 December 2004, MD Connole was granted options over 53,389 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £1.7925 per share. On 3 December 2004, a conditional award of 20,223 Performance Shares was made to MD Connole. On 29 November 2005, MD Connole was granted options over 101,619 ordinary shares of 2p each in the ultimate parent company, Chrysalis Group PLC, at an exercise value of £1.455 per share. On 29 November 2005, a conditional award of 34,211 Performance Shares was made to MD Connole.

By order of the Board

A handwritten signature in black ink, appearing to be 'CR Potterell', written over a horizontal line.

**CR Potterell**  
*Secretary*

The Chrysalis Building  
Bramley Road  
London  
W10 6SP

19 April 2006

## **Statement of directors' responsibilities**

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



**KPMG Audit Plc**

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## **Report of the independent auditors to the members of Chrysalis Holdings Limited**

We have audited the financial statements on pages 5 to 14.

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 auditor's 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 opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by 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 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 is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

*In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.*

*KPMG Audit Plc*

**KPMG Audit Plc**

*Chartered Accountants*

*Registered Auditor*

*19 April* 2006

## **Profit and loss account**

*for the year ended 31 August 2005*

	<i>Note</i>	2005 £	2004 £
Provisions against carrying value of investments	7	(13,658,337)	-
Administration expenses		(194,686)	(96,595)
		<hr/>	<hr/>
		(13,853,023)	(96,595)
Income from shares in group undertakings		600,000	1,451,047
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>		(13,253,023)	1,354,452
Non operating item:			
Exceptional profit/(loss) on disposal of fixed asset investments	4	48,618	(1,010,603)
Interest payable and similar charges	5	(456,138)	(412,338)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>		(13,660,543)	(68,489)
Tax on loss on ordinary activities	6	-	-
		<hr/>	<hr/>
<b>Loss on ordinary activities after taxation</b>		(13,660,543)	(68,489)
Retained profit brought forward		30,418	98,907
		<hr/>	<hr/>
<b>Retained (loss)/ profit carried forward</b>		(13,630,125)	30,418
		<hr/>	<hr/>

Amounts relating to loss on ordinary activities before taxation in the current and previous year derive from continuing activities.

There is no difference between the result as disclosed in the profit and loss account and the result on an unmodified historical cost basis.

The notes on pages 8 to 14 form part of these financial statements.

## Statement of total recognised gains and losses

*for the year ended 31 August 2005*

	2005 £	2004 £
Retained loss for the financial year	(13,660,543)	(68,489)
Foreign currency gains	-	432,248
	<hr/>	<hr/>
Total recognised (losses)/gains in the year	(13,660,543)	363,759
	<hr/>	<hr/>

## Reconciliation of movements in equity shareholders' funds/(deficit)

*for the year ended 31 August 2005*

	2005 £	2004 £
Equity shareholders' funds brought forward	1,556,205	1,192,446
Loss for the year	(13,660,543)	(68,489)
Foreign currency gains	-	432,248
	<hr/>	<hr/>
Equity shareholders' (deficit)/funds carried forward	(12,104,338)	1,556,205
	<hr/>	<hr/>

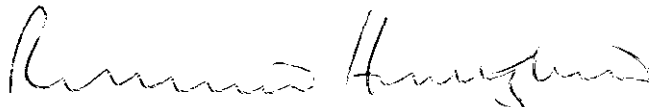


## Balance sheet

at 31 August 2005

	Note	£	2005 £	£	2004 £
<b>Fixed assets</b>					
Investments	7		30,330,423		44,164,297
<b>Current assets</b>					
Debtors	8	14,467		816,197	
Cash		1,116		1,116	
		<u>15,583</u>		<u>817,313</u>	
<b>Creditors: amounts falling due within one year</b>	9	<u>(42,450,344)</u>		<u>(43,425,405)</u>	
<b>Net current liabilities</b>			<u>(42,434,761)</u>		<u>(42,608,092)</u>
<b>Net (liabilities)/assets</b>			<u>(12,104,338)</u>		<u>1,556,205</u>
<b>Capital and reserves</b>					
Called up share capital	11		500,000		500,000
Other reserves	12		1,025,787		1,025,787
Profit and loss account	12		(13,630,125)		30,418
<b>Shareholders' (deficit)/funds – equity</b>			<u>(12,104,338)</u>		<u>1,556,205</u>

These financial statements were approved by the Board of directors on 19 April 2006 and were signed on its behalf by:



**RNL Huntingford**  
*Director*

The notes on pages 8 to 14 form part of these financial statements.

## Notes

(forming part of the financial statements)

### 1 Accounting policies

#### ***Basis of preparation***

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards. The following policies have been consistently applied:

#### ***Group accounts***

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts on the grounds that it is a wholly owned subsidiary of another body corporate registered in England and Wales. These financial statements present information about the company as an individual undertaking and not about its group.

#### ***Going concern***

The accounts have been prepared on a going concern basis in view of the fact that Chrysalis Group PLC has formally indicated that it will provide sufficient funding to the company to enable it to meet its liabilities as they fall due, for at least the next twelve months.

#### ***Dividend income***

Dividend income from investments in group undertakings is included on a receivable basis.

#### ***Investments***

Investments in subsidiary and associated undertakings are periodically revalued in the company's balance sheet to reflect the value of these companies at the balance sheet date. Any permanent diminutions in the value of investments are fully provided for and written off through the profit and loss account for the year.

#### ***Foreign exchange***

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transaction (or, where applicable at the rate specified in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of the exchange prevailing at the year end (or, where applicable at the rate specified in a related forward exchange contract). Any gain or loss on the retranslation of monetary assets and liabilities to the closing rate of exchange are included in the profit and loss account.

#### ***Taxation***

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Chrysalis Group PLC entities are able to relieve their taxable losses by surrendering them to other group companies where capacity to utilise those losses exists. There is an agreement between members of the group that such losses will be purchased and paid for by the recipient company. Where there is reasonable certainty that taxable losses can be utilised the group relief receivable is included in the taxation charge or credit for the year.

**Notes** *(continued)*  
*(forming part of the financial statements)*

**2 Loss on ordinary activities before taxation**

The amount paid to auditors for the audit of the company was £2,500 (2004: £3,000).

**3 Directors' and employees' remuneration**

The directors received no remuneration from the company for services during the year (2004: nil). The company did not have any other employees and as a result incurred no staff costs. Messrs CN Wright, NRA Butterfield, PS Riley and RNL Huntingford received remuneration from Chrysalis Group PLC, the company's ultimate holding company, which is disclosed in the financial statements of that company.

**4 Exceptional profit/(loss)**

The exceptional profits/(losses) on disposals of fixed asset investments comprise the following:

	2005	2004
	£	£
Net profit/(loss) on disposals of associated companies	48,618	(1,010,603)
	<hr/>	<hr/>
	48,618	(1,010,603)
	<hr/>	<hr/>

The current year profit on disposal relates to the disposal of a 31% interest in BCRfm limited to Choice Media Group (UK) Limited on the 15<sup>th</sup> October 2004, and the disposal of a 35% interest in Knowsley Community Radio Limited to The Local Radio Community plc on the 11<sup>th</sup> January 2005 (see note 7).

**5 Interest payable and similar charges**

	2005	2004
	£	£
Other interest	456,138	412,338
	<hr/>	<hr/>

## Notes (continued)

### 6 Taxation on loss on ordinary activities

Analysis of charge in the year

	2005 £	2004 £
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
	<u>          </u>	<u>          </u>

*Factors affecting the tax charge for the current year*

The tax for the year differs from the standard rate of corporation tax in the UK at 30% (2004: 30%). The differences are explained below.

	2005 £	2004 £
<b>Loss on ordinary activities before tax</b>	<b>(13,660,543)</b>	<b>(68,489)</b>
	<u>          </u>	<u>          </u>
Current tax at 30% (2004: 30%)	(4,098,163)	(20,547)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	-	27,000
Income/gains not chargeable to tax	(194,585)	(435,314)
Provisions against investments not deductible for tax purposes	4,097,501	-
Capital losses/(gains) not chargeable to tax	-	303,181
Exchange gain/(loss)	-	129,674
Losses carried forward/(utilised)	195,247	(3,994)
	<u>          </u>	<u>          </u>
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>
	<u>          </u>	<u>          </u>

## Notes (continued)

### 7 Fixed asset investments

	Shares in subsidiaries £	Shares in participating interests £	Total £
<b>Cost</b>			
At beginning of year	52,940,185	724,525	53,664,710
Additions	713	-	713
Disposals	-	(176,250)	(176,250)
	<hr/>	<hr/>	<hr/>
At end of year	52,940,898	548,275	53,489,173
	<hr/>	<hr/>	<hr/>
<b>Provisions</b>			
At beginning of year	9,371,636	128,777	9,500,413
Impairment	13,658,337	-	13,658,337
	<hr/>	<hr/>	<hr/>
At end of year	23,029,973	128,777	23,158,750
	<hr/>	<hr/>	<hr/>
<b>Net book value</b>			
At 31 August 2005	29,910,925	419,498	30,330,423
	<hr/>	<hr/>	<hr/>
At 31 August 2004	43,568,549	595,748	44,164,297
	<hr/>	<hr/>	<hr/>

During the year the company wrote down its investment in a subsidiary company, Chrysalis Books PLC, by £13,658,337.

During the year the company acquired a further 7,125 shares in Lapishaven and Armourvale, subsidiary companies.

On the 15<sup>th</sup> October 2004, the company completed the disposal of its 31% interest in BCRfm limited to Choice Media Group (UK) Limited for a cash consideration of £140,000 realising a profit on disposal of £51,950. On the 11<sup>th</sup> January 2005, the company also completed the disposal of its 35% interest in Knowsley Community Radio Limited to The Local Radio Community plc for a cash consideration of £155,000 realising a loss on a disposal of £22,202.

## Notes (continued)

### 7 Fixed asset investments

All investments are unlisted. The principal companies in which the company's interest was more than 10% at 31 August 2005 were as follows:

	Principal activity	Class of share	Percentage of shares held
<b><i>Subsidiary undertakings</i></b>			
Armourvale Limited	Holding company	Ordinary	100%
Chrysalis Books PLC*	Holding company	Ordinary	100%
Ramboro Books PLC*	Book wholesaling	Ordinary	100%
Salamander Books Limited*	Book publishing	Ordinary	100%
BT Batsford Limited*	Book publishing	Ordinary	100%
Chrysalis Logistics Limited*	Book distribution	Ordinary	100%
Alliance Publishing Limited*	Book wholesaling	Ordinary	100%
C&B Publishing plc*	Holding company	Ordinary	100%
Collins & Brown Limited*	Book publishing	Ordinary	100%
Pavilion Books Limited*	Book publishing	Ordinary	100%
David Bennett Books Limited*	Book publishing	Ordinary	100%
Belitha Press Limited*	Book publishing	Ordinary	100%
Chrysalis Music Limited	Music publishing	Ordinary	100%
Chrysalis Music International BV (Netherlands)	Music publishing	Ordinary	100%
Chrysalis Music SAS (France)	Music publishing	Ordinary	100%
Downboy Music Limited	Music production	Ordinary	100%
Jerve Songs Limited	Music production	Ordinary	100%
Chrysalis Retail Entertainment Limited	Retail broadcasting	Ordinary	100%
Lapishaven Limited	Holding company	Ordinary	100%
The Hit Label Limited	Music production	Ordinary	100%
<b><i>Associated undertakings and joint ventures</i></b>			
Chrys-a-lee Music Limited	Music production	Ordinary	50%
Digital News Network Limited	Radio operations	Ordinary	28%
MXR Holdings Limited	Holding company	Ordinary	39%
MXR Trading Limited	Radio operations	Ordinary	39%
Tuchwood Records Limited	Music production	Ordinary	50%

\* Denotes company disposed of since 31<sup>st</sup> August 2005.

All interests are in companies registered in England and Wales unless otherwise stated.

In the opinion of the directors the investments in the company's subsidiaries, associated undertakings and joint ventures are worth at least the amounts at which they are stated in the balance sheet.

## Notes (continued)

### 8 Debtors

	2005 £	2004 £
Amounts owed by group undertakings	104	800,585
Other debtors	14,363	15,612
	<u>14,467</u>	<u>816,197</u>

Debtors include an amount of £5,250 (2004:£5,250) due after more than one year.

### 9 Creditors: amounts falling due within one year

	2005 £	2004 £
Amounts owed to group undertakings	34,225,290	35,161,102
Other creditors including taxation and social security	8,225,054	8,264,303
	<u>42,450,344</u>	<u>43,425,405</u>

### 10 Deferred taxation

A deferred tax asset of £390,681 (2004: £195,433) arises on losses in the UK which is not recognised in the accounts. These assets can only be deducted against future suitable taxable profits. There is currently insufficient evidence that suitable taxable profits will be generated to offset the future reversal of these timing differences and therefore no asset has been recognised.

### 11 Called up share capital

	2005 £	2004 £
<i>Authorised, allotted, called up and fully paid</i>		
250,000 Ordinary shares of £1 each	250,000	250,000
250,000 Non-voting 'A' shares of £1 each	250,000	250,000
	<u>500,000</u>	<u>500,000</u>

The authorised Share Capital of the Company is divided into 250,000 Ordinary £1 shares and 250,000 Non-Voting "A" Ordinary £1 shares. Both class of share rank pari passu for participation in the profits and assets of the Company and in all other respects save that the Non-Voting Ordinary shares shall not entitle the holders to attend or vote at any General Meeting of the Company.

## Notes (continued)

### 12 Reserves

	Other reserves £	Profit and loss account £
At the beginning of the year	1,025,787	30,418
Retained loss for the year	-	(13,660,543)
	<hr/>	<hr/>
At the end of year	1,025,787	(13,630,125)
	<hr/>	<hr/>

### 13 Cash flow statement

The company is exempt from the requirement of Financial Reporting Standard No 1 (revised 1996) to prepare a cash flow statement on the grounds that its parent undertaking, Chrysalis Group PLC, includes the company in its own published consolidated financial statements.

### 14 Related party transactions

As the company is a wholly owned subsidiary of Chrysalis Group PLC, the company has taken advantage of the exemption contained in FRS8 Related Party Transactions and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated statements of Chrysalis Group PLC, within which the company is included, can be obtained from the address given in note 17

### 15 Contingent liabilities

The company, together with other group companies, has given a guarantee to the Group's bankers to secure borrowings of other group companies.

### 16 Post balance sheet event

Chrysalis Group PLC completed the disposal of its Chrysalis Books division (held within Chrysalis Holdings Limited) on 23<sup>rd</sup> November 2005 to Anova Books Company Limited ("Anova") for a purchase consideration of £12.5 million. The consideration comprises £9.0 million convertible 10 year loan stock and £3.5 million 3% cumulative redeemable preference shares. The loan stock is secured by a fixed and floating charge over Anova's assets in favour of Chrysalis Group PLC. Chrysalis Group PLC has agreed to provide a £1.5 million working capital facility to Anova which is repayable by 30<sup>th</sup> June 2006 and bears interest at 1.5% p.a. above the Royal Bank of Scotland base rate.

Given the deferred nature of the consideration, a provision of £11.5 million has been made against the total consideration of £12.5 million. This provision has been booked in the accounts of Chrysalis Group PLC.

### 17 Ultimate parent company

The immediate parent company is Chrysalis Investments Limited which is registered in England and Wales.

The ultimate parent company is Chrysalis Group PLC which is registered in England and Wales, for which consolidated accounts are prepared. The consolidated accounts of this company may be obtained from The Secretary, Chrysalis Group PLC, The Chrysalis Building, Bramley Road, London W10 6SP.