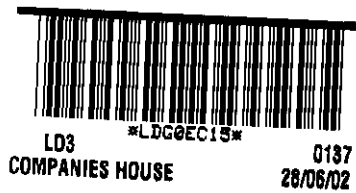


Chrysalis Holdings Limited

Directors' report and financial statements

31 August 2001

Registered number 918616



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 2001.

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 £23,672,800 for the year and transfer from reserves (2000: £144,034 retained profit and transfer to reserves) are set out in the profit and loss account on page 4. The directors do not recommend the payment of a dividend (2000: dividend of £17.80 per share paid).

Directors and directors' interests

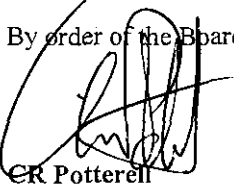
The directors who held office during the year were as follows:

CN Wright
NRA Butterfield
RNL Huntingford
MJ Pilsworth (resigned 3 May 2002)
PS Riley (appointed 24 April 2001)

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 2001 and 31 August 2000 or the date of appointment, all of the directors were also directors of the ultimate parent company, Chrysalis Group PLC, and their share interests are disclosed in the directors' report of that company.

By order of the Board



CR Potterell
Secretary

The Chrysalis Building
Bramley Road
London
W10 6SP

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

PO Box 695
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Chrysalis Holdings Limited

We have audited the financial statements on pages 4 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, 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 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 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 25 June, 2002

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 August 2001

	<i>Note</i>	2001 £	2000 £
Administrative expenses:			
Provisions against carrying value of investments		(8,882,386)	-
Other		(3,235)	3,901
		<hr/>	<hr/>
		(8,885,621)	3,901
Income from shares in group undertakings		6,521,000	9,204,700
		<hr/>	<hr/>
Operating (loss)/profit		(2,364,621)	9,208,601
Exceptional loss on disposal and termination of fixed asset investments	3	(20,795,411)	-
Other interest receivable and similar income	5	524	1,130
Interest payable and similar charges	6	(512,752)	(166,497)
		<hr/>	<hr/>
(Loss)/profit on ordinary activities before taxation	2	(23,672,260)	9,043,234
Tax on loss on ordinary activities		(540)	-
		<hr/>	<hr/>
(Loss)/profit on ordinary activities after taxation		(23,672,800)	9,043,234
Dividends proposed and paid	7	-	(8,899,200)
		<hr/>	<hr/>
Retained (loss)/ profit for the financial year		(23,672,800)	144,034
Retained profit brought forward		156,819	12,785
		<hr/>	<hr/>
Retained (loss)/ profit carried forward		(23,515,981)	156,819
		<hr/>	<hr/>

Amounts relating to operating loss/(profit) in the current and previous years derive from continuing activities.

The notes on pages 7 to 14 form part of these financial statements.

Statement of total recognised gains and losses
for the year ended 31 August 2001

	2001 £	2000 £
(Loss)/ profit for the financial year	(23,672,800)	9,043,234
Foreign currency (losses)/gains	(274,740)	828,630
	<hr/>	<hr/>
Total recognised (losses)/gains in the year	(23,947,540)	9,871,864
	<hr/>	<hr/>

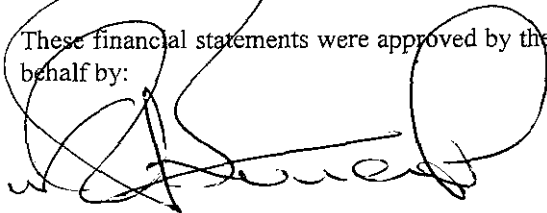
Reconciliation of movements in shareholders' (deficit)/funds
for the year ended 31 August 2001

	2001 £	2000 £
Shareholders' funds brought forward	2,802,878	1,830,214
(Loss)/profit retained in the year	(23,672,800)	9,043,234
Dividends proposed	-	(8,899,200)
Foreign currency (losses)/gains	(274,740)	828,630
	<hr/>	<hr/>
Shareholders' (deficit)/funds carried forward	(21,144,662)	2,802,878
	<hr/>	<hr/>

Balance sheet
at 31 August 2001

	Note	2001		2000	
		£	£	£	£
Fixed assets					
Investments	8		69,911,362		86,145,412
Current assets					
Debtors	9	7,490,000		9,305,674	
Investments		329,503		1,198,357	
		<u>7,819,503</u>		<u>10,504,031</u>	
Creditors: amounts falling due within one year	10	(93,325,527)		(86,401,196)	
Net current liabilities			<u>(85,506,024)</u>		<u>(75,897,165)</u>
Total assets less current liabilities			<u>(15,594,662)</u>		<u>10,248,247</u>
Creditors: amounts falling due after more than one year	11		(5,550,000)		(7,445,369)
Net (liabilities)/assets			<u>(21,144,662)</u>		<u>2,802,878</u>
Capital and reserves					
Called up share capital	12		500,000		500,000
Other reserves	13		1,871,319		2,146,059
Profit and loss account	13		(23,515,981)		156,819
Shareholders' (deficit)/funds – equity			<u>(21,144,662)</u>		<u>2,802,878</u>

These financial statements were approved by the Board of directors on **25/06/02** and were signed on its behalf by:



NRA Butterfield
Director

The notes on pages 7 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 group 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 impairments 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.

The hedge accounting method permitted by Statement of Standard Accounting Practice No. 20 – Foreign Currency Translation has been adopted. The exchange differences arising on the retranslation of a loan denominated in a foreign currency have been offset against the exchange difference arising on the retranslation of the carrying value of an overseas equity investment denominated in a foreign currency, within reserves.

Taxation

The charge for taxation is based on the profit for the year and takes into account deferred taxation because of the timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 (Loss)/profit on ordinary activities before taxation

The amount paid to auditors for the audit of the company was £2,400 (2000: £2,330).

Notes (continued)

3 Exceptional loss on disposal and termination of fixed asset investments

The Exceptional loss on disposal and termination of fixed asset investments relate to the company's interest in its Internet investments, namely Citipages Limited, which was sold, Darkerthanblue.com Limited, which was placed in members voluntary liquidation, Rivals Europe Limited where the business was disposed of after the year end and Puremix Limited where the businesses was closed down.

4 Directors' and employees' remuneration

The directors received no remuneration from the company for services during the year. The company did not have any other employees and as a result incurred no staff costs. Messrs CN Wright, NBA Butterfield, MJ Pilsworth 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.

5 Other interest receivable and similar income

	2001	2000
	£	£
Bank interest receivable	524	1,130
	<hr/>	<hr/>
	524	1,130
	<hr/>	<hr/>

6 Interest payable and similar charges

	2001	2000
	£	£
Interest on loan notes	512,752	166,497
	<hr/>	<hr/>
	512,752	166,497
	<hr/>	<hr/>

7 Dividends

No dividend is proposed in respect of the year (2000: dividend of £17.80 per share paid).

Notes (continued)

8 Fixed asset investments

	Shares in Subsidiaries	Shares in Associates and joint ventures	Total
	£	£	£
<i>Cost</i>			
At beginning of year	88,717,317	7,386,108	96,103,425
Additions	11,790,759	1,834,133	13,624,892
Disposals	(13,936,078)	(4,018,286)	(17,954,364)
Transfers	877,489	(877,489)	-
At end of year	87,449,487	4,324,466	91,773,953
<i>Provisions</i>			
At beginning of year	9,830,236	127,777	9,958,013
Charge for the year	17,978,043	3,023,923	21,001,966
Disposals	(9,097,388)	-	(9,097,388)
At end of year	18,710,891	3,151,700	21,862,591
<i>Net book value</i>			
At 31 August 2001	68,738,596	1,172,766	69,911,362
At 31 August 2000	78,887,081	7,258,331	86,145,412

Disposal of shares in subsidiaries include shares to Chrysalis New Media Investments Limited, a subsidiary of the Company at nil book value.

Notes (continued)

8 Fixed asset investments (continued)

All investments are unlisted. The principal companies in which the company's interest was more than 10% at 31 August 2001 were as follows:

	Principal activity	Class of share	Percentage of shares held
<i>Subsidiary undertakings</i>			
AE Copyrights Ltd *	Music Publishing	Ordinary	75%
Air Music Scandinavia AB (Sweden) *	Music Publishing	Ordinary	100%
Armourvale Limited	Holding company	Ordinary	75%
Assembly Film and Television Limited	TV production	Ordinary	75%
Bentley Productions Limited	TV production	Ordinary	100%
Cactus TV Limited	TV production	Ordinary	100%
Chrysalis Books PLC	Holding company	Ordinary	100%
The Echo Label Limited *	Music production	Ordinary	75%
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 pic *	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 Film Productions Limited	Dormant	Ordinary	100%
Chrysalis Film & TV Overseas Limited	TV production	Ordinary	100%
Chrysalis Music Limited	Music publishing	Ordinary	100%
Chrysalis Music International BV (Netherlands)	Music publishing	Ordinary	100%
Chrysalis Properties Limited	Dormant	Ordinary	100%
Chrysalis Productions Limited	TV production	Ordinary	100%
Chrysalis Retail Entertainment Limited	Retail broadcasting	Ordinary	100%
Chrysalis Television Limited	TV production	Ordinary	100%
Chrysalis Television International Limited	TV programme sales	Ordinary	100%
Chrysalis TV & Film (Overseas) Limited	TV programme sales	Ordinary	100%
Chrysalis Radio Midlands Limited	Radio operations	Ordinary	100%
Chrysalis Radio London Limited	Radio operations	Ordinary	100%
CVI Media Group BV (Netherlands)	TV production	Ordinary	50.1%
Bradington Limited (Republic of Ireland)	TV production	Ordinary	50.1%
Galaxy Radio Wales and the West Limited	Radio operations	Ordinary	100%
Galaxy Radio North West Limited	Radio operations	Ordinary	100%
Galaxy Radio Birmingham Limited	Radio operations	Ordinary	100%
Galaxy Radio Manchester Limited	Radio operations	Ordinary	100%
Galaxy Radio Yorkshire Limited	Radio operations	Ordinary	100%
Lucky Dog Limited	TV production	Ordinary	100%
Lapishaven Limited	Holding Company	Ordinary	100%
The Hit Label Limited *	Music production	Ordinary	100%
Chrysalis Entertainment Limited	TV production	Ordinary	100%

Notes (continued)

Associated undertakings and joint ventures

Air Edel Associates Limited	Music production	Various	45%
Air Edel LLC (USA)	Composer representation	Common Stock	42.5%
BCR fm Limited	Radio operations	Ordinary	30%
Bridge FM Radio Limited	Radio operations	Ordinary	42%
South Pacific Pictures Limited (New Zealand)	TV production	Ordinary	33%
Digital News Network Limited	Radio operations	Ordinary	22%
Knowsley Community Radio Limited	Radio operations	Ordinary	31.38%
MXR Holdings Limited	Holding Company	Ordinary	39.1%
MXR Trading Limited	Radio operations	Ordinary	39.1%
Telford Radio Limited	Radio operations	Ordinary	28.09%
Chrys-a-lee Music Limited	Music production	Ordinary	50%
Tuchwood Records Limited	Music production	Ordinary	50%
Downboy Music Limited	Music production	Ordinary	50%
Jerve Songs Limited	Music production	Ordinary	50%

* Denotes shares held by other subsidiaries

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 subsidiary and associated undertakings are worth at least the amounts at which they are stated in the balance sheet.

9 Debtors

	2001 £	2000 £
Amounts owed by group undertakings	7,390,000	9,293,200
Other debtors	100,000	12,474
	<hr/> 7,490,000	<hr/> 9,305,674

10 Creditors: amounts falling due within one year

	2001 £	2000 £
Amounts owed to group undertakings	90,269,945	76,498,014
Other creditors including taxation and social security	3,055,582	1,003,982
Dividends proposed	-	8,899,200
	<hr/> 93,325,527	<hr/> 86,401,196

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Other creditors	5,550,000	7,445,369

Other creditors comprise unsecured loan notes issued to the vendor of a company acquired in prior years. The loan notes bear interest at the prevailing National Westminster Bank base rate plus 1.25% and mature in 2011, but can be redeemed by the holder at any time after October 2003.

12 Called up share capital

	2001 £	2000 £
<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.

13 Reserves

	Foreign exchange reserves £	Profit and loss account £
At the beginning of the year	2,146,059	156,819
Retained loss for the year	-	(23,672,800)
Foreign exchange losses	(274,740)	-
	<u>1,871,319</u>	<u>(23,515,981)</u>
At the end of year	<u>1,871,319</u>	<u>(23,515,981)</u>

Foreign exchange reserves comprise gains and losses arising on the retranslation of the carrying value of an overseas investment and on the retranslation of a loan denominated in a foreign currency, using hedge accounting method permitted by Statement Accounting Practice No.20 – Foreign Currency Translation.

Notes (continued)

14 Capital commitments

- a Under the terms of the Option Agreement dated 29 November 1993 between the Company and Mr S G Lewis (a former director of the Company), set out in the circular to the shareholders of Chrysalis Group PLC dated 30 November 1993, the Company could purchase or could have been required to purchase certain of Mr Lewis' shares in Armourvale Limited and Lapishaven Limited (which hold the Company's interest in The Echo Label Limited). On 5 July 2001, the Company exercised its option to acquire Mr. Lewis' interests in the share capital of Armourvale Limited and Lapishaven Limited. The price at which the shares are to be acquired was £10,000 which was paid after the year end.
- b Under the terms of the Shareholders' Agreement dated 29 November 1993 between the Company, Pony Canyon Entertainment International BV ('Pony Canyon') and others relating to the affairs of The Echo Label Limited ('Echo'), the Company and Pony Canyon each agreed to provide a loan facility of US\$2.5 million to Echo to finance potential future investment specifically for the development of interactive music-related software products. At 31 August 2001 no amounts had been drawn from this facility (2000: \$nil).
- c Under the terms of a sale and purchase agreement and shareholders' agreement both dated 13 June 1994 between the Company, William Burdett-Coutts, Assembly Film and Television Limited ('Assembly') and others whereby the Company acquired 50% of the share capital of Assembly, the Company has agreed to provide a working capital facility of up to £300,000 to Assembly on a recoupable basis. At 31 August 2001 £37,980 (2000: £21,715) of this facility had been drawn down. The agreement also contains put and call options enabling or requiring the Company to acquire the remaining 50% of the share capital for a consideration payable in cash under a formula based on pre-tax profits of Assembly and subject to a cap of £2 million plus 10% of the amount (if any) by which the product of the formula exceeds £2 million.

On 26 November 1998, the Company exercised its call option in respect of 25% of the issued share capital of Assembly for a consideration of £121,839, taking its total holding to 75% of the issued share capital. Under an amending agreement dated 26 November 1998, the terms of the call option for the remaining 25% of Assembly were altered to extend the exercise date from 1 September 1999 to 1 September 2002. The exercise date of the put option remains unchanged from 1 September 1999.

15 Contingent liabilities

The company, together with other group companies, has given a guarantee and a floating charge over certain of its assets to secure borrowings of other group companies amounting to £6,172,000 (2000: £4,721,000).

16 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.

17 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 Disclosures 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.

18 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.

19 Post Balance Sheet events

- a. On 22 November 2001, Chrysalis Group PLC announced that it had concluded an agreement with its joint venture partner, n.v. verenigdBezit VNU ("VNU") to acquire the 49.9% interest in CVI Media Group BV held by VNU for € 7.2 million (£4.5 million). The Company holds this investment.
- b. On 26 November 2001, the Chrysalis Group PLC announced that it entered an agreement with 365 Corporation plc ("365") to transfer the company's interest in the business of Rivals Europe Limited into a new company Rivals Digital Media Limited ("RDM") into which 365 also transferred its internet sports content business in return for 40% of the equity of RDM. The Group has agreed to provide operating funding of £1.3m to RDM and to make available a further £0.25m to RDM for future acquisitions. The Group or Company will have no further funding obligation beyond the afore-mentioned commitments.
- c. On 17th December 2001, Chrysalis Group PLC announced that it had increased its shareholding in South Pacific Pictures Limited (New Zealand) to approximately 60% by the acquisition of a further 27% of the share capital for a net consideration of £300,000. The Company holds this investment.
- d. On 23 May 2002, Chrysalis Group PLC announced the disposal of the Company's interests in the various music businesses of the Air Edel Group ('Air Edel') to the Sanctuary Group Plc ('Sanctuary'). The Air Edel Group comprises AE Copyrights Limited in which the company held a 75% interest, Air Edel Associates Limited, in which the Company held a 45% interest and Air Edel LLC in which the Company held a 42.5% interest. Under the terms of the transaction, consideration of £590,458 was paid to the Company, representing approximately 49% of the overall consideration and comprising £100,858 cash and £489,600 satisfied by the issue of 857,442 Sanctuary shares.