

Chrysalis Holdings Limited

Directors' report and financial statements

31 August 2006

Registered number 918616



Directors' report and financial statements

Contents

Directors' report	2
Statement of directors' responsibilities	3
Independent auditor's report to the members of Chrysalis Holdings Limited	4-5
Profit and loss account	6
Statement of total recognised gains and losses	7
Reconciliation of movements in shareholders' deficit	7
Balance sheet	8
Notes	9-15

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2006

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 £453,134 for the year and transfer to reserves (2005 loss £14,260,543) are set out in the profit and loss account on page six. The directors do not recommend the payment of a dividend (2005 £ nil).

Directors and directors' interests

The directors who held office during the year were as follows

CN Wright
RNL Huntingford
PS Riley
MD Connole (appointed 1 January 2006)
NRA Butterfield (resigned 31 December 2005)

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 2006 Messrs CN Wright, RNL Huntingford, MD Connole 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.

Disclosure of information to auditors

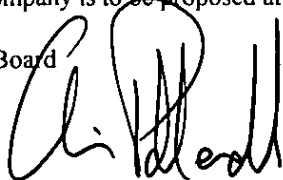
The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

CR Potterell
Secretary



The Chrysalis Building
Bramley Road
London
W10 6SP

11 June 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHRYSALIS HOLDINGS LIMITED

We have audited the financial statements of Chrysalis Holdings Limited for the year ended 31st August 2006 which comprise of the Profit and Loss account, Statement of Total Recognised Gains and Losses, and Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page three.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st August 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

11 June 2007

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 August 2006

	<i>Note</i>	2006	As restated 2005
		£	£
Provisions against carrying value of investments	7	-	(13,658,337)
Administration expenses		55,765	(2,201)
		<hr/>	<hr/>
		55,765	(13,660,538)
Income from shares in group undertakings		600,000	-
		<hr/>	<hr/>
Operating profit/(loss)		655,765	(13,660,538)
Foreign exchange gains/(losses)		252,806	(192,485)
Non operating item			
Exceptional (loss)/profit on disposal of investments	4	(1,000,000)	48,618
Interest payable and similar charges	5	(408,940)	(456,138)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(500,369)	(14,260,543)
Tax on loss on ordinary activities	6	47,235	-
		<hr/>	<hr/>
Loss on ordinary activities after taxation		(453,134)	(14,260,543)
Retained (loss)/profit brought forward		(14,230,125)	30,418
		<hr/>	<hr/>
Retained loss carried forward		(14,683,259)	(14,230,125)
		<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 9 to 15 form part of these financial statements

Statement of total recognised gains and losses

for the year ended 31 August 2006

There were no recognised gains and losses in the year other than the retained loss for those years

Reconciliation of movements in shareholders' deficit

for the year ended 31 August 2006

	2006 £	As restated 2005 £
Shareholders' (deficit)/funds brought forward (originally £(12,104,338) restated for FRS 21 prior year adjustment of £(600,000))	(12,704,338)	1,556,205
Loss for the year	(453,134)	(14,260,543)
	<hr/>	<hr/>
Shareholders' deficit carried forward	(13,157,472)	(12,704,338)
	<hr/>	<hr/>

Balance sheet
at 31 August 2006

	Note	2006	As restated 2005
		£	£
Fixed assets			
Investments	7	29,504,750	30,330,423
Current assets			
Debtors (including £5,250 (2005 £5,250) after more than one year)	8	5,354	14,467
Cash		2,802	1,116
		<u>8,156</u>	<u>15,583</u>
Creditors amounts falling due within one year	9	(42,670,378)	(43,050,344)
Net current liabilities		<u>(42,662,222)</u>	<u>(43,034,761)</u>
Net liabilities		<u>(13,157,472)</u>	<u>(12,704,338)</u>
Capital and reserves			
Called up share capital	11	500,000	500,000
Other reserves	12	1,025,787	1,025,787
Profit and loss account	12	(14,683,259)	(14,230,125)
Shareholders' deficit		<u>(13,157,472)</u>	<u>(12,704,338)</u>

These financial statements were approved by the Board of directors on 11 June 2007 and were signed on its behalf by



MD Connole
Director

The notes on pages 9 to 15 form part of these financial statements

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as noted below. In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date',
- FRS 25 'Financial instruments: presentation and disclosure', and
- FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28 – Corresponding amounts had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985. The corresponding amounts in these financial statements are, other than those covered by the exception permitted by FRS 25, restated in accordance with the new policies.

In 2006 the company adopted FRS 21 – Events after the balance sheet date which requires recognition of dividends as a liability in the period in which they are paid or proposed. Dividends received for the year ended 31 August 2006 of £600,000 have been added to the profit and loss account.

FRS 25 permits the corresponding amounts not to be restated and the Company has adopted this approach. The financial instruments policy set out below provides further details of the 2006 and 2005 bases and of the change booked on 1st September 2006.

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.

Notes (continued)

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

The 2005 disclosures follow FRS 4 as applicable This includes the analysis of 2005 shareholders' funds and minority interest into equity and non-equity components FRS 4 used "equity" as a sub-set of shareholders' funds, whereas FRS 25 applies the term "equity" to issued financial instruments other than those, or those components, classified as liabilities Due to the nature of equity of the Company, the effect on the current year of the new policy is not material

2 Loss on ordinary activities before taxation

The audit fee for this company has been borne by the company's immediate parent company, Chrysalis Group PLC

3 Directors' and employees' remuneration

The directors received no remuneration from the company for services during the year (2005 *£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 (Loss)/profit on sale of discontinued operation

An exceptional loss on the disposal of an investment has arisen during the year, for more details of the disposal, please refer to note 7

	2006	2005
	£	£
(Loss)/profit on disposals of investments	(1,000,000)	48,618
	<u> </u>	<u> </u>

Notes (continued)

5 Interest payable and similar charges

	2006 £	2005 £
Other interest	408,940	456,138

6 Taxation on loss on ordinary activities

Analysis of credit in the year

	2006 £	2005 £
<i>UK corporation tax</i>		
Current tax on income for the year	(47,235)	-

Factors affecting the tax credit for the current year

The tax for the year differs from the standard rate of corporation tax in the UK at 30% (2005 30%). The differences are explained below

	2006 £	As restated 2005 £
Loss on ordinary activities before tax	(500,369)	(14,260,543)
Current tax at 30% (2005 30%)	(150,111)	(4,278,163)
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	-
Income/gains not chargeable to tax	(180,000)	(194,585)
Provisions against investments not deductible for tax purposes	282,876	4,097,501
Capital losses/(gains) not chargeable to tax		-
Exchange gain/(loss)		-
Losses carried forward/(utilised)		195,247
Current tax charge for the year	(47,235)	-

Notes (continued)

7 Fixed asset investments

	Shares in subsidiaries £	Shares in participating interests £	Total £
Cost			
At beginning of year	52,940,898	548,275	53,489,173
Additions	299,824	-	299,824
Disposals	(14,658,337)	(125,497)	(14,783,834)
	<hr/>	<hr/>	<hr/>
At end of year	38,582,385	422,778	39,005,163
	<hr/>	<hr/>	<hr/>
Provisions			
At beginning of year	23,029,973	128,777	23,158,750
Disposals	(13,658,337)	-	(13,658,337)
	<hr/>	<hr/>	<hr/>
At end of year	9,371,636	128,777	9,500,413
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 August 2006	29,210,749	294,001	29,504,750
	<hr/>	<hr/>	<hr/>
At 31 August 2005	29,910,925	419,498	30,330,423
	<hr/>	<hr/>	<hr/>

During the year the Company acquired a further 431,700 shares in Digital News Network Limited, being the remaining ordinary shares for a consideration of £165,913. This investment was previously treated as a joint venture.

The total of £14,658,337 removed from investments in subsidiaries relates to the disposal of Chrysalis Books to Anova Books Company Limited which took place on 23rd November 2005.

The net assets of Chrysalis Books in Chrysalis Group's consolidated balance sheet at 31 August 2005 amounted to £1.0 million following operating losses and exceptional impairments of £13.7 million in the prior year. Given the deferred nature of the consideration receivable, the Board considered it prudent to make a provision of £11.5 million against a total consideration payable of £12.5 million. This was taken to the profit and loss account in 2005. During 2006, the investment was fully disposed of and additional consideration provided against, resulting in a loss on disposal of £1 million.

Consideration of £12.5 million comprises £9.0 million convertible 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.

Notes (continued)

All investments are unlisted. The principal companies in which the company's interest was more than 10% at 31 August 2006 were as follows

	Principal activity	Class of share	Percentage of shares held
<i>Subsidiary undertakings</i>			
Armourvale Limited	Holding company	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%
Digital News Network Limited	Radio operations	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%
<i>Associated undertakings and joint ventures</i>			
Chrys-a-lee Music Limited	Music production	Ordinary	50%
MXR Holdings Limited	Holding company	Ordinary	39%
MXR Trading Limited	Radio operations	Ordinary	39%
Tuchwood Records Limited	Music production	Ordinary	50%

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

8 Debtors

	2006 £	2005 £
Amounts owed by group undertakings	104	104
Other debtors	5,250	14,363
	<hr/> 5,354	<hr/> 14,467

Debtors of £5,250 (2005 £5,250) are due after more than one year

9 Creditors: amounts falling due within one year

	2006 £	As restated 2005 £
Amounts owed to group undertakings	35,398,127	34,825,291
Other creditors including taxation and social security	7,272,251	8,225,053
	<hr/> 42,670,378	<hr/> 43,050,344

Notes (continued)

10 Deferred taxation

A deferred tax asset of £390,681 (2005 £390,681) 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

	2006 £	2005 £
<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
	<hr/> 500,000	<hr/> 500,000
	<hr/>	<hr/>

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.

12 Reserves

	Share Capital £	Other reserves £	As restated Profit and loss account £
At the beginning of the year	500,000	1,025,787	(14,230,125)
Retained loss for the year	-	-	(453,134)
	<hr/> 500,000	<hr/> 1,025,787	<hr/> (14,683,259)
	<hr/>	<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.

Notes *(continued)*

15 Contingent liabilities

The company has not adopted amendments to FRS 26 in relation to financial guarantee contracts which apply for periods commencing on or after 1 January 2006

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee. The company does not expect the amendments to have any impact on the financial statements for the period commencing 1 September 2006

16 Post balance sheet event

Following adoption of Financial Reporting Standard 21 'Events after the balance sheet date', proposed dividends are no longer recognised as at the balance sheet date

The directors do not recommend the payment of a dividend for the year under review

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