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Chrysalis Group PLC  
Annual Report and  
Accounts 2000



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**CHRYSLIS GROUP PLC  
ANNUAL REPORT 2000**



# tuned into maximising long-term shareholder value in the digital age

## Contents

4	Chairman's Statement	34	Board of Directors	50	Consolidated Balance Sheet
6	Group Chief Executive's Review	36	Report of the Directors	51	Company Balance Sheet
9	Finance Director's Review	39	Corporate Governance	52	Consolidated Cash Flow Statement
14	Divisional Review: Radio	41	Report of the Board on Remuneration	53	Notes to the Accounts
18	Divisional Review: Music	46	Statement of Directors' Responsibilities	71	Principal Subsidiary, Joint Venture and Associated Companies
21	Divisional Review: Visual Entertainment	47	Auditors' Report	73	Notice of Annual General Meeting
25	Divisional Review: Media Products	48	Consolidated Profit and Loss Account	77	Directors and Advisors
28	Divisional Review: New Media	49	Consolidated Statement of Total Recognised Gains and Losses and Reconciliations of Movements in Shareholders' Funds		

**radio**  
**music**  
**visual entertainment**  
**media products**  
**new media**

Echo's Moloko single "Sing It Back" enters UK charts at No. 4  
Chrysalis Music UK's artist Talvin Singh wins prestigious  
Technics Mercury Music Prize.  
Chrysalis Radio On-Line launches.  
MACH 1 are partners in ITV's host broadcast for the  
Rugby World Cup.

The first episode of Midsomer Murders Series 3 – "Dead  
Man's Eleven" achieves 10.6 million viewers – 46% share.  
Chrysalis Books consolidates its acquisition of two  
established book publishing houses, BT Batsford and  
Conway Brassey.

**SEPTEMBER 1999**

The Beatles "Yellow Submarine" (Chrysalis Copyrights)  
is released worldwide – UK No. 6 chart position.  
Q3 RAJARs show Chrysalis Radio's 'hours' rising to  
34.9 million and confirm launch of Galaxy North East  
as the most successful ever for a regional radio station.

Chrysalis is back to No. 1 slot in Televisual's 1999 poll  
of UK independent television production companies.  
Midsomer Murders' third series is sold to US  
broadcaster A&E.

**OCTOBER 1999**

Chrysalis Music has share in Geri Halliwell's UK  
No. 1 single "Lift Me Up".  
Heart 106.2 major TV campaign launched.  
Bridge FM (Chrysalis Radio Investments 30%) is  
awarded Bridgend local radio licence.  
ITV commissions a 4th series of Midsomer Murders.  
Cactus' "Men For Sale" achieves overnight figures of  
9.5 million – a 41% share.  
Frankfurt Book Fair is a success for Ramboro with  
orders up 18%.  
Robson Books releases six new titles in month.

**NOVEMBER 1999**

Papillon's "Millennium Prayer" – Sir Cliff Richard, is  
confirmed as best selling single by a British artist in 1999.  
Air Chrysalis Scandinavia writers nominated for five  
Swedish Grammys.  
Cactus produces Carlton's two top shows for 1999:  
"Men for Sale" and ITV "Soap Awards".

Papillon's No. 1 single – Sir Cliff Richard's  
"The Millennium Prayer" is certified platinum.  
Chrysalis Music Ltd has shares in 15 albums in the  
UK Top 20.  
CVI completes Portuguese joint venture deal with  
Valentin de Carvalho.  
Watchmaker's Clarkson is highest rated BBC2 show  
over Christmas.  
Record December trading for Lasgo, following  
diversification.  
Affinity Internet Holdings Plc complete their all  
(restricted) share acquisition of Taxi Interactive.  
Rivalnet joint venture deal with Rivals.com completed  
(Chrysalis New Media 25%).  
1999 Preliminary Results reports 42% increase in  
EBITDA, and over next few weeks is followed by  
a sharp rise in share price.

**DECEMBER 1999**

Chrysalis Sport/MACH 1 awarded best coverage in the  
world for Formula 1.  
Chrysalis Books acquires Quadrillion Publishing business.  
Robson Book's Maureen Lipman autobiography reaches  
third on the best sellers list.  
Cash placing raises £26.8 million (net) from the issue of  
1,563,580 new Chrysalis shares to create a 'New Media  
Investment Fund'.

**JANUARY 2000**

Chrysalis Music USA has shares in 11 albums on Billboard  
Chart and 10 albums on Billboard Country Chart.

Chrysalis Music Ltd/Global Chrysalis have interests in  
nine Brit Award nominations.

Chrysalis Radio enjoys excellent RAJAR figures for Q4 99  
with the four established Galaxy stations recording best  
ever weekly reach figures, and the fifth, Newcastle,  
maintaining its excellent first quarter results.

South Pacific Pictures (New Zealand) new studio opens  
on 12 February – Shortland Street production moves to  
the new in-house studio.

"Midsomer Murders" series 3 and "Top Ten" series 2 –  
both currently being broadcast and received extremely  
well with combined average audience share of 50%.

Leeds based Chrysalis Logistics, the 'in-house' distribution  
for Chrysalis Books, goes operational.

Chrysalis New Media subscribes for 65% interest in the  
newly formed internet Radio business Ride the Tiger  
(Puremix.com).

**FEBRUARY 2000**

Papillon signs Bill Wyman.  
Honeyz "I Won't Take It Lying Down" co written by Anders  
Bagge (Air Chrysalis) and "Satisfy You" by Puff Daddy and  
R. Kelly (Global Chrysalis (20%)) – enter  
UK singles chart at No. 7 and No. 8 respectively.  
Q4 RAJARs show new record 'reaches' at every Galaxy  
Station.

Heart London's "Housemates from Hell" starts at the  
Ideal Home Exhibition on 16th March.

ITV commissions five new "Midsomer Murder" episodes.

Chrysalis Television in production with "Top Ten Then –  
1977", a 90-minute music and news archive documentary  
for C4.

Chrysalis Books' websites go live with nine different  
domain names (one for each trading name). E-commerce  
programme well underway.

**MARCH 2000**

Moloko single "Time is Now" enters UK singles charts at  
No. 2, and No. 1 on independent charts (Chrysalis Music/Echo)  
Chrysalis Music has shares in 14 albums in the UK Top 75  
and 8 in the UK Top 30.

Papillon signs The Human League.

5 for 1 share split approved at EGM.

Heart and Galaxy receive a total of seven Sony Award  
nominations from which they are awarded four.

Transmission of Chrysalis Television's "Brits Abroad"  
brought forward to 25th April.

Lasgo's video department has best ever month on back  
of buoyant DVD market.

**APRIL 2000**

Moloko's album "Things to Make and Do" enters UK Charts at No. 3 and is certified Gold, giving Echo a 5.6% share of album market in April.  
Excellent Q1 RAJAR figures for all stations, with overall 7.2% increases in both reach and hours.  
Heart 106.2 broadcasts nationwide from 3rd May on Sky Digital Satellite platform.

Commercial terms agreed for Heart 106.2 carriage on London Multiplex 2 – Switchdigital.  
Chrysalis Radio Investments wins again with a 30% interest in successful bid for Bridgwater local licence.  
Chrysalis TV and Watchmaker between them receive 20 new commissions (TV and radio) in the month.  
Chrysalis Sports Formula 1 coverage of British and Spanish Grand Prix peaked at 6.5 million and 4.8 million respectively.

Chrysalis New Media announces investments in Darkerthanblue and Citipages, and formation of a specialist New Media Sales Team.  
Interim Results Announcement showing EBITDA for six months to 29th February 2000 up by 87% – well received by City.

MAY 2000

Chrysalis publish 100% of DJ Dee Kline's "I Don't Smoke" which enters UK National Singles Charts at No. 11 and Dance Charts at No. 2.  
Cliff Richard's "The Millennium Prayer" (Papillon) wins Ivor Novello Award for best selling UK single.  
Chrysalis Radio investments have a 35% interest in the consortium that has been awarded the Knowsley licence  
Lucky Dog's "A Many Splintered Thing" broadcast on BBC1 on 27th June.  
British Soap Awards 2000 (Cactus) and Monaco Grand Prix (Chrysalis.Sport) both achieved 45% shares on ITV.  
CVI completes Spanish joint venture deal with Grupo Trimagen, SL

JUNE 2000

Chrysalis Music writer David Gray's single "Babylon" enters UK charts at No. 5 and his album "White Ladder" is currently No. 2.  
MXR Consortium announced, comprising Chrysalis, Capital, Jazz FM and GMG, to bid for new regional digital multiplexes.

ITV order "Back Home" a two hour movie from Lucky Dog and a pilot of "Sam's Game" from Tandem.  
David Murrell joins Chrysalis Board as Non Executive Director.  
Deacon Blue recording agreement with Papillon signed.

JULY 2000

Chrysalis Music UK and Air Chrysalis Scandinavia have tracks on Ronan Keating's No. 1 Album.  
World Party signs recording agreement with Papillon Records.  
Rivals.net launches with 360 sites.

Chrysalis were 2nd largest independent publisher in six-monthly UK market shares and seventh overall.  
Q2 RAJAR figures show one million extra listeners year on year across Radio Division.

AUGUST 2000

Chrysalis Music have share in 16 of Top 75 UK Albums.  
Net Publisher's Share for 2000 financial year confirmed at £7.2 million – a 16% increase.  
Like-for-like radio revenue for August is 31% up on prior year.  
Ford Motors joins our MXR digital radio consortium.  
Bentley's "Midsomer Murders" broadcast on ITV on 10th September gained 7.6m viewers (36% share).  
Largo's video and book departments both finish the year reporting significant increases in year on year turnover.  
Acquisition of 65.1% of equity in Rivals.net from Rivals.com completed.  
Unaudited traffic numbers and time spent on site propels Rivals.net into Top 6 sports websites in Europe and ranks it as one of the 'stickiest' websites in Europe.

SEPTEMBER 2000

Chrysalis Music Publishing companies control shares in the No. 1, 2 and 3 singles in Billboard's US Top 100 Chart, as well as the No. 1 and 2 albums in the US Album Charts.  
Echo's Moloko album "Things to Make and Do" is certified platinum in UK.  
MXR submits application for North East regional digital multiplex.  
Assembly's 'Black Books' on C4 achieves a 6% share and 1.4m audience – second series ordered.  
Tandem's "Sam's Game" starring Davina McCall – 6 x 30 minutes sitcom ordered by ITV.  
Chrysalis Sport produces its first pay per view football game (England v Finland) for U-Direct.  
Largo reports best ever September performance from the video and books departments.  
Chrysalis Books completes the acquisition of the business and stock of Bridge Books, the paperback remaindering house.  
Successful launch ceremony for Salamander Book's "An Illustrated History of the Royal Navy" attended by HRH The Princess Royal.  
Ride the Tiger launches website branded as Puremix.com.

OCTOBER 2000

Chrysalis Music is No. 1 Independent UK Music Publisher in Q3 2000 Music Week Market Survey.  
Chrysalis Music US writers Outkast debuted at No. 2 on Billboard's Top 200 Album Chart.  
Joint Spanish music publishing company established with major independent local publisher Ediciones Musicales Clippers.  
The Beatles greatest hits album "1" (Chrysalis Copyrights) charts at No. 1 in UK album charts.  
Radio Revenues for October push through £4.0 million for first time.  
Heart Midlands reports best ever RAJAR figures for Q3 – and is now the biggest commercial station outside London.  
Chrysalis Sport signs three year contract to produce The World Rally Championship.  
Carlton orders 19 episodes of Cactus's "King of the Castle".  
Successful Frankfurt Book Fair, with Ramboro taking record orders.  
Rivals.net achieves 18.5 million audited page impressions per month with an average visit duration per unique user of 33 mins 43 secs.  
Chrysalis Books acquires backlist of 650 titles from Element Books.  
Richard Huntingford becomes Group Chief Executive.

NOVEMBER 2000

## Chris Wright

The results for the last financial year show how we have been able to deliver real returns for our shareholders from the investment programme we have pursued over the last few years, particularly in radio, where in just six years we have successfully built one of the UK's leading radio groups. All of the main operating divisions are now profitable and we are focused on capitalising on the growth achieved to date to deliver increasing profits in the future.

The recently published Communications White Paper paves the way for a relaxation of the current radio ownership rules in the next Parliament. Through Chrysalis Radio and its strong management team, we have developed an outstanding track record for both successfully launching start-up stations, as well as significantly enhancing the performance of those we have acquired from other operators. Our aim is to continue to deliver above industry-average performance from all the Chrysalis Radio stations, to ensure that the Group is well placed to play an active role in any future consolidation of the UK radio industry. During the course of the last twelve months we have also developed our digital radio strategy and I believe the MXR consortium, in which Chrysalis is

the largest shareholder, is well positioned to become a leading force in the digital radio age of the future.

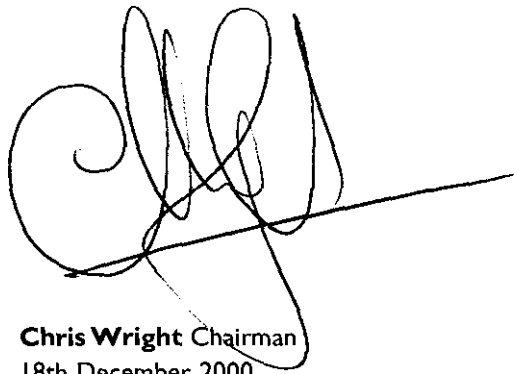
Chrysalis's business ethos has always been based around our strong belief in the intrinsic value of creating, developing and exploiting intellectual property, be it in the form of radio licences, song copyrights or television programming. We have in the recent past demonstrated our ability to create significant added value from modest levels of investment through leveraging our proven skillsets, our success with Chrysalis Books being the most recent example. It is this experience and the proven results of the investment programme of the last few years, which gives me confidence that we can deliver further shareholder value from our focused and ring-fenced investment in new media. I am encouraged by the progress to date in this area, particularly the size and duration of the audiences we have attracted to Rivals, our online sports network, in the few months since it launched.

Whilst it is easy in the current climate to focus on the creation of new businesses we shouldn't also forget how some of the Group's traditional businesses are flourishing.

**ALL OF THE MAIN OPERATING DIVISIONS ARE NOW PROFITABLE AND WE ARE FOCUSED ON CAPITALISING ON THE GROWTH ACHIEVED TO DATE TO DELIVER INCREASING PROFITS IN THE FUTURE.**

Our music publishing companies have had another record year, fuelled not just by the commercial success of our new writers but also the evergreen songs that have been in the catalogue for decades and which continue to generate strong revenue for the Group as demand for music across all media continues to increase. We also saw our record companies deliver chart success from both new and established artists, and our export company find innovative ways of turning adverse market conditions to their advantage. In addition, our television businesses have continued to consolidate their positions as leading producers of drama, sport and entertainment shows which remain the key drivers for audiences in a multi-channel environment.

Finally, I would like to thank all our shareholders and our staff for their continued support which has ensured that 2000 has been such a successful year for the Group.

A large, stylized handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

**Chris Wright** Chairman  
18th December 2000

All of this leads me to believe that Chrysalis is in excellent shape at the present time, and I am delighted that Richard Huntingford has been appointed Group Chief Executive, in recognition of the progress that has been made over the last eighteen months during his tenure as Managing Director. I am confident that he will successfully lead the management team towards achieving our long term goals and objectives.



## Richard Huntingford

I am delighted to report excellent progress across our Group during the year, with all the businesses that we have been building over the past five years – Radio, Music, Visual Entertainment and Media Products – now in profit. At the same time, we have made great strides in implementing our new media strategy, which will ensure that Chrysalis is well-placed to secure enhanced value for shareholders in the digital age.

### Results

The results for the year to 31st August 2000 show a profit before tax of £1.0 million, compared with a loss of £5.9 million in 1999. Turnover for the year rose by 25% to £168.2 million. EBITDA more than trebled in the year to £7.7 million (1999: £2.4 million) reflecting the positive operating cash flow that is now being generated from the Group's investment in recent years. Operating profits were £2.6 million, a £7.2 million turnaround from the previous year's operating loss of £4.6 million. The current year reflects £3.0 million of start-up costs for our New Media businesses so, prior to this, our core divisions achieved an approximate £10 million upturn in operating profits to £5.3 million. Earnings per share amounted to 0.47p (1999: loss per share of 3.95p) and a dividend of 0.55p per share is proposed (1999: 0.55p, restated for the 5 for 1 share split earlier in the year). Net assets increased to £36.9 million (1999: £10.4 million), following the share placing in January 2000, which raised £26.8 million.

A comprehensive review of the accounts for the 2000 financial year is included in the Finance Director's Review on pages 9 to 13.

### Operational review

All our divisions have successfully exploited their leading market positions to deliver

improved profitability in the year. At the same time, we have put in place the appropriate structures and operating performance targets, to ensure that management remains focused on delivering industry return on sales ratios, and above industry-average growth. This, together with an increasing emphasis on return on investment across the divisions, will ensure that Group capital is targeted to optimise long-term shareholder value.

### Strong profits growth at Chrysalis Radio

The Radio Division moved strongly into profit, as the audience growth of the past few years was converted into outstanding revenue growth by the Chrysalis Radio sales forces. Turnover increased by 35% – more than twice the rate of industry growth – resulting in an operating profit of £5.0 million for the division.

Chrysalis Radio has benefited particularly from its ability to offer advertisers a quasi-national sell, through its branded network of major market stations, with the Heart and Galaxy formats delivering a high concentration of listeners from the 15-44 age demographic. All of the recent industry growth has been driven by national advertisers and Chrysalis has been able to significantly increase its share of national revenue as a consequence. Chrysalis Radio's split between national and local advertisers now stands at 80:20 across its seven stations. Double digit industry growth is forecast for 2001, and the further organic audience growth that we are targeting from our less developed stations should ensure that Chrysalis continues to outperform the industry in the medium term.

I believe that we have demonstrated outstanding management skills in our Radio Division, both in terms of station launches and our ability to deliver enhanced shareholder value from acquisitions. In building Chrysalis

# WE ARE CONFIDENT THAT WE CAN CONTINUE TO MAKE FURTHER PROGRESS TOWARDS OUR TWIN GOALS OF DELIVERING BOTH STRONG PROFITS GROWTH FROM OUR TRADITIONAL BUSINESSES AND ENHANCED SHAREHOLDER VALUE FROM OUR NEW MEDIA INITIATIVES.

group chief executive's review

Radio over the past six years, we have invested less than £35 million of shareholders' funds to create a leading radio business whose value today represents at least a ten-fold return on our investment.

The recently published Communications White Paper paves the way for a relaxation of the current radio ownership restrictions, which is likely to result in further consolidation within the industry. This will, however, require primary legislation that is unlikely to be enacted until the next Parliament. We have considerable headroom under the current ownership rules, and therefore have an excellent window of opportunity to further expand our radio portfolio through new licence awards or acquisitions. At the same time, we have set clear operating performance targets for our existing radio businesses, to ensure that we are strongly placed to play a proactive role in future industry consolidation.

## Impressive Music Publishing performance

We have seen another year of impressive performance from all our music publishing companies.

Extensive chart success has been enjoyed not only from our 'named' artists, but also from our roster of writers who are the creative song-writing 'power-houses' behind a number of today's international pop acts. This demonstrates the strength and breadth of our A&R skills across the division, skills which underpin Chrysalis's position as one of the leading independent music publishing businesses.

Our companies have been particularly proactive in continuing to grow our synchronisation income, with Chrysalis-owned copyrights

featuring frequently in film, television and commercials around the world. New media and digital distribution platforms offer significant opportunities for our catalogue to be further exploited in the future.

Net Publisher's Share (NPS) for the division grew by more than 16% to £7.2 million as a result of this strong performance, considerably increasing the underlying value of our catalogue. Going forward, we will seek to strike a balance between capitalising on our proven A&R skills through appropriate levels of investment in new signings, and increased levels of profitability.

Our Echo record label has enjoyed greater levels of success in 2000, achieving a major breakthrough with Moloko, which enabled it to meet the stringent financial parameters that had been set and to halve its previous year's operating losses. Management is confident that this success can be repeated with Feeder, whose new album will be released in Spring 2001. Meanwhile, Papillon's successful first year of operation has demonstrated the potential to build a profitable record business around established artists.

## Improved performance from Visual Entertainment

The Visual Entertainment division had a better year in 2000, with turnover growth of 14% driving increased operating profits. Margins are, however, still below industry average although this partly reflects the joint venture nature of a number of our major production deals. Stronger controls have therefore been introduced to remedy this, and at the same time, management is restructuring the division to focus on our areas of programming strength, namely drama, entertainment and sport.

Recent consolidation in the sector has seen a number of competitors lose their independent producer status. This should strengthen Chrysalis's position with key broadcasters as the recognised leading independent, both for quota purposes and, more importantly, for delivering quality, ratings-delivering programming. The increase in the number of new digital channels will continue to drive growth in demand for content, and Chrysalis intends to establish an expertise in the production of broadband programming that can be exploited for profitable gain.

## Profitable expansion for Media Products

The significantly increased profits of the division, with our export company doubling its profits in the face of adverse market conditions, proved the success of its diversification into book publishing in the previous year. We have quickly established a significant presence in the book industry and are already reaping a good return on the modest level of investment made, through our ability to identify under-performing assets, to which our management skills can be applied to extract value.

## Successful implementation of new media strategy

In addition to strong performances from our 'old media' businesses, the Group has made excellent progress in the implementation of its new media strategy.

Our aim is to leverage our existing 'old media' assets and skillsets, whether in content packaging, rights acquisition or marketing, for profitable gain, through investing in new media businesses that play to these strengths. The share placing in January 2000, which raised £26.8 million, has enabled us to accelerate our



new media development, such that we now have a portfolio of investments that both match the strategic criteria, and cover the important areas of radio, music, sport and local information which we believe will be the key drivers of internet usage in the future.

We have put in place rigorous financial review procedures for our investee companies, including the requirement to update their three year business plans each quarter. This will enable us to quickly adjust cost bases to match any changes to revenue assumptions. The performance of our New Media division will be highlighted in our financial reporting, so that shareholders can separately identify the progress against targets of both our old and new media businesses.

Our business plans for this division anticipate the investment of most, if not all, of the £28 million New Media fund over the course of the next two to three years. Much of this will, almost by definition be dealt with through the accounts as revenue expenditure and will therefore inevitably impact on the Group's overall published results for that period, until the new businesses are fully able to demonstrate their income potential.

#### Management and staff

We are incredibly fortunate in having an outstanding team of people at Chrysalis whose professionalism and commitment has led to the leading positions that all our businesses enjoy in their respective spheres. I thank all our management and staff, on behalf of shareholders, for all their hard work and passion over the past year.

#### Outlook

The current year has started strongly, particularly for our radio division where revenues for the first quarter are running some 48% ahead of last year. Furthermore, we learnt recently that our MXR consortium was awarded the North East regional digital radio licence. We believe that our organic audience growth, together with the strong appeal of our Heart and Galaxy brands to national advertisers, will allow us to continue to enjoy above industry-average revenue growth. Our Music, Visual Entertainment and Media Products divisions have also reported a good start to the year, which gives us confidence that we will deliver a strong performance in the current year. To date our new media businesses are also trading in line with expectations, although only very modest levels of revenue have been budgeted for the initial phase.

However, despite this, we are confident that we can continue to make further progress towards our twin goals of delivering both strong profits growth from our traditional businesses and enhanced shareholder value from our new media initiatives.

#### Dividend

It is proposed that, in accordance with the Board's policy of maintaining a regular dividend to shareholders, a dividend of 0.55p per share (1999: 0.55p, adjusted for share split) be paid on 10th April 2001 to shareholders on the register at the close of business on 16th March 2001.

**Richard Huntingford**  
Group Chief Executive  
18th December 2000

## finance director's review

### Nigel Butterfield

The 2000 financial year saw each of our established divisions reporting overall profits, with significant across the board growth in both turnover and operating results. In January 2000 the Company raised approximately £26.8 million through a share placing to finance investments in New Media activities. This has allowed the Group to create a stand-alone New Media Division, which has since built up an active portfolio of investments in the fast-evolving internet sector. In addition, following approval at an Extraordinary General Meeting on 14th April 2000, the 10p ordinary shares in the Company were each sub-divided into five new 2p ordinary shares, to help improve the market liquidity of the Company's equity.

The encouraging results for the year show a 25% increase in turnover across the Group to £168.2 million producing a 29% rise in gross profits to £61.9 million, and a trebling of EBITDA from £2.4 million to £7.7 million. The pre-tax profits of £1.0 million compare to a 1999 loss of £5.9 million, and the profit for the year after tax and minority interests was £0.8 million (1999: loss of £6.2 million).

The return to overall profitability has been accompanied by further substantial and demonstrable growth in the underlying 'off balance sheet' value of the Group's intellectual property rights – its radio licences, music publishing and recording copyrights, book titles, picture library and television programme rights.

Chrysalis now owns seven major regional commercial radio licences covering 51% of the UK population, over 50,000 music publishing copyrights and master recording rights, a back-list of some 7,000 book titles,

a picture library of 800,000 images and an international television programme library of over 2,500 hours across the Group. In addition, we believe that our growing portfolio of internet web sites will in the future add considerably to these valuable intangible assets.

### Turnover

Turnover for the year was £168.2 million, a 25% increase on £134.5 million reported for 1999. This growth was achieved across all of the established divisions with Radio and Media Products leading the way, each up by approximately £10 million, reporting increases of 35% to £37 million and 47% to £34 million respectively. The Music division's turnover was 22% higher, reflecting 16% growth in Net Publisher's Share, ('NPS'), the benchmark by which music catalogues are generally valued, which has now risen to £7.2 million. Visual Entertainment retains the largest divisional share with turnover of £57.6 million, representing 34% of the Group total, and a 14% increase on its 1999 performance.

### Gross profit, operating profit and profit before tax

With the gross profit margin maintained at 38%, the Group's gross profits, before depreciation and amortisation, have increased by 29% to £61.9 million. EBITDA for the period was £7.7 million, over three times the £2.4 million reported for 1999. After charging depreciation and goodwill amortisation, the Group's operating profit was £4.1 million, compared to the previous year's loss of £4.6 million.

As expected, all of the established operating divisions contributed to this improved profitability, with each now reporting overall

## THE 2000 FINANCIAL YEAR SAW EACH OF OUR ESTABLISHED DIVISIONS REPORTING OVERALL PROFITS, WITH SIGNIFICANT ACROSS THE BOARD GROWTH IN BOTH TURNOVER AND OPERATING RESULTS.

net profits at a divisional level. Music achieved a £1.7 million turnaround, from last year's £1.0 million loss to £0.7 million profit. This reflected a 65% increase in Music Publishing profits, despite the 35% increase in writer advance payments together with a halving of Echo's losses. Visual Entertainment, which last year was encumbered by the exceptional losses on "Breakers", have reversed their 1999 loss of £2.5 million to report a profit of £0.5 million. Profits from the Media Products division increased from £1.8 million to £4.0 million with both its principal businesses, Lasgo Exports and Chrysalis Books, each more than doubling their year on year profits. The most significant increase however came from our Commercial Radio companies, which, despite continuing start-up losses from the newer Galaxy stations and from digital and other franchise application costs, reported operating profits of some £5.0 million – seven times 1999 levels.

The increase in corporate costs to £4.4 million included an expense of £250,000, for various one-off corporate finance costs, and a £0.5 million provision in respect of share price related LTIP's, reflecting the rise in the company's share price during the year.

The overall profit of the four main operating divisions after central overhead was £5.3 million, compared to a £4.6 million loss in 1999, a turnaround of nearly £10 million.

During the latter part of the financial year, the New Media Division set up or acquired interests in a series of start-up internet businesses, financed by the 'ring-fenced' fund established from the proceeds of the January share placing. Although these businesses had barely commenced commercial trading by the financial year-end, the Group's share of start-up

and pre-launch costs, together with attendant overhead and goodwill amortisation costs, amounted to £3.0 million. This reduced the Group's profit before interest and tax to £2.3 million, a £7.0 million improvement on equivalent 1999 losses. After a net interest charge of £1.4 million, (1999 – £1.3 million), the profit before tax was £1.0 million, compared to a loss of £5.9 million in 1999.

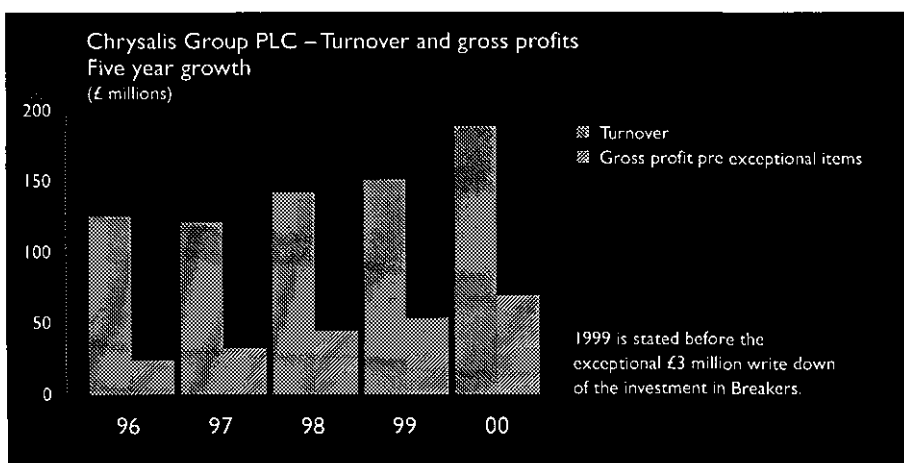
### Retained loss for the period

With UK tax liabilities sheltered by available tax losses, the reduced tax charge for the year of £161,000 was predominantly for overseas tax. After providing for this and minority interests of £25,000, the profit for the year was £0.8 million, compared to the loss of £6.2 million in 1999. EPS was 0.47 pence per share against last year's loss per share of 3.95 pence – restated to take account of the 5 for 1 share split. The dividend of 0.55 pence remains unchanged, allowing for the share split, and will be paid on 10th April 2001.

### Balance sheet

The Group's net assets at 31st August 2000 were £36.9 million, an increase of £26.5 million from £10.4 million in 1999. Following the share placing, shareholders' funds now stand at £32.3 million compared to £6.8 million in 1999. The £25.5 million increase reflects:

	£m	£m
Profit for the year	0.8	
Dividend declared	(1.0)	
		(0.2)
Proceeds from share placing	26.8	
Share options issued	0.1	
		26.9
Goodwill written off to reserves	(1.2)	
Less goodwill reinstated on disposal	0.3	
		(0.9)
Foreign exchange differences		(0.3)
		<u>25.5</u>

finance director's  
review

Share capital increased from £3,184,000 to £3,344,000, principally as a result of the placing of 1.56 million new 10p ordinary shares on 28th January 2000 to create the New Media fund. Following the 5 for 1 share split in April 2000, the total number of 2p ordinary shares in issue at 31st August was 167,199,535.

Goodwill written off to reserves during the year represented an increased provision for deferred consideration payments under an existing profit related earn out arrangement. This was partly offset by the £0.3 million goodwill reinstated on the disposal of the underlying business of the Sheffield Sharks so that the cumulative goodwill eliminated against reserves at 31st August 2000 became £56.7 million.

Fixed assets rose by a net £4.8 million to £50.8 million, primarily as a result of our new media investments, and reflect £19.4 million of intangible assets, including approximately £10.0 million of acquisition goodwill, capitalised under *FRS 10 – Goodwill and Intangible Assets*, and £7.1 million in respect of acquired music publishing rights. These intangible assets are being amortised over their useful economic lives, subject to a 20-year maximum – with the exception of acquired music publishing catalogues where the maximum life is 50 years.

Debtors, reflecting increased turnover, have risen by 15% to £50 million, whilst the current asset investments include the restricted shares in Affinity Internet Holdings Plc, which we received as consideration from the sale of our interests in Taxi Interactive, together with the 422,000 unallocated Chrysalis Group PLC shares held within the Group ESOP.

The £21.8 million reduction in short term creditors results from lower net bank borrowings, whilst longer-term creditors include some £8.7 million of deferred consideration in respect of corporate acquisitions.

#### Cash and indebtedness

Cash at bank at 31st August 2000 was £8.8 million (1999: £17.4 million) including £3.3 million of ring-fenced CVI Media Group Funds.

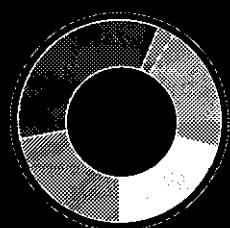
Bank borrowings, included within short and long term creditors and totalling £14.3 million, are shown net of cash held in our New Media Fund bank account, which for disclosure purposes is treated as offset from the Group's overdrafts at the same bank. Net indebtedness is therefore £5.5 million compared to £17.1 million last year.

In addition to bank borrowings, other interest bearing debt within short and long term creditors includes £2.6 million of acquisition loan stock, £1.5 million of lease and hire purchase obligations and a £1.7 million of bank loan relating to the Group's ESOP consolidated in accordance with *UITF Abstract 13 – Accounting for ESOP Trusts*.

#### Cash flow statement

The consolidated cash flow statement shows an increase of cash during the year of £12.1 million. This comprised the £26.9 million raised from the issue of new share capital, offset by overall net expenditure including £8.6 million on corporate acquisitions (predominantly new media investments) and £4.1 million capital expenditure.

### Chrysalis Group PLC Turnover by division (percentage)



- Radio (22.1%)
- Music (20.8%)
- Visual Entertainment (34.2%)
- Media Products (20.2%)
- Other (2.6%)

### Corporate acquisitions and disposals

During the course of the year, the Group made a number of corporate acquisitions. Chrysalis Books acquired Quadrillion Publishing, and the New Media Division made a series of investments in internet based businesses, including a 65% interest in Puremix (formerly RideTheTiger), 25% investment in Rivals.net, 30% in Citipages and 35% in Darkerthanblue. Chrysalis Radio Investments were minority investors in four successful local radio franchise consortia, Telford Radio (Telford – 25%), Bridge FM Radio (Bridgend – 29.2%), Knowsley Community Radio (Knowsley – 35%) and BCR fm (Bridgwater – 30%). In addition, the CVI Media Group BV, in which the Group has a 50.1% interest, subscribed for 50% interests in two new joint venture companies – CVI Portugal-Producao de Audiovisuais Lda in Portugal and IMAN-IDTV SL in Spain.

During the year the Group disposed of its 40.5% shareholding in Taxi Interactive to Affinity Internet Holdings plc for shares which the Group has agreed not to sell before 8th January 2001 and which are included in the balance sheet at the carrying value of the original Taxi investment of £1.3 million. In addition, Sheffield Sharks, in which the company had a 50% interest was wound up, following the disposal of its underlying business and assets. This necessitated £296,000 of goodwill, previously eliminated against reserves, to be reinstated and expensed as an exceptional item.

Subsequent to the year end, the Group has increased its holding in Rivals.net to 90.1% together with a call option to acquire the remaining 9.9%. In addition, the Group completed its acquisition of the outstanding 25% minority interest in Chrysalis Books by

early exercise of its call option. Chrysalis Books has itself acquired both the assets and business of the paperback remaindering house, Bridge Books and the rights to a backlist of some 650 book titles from Element Books.

Chrysalis Music have recently announced their agreement to subscribe for a 50.1% interest in a new Spanish joint venture music publishing company, ChrysalisClip Music SL, in partnership with Ediciones Musicales Clippers SL.

Details of Acquisitions and material Post Balance Sheet Events are set out in notes 23 and 33 to the Accounts.

### Going concern

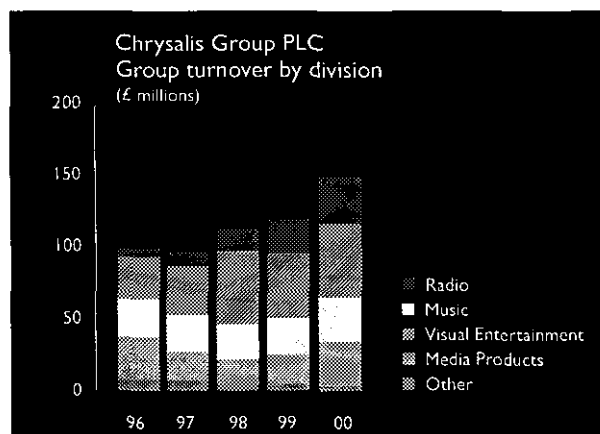
The Directors consider, on the basis of current financial projections and available facilities, that the Group has adequate working capital and other resources to enable it to continue trading for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group's financial statements.

### Year 2000 compliance

Last year's Finance Review reported the steps that were being taken by the Group to achieve Year 2000 compliance by 1st January 2000. I am pleased to report that the programme outlined was achieved on a timely basis, and that no problems were experienced, whether IT related or otherwise, in respect of the Year 2000 issue.

### Financial instruments

The Group's financial instruments include borrowings, loan stock, cash and liquid resources, and items such as trade debtors, trade creditors etc., that arise directly from its operations.



Financial assets and liabilities of overseas subsidiaries are held in the currency of the jurisdiction in which they operate. However, at 31st August 2000, the substantial part of the Group's financial assets and liabilities were denominated in Sterling. Significant foreign currency denominated cash and borrowings at 31st August 2000 include CVI Media Group's Dutch Guilder cash deposits (NLG 11.8 million) and the Deutschmark overdraft of Global GmbH (DM 0.9 million).

The accounting policies relating to the translation of the results, assets and liabilities of these overseas companies are set out in Note 1 to the Accounts. The Group has not used any hedging products or techniques to mitigate against the exchange risk associated with its net investment in, or the results of, overseas companies.

The Group's borrowings are generally at floating rates of interest. The Group allows a degree of interest rate risk as long as the effects of changes in rates remain within acceptable parameters. The Group's liquidity policy ensures continuity of funding in the short term by the use of overdraft facilities and in the medium and long term from renewable loan facilities. The maturity profile of financial liabilities at 31st August 2000 is described in Note 20 to the Accounts. We are currently pursuing alternative means of finance with a view to replacing short-term bank borrowing with long-term finance.

Foreign currency revenues and costs are generally matched so the balance sheet is largely protected from exchange movements and any foreign currency surpluses are converted into Sterling. The Group's policy towards currency risk seeks to minimise exposures that will impact the reported

profit as soon as they arise. Hedges are used on occasion for certain specific forward liabilities for overseas purchases, although no material hedge contracts were in operation at the year-end. At 31st August 2000 the Group had no material currency exposures. The Directors are of the opinion that the fair values of the Group's financial assets and liabilities as at 31st August 2000 are equal to or greater than their book value. At 31st August 2000 the Group had undrawn committed borrowing facilities of £8.3 million, all of which expire within one year or less.

#### Accounting policies

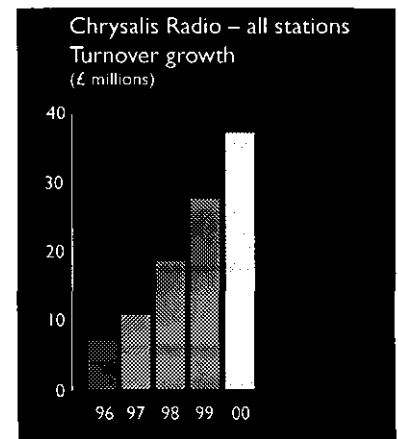
The accounts have been prepared using the policies that were adopted in the 1999 accounts, as amended to comply with FRS 15 – *Tangible Fixed Assets*.

We have continued to adopt the principles set out in the Combined Code contained in the rules of the UK Listing Authority and to follow current guidance on Internal Financial Controls. These issues are dealt with fully in the Corporate Governance Statement set out on pages 39 and 40.

**Nigel Butterfield**  
Finance Director  
18th December 2000



**THE SEVEN CHRYSALIS RADIO STATIONS  
COVER ALMOST 25 MILLION ADULTS,  
EQUIVALENT TO 51% OF THE UK  
POPULATION.**



**Galaxy** was active in Ibiza this summer, including a special live broadcast hosted by Mel Sykes

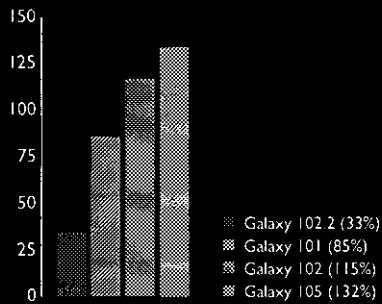
**Heart's** highly regarded media campaigns helped to maintain its position as London's No. 2 commercial station

**Galaxy North East** continued to attract new listeners with eye-catching advertising

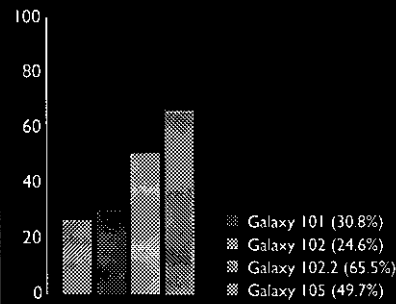
## divisional review

## RADIO

Galaxy – acquired stations  
Audience growth since acquisition



Galaxy – acquired stations  
Annualised revenue growth  
since acquisition year



### Performance and key highlights

Turnover across the radio stations rose by 35% to £37.2 million (1999: £27.5 million), compared with industry growth of 15.5% in the same period. As a consequence, the radio division delivered strong profits growth, with operating profits of £5.0 million in 2000 (1999: £0.7 million).

This last financial year has seen Chrysalis firmly consolidate its position amongst the leading UK radio groups. Since winning its first licence in 1994, Chrysalis Radio has grown to become the fourth largest radio group in the country, through its quasi-national portfolio of seven major market stations operating under the Heart and Galaxy brands.

The seven Chrysalis stations cover almost 25 million adults, equivalent to 51% of the UK population. According to the latest independent audience figures released in November, the stations now attract 4.7 million listeners each week giving Chrysalis Radio a 7.8% share of commercial radio listening. Significantly, over 80% of listening comes from the all-important 15 to 44 age demographic. Overall the division

has attracted over 750,000 new listeners in the last twelve months, representing 19.1% growth year on year.

Our leading position in radio has been achieved by following a focused, brand-led strategy. In all of our highly competitive markets we have been able to achieve No. 1 or 2 commercial station status in a relatively short space of time. In addition to demonstrating our prowess at launching start-up stations, following new licence awards from the Radio Authority, we have shown ourselves particularly adept at acquiring under-managed and under-invested stations and quickly delivering enhanced audience and revenue performance, as the tables above show.

### Heart brand

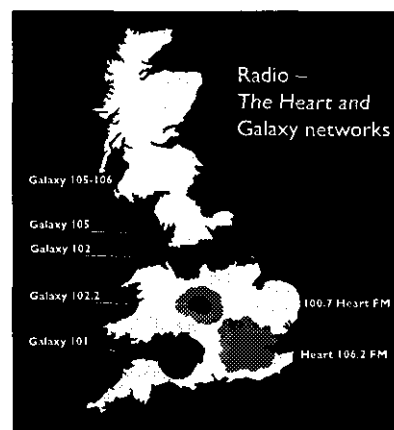
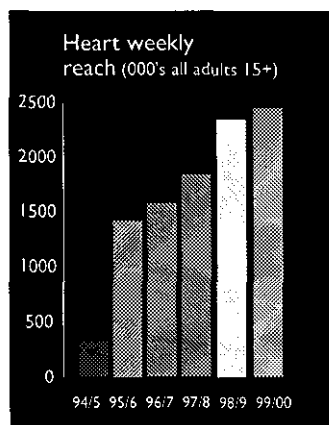
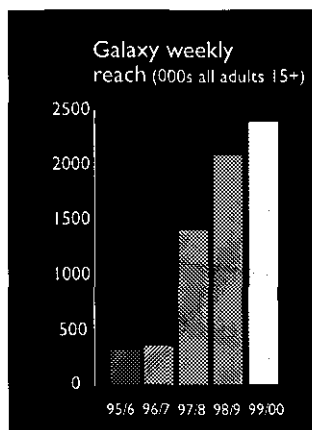
Revenue growth across the Heart stations in the year was 22%. Our London station, Heart 106.2, celebrated its fifth anniversary in September 2000 and is now firmly established as the second most popular commercial station in the highly competitive London market with almost 1.6 million listeners, equivalent to a 15% reach, and a market share of 4.3%. Our oldest station,

**Long-term branding** on 60 of London's most noticeable vehicles

**Heart 106.2's "Fetch" TV advertisement** was extremely memorable

**The Galaxy network** secured UK rights for the first time for the Clothes Show 2000

**Cash promotions** were advertised across the Galaxy Network



100.7 Heart FM in the Midlands, delivered another record performance in its sixth year. The station has been No. 1 in its market for the last two years and delivered its best ever audience figures this year with a weekly reach of 26% and market share of 11.8%, making it the UK's largest commercial station outside London.

#### Galaxy brand

The Galaxy network now comprises five stations, which in total attract 2.4 million weekly listeners focussed in the 15 to 34 demographic, making it one of the biggest youth brands in the UK. The strength of the Galaxy brand and its appeal to advertisers was endorsed by an impressive 64% growth in revenue during the year, with 33% growth on a like-for-like basis.

Over the last twelve months the network has increased its audience by 45%, fuelled by growth across all of the existing stations and the spectacular performance of the newly launched Galaxy 105-106, which went on air in June 1999. The station celebrated the end of its first year with a 22% weekly reach and a market share of 11%, making it the largest regional station in the North East.

Our success at increasing audiences at our acquired stations continued with our first acquisition, Galaxy 101 (Bristol/South Wales), recording record weekly reach figures of 20%, with a market share of 6%, in the most recently published research. The Galaxy 102 (Manchester) and 105 (Yorkshire) stations, acquired in August 1997, delivered further strong audience growth across the year of 25% and 14% respectively, with weekly reach figures currently of 16% and 19%. Galaxy 102.2 (Birmingham), now in its second year under Chrysalis ownership, has further grown its audiences in the year to achieve a weekly reach of 12% and 4% market share.

#### Chrysalis Radio Online

Chrysalis Radio Online was launched at the start of the financial year with a clear strategy aimed at complementing and enhancing the online listeners radio experience through the extension of each brand from pure radio to lifestyle. This can offer significant added value to advertisers, allowing Chrysalis to maximise the revenue potential of its brands.

The online sites incorporate all the existing Chrysalis stations and the first year's traffic figures indicate a healthy demand for the

service. Particular success was achieved with Heart 106.2's "Housemates from Hell" promotion which drove considerable traffic to the site during its month-long run.

Chrysalis Radio Online has a number of advantages over other internet sites, in particular, the considerable cross-marketing and cross-promotional opportunities available through the existing radio stations. Chrysalis Radio Online enables the Group to exploit the powerful synergies between on-air and on-line with a low-cost, incremental revenue model, ensuring Chrysalis Radio is well positioned as new delivery channels become more popular.

#### Digital radio and other expansion

The digital licences covering our regional analogue markets are now being advertised by the Radio Authority and Chrysalis has submitted its first two applications through MXR, a consortium it has formed with, amongst others, Capital Radio, Guardian Media Group and Jazz FM. Chrysalis's shareholding in

MXR is 39.1%. Significantly, MXR has also attracted Ford as a shareholder and, as part of the MXR consortium, Ford intends to fit digital radios as original equipment in all new Ford

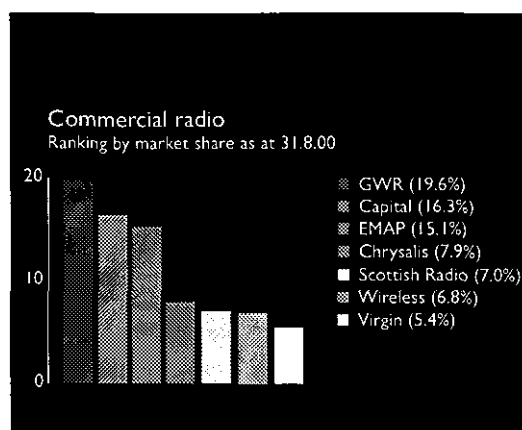
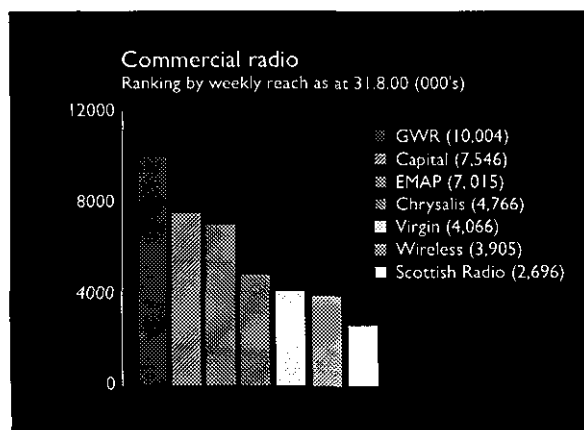
**Ronan Keating** was one of the stars performing "Live at Heart" this Autumn, recorded at The Chrysalis Building

**Gabrielle** – another "Live at Heart" star, recorded at Air Studios

**French and Saunders** with Heart 106.2's Jono and Erika

## divisional review

## RADIO



models sold in the UK from 2004. Chrysalis Radio is budgeting to spend no more than £1 million in the current financial year in its move into digital radio.

On 15th December 2000, we announced that we had been informed by The Radio Authority that our MXR consortium had won the North East regional digital licence. The multiplex is expected to be on the air in Spring 2001, and as well as upgrading Galaxy 105-106 to digital (and thereby securing a licence rollover), Chrysalis will also be creating a brand new digital version of Heart for the region, as well as launching its proposed third format, the adult rock service "the Arrow".

During the year Heart 106.2 was launched on the Sky national digital platform and we also secured carriage for the station on the second London Digital multiplex, providing us with an automatic renewal of our analogue licence through to 2010. We will also apply for the third London Multiplex with the objective of bringing the Galaxy format to the London market. That licence is expected to be awarded during the first six months of 2001.

The Radio Authority is also advertising further regional analogue licences. We intend to apply for the East Midlands licence with a Galaxy format, and also plan to apply for the Yorkshire regional licence, where we hope to replicate the success of Heart and Galaxy with a new format, featuring adult rock, called "The Arrow". This station will be aimed at the 40-plus demographic, an audience which is currently least well served by commercial radio offerings.

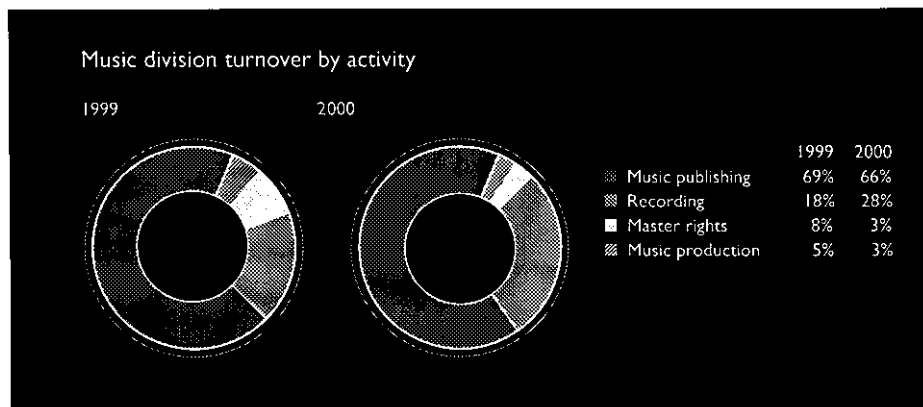
#### The future

The audience growth achieved in the past year, following the significant and successful marketing investment of the recent past, gives Chrysalis Radio a strong platform from which to continue delivering above industry-average revenue growth going forward. In addition to seeking refinements and enhancements to our programming output in order to increase listener loyalty, management is now very focused on meeting key operating performance targets to deliver maximum profitability. In particular, a return on sales across the division ahead of the 30% industry benchmark has been targeted by 2002/3. In addition, we will continue to actively pursue those opportunities to extend our brands in a profitable manner across new delivery platforms.

**Galaxy promotional**  
activity included innovative  
holiday campaigns ...

... and other high profile  
outdoor activity

**New Midlands** breakfast signing, Daryl Denham was  
the subject of a multi-media launch campaign



**“WHITE LADDER” BY CHRYSALIS MUSIC UK WRITER  
DAVID GRAY WAS CERTIFIED DOUBLE PLATINUM.**

**Echo recording artists  
Moloko's album  
“Things To Make & Do”  
was certified Platinum**

**Lycos' recent TV campaign featuring Chrysalis  
Music's copyright “Puppy Love” written by Paul Anka**

**Air-Chrysalis Scandinavia  
writer Paul Rein wrote “Come  
On Over” which was a No.1  
hit single in the US for  
Christina Aguilera**

# THE MUSIC DIVISION MOVED CONVINCINGLY INTO PROFIT THROUGH IMPROVED PERFORMANCE WITHIN PUBLISHING, COUPLED WITH SHARPLY REDUCED LOSSES AT THE ECHO LABEL.

divisional review

## MUSIC

### Performance and key highlights

The Music Division moved convincingly into profit through improved performance within publishing, coupled with sharply reduced losses at the Echo Label. Turnover was up 21% to £35.0 million (1999 £28.8 million) with operating profits of £0.7 million compared to a loss of £1.0 million the previous year. Increased publishing activity across all the companies pushed the Group's NPS to a record level of £7.2 million (1999 £6.2 million), a 16% increase on the previous year, significantly enhancing the underlying value of the Chrysalis Music catalogue which now totals over 50,000 copyrights.

At the same time, overall new investment in writers and copyrights during the year increased by 35%.

### Publishing

The UK publishing company had another buoyant year, consolidating its reputation as one of the leading independent publishers, with Top 10 album chart successes from David Gray ("White Ladder"), Leftfield ("Rhythm & Stealth"), Morcheeba ("Fragments of Freedom") and Moloko ("Things to Make and Do"). In addition, its roster of writers continued to pen Top 10 hits for an increasing

number of leading pop acts including Geri Halliwell, S Club 7, B\*witched and All Saints. Recently the company was confirmed as No. 1 independent publisher for Q3 2000, with a 16.6% independent market share.

Following on from Talvin Singh's Mercury Music Prize award in 1999, two Chrysalis Music artists, Leftfield and The Delgados received nominations for this year's award.

Synchronisation licensing continued to be an important source of income for the company with Chrysalis-owned copyrights featuring in many film and television commercials. These ranged from long-established copyrights such as David Bowie's "Changes" (licensed to Novell), Billy Idol and Blondie, through to copyrights from cutting-edge contemporary artists such as Propellerheads and Aphex Twin.

In Europe, particular success was enjoyed by Air Chrysalis Scandinavia whose writers, Anders Bagge and Paul Rein, enjoyed considerable international chart success; the former with compositions for artists including Ronan Keating, Honeyz, Samantha Mumba and

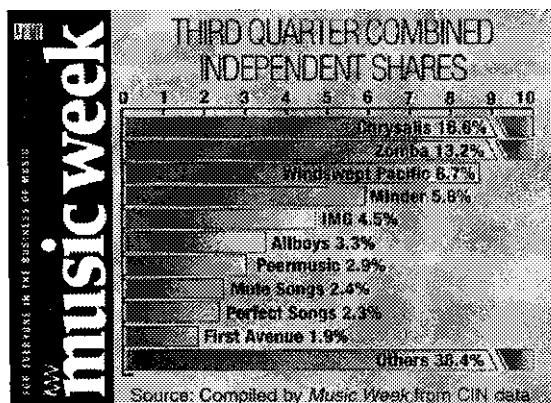
publishing

Sir Cliff Richard's  
"Millennium Prayer"  
released on Papillon was  
the biggest selling single  
by a UK artist in 1999

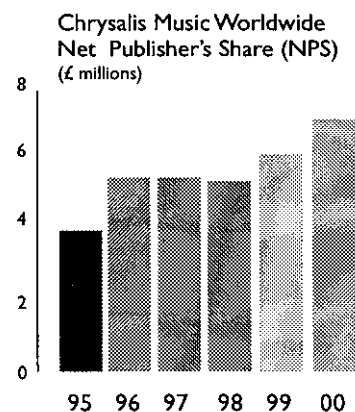
Chrysalis Music Inc's  
US writers Outkast

"Groovin'" by Bill Wyman's  
Rhythm Kings was a No. 1  
Jazz/Blues album for Papillon

"Life In Mono" by Chrysalis Music artists Mono  
was used in a commercial for Rover cars



The Music Week Q3 2000 Market Share Chart showing Chrysalis Music as the No. 1 Independent Publisher



98 Degrees and the latter with Christina Aguilera. Global Chrysalis in Germany completed its first full year of trading since acquisition, with a number of international hits for artists including Damage, Sisqo, Puff Daddy and R. Kelly. The Group continued to progress its European expansion with the completion of a joint venture with Clippers, the leading independent publisher in Spain.

In the US, Chrysalis Music Inc moved into profit, with strong growth in synchronisation and performance income. Its writers, in particular, Johnita Austin and OutKast, together with its sub-published Chrysalis UK and European writers, delivered significant Billboard chart success and at one point in the year Chrysalis Music Inc had publishing rights over songs on 11 albums on the Billboard chart, and 10 on the Billboard country chart. In addition, the company negotiated its biggest ever synchronisation fee for one of our oldest copyrights, "My Way".

#### Recording

The Echo Label, with its more focused artist roster, reported sharply reduced losses in the year after doubling its turnover. Considerable

success was enjoyed by one of its first signings, Moloko, who had two top selling singles during the year, "Sing It Back" and "The Time is Now". Their album, "Things to Make and Do", stayed in the Top 30 album chart for 23 weeks, becoming Echo's first ever platinum selling album, and has now sold more than 600,000 units worldwide.

The label has entered the current year in a stronger financial position and progress will continue to be carefully monitored over the forthcoming release schedule, which includes albums from recent signings, Spek and Dark Flower, together with a follow-up album from Feeder following their Top 10 release in September 1999.

Our new 'heritage' label, Papillon, formed to target established artists with loyal fan bases, who are still capable of generating healthy record sales, demonstrated the success of this strategy, delivering a profit in its first year of operation, with releases from signed artists such as Jethro Tull, Ian Dury and its major success of the year, Sir Cliff Richard's "Millennium Prayer". This record was the biggest selling single by a UK artist in 1999,

winning an Ivor Novello award and selling over one million copies. Over the last few months Papillon has built on its fast-established reputation to sign acts such as Bill Wyman's Rhythm Kings, The Human League, Deacon Blue and World Party.

#### The future

We have been able to demonstrate with this year's figures our ability to deliver profits from our publishing companies, whilst at the same time accelerating our signings budget, in order to ensure the continued long-term growth of the catalogue. The Chrysalis Music catalogue is one of the world's leading independent catalogues, with its mix of long-established copyrights from previous decades and its active roster of current writers. As such, it is one of the Group's most valuable assets, whose value has increased considerably over the last few years, as our success in signing top writers has been mirrored by a growing appreciation in the marketplace of the value of owning the underlying copyright in music.

We believe this value will appreciate further as the demand for music across a multitude of channels, both old and new, continues to rise.

**Toni Braxton** recorded and released as a single "Just Be A Man About It" by Chrysalis US writer Johnita Austin

**Elvis Presley**, one of the prime catalogues for Global Chrysalis Germany

**Sisqo**, who provided Global Chrysalis Music with its biggest hit in the UK - "Thong Song"

**Chrysalis Copyrights Album** which reached No. 1 in the UK album charts

# THE DIVISION HAS ESTABLISHED ITSELF AS A KEY PRODUCER OF DRAMA, ENTERTAINMENT, COMEDY AND SPORT ACROSS ALL THE MAJOR UK BROADCASTERS.

divisional review

## VISUAL ENTERTAINMENT

Chrysalis Visual Entertainment is one of the leading independent television production groups in the UK. The division has established itself as a key producer of drama, entertainment, comedy and sport across all the major UK broadcasters. Through CVI Media Group, its joint venture with VNU, Chrysalis Visual Entertainment has expanded its production interests in Europe into Portugal and Spain as well as The Netherlands. The division also has production interests in Australasia, through its shareholding in South Pacific Pictures, and internationally through its distribution company, Chrysalis Distribution.

### Performance and key highlights

Turnover for the division increased by 14% to £57.6 million (1999: £50.3 million), with operating profits of £0.5 million compared to the previous year's losses of £2.5 million.

Following a major strategic review, for the past six months the Group has been in the process of restructuring the UK-based businesses in the division into three 'centres of excellence', concentrating on the division's key strengths

in the areas of drama, entertainment and sport/factual entertainment. This consolidation of strengths is designed to improve the financial performance of the division, and increase the number of commissions from both existing broadcasters and the emerging digital terrestrial, satellite and cable channels.

### UK production

The Group's leading status in UK production was endorsed by our No. 2 position in the latest Televisual Top 50 of Independent Television Producers based on programme commissions and output.

Continued success came from our drama division, based at Pinewood Studios, with "Midsomer Murders" delivering strong audience ratings for ITV who have now commissioned a fifth series. Following this, we will own 23 two-hour films of the drama series. New drama commissions broadcast during the year also included "A Many Splintered Thing", starring Alan Davies, for the BBC. Chrysalis Television has grown its core sports production base, with Chrysalis

**Jeremy Clarkson's**  
"Clarkson" chat show  
for BBC2 is produced by  
Watchmaker Productions

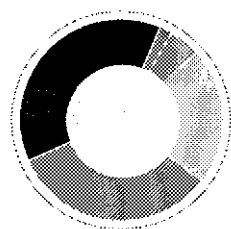
**Bentley Productions'**  
"Midsomer Murders" now in  
its 5th series for ITV

**Chrysalis TV's "Top Ten"**  
has been a highly successful  
Saturday evening show for  
Channel 4



## Chrysalis Visual Entertainment

## UK Turnover by genre



■ Entertainment (38%)  
 ■ Sport (33%)  
 ■ Drama (22%)  
 ■ Documentaries (5%)  
 ■ Factual entertainment (2%)

Sport consolidating its leading position in the sports television production market through returning series of the award-winning "F1" coverage (ITV), "Football Italia" (C4) and "NBA 2000" (C4) and the prestigious production of the 1999 Rugby World Cup for ITV. New commissions include "Speedway" (Channel 4), "World Rally Championship" (International distribution), "Vinnie Jones: Unauthorised" (Channel 4) and the company's first pay per view football game – the England v Finland International for U-Direct. The company has recently extended its production range into factual entertainment and comedy with Chrysalis TV, where commissions include "Brits Abroad" (BBC), "Jumpers For Goalposts", a panel show starring Paul Whitehouse for Sky Television, "Latino Loco" (Channel 5), "My Brilliant Career" (Channel 4) and a returning series of the much acclaimed "Top Ten" (Channel 4).

In Entertainment, new commissions include "Black Books", starring Dylan Moran and Bill Bailey, for Channel 4, who have already commissioned a second series, "It's Anybody's Guess" (ITV), "Head on Comedy" (BBC) and a pilot episode of "Sam's Game", starring Davina McCall in her first sitcom, which ITV has

## Chrysalis programmes produced or broadcast in the UK in the period included:

## Drama and Comedy Drama

Midsomer Murders (ITV)  
 A Many Splintered Thing (BBC)  
 Shortland Street (ITV)  
 Breakers (BBC Choice)  
 The Man Who Knew Everything (BBC Radio 4)  
 Into The Mystic (BBC Radio 4)  
 Diary of a Provincial Lady (BBC Radio 4)  
 Faithful Departed (BBC Radio 4)  
 Sunnyside Up (BBC Radio 4)  
 The Bleep Man (BBC Radio 4)  
 Torquedmad at the Stake (BBC Radio 4)

## Sport

Football Italia (Channel 4)  
 Gazzetta (Channel 4)  
 World Indoor Bowls (BBC)  
 Sporting Life (Film Four)  
 Formula One (ITV)  
 NBA 2000 (ITV/ITV2)  
 Rugby World Cup (ITV)  
 Mezzanotte (Channel 4)  
 Speedway (Channel 4)  
 Euro 2K Pitch Fever (Bravo Channel)  
 Tight Lines (Sky Sports 2)  
 Darren Gough's Cricket Skills Series (BBC 1 and 2)  
 World Rally Championships (International Distribution)  
 ISF Snowboard Tour (European Distribution)

## Entertainment

Top Ten (Channel 4)  
 Top Ten Then (Channel 4)  
 It's Anybody's Guess (Carlton)  
 British Soap Awards 2000 (ITV)  
 Clarkson (BBC)  
 Looking Glass Yankees (International)  
 Brits Abroad (BBC1)  
 The Unforgettables (ITV)  
 What a Performance (ITV)  
 The Trip (Channel 4)  
 The Divine David Heals (Channel 4)  
 Head On Comedy (BBC1)  
 A Very Satanic Affair (Channel 4)  
 My Brilliant Career (Channel 4)  
 Olympics: Live and Unleashed with Andrew Denton (Channel 4)  
 The Real Brian Clough (Channel 4)  
 Sick & Twisted (Channel 4)  
 Vinnie Jones: Unauthorised (Channel 4)  
 Foursite II (Channel 4)  
 Barfly (Channel 4)  
 Manga Erotica (Channel 4)  
 Bring Me Sunshine (BBC1)  
 Varian's War (Show Time)  
 True Lies (BBC Radio 4)  
 The Scunthorpe Ball Run (Channel 4)  
 Latino Loco (Channel 5)  
 Jumpers for Goalposts (Sky)  
 Men for Sale (ITV)

## Sitcoms

Black Books (Channel 4)  
 Sam's Game (pilot; ITV)

Assembly Film and Television's "Black Books" starring Dylan Moran and Bill Bailey for Channel 4

Speedway coverage for Channel 4 produced by Chrysalis Sport

Jerry Springer and Martin Kemp in ITV's "British Soap Awards 2000" produced by Cactus TV

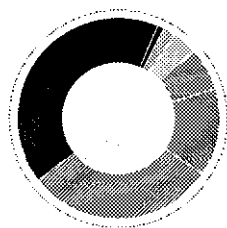
divisional review

## **VISUAL ENTERTAINMENT**

**Chrysalis Television North's**  
"Football Italia" for Channel 4,  
now in its ninth season

**Martin Brundle and Murray Walker**  
host Chrysalis Sports' Formula One coverage for ITV

## Chrysalis Visual Entertainment 2000 UK programme revenue



- ITV (42%)
- ▨ Channel Four (30%)
- ▩ BBC (14%)
- ▧ Other (7%)
- ▦ Carlton (4%)
- ▥ BBC Radio (2%)
- Sky (1%)

recently ordered as a six part series. New episodes of more established programmes were also secured, including "Clarkson" (BBC), "The Unforgettables" (ITV) and "The British Soap Awards" (ITV).

### International production and international sales

The past year saw the Visual Entertainment division continue with its strategy of pursuing acquisition and expansion opportunities in Europe, expanding into Spain with the joint venture between CVI Media Group and Trimagen S.A.. CVI's Portuguese subsidiary, CVI Portugal, has received orders for two series in its first year, whilst CVI's Amsterdam-based production company, ID&Dtv, increased its programme sales by 53%, reinforcing its position as the second largest programme supplier in the Netherlands. Our jointly-owned New Zealand production company, South Pacific Pictures, continues with its long-running drama serial "Shortland Street" from its new production studios and also sold three new series to broadcasters. Our international sales

company, Chrysalis Distribution, had a successful year at the major television markets, especially MIPTV in April. The company continues to exploit the programme library generated within the Group, in addition to representing material produced by third parties. "Midsomer Murders" continued to sell well, with Series IV and V now sold to A&E network in the USA.

### Future trends

The Visual Entertainment division has been successful in achieving its five year revenue target, but the primary focus in the short term is to drive the net margin of the UK business up from the current levels of around 3% to 5% and, over the longer term, towards our target of 10%. Our current apparently low margins are to some extent a product of the joint venture or profit sharing nature of a number of our major production deals. Nevertheless, we believe we can achieve our targets through a combination of stricter financial controls and the introduction of centralised control of programme development.

The anticipated growth in demand for content by digital channels has materialised, providing opportunities for production of high volume, low budget programming across all genres. Further demand for this type of production is expected as new channels come on-stream. The division's growing expertise in producing high-quality, low cost programming is suited to the requirements of the broadband market and the Visual Entertainment division is working with Chrysalis New Media to exploit all new opportunities.

divisional review

## **MEDIA PRODUCTS**

**"Lennon in America",**  
Geoffrey Giuliano's  
controversial insight into  
John Lennon's time in  
America, published by  
Robson Books

**The Coen Brothers –**  
"The Life of the Mind",  
published by BT Batsford

**"The Best in Lingerie  
Design",** published by  
BT Batsford

**"An Illustrated History  
of the Royal Navy",**  
published by Salamander Books

# THE PAST YEAR HAS BEEN ONE OF EXCEPTIONAL GROWTH, IN WHICH WE HAVE SUCCEEDED IN RAPIDLY BUILDING A BOOK PUBLISHING GROUP OF REAL WORTH WITH A BACKLIST OF OVER 7,000 TITLES.

## Performance and key highlights

The past year has seen the Media Products Division build on the foundations established in the prior financial year when the Division was expanded to include book publishing. As a result the Division has seen turnover increase by 47% to £34.0 million (1999: £23.1 million), with operating profits more than doubling to £4.0 million (1999: £1.8 million).

Due to the continued strength of Sterling against non-dollar based currencies, the strategy has concentrated on developing both UK and overseas customer bases, to increase turnover and maximise earnings growth. The Division has also pursued its policy of diversification from its original core audio business. The success of this policy has both sustained gross margins and provided protection against a background of downward margin pressure in the worldwide record business. We have quickly established a significant presence in the book industry and are already delivering good returns on the modest level of investment made. Our books business now accounts for approximately 40% of the Division's turnover.

## Chrysalis Books

Chrysalis Books now comprises Ramboro Books (one of the UK's largest book remaindering companies); Greenwich Editions (value publishing); Greenwich Direct (display marketing); Salamander Books (illustrated book publishing); Robson Books (literary publisher); BT Batsford (illustrative publisher) and Conway Brassey, incorporating Brasseys (military), Conway (maritime) and Putnam (aeronautical).

In addition, in January 2000 Chrysalis Books acquired Quadrillion Publishing, a well-known and highly respected publisher that had gone into Administration in October 1999. Through this acquisition, we acquired a backlist of approximately 1,600 book titles, many of which are complementary to our existing Salamander Books backlist, as well as a comprehensive picture library containing hundreds of thousands of colour images on a wide range of subjects. Following the acquisition, we were able to realise a one-off profit of £0.85 million from the disposal of stock and other assets no longer required in the business. One of Quadrillion's other assets was Zigzag, a popular and well-known children's

catalogue. We are currently in the process of updating and relaunching this catalogue, amalgamating it with the other children's titles in the Division, which we believe will create a valuable and attractive children's book list within the current financial year. Subsequent to the financial year end the company has made two further acquisitions, acquiring the assets and business of the paperback remaindering house, Bridge Books, and a backlist of some 650 titles from Element Books, predominantly in the mind, body and spirit and children's categories.

## LASGO Exports

Lasgo again demonstrated its resilience to adverse market conditions during the period under review by taking advantage of new distribution opportunities, created within a difficult retail environment. Worldwide growth has been impeded within the international record market by a sluggish retail business in Japan, South America and many European territories. CD 'burning' has become prevalent in many European countries which has adversely affected demand, and with the large supermarket groups wishing to retail

**Alan Waterhouse and Philippa Barstone's** best seller "French Polishing", published by BT Batsford

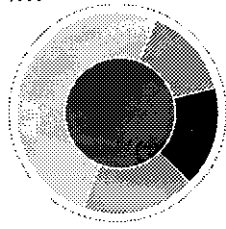
**Howard Maxford's** account of David Lean's entire cinematic career, published by BT Batsford

**"Clematis – The Genus"**, published by BT Batsford

**Creative Machine Embroidery** Recently voted book of the month in "Needlecraft" magazine, published by BT Batsford

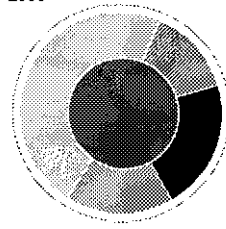
## Media Products Division Turnover by activity – 2000 and 1999 comparison

1999



■ Book publishing (16%)  
 ■ Book distribution (14.7%)  
 ■ Export audio (51.1%)  
 ■ Export non audio (18.2%)

2000



■ Book publishing (20.9%)  
 ■ Book distribution (17.4%)  
 ■ Export audio (47.6%)  
 ■ Export non audio (14.2%)

divisional review

## MEDIA PRODUCTS

'frontline' product at extremely keen prices, the traditional retail record business in most countries has been subjected to sustained downward pressure on margins.

Lasgo however has continued to source product at extremely competitive prices. Through its aggressive purchasing policy, combined with the continued growth in monetary terms of its non-audio business, the Company achieved its highest ever gross profit margin in 22 years of business. The growing popularity of DVD (Digital Versatile Disc) has increased the company's range of products and looks set to grow further as greater amounts of DVD hardware are sold through at retail level. As a result the company's Video Division achieved a record turnover in excess of £3.5 million.

Lasgo's own Book and Merchandise Division also saw a substantial rise in turnover due to a significant growth in its customer base. Early indications are that this growth is set to continue during the current financial year.

### The future

We consider that the past year has been one of exceptional growth, in which we have succeeded in rapidly building a book publishing group of real worth with a backlist of over 7,000 titles. In doing so we have also significantly increased our library of images and artwork, which we will in due course digitise, enabling us to exploit additional revenue streams.

In what is still a fragmented industry, we have already demonstrated our ability to take under-performing assets and extract value, by injecting our strong management team and disciplines, and will continue to seek opportunities for acquisitions that can add shareholder value.

### Books publications this year

#### BT Batsford

The Coen Brothers  
 David Lean  
 Creative Machine Embroidery  
 French Polishing  
 Lingerie Design  
 Historic Scotland  
 The Complete Goodies  
 Watercolour Inspirations  
 Clematis  
 Batsford Modern Chess Openings  
 Surfaces for Stitch  
 Quinlan's Film Stars  
 1001 Perennials  
 Leisure Painter; Watercolour Painting Techniques

#### Robson Books

Lipreading by Maureen Lipman  
 Lennon in America by Geoffrey Giuliano  
 Pele by Harry Harris  
 Winner's Dinners by Michael Winner  
 Hooked! by George Melly

#### Conway Maritime Press

Seafaring in the 20th Century  
 Hornblower, the Ships and their Models

#### Brasseys

Boer War

#### Putnam Aeronautical Books

Modern Air Transport

#### Salamander

An The Illustrated History of the Royal Navy  
 The Wild West Trilogy, Boxed Set  
 The Book of ... (Cookery Series)  
 The Battle of Britain

"Historic Scotland",  
 published by BT Batsford

"Watercolour  
 Inspirations", a colourful  
 step-by-step guide published  
 by BT Batsford

"The Complete Goodies",  
 the definitive account of the  
 cult 70's show, published by  
 BT Batsford

Lasgo exports found innovative ways  
 of turning adverse market conditions  
 to their advantage and doubled their  
 operating profits last year

## THE AIM OF CHRYSALIS NEW MEDIA IS TO MIRROR THE GROUP'S OFFLINE STRENGTHS IN THE ONLINE MARKET THROUGH A VERY CLEAR INVESTMENT STRATEGY.

Chrysalis New Media becomes Chrysalis's fifth division, created to exploit opportunities across all new delivery platforms.

The first half of the financial year represented phase one of its development. During that period Chrysalis New Media worked closely with the radio division to develop and launch Chrysalis Radio Online, completed the joint venture to launch the fan-based sports network Rivals Europe ([www.rivals.net](http://www.rivals.net)) and realised its first investment through the sale of Taxi Interactive to Affinity Internet Holdings in December 1999. The consideration was payable in Affinity shares with a 12 month sale restriction.

Following this progress, the Board believed it was appropriate to accelerate the pace of the Group's new media development, and raised a £26.8 million fund from its shareholders through an equity placing in January. The fund is held specifically within the Group for investment in New Media initiatives. In addition to continued support for Chrysalis Radio Online, four further investments have been carefully selected.

The Group's share of start-up and pre-launch costs for the year, and attendant overhead, amounted to £3.0 million.

### Strategy

The aim of Chrysalis New Media is to mirror the Group's offline strengths in the online market through a very clear investment strategy. We will only invest in businesses where we can leverage our existing assets and skills in rights acquisition and management, entertainment, content packaging, marketing, and management expertise. The funds from the share placing are reserved for investment in new media, both through existing Chrysalis businesses and third party companies. In most cases Chrysalis New Media seeks to invest 12 – 18 months funding, to ensure that the management is able to focus solely on building the businesses in the critical early stages of its life. All the Chrysalis New Media companies, whether wholly or part owned, are subject to the same rigorous financial and corporate disciplines as the Group's other businesses, because we believe that the professional management support we lend to these fledgling companies is as valuable as the cash we invest.

**www.darkerthanblue.com**  
**www.puremix.com**  
**www.rivals.net**  
**www.citipages.co.uk**

divisional review

## NEW MEDIA

### Investments to date

#### **Citipages** [www.citipages.co.uk](http://www.citipages.co.uk)

Chrysalis New Media has invested £4 million to acquire a 30% stake in this local information Internet portal. Citipages is run by a talented and dynamic young management team, and has to date developed by targeting local small to medium sized enterprises to supply web design and hosting packages. The company hosts web pages on a local portal, which takes the format of 'cityname' pages.co.uk, (e.g. [brightonpages.co.uk](http://brightonpages.co.uk)) and Citipages currently owns 75 domain names based around the UK. Citipages is an important local content partner for Chrysalis Radio Online, and its initial rollout is prioritised around the major Chrysalis Radio cities, beginning with Birmingham in January 2001.

#### **Darkerthanblue** [www.darkerthanblue.com](http://www.darkerthanblue.com)

Darkerthanblue is a website aimed at those interested in black/urban music, a genre now recognised as mainstream. Chrysalis acquired a shareholding of 35% for a cash investment of £3 million, coupled with support in key areas of operation.

Although technically a start-up, Darkerthanblue has already achieved significant brand recognition as the definitive 'home of black

music'. The site was voted best music site by Internet Magazine (May 2000) and ranked 48 in the Sunday Times e-League – Top 100 European Internet Businesses (June 2000).

Darkerthanblue is a strong brand online and Chrysalis is working with the company to harness radio, television, merchandise and sponsorship opportunities to build the brand across all media. A weekly "Darkerthanblue: Urban Connection" radio show was launched across the Galaxy network on 22nd October 2000.

#### **Puremix** [www.puremix.com](http://www.puremix.com)

Chrysalis New Media has provided initial funding of £4 million, in return for a 65% shareholding, to create a multi-channel internet radio site. It has been developed by two former Chrysalis Radio Programming executives who were instrumental in developing the Heart and Galaxy stations.

Puremix launched on 31st October 2000 with 30 continuous music streams, offering users a broad choice of professionally programmed Internet radio stations. It combines state of the art research and personalisation techniques with the programming quality and warmth of

traditional radio, and we believe provides the potential total music solution for broadband delivery platforms. The revenue model is not dissimilar to traditional radio, being driven by advertising, sponsorship and promotions through highly targeted offerings.

#### **Rivals.net** [www.rivals.net](http://www.rivals.net)

Rivals.net, the online sports network, was one of the first Chrysalis New Media projects. Under the original arrangements, which pre-dated the New Media fund, Chrysalis invested US \$1 million seed capital for 25% equity and provided all the operational input to develop the operation to its current stage. The remaining shares were held by the US parent company, Rivals.com, who were to provide the technology and ongoing financing.

The New Media fund allowed Chrysalis to take control of Rivals.net and following the deal announced on 15th September 2000, Chrysalis now owns 90.1% of the company with an option to acquire the remaining 9.9% stake at a fixed price of US \$1.9 million by 31st December 2000. October was over 33



**Rivals** Chrysalis' Online Sports Network

**www.galaxy101.co.uk**  
Galaxy 101 online

**www.heart.co.uk**  
100.7 Heart FM online

**Darkerthanblue** (Bob Marley) – one of  
the distinctive images of darkerthanblue –  
the Home of Black Music

## divisional review

## NEW MEDIA AND OTHER GROUP COMPANIES

Taking control of Rivals.net has been a principal aim since raising the New Media fund and Chrysalis is now able to bring its own disciplines to the business, particularly in cost management.

We believe the progress achieved in the three months since launch proves the huge potential of Rivals.net. The network currently comprises over three hundred independent sites, edited by experts who are first and foremost fans, covering football, cricket, rugby union, Formula One, rally, cycling and free-sports. Audited figures show us that Rivals.net is already achieving an average of 18 million monthly Page Impressions, which is increasing each month, propelling it straight into the top 5 European online sports properties. The average time spent on the site in October was over 33 minutes, making it one of the 'stickiest' sites in Europe.

### The future

During the next six to twelve months all these companies will be moving out of the launch phase into revenue generation. Although we believe we have budgeted conservatively, particularly for revenue, we have put in place rigorous financial review procedures for all our investee companies, including the requirement to update their

three-year business plans each quarter. This will enable us to quickly adjust cost bases to match any changes to revenue assumptions. The performance of our New Media division will be highlighted in our financial reporting so that shareholders can separately identify the progress against targets of both our existing and new media businesses.

### Other Group companies

Chrysalis Retail Entertainment, based in Theale, provides a total audio/video solution to the high street retail and licenced trades. It recorded another successful year, increasing profits before tax by 10% in spite of a marginal decline in turnover. The company has been actively developing new products and revenue streams using digital compression and hard disc storage technologies to create highly innovative retail marketing solutions for its blue-chip client base. These include centrally controlled PC-based audio systems for its retail and pub clients as well as new listening/viewing post systems for its music and retail clients. The company also provides a consulting service to large retail developments on audio/video entertainment systems.

Air Studios Lyndhurst, our 50% joint venture with Pioneer, is widely regarded as one of the premier recording facilities in the world and the unique main hall of the studio complex continues to build its reputation as one of the world's finest orchestral recording venues. During the year under review the scores for "Gladiators" and Disney's "Dinosaurs" were recorded in the studio as was "Shine on", the Channel 4 tribute concert to John Lennon. Post production work included "Sins", a major BBC1 drama, and "Black Books", a Chrysalis Visual Entertainment comedy series for Channel 4. The year under review saw turnover and profits fall due to a general market uneasiness caused by a reduction in the amount of film score work emanating from Hollywood, and by the general reduction in new recordings by the UK music industry. However, the company continues to be profitable and the current year's results indicate that the market for studio facilities is recovering.

**Air Studios** – the  
Lyndhurst Hall recording  
studio owned jointly  
with Pioneer

**Chrysalis Retail Entertainment** installed  
the audio and visual entertainment equipment  
at Star City Birmingham

## MEDIA PRODUCTS

## NEW MEDIA

## OTHER GROUP COMPANIES

### CHRYSLIS ON THE WORLDWIDE WEB

#### Group

[www.chrysalis.com](http://www.chrysalis.com)

#### Radio

[www.galaxyfm.co.uk](http://www.galaxyfm.co.uk)  
[www.galaxy101.co.uk](http://www.galaxy101.co.uk)  
[www.galaxy102.co.uk](http://www.galaxy102.co.uk)  
[www.galaxy1022.co.uk](http://www.galaxy1022.co.uk)  
[www.galaxy105.co.uk](http://www.galaxy105.co.uk)  
[www.galaxy1056.co.uk](http://www.galaxy1056.co.uk)  
[www.heart.co.uk](http://www.heart.co.uk)  
[www.heart1062.co.uk](http://www.heart1062.co.uk)

#### Music

[www.air-chrysalis.se](http://www.air-chrysalis.se)  
[www.air-edel.co.uk](http://www.air-edel.co.uk)  
[www.echo.co.uk](http://www.echo.co.uk)  
[www.papillonrecords.co.uk](http://www.papillonrecords.co.uk)

#### Visual Entertainment

[www.iddtv.nl](http://www.iddtv.nl)  
[www.spp.co.nz](http://www.spp.co.nz)

#### Media Products

[www.chrysalisbooks.co.uk](http://www.chrysalisbooks.co.uk)  
[www.ramborobooks.com](http://www.ramborobooks.com)  
[www.greenwicheditions.com](http://www.greenwicheditions.com)  
[www.salamanderbooks.com](http://www.salamanderbooks.com)  
[www.robsonbooks.com](http://www.robsonbooks.com)  
[www.brasseys.com](http://www.brasseys.com)  
[www.conwaymaritime.com](http://www.conwaymaritime.com)  
[www.putnamaeronautical.com](http://www.putnamaeronautical.com)  
[www.batsford.com](http://www.batsford.com)  
[www.zigzagbooks.com](http://www.zigzagbooks.com)

#### New Media :

[www.rivals.net](http://www.rivals.net)  
[www.puremix.com](http://www.puremix.com)  
[www.darkerthanblue.com](http://www.darkerthanblue.com)  
[www.citipages.co.uk](http://www.citipages.co.uk)

#### Other

[www.cre.co.uk](http://www.cre.co.uk)  
[www.airstudios.com](http://www.airstudios.com)

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- 1 Chris Wright** – Executive Chairman and Co-founder – Age 56  
Co-founded Chrysalis in 1967 shortly after leaving university and built it into one of the leading independent music companies with artists such as Blondie, Jethro Tull and Sinead O'Connor. He sold the original record label to Thorn EMI in 1991 but kept the publishing interests and has led the Group's expansion into television and radio. He is also non-executive chairman of Loftus Road plc.
- 2 Richard Huntingford, FCA** – Group Chief Executive. Appointed 1st December 2000 – Age 44  
Joined Chrysalis in 1987 as Corporate Development Director having spent 12 years as a Chartered Accountant with KPMG. He was responsible for the Group's investment in the radio sector in 1992, was appointed Chief Executive of the division in 1994 and proceeded to develop Chrysalis into one of Britain's leading radio groups. He became Group Managing Director in May 1999 and was promoted to Group Chief Executive on 1st December 2000.
- 3 Nigel Butterfield, FCA** – Group Finance Director. Appointed 1976 – Age 53  
Qualified as a Chartered Accountant with KPMG in 1969, leaving in 1972 to become Group Chief Accountant for Management and Agency Music PLC. He joined Chrysalis in 1976 as Finance Director and since then has been responsible for corporate finance activities and finance and accounting functions throughout the Group. He sits on each of the Chrysalis divisional operating boards, and is also a non-executive director of Loftus Road plc.
- 4 Phil Riley** – Divisional Chief Executive. Joined in 1994 – Age 41  
Having worked for a number of years in senior positions in the commercial radio industry, Phil joined Chrysalis Radio in 1994 and was appointed Chief Executive in May 1999. He joined Chrysalis as the Managing Director of the Division's first radio station, 100.7 Heart fm, in the Midlands in 1994 and has been closely involved with the growth of Chrysalis Radio to its position as one of the country's leading radio groups.
- 5 Steve Lewis** – Divisional Chief Executive. Appointed 1993 – Age 47  
Appointed Deputy Managing Director of Virgin Records in 1978, he became Managing Director of Virgin Music Publishers in 1983 and remained until the sale to Thorn EMI in 1992. He joined Chrysalis in 1993 to head the music division and set up The Echo Label. Steve was appointed to the Council of the BPI and the Board of AIM (Association of Independent Music) in 2000.
- 6 Michael Pilsworth** – Divisional Chief Executive. Appointed 1993 – Age 49  
Having begun his television career in 1979 as a researcher at LWT, he was a television executive at LWT and TVS before joining the independent sector in 1988 as Chief Executive of MGMM Communications. In 1990 he joined Alomo Productions as Managing Director, and in 1992 was appointed Managing Director of Alomo's parent company, SelecTV PLC. Since joining Chrysalis in 1993 he has built Chrysalis Visual Entertainment into the UK's leading independent television production company.

chrysalis group plc

## BOARD OF DIRECTORS

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**7 Peter Lassman** – Divisional Chief Executive. Appointed 1987 – Age 48  
Founded Lasgo Exports in 1978. He grew the business every year, winning the Queen's Award for Export Achievement twice, before selling the company to Chrysalis in 1985 in which he is now a significant shareholder. More recently he has added book publishing and distribution to Lasgo's traditional music and video distribution business.

**8 Lisa Gordon** – Divisional Chief Executive. Joined 1994 – Age 34

A former Leisure & Media investment analyst with County NatWest, she moved to IFPI as Communications Director and was actively involved in developing new markets for the record industry. She joined Chrysalis in 1994 as Corporate Development Director and was appointed Chief Executive of the New Media Division in 2000, with responsibility for the Group's New Media activities.

**9 Charles Levison** – Non-Executive Director / Deputy Chairman. Appointed 1992 – Age 59  
A lawyer by training, he has held senior executive posts with Arista Records, WEA Records and Virgin Broadcasting. He is non-executive Chairman of both SCI Entertainment Group plc and BV Group plc and a non-executive director of Loftus Road plc. He is also a consultant to Harbottle & Lewis and Chairman of the UK office of the European internet e-facilitator – Result Venture Knowledge International.

**10 Sir George Martin, CBE** – Non-Executive Director. Chairman of Air Studios. Appointed 1973 – Age 74  
After the Guildhall School of Music, he moved to EMI where he signed The Beatles and produced almost every record they made. A legendary figure in British Pop Music folklore, he established the original Air Studios in London and Montserrat in the 1970s and masterminded the concept and design of the new Air Studios at Lyndhurst Hall between 1991 and 1993, which he continues to oversee.

**11 Geoff Howard-Spink** – Non-Executive Director. Appointed 1997 – Age 56  
A founding partner of advertising agency Lowe Howard Spink in 1981. He is also non-executive chairman of Jupiter Split Capital Trust.

**12 David Murrell** – Non-Executive Director. Appointed 2000 – Age 54  
Joined KPMG's London office as a qualified accountant in 1968 and became a partner in 1981. He founded and was chairman and chief executive of KPMG's global media and entertainment practice from 1984 to 1999. He is now concentrating on his expanding portfolio of media, leisure and property business interests.

**13 Clive Potterell ACIS** – Age 44  
Qualified as a chartered secretary in 1982. He joined Chrysalis in 1989 as Assistant Company secretary from Pleasurama Plc and is responsible for all company secretarial, administration and personnel functions. He was promoted to Company Secretary in 1991.

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and Accounts for the year ended 31st August 2000.

### Principal Activities

The principal businesses of the Company, its subsidiaries, joint ventures and associated undertakings during the year to 31st August 2000 were:

**Music Division** – The production and international marketing of records, tapes, discs and music related videos; music publishing; the production of music for television programming, films and advertising.

**Radio Division** – Ownership and operation of commercial radio stations and radio-based internet sites.

**Visual Entertainment Division** – The production and worldwide distribution of programmes for television and video.

**Media Products Division** – The wholesale import and export of records, videos, books and magazines and music related products. Book publishing and distribution, display marketing and book remaindering.

**New Media Division** – The development, ownership and operation of commercial internet websites.

**Other** – The operation and sale of background music and other equipment. The ownership and operation of sound recording studios.

### Review of Business and Future Developments

A detailed review of the Group's businesses together with future developments is contained in the statements to be found on pages 4 to 31. Details of corporate acquisitions are set out in note 23 to the accounts.

### Share Capital

On 17th April 2000, following an Extraordinary General Meeting, the Company subdivided its share capital by dividing each existing Ordinary Share of 10 pence each into five new Ordinary Shares of 2 pence each (comparative references in this document to share capital, share price, dividend per share and earnings per share have been adjusted to reflect the subdivision). Details of the share capital of the Company and changes during the year covered by this Report are set out in note 25 to the Accounts.

### Results and Dividends

The results for the year are reviewed in the Finance Director's Review on pages 9 to 13 and are shown in detail in the consolidated profit and loss account on page 48. The Directors recommend the payment of a final dividend of 0.55 pence per ordinary share of 2 pence each (1999: 0.55 pence).

### Employee Involvement

Chrysalis Group PLC, as the parent organisation, encourages the development of employee involvement in each of its operating companies through both formal and informal meetings. The Company has a share option scheme, a restricted share scheme operated through the Chrysalis Employee Share Ownership Plan ("ESOP") and various performance related bonus schemes for its management and staff as additional incentives for their participation in the businesses in which they are employed. The Company is planning to introduce a SAYE Share Option Scheme for all eligible employees as soon as practicable and a resolution enabling this is to be placed before shareholders at the Annual General Meeting. It is the Group's policy to ensure that employees are made aware of significant matters affecting the performance of the Group in writing or by informal briefings and this has been enhanced during the year by establishing a Group intranet site.

### Employment of Disabled Persons

It is the Group's policy to give every consideration to applications for employment from disabled persons and to afford them full opportunity for appointment to and training for positions within their capabilities. Should an employee become disabled during his or her employment with the Group every effort is made to continue employment within his or her existing capacity where practicable, or failing that, in some suitable alternative capacity.

### Independent Non-Executive Directors

Mr Charles Levison was appointed to the Board on 16th December 1992, and is Chairman of the Company's Audit, Remuneration and Nominations Committees. Formerly a partner in the solicitors firm, Harbottle and Lewis to which he remains a consultant, Mr Levison has held a number of senior appointments in the entertainment and leisure industry and is currently a non-executive director of three other companies. Mr Levison was appointed Deputy Chairman of the Company on 19th September 1996.

Mr Geoff Howard-Spink was appointed to the Board on 29th January 1997 and is a member of the Company's Audit, Remuneration and Nominations Committees. Mr Howard-Spink was a founding partner of the international advertising group, The Lowe Group, to which he is now a consultant, and is a non-executive Chairman of the Jupiter Split Capital Trust.

Mr David Murrell was appointed to the Board on 26th July 2000 and is a member of the Company's Remuneration and Nominations Committees. A qualified accountant since 1968, he became a partner in KPMG's London office in 1981. He founded and was chairman of KPMG's global media and entertainment practice from 1984 to 1999. He is now concentrating on his expanding portfolio of media, leisure and property business interests.

Further particulars of each director are set out on pages 34 and 35.

## REPORT OF THE DIRECTORS

### Directors

The names of the Directors of the Company at the date of issue of this report appear on pages 34 and 35. In accordance with the Articles of Association, Mr R N L Huntingford, Mr C J C Levison and Mr S G Lewis retire by rotation and Mr D B Murrell seeks re-election in accordance with Article 71. All of the retiring Directors, being eligible, offer themselves for re-election. Of the retiring Directors, the following have service contracts, which initially expire as follows:

Mr S G Lewis	4th July 2001
Mr R N L Huntingford	fixed to 31st August 2002 subject to 12 months' notice

### Directors' Interests

In accordance with the statutory requirements and the requirements of the UK Listing Authority, particulars of the interests of each Director who served during the year in the ordinary shares of 2 pence each of the Company, and of their family interests, all of which are beneficial (unless otherwise stated), are set out below:

	At 1st September 1999 (or as at date of appointment)	At 31st August 2000	At 14th December 2000
C N Wright	44,750,000	44,750,000	44,750,000
Control of Voting rights – Beneficial	3,132,435	3,157,435	3,157,435
– Non-beneficial	520	520	520
N R A Butterfield	5,960	5,960	5,960
Lisa J Gordon	87,655	87,655	87,655
G Howard-Spink	–	–	–
R N L Huntingford	65,550	85,550	85,550
P A Lassman	3,331,900	3,372,500	3,372,500
C J C Levison – Beneficial	5,745	8,745	11,745
– Non-beneficial	53,570	50,570	50,570
S G Lewis	50,300	70,300	70,300
Sir George Martin	59,540	59,540	59,540
D B Murrell (appointed 26th July 2000)	–	–	10,000
M J Pilsworth	15,970	38,127	38,127
P S Riley	108,795	108,795	108,795

All of the Executive Directors have a technical interest in 761,115 ordinary shares of 2 pence each registered in the name of Mourants & Co Trustees Ltd as trustees of the Company's Employee Share Ownership Plan ("ESOP"). On 7th May 1999 Mr R N L Huntingford was granted an award over 375,000 ordinary shares of 2 pence each held by the ESOP in accordance with the rules of the Chrysalis 1998 Restricted Share Scheme.

### Options for Ordinary Shares of 2 pence each

Directors	At 1st September 1999	Granted/ (exercised) during the year	At 31st August 2000	At 14th December 2000	Exercise price	Date of grant
CN Wright	–	–	–	† 366,666	300p	24th November 2000
NRA Butterfield	–	500,000	500,000	† 500,000	196.5p	1st December 1999
Lisa J Gordon	125,000	–	125,000	† 125,000	153p	18th May 1998
	–	–	–	† 100,000	335p	11th December 2000
R N L Huntingford	750,000	–	750,000	† 750,000	153.2p	7th May 1999
S G Lewis	177,200	–	177,200	177,200	69.4p	20th December 1995
	250,000	–	250,000	250,000	153p	18th May 1998

Options granted are exercisable during a period commencing on the third anniversary and ending on the tenth anniversary of the date of grant.

† Exercise subject to performance criteria (see page 41).

## REPORT OF THE DIRECTORS

The market price of the Company's shares at 31st August 2000 was 304 pence (1999: 167.5 pence) and the range of market prices during the year was between 154.8 pence and 395 pence.

Other than disclosed above none of the other Directors have been issued with any share options which remain outstanding.

The share options granted are in accordance with the rules of the Chrysalis 1994 Executive Share Option Scheme approved by shareholders on 21st February 1994. Further particulars of the scheme are given in note 25 to the accounts.

Details of certain Directors' interests in the capital of subsidiary companies and in significant contracts are given in note 28 to the accounts.

### Substantial shareholdings

On 14th December 2000, in addition to the shareholdings of the Directors shown above, the undermentioned interests, representing 3% or more of the issued share capital of the Company (or 10% or more in respect of discretionary investment management arrangements), have been notified or were recorded in the Company's register:

	Ordinary Shares	Percentage of Issued Share Capital
Schroder Investment Management Limited *	27,288,790	16.32%

\* non-beneficial interest by reason of discretionary investment management arrangements.

### Charitable and political contributions

During the year the Group contributed £41,645 to charitable organisations. The Group paid £6,000 for a table at the Labour Party Centennial Dinner.

### Creditor payment policy

In the United Kingdom, the Group agrees payment terms with individual suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group seeks to treat all its suppliers fairly, but it does not have a standard or code which deals specifically with the payment of suppliers.

The Company had 23 days' purchases outstanding at 31st August 2000 based on the average daily amount invoiced by suppliers during the year ended 31st August 2000.

### Special business

Proposals will be put at the Annual General Meeting to:

- i renew the authority of the Directors pursuant to Section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £601,927;
- ii renew the authority of the Directors to allot shares other than pro rata to existing shareholders generally up to a maximum of 8,359,976 shares;
- iii renew the authority of the Directors to take advantage, if appropriate, of Stock Market conditions to purchase the Company's shares. The authority will allow the Company to purchase up to a maximum of 10% of its issued share capital during the next year at a minimum price of 2 pence and a maximum price of 5% above the market price of the Company's shares at the relevant time;
- iv To approve the Company's SAYE Share Option Scheme.

Please also refer to the notice of the Annual General Meeting on page 73.

### Environmental policy

The Group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment, but where it does, the Group acts responsibly and is aware of its obligations at all times.

### Auditors

KPMG Audit Plc have expressed their willingness to continue in office for the ensuing year and a resolution will be proposed at the Annual General Meeting for their reappointment at a remuneration to be agreed by the Directors.

By order of the Board



**C R Potterell ACIS**

Secretary

18th December 2000



## CORPORATE GOVERNANCE

This statement explains how the Company has applied the principles set out in Section 1 of the Combined Code (the Code) contained in the rules of The UK Listing Authority. As stated in last year's report, the Company and the Remuneration Committee have fully considered the recommendations contained in the Code and endorse the general principles contained therein. Except where described below and in the Report of the Board on Remuneration on pages 41 to 45, the Company has complied throughout the year with the provisions set out in Section 1 of the Code.

### Board of Directors

The Board is made up of eight executive Directors, including the executive Chairman, together with four non-executive Directors, three of whom are classed as independent. The Board meets five times a year to review the Group's financial and operational performance. The meetings follow a formal agenda which includes matters specifically reserved for decision by the Board. The Board also meets as and when necessary to discuss and approve specific issues. The Board is also supplied on a monthly basis with detailed management accounts and a status report containing other financial and operational information about the Group.

### Board balance

The Executive Chairman and Group Chief Executive positions are held by Mr C N Wright and Mr R N L Huntingford respectively and Mr C J C Levison (non-executive Deputy Chairman) is the senior independent non-executive Director. The Code provides that one third of the Board should be non-executive directors and, although the Company did not comply with this provision during the whole of the year under review, it is pleased to confirm that, following the appointment of Mr D B Murrell, the Company does now comply. Directors have access to the Company Secretary and may take independent professional advice if necessary, at the Company's expense.

### Remuneration and Nominations Committee

The principal functions of the Remuneration Committee are to determine the Company's policy on the remuneration of senior executives and the specific remuneration packages of the executive Directors. The Nominations Committee considers appointments to the Board and makes recommendations in this respect to the Board.

During the year under review, the members of the Remuneration Committee were Mr C J C Levison (Chairman), Mr G Howard-Spink and Mr D B Murrell (appointed 26th July 2000) all of whom are independent non-executive Directors. The Committee meets regularly with the Executive Chairman and Group Chief Executive to review and agree the remuneration of other executive Directors and to approve remuneration policies overall in the Group. The Committee met four times in the financial year. During the year under review the members of the Nominations Committee were Mr C J C Levison (Chairman), Mr G Howard-Spink, Mr D B Murrell (appointed 26th July 2000) and Mr C N Wright.

### Re-election

The Code provides that the Directors each submit themselves for re-election every three years. Although the Company does not comply with this provision, each of the Directors, with the exception of the Executive Chairman, submits himself for re-election on a regular basis in accordance with the Articles of Association of the Company. One third of the Directors submit themselves for re-election annually. In view of the Executive Chairman's unique position and significant shareholding in the Company, it has not been deemed appropriate for him to submit for re-election in the past. This matter is under review. The Company's Articles of Association require any Director appointed by the Board to seek re-election at the next annual general meeting.

### Investor relations

The Directors value contact with the Company's institutional and private investors. One of the Directors, Lisa J Gordon, has specific responsibility for investor relations. Members of the Board meet regularly with institutional shareholders and analysts and the Directors welcome the opportunity to meet with private investors at the Company's General Meetings.

### Audit Committee

The Code provides that the Audit Committee should consist of at least three non-executive Directors. The Audit Committee comprises Mr C J C Levison (Chairman) and Mr G Howard-Spink, both of whom are independent Non-Executive Directors. The Company is considering the appointment of a further non-executive Director to the committee. The Committee meets twice per annum and more frequently if required.

## CORPORATE GOVERNANCE

### Internal financial control

The Directors are responsible for maintaining an effective system of internal financial control that provides reasonable assurance that the Group's assets are safeguarded and that material financial errors and irregularities are either prevented or detected with a minimum of delay. However, any system of internal financial control can only provide reasonable and not absolute assurance against material loss or misstatement of the financial statements.

The Combined Code introduced a requirement that the Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirement in respect of internal financial controls to cover all controls including financial, operational, compliance and risk management. Guidance for Directors, *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. The Directors have adopted the transitional arrangements which apply and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance *Internal Control and Financial Reporting*. However, the Directors confirm that they are currently in the process of establishing procedures necessary to implement the Turnbull guidance, such that they can fully comply with it by 31st August 2001. This will include the appointment of a head of risk management who is currently being recruited.

The key elements of the system of internal financial control that the Directors have established and which were operating up to and including the date of this report are as follows:

- An organisational structure with clearly defined areas of responsibility and delegation of authority;
- Detailed financial controls exist within each subsidiary and division to ensure completeness and accuracy of the recording of all transactions and the safeguarding of assets;
- High level controls exercised by divisional management to give assurance that the detailed financial controls are operating satisfactorily. The principal high level control is the review of monthly management accounts by the subsidiary managing directors and divisional chief executives and divisional finance directors;
- Monitoring processes which include detailed written monthly status reports prepared by each divisional chief executive together with a programme of regular divisional and senior management meetings, a programme of quarterly formal forecast meetings, the comparison of monthly results against budget and quarterly reforecasts, the preparation of a rolling forecast on a monthly basis and the supervisory roles of the Group Chief Executive and the Group Finance Director; and
- The close day to day involvement of the divisional chief executives in all the businesses for which they are responsible.

### Going concern

The Corporate Governance statement on Going Concern can be found in the Finance Director's Review on pages 9 to 13.

## REPORT OF THE BOARD ON REMUNERATION

As at the date of this report the members of the Remuneration Committee ("The Committee") are Mr C J C Levison (Chairman), Mr G Howard-Spink and Mr D B Murrell.

### General policy

The Committee, in forming its policy on remuneration, has given due consideration to the provisions of the Code and to the needs of the Group to provide a competitive remuneration package to enable it to attract, retain and motivate executives of the calibre and experience required by the Group.

The salaries of the executive Directors are reviewed annually by the Committee, which includes a review of the performance of the individual and, where appropriate, of the trading division for which he or she is responsible, and of the Group as a whole. It is the aim of the Committee to reward Directors on a basis, linked to a significant extent, to the performance of the Group and to the business units for which they are specifically responsible, as well as on the broad principle that their remuneration should be competitive with the senior management of comparable companies operating in similar areas to the Group. The Remuneration Committee believes it is essential to adopt flexible policies wherever possible and, due to the diverse nature of the activities of the Group, it is not appropriate to reward performance on the same basis for each executive Director. Where share options are awarded by the Committee as part of a Director's remuneration package, they are awarded on an individual basis. Such awards are, in every case, linked to performance.

In addition to basic salary, the remuneration packages of the executive Directors include participating in short term and, in most cases, long term bonus arrangements which are described below. The remuneration of non-executive Directors is determined by the Board of the Company and their appointment is reviewed on an annual basis.

The following table and notes are intended to summarise the value of all of the various elements of remuneration earned by each Director during the year:

Executive	Salary & fees (£'000)	Benefits <sup>(xvi)</sup> (£'000)	Annual bonus (£'000)	Other (£'000)	Total excluding long term incentives		Long term incentives (received)	
					2000 (£'000)	1999 (£'000)	2000 (£'000)	1999 (£'000)
C N Wright	475	23	—	—	498	496	—	—
N R A Butterfield	234	22	71	47 <sup>i</sup>	374	204	—	—
Lisa J Gordon	154	2	180 <sup>ii</sup>	—	336	145 <sup>iii</sup>	—	129 <sup>iv</sup>
R N L Huntingford	300	15	146	200 <sup>v</sup>	661	319	— <sup>vi</sup>	501 <sup>vii</sup>
P A Lassman	210	20	227 <sup>ii</sup>	—	457	311	— <sup>viii</sup>	—
S G Lewis	262	8	64	—	334	326	— <sup>ix</sup>	328 <sup>x</sup>
P N McDanell (resigned 4th May 1999)	—	—	—	—	—	479 <sup>xi</sup>	—	—
M J Pilsworth	223	3	29	—	255	216	254 <sup>xii</sup>	146 <sup>xiii</sup>
P S Riley (appointed 25th May 1999)	158	9	64	—	231	40	159 <sup>xiv</sup>	—
<b>Non-Executive</b>								
G Howard-Spink	18	—	—	—	18	15	—	—
C J C Levison	60	—	—	—	60	75	—	—
Sir George Martin	35 <sup>xv</sup>	—	—	—	35	35	—	—
D B Murrell (appointed 26th July 2000)	3	—	—	—	3	—	—	—
<b>Total</b>	<b>2,132</b>	<b>102</b>	<b>781</b>	<b>247</b>	<b>3,262</b>	<b>2,661</b>	<b>413</b>	<b>1,104</b>

Details of Directors' pensions are set out in separate tables on pages 44 and 45. Details of Directors' share options are set out on page 37.

## REPORT OF THE BOARD ON REMUNERATION

### Notes

- i An accounting charge of £47,000 in respect of a one-off bonus paid at the time of entering into his new service agreement.
- ii Includes an accounting charge in respect of the previous year's annual bonus.
- iii Lisa J Gordon was employed on a part time basis during the prior period.
- iv Exercise of share options.
- v An accounting charge of £200,000 (1999: £66,667) in respect of a one-off bonus paid on entering his new service agreement.
- vi Excludes an accounting provision of £245,000 in respect of his long term incentive scheme.
- vii Under his previous service agreement, Mr Huntingford would have been entitled to a bonus based on the percentage increase in the capital value of the Group's radio interests. On assuming his prior role of Group Managing Director, Mr Huntingford waived his entitlement to this bonus in return for the granting of 375,000 ordinary shares of Chrysalis Group PLC in accordance with the Chrysalis 1998 Restricted Share Scheme. The amount represents the cost to the Group of purchasing the shares on the open market less an existing accounting provision of £100,000.
- viii Excludes an accounting provision of £80,000 in respect of his long term incentive scheme.
- ix Excludes an accounting provision of £652,000 (1999: £470,000) in respect of his long term incentive scheme.
- x Exercise of share options.
- xi Includes a payment of £332,000 for compensation for loss of office.
- xii Excludes an accounting provision of £469,000 (1999: £296,000) in respect of his long term incentive scheme.
- xiii Exercise of share options.
- xiv Amount payable following the waiving of Mr Riley's previous long term incentive scheme. Excludes an accounting provision of £421,000 in respect of his current long term incentive scheme.
- xv Sir George Martin also received remuneration of £35,000 and benefits of £14,000 from a joint venture company for services, as Chairman, rendered exclusively to that company.
- xvi Benefits comprise company cars, health care insurance and life assurance.

### Management

Following the successful conclusion of Mr Huntingford's first full year as Group Managing Director, the Board decided that as from 1st December 2000 Mr Huntingford be appointed Group Chief Executive. Mr Wright continues as Executive Chairman and has recently agreed a new three year contract which includes a reduction of £200,000 per annum in base salary and an annual bonus linked to earnings per share ("EPS") growth targets plus share options as fully disclosed in this report, thereby maintaining Mr Wright's interests in line with other shareholders.

### Short term bonus arrangements

Executive Directors who served during the year under review participate in short term bonus arrangements which are performance related, and either have been individually tailored to incentivise each Director to enhance the profitability of the division for which he/she is responsible, or are based on the profitability of the Group as a whole. The majority are based on either the Group achieving specific earnings per share targets or on a particular division achieving profits in excess of a pre-determined base or a pre-determined return on investment. All pre-set profit and earnings per share targets are approved by the Committee. As reported in previous years, the Group established the 1998 Chrysalis Restricted Share Scheme to enable part of certain Directors' annual bonuses and annual deferred bonuses to be paid in restricted shares. This has the effect of tying in the Director for a minimum three year period and also aligning the interest of the Directors with those of the shareholders. No benefits under any of the short term bonus arrangements are pensionable. Details of the individual arrangements are given below:

Director	Bonus arrangements
C N Wright	For the financial year commencing 1st September 2000 a bonus based on earnings per share above a pre-determined base together with a discretionary performance related bonus. There is an overall cap of 100% of salary and the bonus may at the Executive's option be paid in restricted shares. For the year under review, an annual bonus based on pre-tax profits of the Group. There is an overall cap of 50% of basic salary. No bonus was payable for the year under review.
R N L Huntingford	As fully reported last year, under his new service agreement as Group Managing Director, Mr Huntingford was paid a one-off bonus of £200,000 on 1st September 1999 and 1st September 2000, with a further amount of £200,000 to be paid on 1st September 2001. For the year under review, a bonus based on a percentage of profits of the Group exceeding a pre-determined base, and for subsequent financial years a bonus based on earnings per share above pre-set levels. There is an overall cap of 100% of basic salary.
N R A Butterfield	An annual bonus based on earnings per share above pre-set levels. There is an overall cap of 100% of basic salary. In addition the Remuneration Committee may award a discretionary annual bonus based on the executive's contribution in effecting and implementing any significant corporate transaction maximising shareholders' interests.

## REPORT OF THE BOARD ON REMUNERATION

Lisa J Gordon	For the financial year commencing 1st September 2000, a bonus based on the financial performance of the Chrysalis New Media Division, with the intention for the Executive to earn up to 25% of her salary for performance in line with pre-determined targets. A bonus based on the improvement in the Company's share price over a 12 month period over a pre-agreed base level. Each element of the bonus is capped at 50% of basic salary. For the year under review, a bonus based on the improvement in the Company's share price over a 12 month period over a pre-agreed base level. There is an overall cap of 100% of salary. A bonus based on a percentage of the profits from a disposal of any business introduced to the Group through the Corporate Development department. There is an overall cap of four times annual salary in any three year period.
P A Lassman	An annual bonus based on pre-tax profits of the Media Products division providing they exceed a pre-determined base. There is an overall cap of 100% of basic salary.
S G Lewis	An annual bonus based upon the increase in the Net Publisher's Share of the music publishing companies above a pre-determined base level plus an additional annual bonus based on pre-tax profits of the Music division, excluding the music publishing companies.
M J Pilsworth	An annual bonus based on a percentage of pre-tax profits of the Visual Entertainment Division in excess of a pre-determined return on investment. There is an overall cap of 100% of basic salary. A deferred annual bonus paid in restricted shares based on pre-tax profits of the Visual Entertainment division attaining pre-set targets in excess of a minimum return on investment. There is an overall cap of 100% of basic salary.
P S Riley	An annual bonus based on the profits of the Radio division achieving pre-set targets together with an annual bonus that is based upon the successful award of any analogue or digital radio licence. There is an overall cap of 100% of basic salary.

### Long term incentive schemes

Certain Directors participate in the Chrysalis 1994 Executive Share Option Scheme and details of their participation can be seen in the table contained on page 37 of the Directors' Report. As previously reported, except where grants were made to meet pre-existing obligations, the exercise of all options are subject to challenging performance criteria set by the Committee. As previously reported, the Committee has concluded that, due to the diverse nature of the Group's businesses, it is best to incentivise executive Directors long term by individual schemes designed to maximise the profitability or capital value of the Group or the division for which they are responsible and thus align the interest of the Directors and the shareholders. The Committee is sensitive to the recommendation contained in the Code relating to the granting of options and/or benefits under long term incentive arrangements in "phased" awards rather than in "large blocks". In the case of Mr R N L Huntingford, Mr N R A Butterfield and Mr C N Wright the committee believes that it was appropriate to grant options and benefits under a long term incentive scheme in blocks in view of the quantum of the awards and the performance criteria. Mr C N Wright, Mr R N L Huntingford, Mr S G Lewis, Mr P Lassman, Mr M J Pilsworth, Mr N R A Butterfield, Lisa J Gordon and Mr P S Riley participate, or participated during the year under review, in long term incentive plans. No benefits under any of the long term incentives plans are pensionable. Details of the arrangements are given below:

Mr C N Wright:	Mr Wright was granted options over 366,666 Chrysalis Ordinary Shares of 2p each in accordance with the rules of the Chrysalis 1994 Executive Share Option Scheme as shown on page 37 of the Directors' Report. These options are subject to performance criteria based on the achievement of pre-agreed levels of Total Shareholder Return (TSR). TSR is the aggregate of the increase or decrease in the market value of a 2p Ordinary Share, during the period, together with the value arising from the notional reinvestment of dividends declared during the period in further Chrysalis shares. The resultant monetary value is then expressed as an inflation adjusted compound annual rate of growth over the market value of an ordinary share at the start of the period.
Mr R N L Huntingford:	As fully disclosed in last year's report, Mr Huntingford is the only participant in a scheme established for his appointment as Group Managing Director. Mr Huntingford was granted options as disclosed in the table contained on page 37 of the Directors' Report. Mr Huntingford is also entitled to a super performance bonus equal to the growth in value of between 125,000 and 500,000 Chrysalis Ordinary Shares of 2p each (depending on performance target). The total bonus payable under the super performance bonus is capped at £1.25 million. Both the exercise of the share options and the payment of the super performance bonus were subject to performance criteria linked to earnings per share exceeding pre-determined levels. During the year under review, the Remuneration Committee reviewed the suitability of the performance criteria following changes within the Group and felt it was to the benefit of the Company, the shareholders and the Executive to set new performance criteria based on TSR. The share options are only exercisable on a graduating scale, enabling 41.66% of the options to be exercisable if TSR is between 7.5% and 8.5% rising to 100% of the options if TSR is over 13%. The super performance bonus is payable on a graduating scale enabling 25% of the bonus to be paid if TSR is between 14% and 15% and 100% of the bonus to be payable if TSR is 20% or over.

## REPORT OF THE BOARD ON REMUNERATION

- Mr N R A Butterfield: Mr Butterfield was granted options as shown on page 37 of the Directors' Report. The exercise of these options was subject to performance criteria based on earnings per share. As with Mr Huntingford, the Committee has now agreed to set new performance criteria based on TSR. The options are only exercisable on a graduating scale enabling 25% of the total to be exercised if TSR is between 7.5% and 8.5% rising to 100% if TSR is 20% or more.
- Lisa J Gordon: Lisa J Gordon was granted options over 100,000 Chrysalis Ordinary Shares of 2p each in accordance with the rules of the Chrysalis 1994 Executive Share Option Scheme as shown on page 37 of the Directors' Report. These options are subject to the achievement of pre-agreed performance targets in respect of the New Media division over a three year period.
- Mr P A Lassman: Mr Lassman is entitled to a bonus equivalent to 20% of his annual salary (or pro rata part thereof) for each 10% growth (or pro rata part thereof) in the reported profits of the Media Products division, adjusted to reflect the cost of any acquisitions, for the year to 31 August 2002 over the profits for the year ended 31st August 1999. This bonus to be capped at 150% of his salary for the year to 31 August 2002.
- Mr S G Lewis: Mr Lewis is entitled to a bonus payable on termination of his employment, based on a percentage of the amount that the average of the Net Publisher's Share of the Group's music publishing companies for the two financial periods preceding the date of termination exceeds an agreed base level multiplied by a factor which increases to a maximum of 10 with the number of years of completed service. Mr Lewis may, at his discretion, receive a payment of up to 50% of the cumulative amount due under this bonus each December on account, 50% of which will be paid in cash and 50% paid in restricted shares.
- Mr M J Pilsworth: As previously reported, Mr Pilsworth was granted shadow share options over a notional 250,000 Chrysalis Ordinary Shares of 2p each granted at the mid-market price on 3rd December 1997 (114.3 pence). The bonus terms mirror the rules of the Chrysalis 1994 Executive Share Option Scheme. To partially mitigate the potential liability to the Group, the ESOP has purchased a similar amount of the Group's shares.
- Mr P S Riley: As fully reported last year, Mr Riley is entitled to receive 0.145% of the value of the Group's Radio Division as at 31st August 2002 adjusted for the amount of any investment in the Division since 1st September 1999, together with a bonus equivalent to 0.75% of the excess value of the Chrysalis Radio division as at 31st August 2002 over and above an agreed base valuation, to be adjusted for any additional funding and a return on the opening value. Any bonus payable will be capped at £1.5 million and the Company may elect to satisfy any payment due above £750,000 in Chrysalis Group PLC restricted shares.

### Pension scheme

The executive Directors are entitled to become members of the Senior Executive Section of the Chrysalis Group PLC Retirement Benefits and Permanent Health Insurance Scheme (the Scheme). Each member contributes 5% of their pensionable salary to the Scheme. Members of the defined benefit section are entitled to a pension at the date of retirement based on final pensionable salary and years of completed service. Members of the defined contribution section are entitled to benefits which are purchased from their individual fund, established under the Scheme, into which the members' contributions and the employer's contributions are invested. Mr N R A Butterfield, Mr M J Pilsworth, Mr P S Riley and Lisa J Gordon are members of the defined contribution section of the Scheme and Mr R N L Huntingford and Mr S G Lewis are members of the defined benefit section of the Scheme. Mr C N Wright is the only member of the Culture Vulture pension fund, a small self-administered scheme.

Both Mr C N Wright and the Company contribute to the Culture Vulture pension scheme on the same terms as they would have contributed to the Scheme. Mr P A Lassman has remained a member of the pension scheme established by Lasgo Exports Limited prior to the Group acquiring its interest in Lasgo. The Lasgo Exports scheme is a defined contribution scheme. Mr P A Lassman does not contribute to the scheme. Under the terms of both the Scheme and the Culture Vulture pension scheme, pensionable salaries exclude bonuses and are subject to a self-imposed cap for the year under review of £264,600 in respect of Mr C N Wright and £159,000 in all other cases. From 1st September 2000 the self imposed cap on pensionable salaries was increased to £273,600 and £164,400 respectively. Mr S G Lewis, Mr M J Pilsworth, Mr P S Riley and Lisa J Gordon are subject to the Inland Revenue earnings cap enforceable at the time.

### Money Purchase Scheme

Director	Company contributions	
	2000 Total (£)	1999 Total (£)
Mr N R A Butterfield	36,570	36,694
Lisa J Gordon	11,700	11,388
Mr P A Lassman	23,000	67,500
Mr M J Pilsworth	16,308	15,768
Mr P S Riley	16,308	2,847
Mr C N Wright	60,858	60,019
	<b>164,744</b>	<b>194,216</b>

## REPORT OF THE BOARD ON REMUNERATION

### Pension scheme continued

### Final Salary Scheme

Director	Accrued pension as at 31st August 2000 (£)	Increase in accrued pension over the year * (£)	Transfer value of increase in accrued pension ** (£)
Mr R N L Huntingford	48,712	6,210	68,922
Mr S G Lewis	16,570	2,493	31,521

\* after discounting the effect of inflation

\*\* excluding the amount attributable to the member's own contributions

### Service contracts

The Committee reviews and agrees Directors' service agreements. The Committee is sensitive to the recommendation contained in the Code that there is a strong case for setting notice or contract periods at, or reducing them to, 12 months or less. The Committee has had and will continue to have regard to these recommendations but is conscious of the need to secure the services of key executives for the benefit of the Company and the shareholders which may, on occasions, necessitate contracts for longer periods. However, the Committee have agreed, with the exception of Mr C N Wright, that wherever a service agreement is entered into for a term longer than 12 months, it will contain a clause whereby it can be terminated by the Company for any reason upon a payment not exceeding 12 months salary, bonuses and benefits subject to mitigation by the Executive. The Committee believed that in view of Mr C N Wright's unique position, it was appropriate to agree a contract for a fixed three year period. Certain executive Directors who served during the year have service agreements with the following terms:

Director	Term of contract/notice period
Mr N R A Butterfield	Rolling 12 months' notice to be given by either party.
Lisa J Gordon	Rolling 12 months' notice to be given by either party.
Mr R N L Huntingford	Fixed term to 31st August 2002 subject to 12 months' notice expiring thereon or at any time thereafter.
Mr P A Lassman	Fixed term to 31st August 2002 subject to 12 months' notice expiring thereon or at any time thereafter.
Mr M J Pilsworth	Rolling 12 month's notice to be given by either party.
Mr P S Riley	Rolling 12 months' notice to be given by either party.
Mr C N Wright	Fixed term to 30th November 2003 subject to 12 months' notice expiring thereon or at anytime thereafter.

### Compensation for early termination

The arrangements for termination of the senior executives' contracts are decided by the Committee following consultation with the Executive Chairman and Group Chief Executive. As stated above, in the majority of cases, service agreements may be terminated by the Company for any reason upon a payment not exceeding 12 months' salary, benefits and bonuses subject to mitigation by the Executive.

## 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 Group 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 to 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 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 Group and to prevent and detect fraud and other irregularities.



## AUDITORS' REPORT

### Report of the Auditors to the Members of Chrysalis Group PLC

We have audited the financial statements on pages 48 to 72.

#### Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 46, this includes responsibility for preparing 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, the Listing Rules of the Financial Services Authority 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. 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 Group is not disclosed.

We review whether the statement on page 39 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

#### 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 Group'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 and the Group as at 31st August 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



#### KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

18th December 2000

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st August 2000

	Note	Ongoing £'000	Continuing Operations Acquisitions £'000	Total £'000	Discontinued Operations £'000	Year ended 31st August 2000 £'000	Year ended 31st August 1999 £'000
<b>Turnover: Group and share of joint ventures</b>	2	<b>167,277</b>	<b>938</b>	<b>168,215</b>	<b>–</b>	<b>168,215</b>	134,500
Less: share of joint ventures	3	<b>(5,434)</b>	<b>–</b>	<b>(5,434)</b>	<b>–</b>	<b>(5,434)</b>	(6,990)
<b>Group turnover</b>	2	<b>161,843</b>	<b>938</b>	<b>162,781</b>	<b>–</b>	<b>162,781</b>	127,510
Operating costs before depreciation and amortisation		<b>(154,139)</b>	<b>(923)</b>	<b>(155,062)</b>	<b>–</b>	<b>(155,062)</b>	(125,128)
<b>EBITDA</b>		<b>7,704</b>	<b>15</b>	<b>7,719</b>	<b>–</b>	<b>7,719</b>	2,382
Depreciation of tangible fixed assets		<b>(3,126)</b>	<b>(4)</b>	<b>(3,130)</b>	<b>–</b>	<b>(3,130)</b>	(2,884)
Net amortisation of intangible assets and acquired goodwill	13	<b>(862)</b>	<b>361</b>	<b>(501)</b>	<b>–</b>	<b>(501)</b>	(1,106)
Exceptional accelerated amortisation of intangible asset		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	(3,000)
<b>Group operating profit/(loss)</b>	4	<b>3,716</b>	<b>372</b>	<b>4,088</b>	<b>–</b>	<b>4,088</b>	(4,608)
Share of operating profits/(losses) of joint ventures	3	<b>(120)</b>	<b>–</b>	<b>(120)</b>	<b>–</b>	<b>(120)</b>	178
Share of operating losses of associated undertakings	3	<b>–</b>	<b>(1,119)</b>	<b>(1,119)</b>	<b>(228)</b>	<b>(1,347)</b>	(205)
<b>Total operating profit/(loss)</b>		<b>3,596</b>	<b>(747)</b>	<b>2,849</b>	<b>(228)</b>	<b>2,621</b>	(4,635)
Exceptional loss on disposal of fixed asset investment	5	<b>–</b>	<b>–</b>	<b>–</b>	<b>(296)</b>	<b>(296)</b>	–
<b>Profit/(loss) before interest</b>		<b>3,596</b>	<b>(747)</b>	<b>2,849</b>	<b>(524)</b>	<b>2,325</b>	(4,635)
Interest receivable and similar income	6					<b>637</b>	905
Interest payable and similar charges	7					<b>(2,006)</b>	(2,205)
<b>Profit/(loss) on ordinary activities before taxation</b>	2, 8					<b>956</b>	(5,935)
Taxation	10					<b>(161)</b>	(566)
<b>Profit/(loss) on ordinary activities after taxation</b>						<b>795</b>	(6,501)
Minority interests (equity interests)						<b>(25)</b>	268
<b>Profit/(loss) for the financial year</b>						<b>770</b>	(6,233)
Dividends	11					<b>(961)</b>	(889)
<b>Retained loss for the financial year</b>	26					<b>(191)</b>	(7,122)
Basic and diluted earnings/(loss) per share (1999 restated)	12					<b>0.47p</b>	(3.95)p

EBITDA comprises earnings before interest, taxation, depreciation and amortisation.

The attached notes on pages 53 to 72 form part of these accounts.

The historical cost profit for the year is the same as that shown above.

# CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES AND RECONCILIATIONS OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the year ended 31st August 2000

## Consolidated statement of total recognised gains and losses

	2000 £'000	1999 £'000
Profit/(loss) for the financial year	<b>770</b>	(6,233)
Currency translation differences on net foreign currency investments	<b>(365)</b>	77
Total recognised gains/(losses) in the year	<b>405</b>	(6,156)
Total recognised gains and losses attributable to joint venture companies and associated undertakings are disclosed in note 3.		

## Reconciliations of movements in shareholders' funds

	The Group		The Company	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Profit/(loss) for the financial year	<b>770</b>	(6,233)	<b>4,519</b>	(1,906)
Dividends	<b>(961)</b>	(889)	<b>(961)</b>	(889)
Retained profit/(loss) for the year	<b>(191)</b>	(7,122)	<b>3,558</b>	(2,795)
Other recognised net (losses)/gains relating to the year	<b>(365)</b>	77	<b>84</b>	-
New share capital subscribed	<b>160</b>	57	<b>160</b>	57
Share premium on shares issued during the year	<b>26,744</b>	3,068	<b>26,744</b>	3,068
Net goodwill written off to reserves (see note 26)	<b>(842)</b>	(2,162)	-	-
Net addition/(reduction) to shareholders' funds arising during the year	<b>25,506</b>	(6,082)	<b>30,546</b>	330
Shareholders' funds at beginning of year	<b>6,805</b>	12,887	<b>67,488</b>	67,158
Shareholders' funds at end of year	<b>32,311</b>	6,805	<b>98,034</b>	67,488

The attached notes on pages 53 to 72 form part of these accounts.

**CONSOLIDATED BALANCE SHEET**

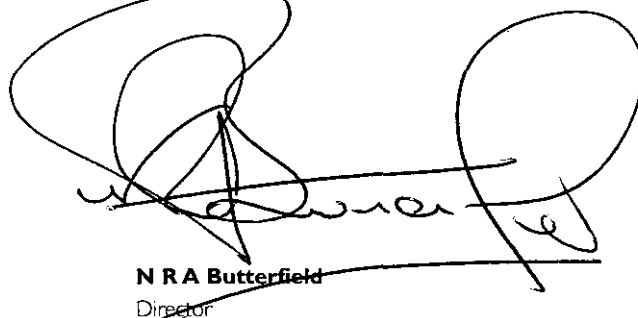
As at 31st August 2000

	Note	2000 £'000	1999 £'000
<b>Fixed assets</b>			
Intangible assets	13	19,373	20,724
Tangible assets	14	20,687	20,009
Investments	3, 15		
Investments in joint venture companies			
Share of gross assets		7,406	5,901
Share of gross liabilities		(3,369)	(1,951)
		4,037	3,950
Investment in associated undertakings		6,679	1,229
Trade investments		51	122
		10,767	5,301
		50,827	46,034
<b>Current assets</b>			
Stocks	16	6,434	6,976
Debtors	17	49,937	43,383
Investments	18	2,562	2
Cash at bank and in hand	19	8,813	17,359
		67,746	67,720
<b>Creditors</b>			
Amounts falling due within one year	20	(66,793)	(88,590)
<b>Net current assets/(liabilities)</b>		953	(20,870)
<b>Total assets less current liabilities</b>		51,780	25,164
<b>Creditors</b>			
Amounts falling due after more than one year	20	(11,811)	(10,870)
<b>Provisions for liabilities and charges</b>	21	(3,039)	(3,937)
<b>Net assets</b>		36,930	10,357
<b>Capital and reserves</b>			
Called up share capital	25	3,344	3,184
Share premium account	26	61,457	34,713
Other reserves	26	7,031	7,031
Profit and loss account	26	(39,521)	(38,123)
<b>Shareholders' funds (equity interests)</b>		32,311	6,805
<b>Minority interests (equity interests)</b>		4,619	3,552
		36,930	10,357

The accounts were approved by the Board on 18th December 2000 and were signed on its behalf by:



**R N L Huntingford**  
Director



**N R A Butterfield**  
Director

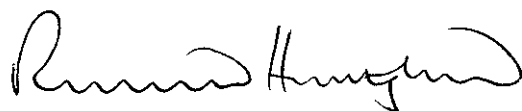
The attached notes on pages 53 to 72 form part of these accounts.

**COMPANY BALANCE SHEET**

As at 31st August 2000

	Note	2000		1999	
		£'000	£'000	£'000	£'000
<b>Fixed assets</b>					
Tangible assets	14		<b>13,215</b>		13,452
Investments	15		<b>114,524</b>		101,373
			<b>127,739</b>		114,825
<b>Current assets</b>					
Debtors	17	<b>1,876</b>		2,370	
Investments	18	<b>1,282</b>		–	
Cash at bank and in hand		<b>13,886</b>		344	
		<b>17,044</b>		2,714	
<b>Creditors</b>					
Amounts falling due within one year	20	<b>(43,594)</b>		(46,019)	
<b>Net current liabilities</b>			<b>(26,550)</b>		(43,305)
<b>Total assets less current liabilities</b>			<b>101,189</b>		71,520
<b>Creditors</b>					
Amounts falling due after more than one year	20		<b>(116)</b>		(113)
<b>Provisions for liabilities and charges</b>	21		<b>(3,039)</b>		(3,919)
<b>Net assets</b>			<b>98,034</b>		67,488
<b>Capital and reserves</b>					
Called up share capital	25		<b>3,344</b>		3,184
Share premium account	26		<b>61,457</b>		34,713
Revaluation reserve	26		<b>3,900</b>		3,900
Other reserves	26		<b>253</b>		253
Profit and loss account	26		<b>29,080</b>		25,438
<b>Shareholders' funds (equity interests)</b>			<b>98,034</b>		67,488

The accounts were approved by the Board on 18th December 2000 and were signed on its behalf by:


**R N L Huntingford**

Director


**N R A Butterfield**

Director

The attached notes on pages 53 to 72 form part of these accounts.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st August 2000

	Note	2000 £'000	1999 £'000
<b>Cash inflow from operating activities</b>	22i	<b>808</b>	2,371
<b>Dividends received from joint venture companies</b>		<b>91</b>	94
<b>Returns on investments and servicing of finance</b>			
Interest received		701	957
Interest paid		(1,574)	(1,860)
Interest element of finance lease rental payments		(158)	(108)
Dividends paid to minority interests		—	(231)
		<b>(1,031)</b>	(1,242)
<b>Taxation</b>		<b>(671)</b>	(1,075)
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		(47)	(1,360)
Payments to acquire tangible fixed assets		(4,135)	(4,416)
Receipts from sales of intangible and tangible fixed assets		364	296
Payments to acquire trade investments		—	(70)
Payments to acquire current asset investments		(1,000)	—
Loans from/(to) joint venture companies		44	(320)
		<b>(4,774)</b>	(5,870)
<b>Acquisitions and disposals</b>			
Purchases of subsidiary undertakings	22iv	(53)	(11,870)
Net overdrafts acquired with subsidiary undertaking		—	(817)
Payments in respect of prior year acquisitions	22iv	(2,995)	(6,152)
Receipt in respect of reduction in consideration of prior year acquisition	22iv	1,112	—
Purchase of associated undertakings		(6,646)	(687)
		<b>(8,582)</b>	(19,526)
<b>Equity dividends paid</b>		<b>(917)</b>	(874)
<b>Cash outflow before use of liquid resources and financing</b>		<b>(15,076)</b>	(26,122)
<b>Management of liquid resources</b>			
Sale of short term investments		—	261
<b>Financing</b>			
Issue of ordinary share capital		26,904	439
New finance lease borrowings (net of repayments)		253	451
		<b>27,157</b>	890
<b>Increase/(decrease) in cash in the year</b>	22ii	<b>12,081</b>	(24,971)

The attached notes on pages 53 to 72 form part of these accounts.

# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## I Accounting policies

### Basis of presentation

The financial statements have been prepared under the historical cost convention, as modified by the periodic revaluation of certain fixed assets, and are in accordance with applicable accounting standards. The following principal accounting policies have been consistently applied throughout the year, and have been amended to comply with *FRS 15 – Tangible Fixed Assets* (see note 14).

### Consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings made up to 31st August 2000. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

### Goodwill

For acquisitions prior to 1st September 1998 when *FRS 10 – Goodwill and Intangible Assets* was adopted, purchased goodwill (being the excess of fair value of the purchase consideration over the fair value of the net assets acquired) has been written off directly to reserves in accordance with *Statement of Standard Accounting Practice No 22 – Goodwill*. On any subsequent disposal or termination of the business, the attributable goodwill is reinstated and accounted for in the calculation of the profit or loss on disposal.

For acquisitions since 1st September 1998, purchased goodwill has been capitalised and included within intangible fixed assets and is amortised on a straight line basis over its expected useful economic life, subject to maximum of 20 years. Negative goodwill arising on acquisitions completed since 1st September 1998 is included within intangible fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through amortisation, depreciation or sale.

On the subsequent disposal or termination of a business acquired since 1st September 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

### Joint venture companies

A joint venture company is defined as an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of results of joint venture companies is included in the consolidated profit and loss account and its interest in their net assets is included in fixed asset investments in the consolidated balance sheet. Attributable post acquisition retained results of joint venture companies are included in the consolidated reserves.

### Associated undertakings

Investments in associated undertakings are defined as those in which the Group holds a participating interest and exercises significant influence. The Group includes investments in associated undertakings in the consolidated financial statements using the equity method.

### Fixed asset investments

In the Company's financial statements, investments in subsidiary undertakings and participating interests in joint venture companies and associated undertakings are stated at cost less amounts written off.

### Turnover

Turnover represents the amount receivable for goods and services supplied to third party customers (excluding value added tax), together with record, video production and publishing royalties, television and film licensing and distribution income and sales commissions.

### Record royalties (excluding record producer services and music publishing royalties)

Royalty income is included on a receivable basis calculated on sales of records arising during each accounting period as reported by licensees. Royalties payable are expensed on an accruals basis. Royalty advances payable are expensed on a paid basis except that they are carried forward and recognised as an asset where such advances relate to current unreleased products and where it is estimated that sufficient future royalties will be earned for recoupment from those products.

Advances received in respect of individual albums are carried forward and recognised as income over the expected life of each individual licence.

### Record producer services and music publishing royalties

Royalties received are accounted for on a cash basis. Royalties payable are expensed on an accruals basis except that music publishing royalty advances are carried forward and recognised as an asset where such advances relate to proven artists or songwriters and where it is estimated that sufficient future royalties will be earned for recoupment of these advances.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### Film licensing and distribution income

Revenue from the licensing or distribution of film broadcast or exhibition rights is recognised from the date of release for distribution or broadcast.

### Television productions

Turnover and attributable profits on television programmes produced for commissioning broadcasters are recognised on television production contracts which are incomplete at the end of the year in the proportion that costs incurred to date bear to estimated ultimate costs after making provision for anticipated losses.

### Investment in television rights

Investment in television rights is stated at cost and included in intangible assets in the Group balance sheet. They are amortised in the profit and loss account in the proportion that revenue bears to the estimated ultimate revenue after making provision for any anticipated shortfall.

### Investment in music publishing catalogues and book publishing rights

Investment in acquired music publishing catalogues and acquired book publishing rights is stated at cost and included in intangible fixed assets in the Group balance sheet. They are amortised in the profit and loss account on the basis outlined below. Investment in internally generated music copyrights and catalogues in the form of advances payable under music publishing contracts is not included in intangible fixed assets in the Group balance sheet but is written off as described above. Similarly, investment in internally generated book publishing rights is not included in intangible fixed assets but is written off on the first publication of the book.

### Deferred television programme development expenditure

Pre-contract development expenditure is written off in the period in which it is incurred except where it relates to a clearly defined contract, the outcome of which has been assessed with reasonable certainty as to its success and commercial viability. In such cases the expenditure is deferred to the extent that its recovery can be reasonably regarded as assured and the cost is written off against revenue over the period of the contract.

### Depreciation and amortisation

Depreciation and amortisation are provided on a straight line basis in order to write off the cost of tangible and intangible fixed assets over their expected useful economic lives, on the following basis:

#### Tangible Fixed Assets

Freehold and long leasehold buildings	50 years
Short leasehold properties	Over the period of the lease
Furniture, fixtures, plant and equipment	3-10 years
Motor vehicles	3-5 years

#### Intangible Fixed Assets

Acquired music publishing copyrights	Up to 50 years maximum
Acquired goodwill	Up to 20 years maximum
Acquired book publishing rights	Up to 20 years maximum
Other intangible assets	Up to 20 years maximum

### Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

### Leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments. Costs in respect of operating leases are charged to the profit and loss accounts on a straight-line basis over the life of the lease.

### Pension costs

Pensions relating to current and past service are funded by annual contributions to the Chrysalis Group PLC Retirement Benefits Scheme.

Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions to the defined benefit section of the scheme are determined by a qualified actuary on the basis of triennial valuations using the attained age method.

### Taxation

The charge for taxation is based on the profit 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 taxation arising as a result of timing differences between the profit as computed for taxation purposes and that stated in the financial statements is provided under the liability method when, in the opinion of the Directors, there is a reasonable probability of a material reversal of a timing difference in the foreseeable future.



## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### Translation of foreign currencies

Assets and liabilities of overseas subsidiary undertakings and the Group's share of the post-acquisition retained reserves of overseas joint venture companies are translated to Sterling at the rates of exchange ruling at the end of each accounting period and exchange variances on the opening net investment in those subsidiary undertakings and joint venture companies are dealt with through reserves. The results of overseas subsidiary undertakings and overseas joint venture companies are translated to Sterling at the average rate of exchange ruling during the accounting period and variances compared with exchange rates at the balance sheet date are dealt with through reserves.

### 2 Analysis of turnover, profit/(loss) before taxation and net assets/(liabilities)

	Third party turnover		Profit/(loss) before taxation		Net assets/ (liabilities)	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
<b>a Analysis by class of business</b>						
Radio	37,202	27,507	4,966	669	4,621	839
Music	35,018	28,772	712	(1,005)	(34)	473
Visual Entertainment	57,557	50,315	480	(2,533)	2,605	2,183
Media Products	33,999	23,101	4,023	1,786	9,576	6,110
Other	4,424	4,684	(466)	(383)	3,949	4,074
Corporate	15	121	(4,386)	(3,169)	12,603	(3,322)
	168,215	134,500	5,329	(4,635)	33,320	10,357
New Media	–	–	(3,004)	–	3,610	–
	168,215	134,500	2,325	(4,635)	36,930	10,357
Net interest – group undertakings	–	–	(1,437)	(1,283)	–	–
– joint venture companies	–	–	68	(17)	–	–
	168,215	134,500	956	(5,935)	36,930	10,357
Less: joint venture companies' turnover (see note 3)	(5,434)	(6,990)				
	162,781	127,510				

The net assets/(liabilities) shown above within the Corporate segment includes the investments in joint ventures and associated undertakings.

	Third party turnover		Profit/(loss) before taxation		Net assets/ (liabilities)	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
<b>b Analysis by geographical origin</b>						
United Kingdom	130,993	105,330	1,511	(4,437)	34,094	7,372
North America	6,680	5,824	(88)	(580)	(4,049)	(3,806)
Europe	25,044	16,309	825	247	6,820	6,732
Rest of the world	64	47	77	135	65	59
	162,781	127,510	2,325	(4,635)	36,930	10,357
Net interest – group undertakings	–	–	(1,437)	(1,283)	–	–
– joint venture companies	–	–	68	(17)	–	–
<b>Total</b>	162,781	127,510	956	(5,935)	36,930	10,357

The Group results and total net assets shown above include the Group's share of joint venture companies' and associated undertakings' results and net assets.

	Third party turnover	
	2000 £'000	1999 £'000
<b>c Analysis of turnover by destination</b>		
United Kingdom	103,926	74,861
North America	13,946	12,402
Europe	38,639	31,077
Rest of the world	6,270	9,170
<b>Total</b>	162,781	127,510

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 3 Analysis of joint venture companies' and associated undertakings' turnover, profit/(loss) before taxation, net assets/(liabilities) and total recognised gains and losses

#### a Joint venture companies

	Third party turnover		Profit/(loss) before taxation		Share of net assets/(liabilities)	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
<b>i Analysis by class of business</b>						
Music	1,146	1,437	(60)	(88)	(211)	(206)
Visual Entertainment	3,248	4,407	(72)	125	(611)	(487)
Other	1,040	1,146	(15)	141	3,365	3,334
<b>Total</b>	<b>5,434</b>	<b>6,990</b>	<b>(147)</b>	<b>178</b>	<b>2,543</b>	<b>2,641</b>
<b>ii Analysis by geographical origin</b>						
United Kingdom	3,230	3,701	(215)	95	2,658	2,789
North America	39	35	(25)	(44)	(143)	(115)
Europe	—	—	—	—	—	—
Rest of the world	2,165	3,254	93	127	28	(33)
<b>Total</b>	<b>5,434</b>	<b>6,990</b>	<b>(147)</b>	<b>178</b>	<b>2,543</b>	<b>2,641</b>

#### iii Analysis of total recognised gains and losses

Total recognised losses in respect of joint venture companies were £174,000 (1999: total recognised gains of £178,000).

#### b Associated undertakings

##### i Turnover, loss before taxation and net liabilities

The Group's share of turnover from associated undertakings was £130,000 (1999: £141,000). The Group's share of losses before taxation from associated undertakings was £1,332,000 (1999: £205,000). The Group's investment in associated undertakings at 31st August 2000 of £6,679,000 (1999: £1,229,000) includes £3,195,000 (1999: £1,359,000) of acquired goodwill. All turnover, losses and net liabilities of associated undertakings are classed within the Group's New Media business segment.

##### ii Analysis by geographical origin

Both the Group's share of turnover and losses before taxation from associated undertakings arose in the UK.

##### iii Analysis of total recognised gains and losses

Total recognised losses in respect of associated undertakings were £1,332,000 (1999: £205,000).

##### iv Amortisation of acquired goodwill

Amortisation of acquired goodwill relating to associated undertakings amounted to £50,000 (1999: £19,000).

### 4 Group operating profit/(loss)

	Ongoing £'000	Acquisitions £'000	Continuing operations	
			2000 Total £'000	1999 Total £'000
Group turnover	161,843	938	162,781	127,510
Cost of sales	(100,827)	(557)	(101,384)	(82,674)
Gross profit	61,016	381	61,397	44,836
Net operating expenses				
Distribution costs	(14,862)	(16)	(14,878)	(11,295)
Administrative expenses	(42,438)	7	(42,431)	(38,149)
Group operating profit/(loss)	3,716	372	4,088	(4,608)

The cost of sales figure for 1999 included an exceptional accelerated amortisation charge of £3.0 million in respect of an intangible asset.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 5 Exceptional loss on disposal of fixed asset investment

The exceptional loss on the disposal of a fixed asset investment relates to goodwill on the Group's investment in Sheffield Sharks Limited previously eliminated against reserves which was reinstated and expensed. Sheffield Sharks Limited is now in liquidation following the disposal of its underlying business and assets. There is no taxation impact of this exceptional loss.

### 6 Interest receivable and similar income

	2000 £'000	1999 £'000
Bank interest receivable	460	699
Interest receivable from joint venture companies	80	79
Other interest receivable	97	121
Interest and profits from managed funds	–	6
	<b>637</b>	<b>905</b>

### 7 Interest payable and similar charges

	2000 £'000	1999 £'000
Bank loans and overdrafts repayable within five years	1,617	1,854
On lease and hire purchase agreements	158	108
Other	231	243
	<b>2,006</b>	<b>2,205</b>

### 8 Profit/(loss) on ordinary activities before taxation

	2000 £'000	1999 £'000
<b>The profit/(loss) from ordinary activities before taxation is stated after charging/(crediting)</b>		
Depreciation and amortisation of tangible fixed assets	3,130	2,884
Amortisation of intangible fixed assets	501	1,106
Exceptional amortisation of intangible fixed asset	–	3,000
	<b>501</b>	<b>4,106</b>
(Profit)/loss on disposal of tangible fixed assets	98	(57)
Operating lease rentals – property	1,685	1,489
– equipment	682	495
Rent receivable	(370)	(502)
Foreign exchange losses/(gains)	62	(72)

The remuneration of the auditors in respect of audit services provided to the Group during the year was £369,000 (1999: £319,000) of which £272,000 (1999: £246,000) was paid to KPMG Audit Plc. The remuneration of the auditors and their associates in respect of non audit services to the Company and its UK subsidiaries was £293,000 (1999: £157,000) of which £254,000 (1999: £103,000) was paid to KPMG Audit Plc and its associates. Auditors' remuneration for audit services to the Group includes £90,000 (1999: £86,000) for audit services to the Company.

### 9 Employees

	2000 £'000	1999 £'000
<b>Payroll costs (including Directors) were as follows:</b>		
Wages and salaries	30,288	24,575
Social security costs	3,265	2,692
Other pension costs	1,481	1,278
	<b>35,034</b>	<b>28,545</b>

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 9 Employees continued

The average number of employees (including Directors) during the year was as follows:

	2000 Number	1999 Number
Direct labour, technical and related services	172	163
Administration	358	347
Sales and distribution	228	213
	<b>758</b>	<b>723</b>

### Directors' remuneration

	2000 £'000	1999 £'000
Directors' emoluments	3,262	2,659
Company contributions to money purchase pension schemes	165	219
Realised gains on share options	–	603
Amounts receivable under long term incentive plans	1,398	816
	<b>4,825</b>	<b>4,297</b>

### Highest paid Director

	2000 £'000	1999 £'000
Directors' emoluments (including amounts receivable under long term incentive plans)	906	820

The highest paid Director is a member of a defined benefits scheme under which his accrued pension at the year end was £48,700 (1999: £42,000). Additional information in relation to Directors' remuneration is included in the Report of the Board on remuneration on pages 41 to 45.

### 10 Taxation

	2000 £'000	1999 £'000
UK Corporation tax at 30% (1999: 30.6%)	–	57
Over provision in respect of prior years	(259)	–
Share of tax charges of joint venture companies	2	–
	<b>(257)</b>	<b>57</b>
Overseas taxation – subsidiary undertakings	392	451
– joint ventures	26	58
	<b>161</b>	<b>566</b>

No UK Corporation tax charge arose in the financial year due to the availability of tax losses (see also note 21).

### 11 Dividends

	2000 £'000	1999 £'000
Proposed final dividend of 0.55p per share (1999: 0.55p per share)	920	876
Adjustment to previous year's dividend	41	13
	<b>961</b>	<b>889</b>

The adjustment to the previous year's dividend relates to additional shares issued under share option schemes and as a result of a share placing prior to the dividend record date. The comparative dividend rate has been restated to reflect the subdivision of the Company's shares referred to on page 36.

# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## 12 Basic and diluted earnings/(loss) per share

	2000	1999
Profit/(loss) after taxation and minority interests	<b>£770,000</b>	£(6,233,000)
Average ordinary shares in issue during the year weighted on a time basis	<b>163,776,613</b>	157,801,110
Basic and diluted earnings/(loss) per ordinary share	<b>0.47p</b>	(3.95)p

The comparative figures have been restated to reflect the subdivision of the Company's shares referred to on page 36.

## 13 Fixed assets – intangible assets

The Group	Investment in Television Rights £'000	Investment in Music Publishing Copyrights £'000	Investment in Book Publishing Rights £'000	Investment in Acquired Positive Goodwill £'000	Investment in Acquired Negative Goodwill £'000	Total £'000
<b>Cost</b>						
At 1st September 1999	5,840	8,411	1,325	10,109	–	<b>25,685</b>
Additions	12	8	–	28	–	<b>48</b>
Acquisitions of subsidiaries	–	–	–	1,453	(970)	<b>483</b>
Adjustment	–	(1,112)	–	–	(135)	<b>(1,247)</b>
Disposals	–	–	–	–	135	<b>135</b>
Exchange differences	(14)	21	–	(120)	–	<b>(113)</b>
<b>At 31st August 2000</b>	<b>5,838</b>	<b>7,328</b>	<b>1,325</b>	<b>11,470</b>	<b>(970)</b>	<b>24,991</b>
<b>Amortisation and depreciation</b>						
At 1st September 1999	4,450	139	29	343	–	<b>4,961</b>
Charge/(credit) for the year	329	135	67	609	(639)	<b>501</b>
Disposals	–	–	–	–	135	<b>135</b>
Exchange differences	1	2	–	18	–	<b>21</b>
<b>At 31st August 2000</b>	<b>4,780</b>	<b>276</b>	<b>96</b>	<b>970</b>	<b>(504)</b>	<b>5,618</b>
<b>Net book values</b>						
<b>At 31st August 2000</b>	<b>1,058</b>	<b>7,052</b>	<b>1,229</b>	<b>10,500</b>	<b>(466)</b>	<b>19,373</b>
At 31st August 1999	1,390	8,272	1,296	9,766	–	20,724

The adjustments set out above relate primarily to a reduction in the consideration paid for a music publishing catalogue acquired in the previous financial year, following the finalisation of completion accounts.

The net amortisation charge for the year in respect of intangible assets and acquired goodwill indicated above and in the profit and loss account on page 48 comprises the following:

	Year ended 31st August 2000 £'000	Year ended 31st August 1999 £'000
Amortisation of positive goodwill arising on acquisitions	<b>(609)</b>	(345)
Amortisation of negative goodwill arising on acquisitions	<b>639</b>	–
Amortisation of other intangibles	<b>(531)</b>	(761)
	<b>(501)</b>	(1,106)

# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## 14 Fixed assets – tangible assets

### a The Group

#### Cost

	Land and buildings freehold £'000	Land and buildings long leasehold £'000	Land and buildings short leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1st September 1999	12,900	431	1,533	13,390	2,186	30,440
Additions	3	210	164	3,213	545	4,135
Disposals	—	—	—	(1,322)	(363)	(1,685)
Exchange differences	—	—	(11)	(25)	(4)	(40)

#### At 31st August 2000

<b>12,903</b>	<b>641</b>	<b>1,686</b>	<b>15,256</b>	<b>2,364</b>	<b>32,850</b>
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#### Amortisation and depreciation

	Land and buildings freehold £'000	Land and buildings long leasehold £'000	Land and buildings short leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1st September 1999	1,083	38	545	7,879	886	10,431
Charge for the year	257	9	224	2,119	521	3,130
Disposals	—	—	—	(1,112)	(282)	(1,394)
Exchange differences	—	—	(6)	(1)	3	(4)

#### At 31st August 2000

<b>1,340</b>	<b>47</b>	<b>763</b>	<b>8,885</b>	<b>1,128</b>	<b>12,163</b>
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#### Net book values

#### At 31st August 2000

<b>11,563</b>	<b>594</b>	<b>923</b>	<b>6,371</b>	<b>1,236</b>	<b>20,687</b>
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#### At 31st August 1999

11,817	393	988	5,511	1,300	20,009
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Tangible assets at net book value include £1,908,000 (1999: £1,336,000) in respect of assets held under hire purchase contracts and finance leases. Depreciation and amortisation include £660,000 (1999: £438,000) in respect of these assets. The Directors adopted *FRS 15 – Tangible Fixed Assets* as of 1st September 1999. The principal effect of the adoption of the new standard was that the remaining useful life of the Group's head office premises was reduced from 91 years to 50 years, which resulted in an increase in the annual depreciation charge for freehold land and buildings of £128,000.

### b The Company

#### Cost

	Land and buildings freehold £'000	Land and buildings long leasehold £'000	Land and buildings short leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1st September 1999	12,901	431	203	2,944	283	16,762
Additions	2	—	—	453	107	562
Disposals	—	—	—	(193)	(116)	(309)

#### At 31st August 2000

<b>12,903</b>	<b>431</b>	<b>203</b>	<b>3,204</b>	<b>274</b>	<b>17,015</b>
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#### Amortisation and depreciation

	Land and buildings freehold £'000	Land and buildings long leasehold £'000	Land and buildings short leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
At 1st September 1999	1,083	38	177	1,835	177	3,310
Charge for the year	257	9	12	418	57	753
Disposals	—	—	—	(179)	(84)	(263)

#### At 31st August 2000

<b>1,340</b>	<b>47</b>	<b>189</b>	<b>2,074</b>	<b>150</b>	<b>3,800</b>
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#### Net book values

#### At 31st August 2000

<b>11,563</b>	<b>384</b>	<b>14</b>	<b>1,130</b>	<b>124</b>	<b>13,215</b>
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#### At 31st August 1999

11,818	393	26	1,109	106	13,452
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Included in cost of freehold land and buildings in both the Group and the Company is an amount of £785,000 (1999: £785,000) in respect of interest capitalised in previous years.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 15 Fixed assets – investments

#### a The Group

Share of gross assets includes £1,769,000 of loans due from joint venture companies (1999: £1,309,000) and loans due to joint venture companies of £275,000. The total investment in associated undertakings (including joint venture companies) is £10,716,000 (1999: £5,179,000)

	Shares in subsidiaries £'000	Loans to subsidiaries £'000	Shares in participating interests £'000	Loans to participating interests £'000	Other investments £'000	Total £'000
<b>b The Company</b>						
<b>Cost or valuation</b>						
At 1st September 1999	22,071	95,105	3,835	370	5	<b>121,386</b>
Additions/movement in year	(1,113)	16,957	(835)	(119)	–	<b>14,890</b>
<b>At 31st August 2000</b>	<b>20,958</b>	<b>112,062</b>	<b>3,000</b>	<b>251</b>	<b>5</b>	<b>136,276</b>
<b>Provisions</b>						
At 1st September 1999	3,132	16,185	535	161	–	<b>20,013</b>
Movement in year	–	2,274	(535)	–	–	<b>1,739</b>
<b>At 31st August 2000</b>	<b>3,132</b>	<b>18,459</b>	<b>–</b>	<b>161</b>	<b>–</b>	<b>21,752</b>
<b>Net book values</b>						
<b>At 31st August 2000</b>	<b>17,826</b>	<b>93,603</b>	<b>3,000</b>	<b>90</b>	<b>5</b>	<b>114,524</b>
At 31st August 1999	18,939	78,920	3,300	209	5	101,373

If the Group and the Company were to realise their respective fixed asset investments at their revalued amounts no liability to taxation on the gains would be likely to arise due to available capital losses. Shares in subsidiaries includes an amount of £3,900,000 (1999: £3,900,000) in respect of a Directors' revaluation of the investment in a subsidiary company. The Directors are of the opinion that the value of the investments that have not been revalued is equal to or greater than their book value. The principal operating subsidiary and associated undertakings at 31st August 2000 are set out in note 34.

### 16 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	<b>23</b>	56
Work in progress	<b>4,918</b>	2,794
Finished goods	<b>1,493</b>	4,126
	<b>6,434</b>	6,976

# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## 17 Debtors

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
<b>Due within one year</b>				
Trade debtors	32,251	25,851	8	60
Other debtors	913	1,654	1,013	353
Corporate and other taxes	1,117	1,228	358	886
Prepayments and accrued income	7,711	7,393	296	596
Artists' and writers' advances	7,036	5,853	—	—
	<b>49,028</b>	<b>41,979</b>	<b>1,675</b>	<b>1,895</b>
<b>Due after one year</b>				
Other debtors	909	1,404	201	475
	<b>49,937</b>	<b>43,383</b>	<b>1,876</b>	<b>2,370</b>

## 18 Investments

	The Group		The Company	
	2000	1999	2000	1999
	£'000	£'000	£'000	£'000
Shares held by The Chrysalis Employee Share Ownership Plan	1,282	—	1,282	—
Quoted investment	1,278	—	—	—
Amounts held by fund managers	2	2	—	—
	<b>2,562</b>	<b>2</b>	<b>1,282</b>	<b>—</b>

Shares held by The Chrysalis Employees Share Ownership Plan ("ESOP") comprise ordinary shares of 2p each in the Company which have been purchased to hedge certain share price related bonuses of specific employees. The shares are stated at market value of 304p per share. The cost of the shares was 235p. Further details of the ESOP are set out in note 32.

The quoted investment represents ordinary shares held in Affinity Internet Holdings plc which the Group received as consideration for the disposal of its interest in Taxi Interactive Limited in December 1999. The shares are held at the cost of the original investment in Taxi Interactive Limited. There is a contractual restriction on the sale of these shares before 8th January 2001.

## 19 Cash at bank and in hand

Cash at bank held by the Group includes £3,261,000 (1999: £8,612,000) of 'ringfenced' funds under the terms of the shareholder agreements relating to the Group's investment in CVI Media Group BV. This cash, which is denominated in Dutch Guilders, is for the exclusive use of CVI Media Group BV and may not be used for any other Group purpose.

Group cash balances do not reflect £17,900,000 of funds which have been used to offset overdrafts and short term borrowings with the same bank.

Details of the currency and interest rate profile of cash deposits are set out in note 24.



# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## 20 Creditors

### Amounts falling due within one year

Bank loans and overdrafts (see also note 19)
Lease and hire purchase obligations
Trade creditors
Amounts owed to subsidiary undertakings
Amounts owed to joint venture companies
Other creditors
Corporate tax
Social security and other taxes
Accruals and deferred income
Dividends

The Group		The Company	
2000	1999	2000	1999
£'000	£'000	£'000	£'000
<b>13,399</b>	33,609	<b>25,517</b>	28,955
<b>835</b>	622	<b>106</b>	72
<b>28,206</b>	26,990	<b>218</b>	246
<b>—</b>	—	<b>13,709</b>	13,117
<b>—</b>	—	<b>63</b>	—
<b>3,997</b>	5,992	<b>1,092</b>	102
<b>221</b>	948	<b>1</b>	377
<b>2,703</b>	2,500	<b>382</b>	286
<b>16,242</b>	17,054	<b>1,586</b>	1,989
<b>1,190</b>	875	<b>920</b>	875
<b>66,793</b>	88,590	<b>43,594</b>	46,019

### Amounts falling due after more than one year

Bank loans and overdrafts (see also note 19)
Lease and hire purchase obligations
Other creditors

<b>900</b>	900	<b>—</b>	—
<b>621</b>	579	<b>116</b>	113
<b>10,290</b>	9,391	<b>—</b>	—
<b>11,811</b>	10,870	<b>116</b>	113

Between 1–2 years £'000	Between 2–5 years £'000	Over 5 years £'000	Total £'000
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### Amounts falling due after more than one year are analysed as follows:

#### The Group

Bank loans and overdrafts
Lease and hire purchase obligations net of future finance charges
Other creditors

<b>—</b>	900	<b>—</b>	<b>900</b>
<b>518</b>	103	<b>—</b>	<b>621</b>
<b>1,878</b>	1,262	<b>7,150</b>	<b>10,290</b>
<b>2,396</b>	2,265	<b>7,150</b>	<b>11,811</b>

#### The Company

Lease and hire purchase obligations net of future finance charges
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<b>65</b>	51	<b>—</b>	<b>116</b>
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Bank loans and overdrafts are stated net of cash deposits held with the same bank and are secured by a fixed and floating charge over the assets of the Group.

## 21 Provision for liabilities and charges

### The Group

At 1st September 1999
Established in year
Reclassification
Utilised in the year
Credited to profit and loss account

Pension provision £'000	Property and other provisions £'000	Other provisions £'000	Total £'000
3,176	96	665	<b>3,937</b>
<b>—</b>	<b>—</b>	<b>281</b>	<b>281</b>
<b>—</b>	<b>—</b>	<b>(652)</b>	<b>(652)</b>
<b>(202)</b>	<b>(13)</b>	<b>(294)</b>	<b>(509)</b>
<b>—</b>	<b>(18)</b>	<b>—</b>	<b>(18)</b>
<b>2,974</b>	<b>65</b>	<b>—</b>	<b>3,039</b>

### At 31st August 2000

#### The Company

At 1st September 1999
Established in year
Reclassification
Utilised in the year

3,176	78	665	<b>3,919</b>
<b>—</b>	<b>—</b>	<b>281</b>	<b>281</b>
<b>—</b>	<b>—</b>	<b>(652)</b>	<b>(652)</b>
<b>(202)</b>	<b>(13)</b>	<b>(294)</b>	<b>(509)</b>
<b>2,974</b>	<b>65</b>	<b>—</b>	<b>3,039</b>

### At 31st August 2000

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 21 Provision for liabilities and charges continued

The pension provision was established in accordance with *Statement of Standard Accounting Practice No 24 – Pension Costs* when the Chrysalis Group PLC Retirement Benefits Scheme had a surplus of assets and the Group enjoyed a pension contribution holiday. As stated in note 31, the Group resumed making contributions to the Scheme on 1st July 1998 and the provision is being released to the profit and loss account over the estimated remaining service lives of the Group's employees.

The property provision relates to surplus leased space, the lease for which expires on 30th June 2002.

The reclassification within other provisions relates to a long term incentive plan for one of the Group's Directors which is due for payment at any time after 1st September 2000 and therefore it has been included within Creditors: amounts falling due within one year. The utilisation of the other provisions relates to the settlement during the year of a share price related bonus for one of the Group's Directors.

A deferred tax asset arises in the UK which is not recognised in the accounts. This can be analysed as follows:

	2000 Group Unprovided £'000	2000 Company Unprovided £'000	1999 Group Unprovided £'000	1999 Company Unprovided £'000
Unutilised trading losses	6,415	1,779	6,837	1,779
Difference between accumulated depreciation and capital allowances	1,551	850	2,533	1,162
	<b>7,966</b>	<b>2,629</b>	9,370	2,941

### 22 Notes to the consolidated cash flow statement

#### i Reconciliation of operating profit/(loss) to operating cash flows

	2000 £'000	1999 £'000
Operating profit/(loss)	4,088	(4,608)
Depreciation and amortisation charges	3,631	6,990
Loss/(profit) on sale of fixed assets	98	(57)
Decrease/(increase) in stocks	1,141	(2,044)
Increase in debtors	(4,590)	(4,544)
(Decrease)/increase in creditors	(3,313)	5,846
Net provisions (utilised)/established	(247)	788
Net cash inflow from operating activities	<b>808</b>	2,371

#### ii Reconciliation of net cash flow to movement in net funds/(debt)

	2000 £'000	1999 £'000
<b>Increase/(decrease) in cash in the year</b>	<b>12,081</b>	(24,971)
Cash inflow from net new borrowings of lease finance	(253)	(451)
Cash inflow from decrease in liquid resources	–	(262)
Increase/(decrease) in net funds resulting from cash flows	<b>11,828</b>	(25,684)
Translation differences	(417)	(43)
Increase/(decrease) in net funds in the year	<b>11,411</b>	(25,727)
Net (debt)/funds brought forward	<b>(18,349)</b>	7,378
Net debt carried forward	<b>(6,938)</b>	(18,349)

#### iii Analysis of net funds/(debt)

	At 1st September 1999 £'000	Cash flow £'000	Exchange movements £'000	At 31st August 2000 £'000
Cash at bank and in hand (see note 19)	17,359	(8,129)	(417)	<b>8,813</b>
Bank overdrafts	(33,609)	20,210	–	<b>(13,399)</b>
Bank term loan	(900)	–	–	<b>(900)</b>
	(17,150)	12,081	(417)	<b>(5,486)</b>
Finance leases	(1,201)	(253)	–	<b>(1,454)</b>
Current asset investments	2	–	–	<b>2</b>
Total	(18,349)	11,828	(417)	<b>(6,938)</b>

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 22 Notes to the consolidated cash flow statement continued

#### iv Cash flows relating to acquisitions

	£'000
Cash payments in respect of subsidiaries acquired during the year (see note 23)	53
Payment of deferred consideration in respect of subsidiaries acquired in prior years	2,995
Receipt in respect of reduction in consideration for prior year acquisition	(1,112)
	<u>1,936</u>

#### v Liquid resources

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into cash at their carrying value or traded in an active market.

### 23 Acquisitions in the year

- i On 10th January 2000, the Group acquired Quadrillion Publishing Limited ('QPL'), for a consideration of £1, from the administrator through its subsidiary, Chrysalis Books Limited. The terms of acquisition required Chrysalis Books Limited to make payments of £1,900,000 to the administrator to settle certain of the debts of QPL incurred prior to its acquisition by the Group. Other trading liabilities were also taken over. As the fair value of the net assets acquired exceeded the consideration, negative goodwill of £970,000 arose on the acquisition.
- ii On 29th August 2000 the Group acquired the remaining 50% of Klynch Music Limited through its subsidiary, Tin Pan Alley Music Limited. The consideration payable was £15,000 which was paid in cash.

	QPL £'000	Other £'000	Total £'000
Current assets	3,350	–	3,350
Creditors	(2,380)	–	(2,380)
Group's share of net assets acquired	970	–	970
(Negative)/Positive Goodwill arising	(970)	15	(955)
	–	15	15
<b>Consideration</b>			
Satisfied by:			
Cash	–	15	15
	–	15	15

Details of the fair value adjustments arising on the acquisition of QPL are as follows:

	Book values £'000	Fair value adjustments	Fair value of acquired assets
Current assets	2,380	970	3,350
Creditors	(2,380)	–	(2,380)
Net assets acquired	–	970	970

The fair value adjustments related to the alignment of the accounting policies with respect to stock and debtors with those of the Group.

No fair value adjustments were required for the acquisition of Klynch Music Limited.

During the year, the Group subscribed for 65% of the ordinary share capital of Puremix Limited, a new company, for a consideration of £4,000,000 together with related legal and professional costs of £38,000. Goodwill of £1,438,000 arose on the subscription.

# NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

## 24 Currency and interest rate profile of net debt

As at 31st August 2000 the currency and interest rate profile of the Group's net debt was as follows:

	Cash and deposits £'000	Floating rate borrowings £'000	Finance lease & hire purchase creditors £'000	Current asset investments £'000	Total £'000
Sterling	3,558	(13,880)	(1,456)	2,562	<b>(9,216)</b>
European currencies	3,732	(419)	—	—	<b>3,313</b>
US Dollar	1,523	—	—	—	<b>1,523</b>
	<b>8,813</b>	<b>(14,299)</b>	<b>(1,456)</b>	<b>2,562</b>	<b>(4,380)</b>

No fair value table has been presented since it is considered that there is no material difference between fair value and the carrying value of financial assets and liabilities. Floating rate borrowings bear interest with reference to bank base rates. The maturity of borrowings is shown in Note 20.

At 31st August 2000 the Group also held forward contracts taken out to anticipate foreign currency denominated transactions, the potential gain or loss on which would not be material to the Group. No material gains or losses were experienced by the Group on such contracts during the year. Further details on treasury management are included in the Finance Director's Review on pages 9 to 13.

## 25 Share capital

	2000 Number	2000 £'000	1999 Number	1999 £'000
<b>a Authorised</b>				
Ordinary shares of 2 pence each	<b>200,000,000</b>	<b>4,000</b>	200,000,000	4,000
<b>b Allotted, called up and fully paid</b>				
Ordinary shares of 2 pence each				
At beginning of year	<b>159,180,315</b>	<b>3,184</b>	156,358,070	3,127
Issued in year – share options	<b>201,320</b>	<b>4</b>	755,940	15
– consideration for acquisition of subsidiaries	<b>—</b>	<b>—</b>	2,066,305	42
– share placing	<b>7,817,900</b>	<b>156</b>	—	—
At end of year	<b>167,199,535</b>	<b>3,344</b>	159,180,315	3,184

The consideration received for shares issued in the year was £26,904,000 (1999: £3,125,000).

On 14th April 2000 the Company subdivided its share capital by dividing each existing Ordinary Share of 10 pence each into five new Ordinary Shares of 2 pence each. The above table adjusts the number of shares in issue prior to this date accordingly.

Outstanding options granted under the Chrysalis 1994 Executive Share Option Scheme at 31st August 2000, adjusted for the subdivision of share capital are:

Options granted	Number of shares	Options	Normal option date
December 1994	25,220	49p	December 1997 – December 2004
December 1995	177,200	69p	December 1998 – December 2005
May 1998	375,000	153p	May 2001 – May 2008
January 1999	100,000	127p	January 2002 – January 2009
May 1999	750,000	153p	May 2002 – May 2009
December 1999	500,000	197p	December 2002 – December 2009
May 2000	100,000	218p	May 2003 – May 2010
	<b>2,027,420</b>		

The above options include the options granted to Directors, which are disclosed in the Directors' Report on page 37.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 26 Reserves

#### a The Group

	Share premium £'000	Other reserves £'000	Profit and loss account £'000	Total reserves £'000
Reserves brought forward	34,713	7,031	(38,123)	3,621
Share premium on shares issued in the year	26,744	—	—	26,744
Goodwill written off	—	—	(1,150)	(1,150)
Goodwill reinstated on disposal of fixed asset investment	—	—	308	308
Currency translation differences on net foreign currency investments	—	—	(365)	(365)
Retained loss for the year	—	—	(191)	(191)
<b>Reserves carried forward</b>	<b>61,457</b>	<b>7,031</b>	<b>(39,521)</b>	<b>28,967</b>

- i Other reserves include a merger reserve of £488,000 (1999: £488,000), a capital redemption reserve of £253,000 (1999: £253,000) and the Group's share of share premium in a subsidiary undertaking of £6,290,000 (1999: £6,290,000).
- ii The Group's share of the post-acquisition retained losses of joint venture companies and associated undertakings amounts to £2,995,000 (1999: £1,273,000).
- iii Profit and loss reserves include £56,714,000 of cumulative goodwill written off on acquisitions which took place prior to 1st September 1998 (1999: £55,872,000). Of this amount, £55,014,000 (1999: £53,864,000) has arisen on the acquisition of subsidiaries and £1,700,000 (1999: £2,008,000) has arisen on the acquisition of associated companies. Goodwill written off for the year comprises additional consideration payable under earnout arrangements in respect of those acquisitions.

#### b The Company

	Share premium £'000	Revaluation reserves £'000	Other reserves £'000	Profit and loss account £'000	Total reserves £'000
Reserves brought forward	34,713	3,900	253	25,438	64,304
Share premium on shares issued in the year	26,744	—	—	—	26,744
Currency translation differences	—	—	—	84	84
Retained profit for the year	—	—	—	3,558	3,558
<b>Reserves carried forward</b>	<b>61,457</b>	<b>3,900</b>	<b>253</b>	<b>29,080</b>	<b>94,690</b>

No profit and loss account has been presented for the holding company as allowed by Section 230 of the Companies Act 1985.

The revaluation reserve resulted from a Directors' valuation in 1986 of shares in a subsidiary undertaking.

### 27 Capital commitments

- a Under the terms of the Option Agreement dated 29th November 1993 between the Group and Mr S G Lewis, set out in the circular to shareholders dated 30th November 1993, the Group may be required to purchase certain of Mr Lewis' shares in Armourvale Limited and Lapishaven Limited (which holds the Group's interest in The Echo Label Limited). Mr Lewis may exercise this put option at any time after 1st September 1998 whilst he is still employed by the Company, or within 30 days of the subsequent termination of his employment, for a consideration based upon the fair market value of the shares, and capped at £10 million.
- b Under the terms of the Shareholders' Agreement dated 29th November 1993 between the Group, Pony Canyon Entertainment International BV ('Pony Canyon') and others relating to the affairs of The Echo Label Limited ('Echo'), Chrysalis Group PLC 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 31st August 2000 no amounts had been drawn from this facility (1999: \$nil).
- c Under the terms of a sale and purchase agreement and shareholders' agreement both dated 13th June 1994 between the Group, William Burdett-Coutts, Assembly Film and Television Limited ('Assembly') and others whereby the Group acquired 50% of the share capital of Assembly, the Group has agreed to provide a working capital facility of up to £300,000 to Assembly on a recoupable basis. At 31st August 2000 £21,715 (1999: £21,500) of this facility had been drawn down. The agreement also contains put and call options enabling or requiring the Group 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.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 27 Capital commitments continued

- On 26th November 1998, the Group 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 26th November 1998, the terms of the call option for the remaining 25% of Assembly were altered to extend the exercise date from 1st September 1999 to 1st September 2002. The exercise date of the put option remains unchanged from 1st September 1999.
- d Under the terms of a sale and purchase agreement dated 12th August 1994 and a shareholders' agreement dated 3rd November 1994 between the Group, Nik Powell, Stephen Woolley, Scala Productions Limited ('Scala') and others, the Group acquired 49% of the share capital of Scala. The agreement also contains an option exercisable after 12th August 1999 for the Group to increase its holding to 50% by subscribing for further shares for cash at the fair market value at the time of exercise.
  - e Under the terms of a sale and purchase agreement and shareholders' agreement both dated 11th November 1994 between the Group and Geoffrey Deane, the Group acquired 50% of the share capital of Lucky Dog Limited ('Lucky Dog'). The agreement also contains put and call options exercisable after 31st August 1998 enabling or requiring the Group to acquire the remaining 50% of the share capital for a consideration payable in cash under a formula based on pre-tax profits of Lucky Dog and subject to a cap of £4 million.
  - f On 30th January 1998 the Group acquired 100% of the issued share capital of R Limited, which owned the 50% of Cactus TV Limited ('Cactus') not already owned by the Group, for an initial consideration of £500,000 which included an amount on account of further deferred consideration payable dependent upon the results of Cactus over the three years ending 31st August 2001.
  - g Under the terms of a sale and purchase agreement dated 30th July 1998 between the Group and John Needleman, the Group acquired 75% of the share capital of Firecount Limited ('Firecount'), the parent company of Ramboro Books PLC ('Ramboro'), for a consideration of £1.65 million payable in secured loan stock in Chrysalis Holdings Limited maturing in 2011. Firecount has since changed its name to Chrysalis Books Limited. The agreement also contains put and call options exercisable after 31st August 2001 enabling or requiring the Group to acquire the remaining 25% of the share capital for a consideration payable in cash under a formula based on pre-tax profits of Chrysalis Books Limited. By deed of amendment dated 4th October 2000, the Group agreed to acquire the outstanding 25% of the share capital of Chrysalis Books Limited from John Needleman for a consideration of £5.55 million payable in secured loan stock in Chrysalis Holdings Limited maturing in 2010. This amount has been fully provided in the financial statements for the year ended 31st August 2000.
  - h Under the terms of the acquisition agreement dated 8th April 1999 in respect of the acquisition by CVI Media Group BV ('CVI') of D&D Producties BV, CVI could be required to pay further deferred consideration to the previous owners of up to NLG5.0 million (£1.6 million) in cash if the profits of the merged ID&Dtv arising from the production of television programmes for the two years ending 31st August 2001 exceed a predetermined target.
  - i Under the terms of the acquisition agreement dated 23rd January 1999 between Chrysalis Group PLC and Peter Kirsten whereby the Group acquired 100% of the share capital of David Actundsiebzigte Beteiligungs und Verwaltungsgesellschaft mbH ('Global Music'), the Group agreed to pay deferred consideration to Peter Kirsten in cash within 10 days of the completion of the annual accounts of Global Music for each of the four yearly periods ended or ending 31st August 1999, 2000, 2001 & 2002 based on the pre-tax profits of Global Music. The total of all such sums paid cannot exceed DM0.6 million (£0.2 million).
  - j There were no significant capital expenditure commitments at 31st August 2000 (1999: £nil).

### 28 Related party transactions

- a Sir George Martin has an interest in certain subsidiary undertakings' agreements with Airborn Productions Limited and Airborn Productions (Overseas) Limited by virtue of his share interests in those companies. The producer royalties payable to these companies in respect of the year were £25,809 (1999: £33,089). The amount accrued (but not due) at the balance sheet date was £13,376 (1999: £11,153).
- b During the year a quasi loan was made to C N Wright. The highest amount outstanding during the year was £42,730. The amount outstanding at 31st August 2000 was £nil (1999: £nil).
- c S G Lewis has an interest in a subsidiary company The Echo Label Limited by virtue of his interest in the share capital of Armourvale Limited ('Armourvale') and Lapishaven Limited ('Lapishaven'), two companies which together hold 75% of the share capital of The Echo Label Limited. Mr Lewis' interest in The Echo Label Limited amounts to 18.75% of its capital. Certain put and call option agreements exist between the Group and Mr Lewis in respect of his shares in Armourvale and Lapishaven other than his B shares in Lapishaven, as referred to in note 27a above.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 28 Related party transactions continued

- d C J C Levison has, since 1st August 1994, been a consultant with one of the Group's solicitors, Harbottle & Lewis, and as such consultant Mr Levison received fees from Harbottle & Lewis through his company, Clarion Media Europe Limited. All fees paid to Harbottle & Lewis by the Group are on ordinary commercial terms incurred in the normal course of the Group's business. Neither Mr Levison nor Clarion Media Europe Limited participate in any fees or profits of Harbottle & Lewis relating to the Group, or any of its subsidiary or joint venture companies.
- e From 1st September 1996 the services of C N Wright provided to Loftus Road plc (a company in which Mr Wright has a beneficial interest of 30% of the issued share capital and of which he, Mr Butterfield and Mr Levison are all non-executive directors), were being reimbursed to Chrysalis Group PLC at a rate of £8,000 per month. These arrangements terminated on 28th September 1999. The amount due from Loftus Road plc at 31st August 2000 was £nil (1999: £56,755). None of these directors receive any remuneration from Loftus Road plc.
- f At 31st August 2000, the Group was owed a total of £1,769,000 by joint venture and associated companies (1999: £1,527,000) and owed £275,000 to joint venture companies (1999: £34,000). Of this amount, £938,000 represented production advances to joint venture television companies (1999: £500,000) and £831,000 represented trading loans (1999: £1,027,000).
- g The Company announced on 8th February 2000 that it had subscribed for 65% of the ordinary share capital of Puremix Limited (formerly Ride the Tiger Limited) along with K Pringle and A Macpherson who were employees of the Group and were senior executives within the Group's Radio Division and as such were directors of certain of the Group's subsidiary companies within that division. They resigned their employment and their directorships of Group companies (other than Puremix Limited and its subsidiaries) on 29th February 2000.

There are no provisions for doubtful debts or amounts written off during the year in respect of any of the above transactions.

### 29 Contingent liabilities

- a The Company has given guarantees in respect of the bank and other borrowings of certain subsidiary undertakings, which amounted to £4,721,000 at 31st August 2000 (1999: £2,986,000).
- b The Directors have not been notified of any litigation which they consider will result in material liability to the Group, either individually or in aggregate.

### 30 Financial commitments

At 31st August 2000, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
<b>a The Group</b>				
Operating leases which expire:				
Within 1 year	<b>282</b>	326	<b>300</b>	319
Within 2 – 5 years	<b>719</b>	1,242	<b>541</b>	569
Over 5 years	<b>554</b>	423	–	–
	<b>1,555</b>	1,991	<b>841</b>	888
<b>b The Company</b>				
Operating leases which expire:				
Within 1 year	–	14	<b>16</b>	30
Within 2 – 5 years	<b>359</b>	359	–	5
Over 5 years	<b>63</b>	59	–	–
	<b>422</b>	432	<b>16</b>	35

Leases of land and buildings are subject to periodic rent reviews.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 31 Pension costs

The UK Group operates a pension scheme with a defined benefits section and a defined contributions section. The defined benefits section was closed to new entrants after 1st July 1994. The assets of the scheme are held under trust separately from the Company's assets, and are invested by external fund managers. Contributions to the defined benefits section of the scheme are determined by a qualified actuary on the basis of triennial valuations using the attained age method.

The assumptions which had the most significant effect on the results of the 1st September 1999 valuation were:

- investment returns would be 7.5% per annum
- salary increases would average 5.5% per annum

The pension charge for the year was £802,000 (1999: £658,000), after allowing for £478,000 (1999: £460,000) in respect of the amortisation of past service surpluses that are being recognised over the average remaining service lives of employees. The pension provision as at 31st August 2000 was £2,974,000 (1999: £3,176,000). At 31st August 2000, the outstanding pension contributions relating to the defined benefits section of the Scheme were £22,847 (1999: £78,721).

The most recent actuarial valuation, as at 1st September 1999, showed that the market value of the scheme's assets was £12,256,000 and the actuarial value of those assets represented 92% of the benefits that had accrued to members after allowing for expected future increases in earnings. The deficit which amounted to £1,100,000 is being funded by increased contributions by the Group.

### 32 The Chrysalis Employee Share Ownership Plan

The Chrysalis Employee Share Ownership Plan ("ESOP") was established on 25th August 1998 to acquire Chrysalis Group PLC shares to satisfy the requirements of certain employee share schemes. The ESOP is a discretionary trust managed by independent trustees. The costs of running the trust are borne by the Group and included in the profit and loss account. Purchases of shares by the ESOP are funded by a bank loan facility which is guaranteed by the Company. The assets and liabilities of the ESOP are recognised as assets and liabilities of the Company where the ESOP is holding shares that have not been awarded to specific employees. Where awards of shares are made to specific employees, the cost to the trust of acquiring those shares is charged to the profit and loss account. The ESOP has waived its right to dividends.

During the year ended 31st August 2000, the trust acquired 450,605 shares (1999: 375,000 shares). The cost of acquiring the shares was £1,085,189 (1999: £601,815) of which £85,189 (1999: £501,815) has been charged to the profit and loss account for the year ended 31st August 2000. Of the shares acquired during the year, 28,455 have been awarded to specific employees and 422,150 were acquired to provide a hedge against bonus arrangements for certain Directors and employees where the bonus payable is dependent on the growth in the Company's share price. At 31st August 2000 the trust held a total of 825,605 shares (0.49% of the issued share capital of the Company) which had a market value of £2,509,839 (1999: 375,000 shares held with market value of £628,125).

### 33 Post balance sheet events

- a On 15th September 2000 the Group announced that it had agreed to increase its shareholding in Rivals Europe Limited to 90.1% of the ordinary share capital, by acquiring a 65.1% stake from Rivals.com Inc. The Group agreed to pay US\$2.0 million in cash consideration for the acquisition together with the repayment to Rivals.com Inc of \$0.5 million in debts owed to it by Rivals Europe Limited. As part of the agreement, the Group also acquired a call option to buy Rivals.com Inc's remaining 9.9% interest in Rivals Europe Limited for a fixed price of US\$1.9 million by 31st December 2000.
- b On 4th October 2000 the Group agreed to acquire the outstanding 25% of the share capital of Chrysalis Books Limited for a consideration of £5.55 million payable in secured loan stock in Chrysalis Holdings Limited, maturing in 2010. This amount is fully provided for in the financial statements for the year ended 31st August 2000.



## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 34 Principal subsidiary, joint venture and associated companies

The principal subsidiary and joint venture companies of Chrysalis Group PLC at 31st August 2000 were as follows:

	Effective interest		Effective interest
<b>Holding Companies</b>		<b>Visual Entertainment</b>	
* Chrysalis Holdings Limited	100	*† Assembly Film and Television Limited (75%)	100
Chrysalis Investments Limited	100	* Bentley Productions Limited	100
* Chrysalis Music Holdings Inc (USA)	100	* Cactus TV Limited	100
* Chrysalis Music Investments Inc (USA)	100	* Chrysalis Productions Limited	100
*† Chrysalis Books Limited (75%)	100	Chrysalis Television Limited	100
Chrysalis Music Holdings GmbH (Germany)	100	Chrysalis Television International Limited	100
<b>Music</b>		* Chrysalis TV & Film (Overseas) Limited	100
* A.E. Copyrights Limited	75	* CVI Media Group BV (Holland)	50.1
* Air Chrysalis Scandinavia AB (Sweden)	100	* ID&D Products BV (Holland)	50.1
*+ A.I.R.-Edel Associates Limited	50	* ID&D Film and Video Productions BV (Holland)	50.1
*+ A.I.R.-Edel Recording Studios Limited	50	* ID&D Holdings BV (Holland)	50.1
*+ A.I.R.-Edel LLC (USA)	40	* ID&D International BV (Holland)	50.1
*+ Chrys-A-Lee Music Limited	50	* CVI Portugal Producao de Audiovisuais Lda (Portugal)	25.05
Chrysalis Copyrights Limited	100	* IMAN IDTV SL (Spain)	25.05
* Chrysalis Music Group Inc (USA)	100	*+ Lucky Dog Limited	50
* Chrysalis Music International BV (Holland)	100	Red Rooster Television Limited	100
* Chrysalis Music Limited	100	*+ Scala Productions Limited	49
* Chrysalis Music Publishing (Aust) Pty Limited (Australia)	100	*+ South Pacific Pictures Limited (New Zealand)	33.33
* Chrysalis Music Publishing GmbH (Germany)	100	* Tandem Television Limited	100
Chrysalis Songs Limited	100	* Watchmaker Productions Limited	100
* Chrysalis Standards Inc (USA)	100	<b>Radio</b>	
*+ Downboy Music Limited	50	* Chrysalis Radio Midlands Limited	100
* Global Chrysalis Music Group GmbH (Germany)	100	* Chrysalis Radio London Limited	100
* Global Chrysalis Music Publishing Company Limited	100	* Chrysalis Radio Limited	100
* Global Music Group Inc (USA)	100	* Galaxy Radio Manchester Limited	100
* Klynch Music Limited	100	* Galaxy Radio Wales and the West Limited	100
*+ Jerv Songs Limited	50	* Galaxy Radio Yorkshire Limited	100
* MAM (Music Publishing) Corporation (USA)	100	* Galaxy Radio Birmingham Limited	100
* Speaking Books Limited	100	* Galaxy Radio Northeast Limited	100
*† The Echo Label Limited (56.25%)	75	*• Telford Radio Limited	25
* The Hit Label Limited	100	*• Bridge FM Radio Limited	29.2
* The Hit Record Company Limited	100	*• BCR fm Limited	30
* Tin Pan Alley Music Limited	100	*• Knowsley Community Radio Limited	35
<b>Media Products</b>		<b>New Media</b>	
Lasgo Exports Limited	100	* Puremix Limited	65
*†# Ramboro Books PLC (75%)	100	*• DarkerthanBlue.com Limited	35
*†# Salamander Books Limited (56.25%)	100	*• Citipages Limited	30
*†# BT Batsford Limited (75%)	100	*•# Rivals Europe Limited	25
*†# BT Batsford Chess and Bridge Limited (75%)	100	<b>Others</b>	
*†# Quadrillion Publishing Limited (75%)	100	+ Air Studios (Lyndhurst) Limited	50
*†# Chrysalis Logistics Limited (56.25%)	100	* Chrysalis Retail Entertainment Limited	100

\* Denotes shares held by other subsidiaries.

+ Denotes joint venture company.

• Denotes associated company.

† Denotes company where effective interest is treated as being greater than the legal interest to comply with Financial Reporting Standard No.2.

Where different, the legal interest is shown in brackets immediately after the company's name.

# Denotes the Group's percentage interest in these companies increased after the year end.

All of the above companies are incorporated in Great Britain except where stated. All of the subsidiary companies are included in the consolidated financial statements. All interests are in ordinary share capital with the exceptions of Chrysalis Radio Midlands Limited, Chrysalis Radio London Limited and South Pacific Pictures Limited where redeemable preference shares are also held by the Group.

## NOTES TO THE ACCOUNTS

For the year ended 31st August 2000

### 34 Principal subsidiary, joint venture and associated companies continued

Particulars of the issued share capital of the principal joint venture companies are:

	Type of share	Issued share capital
A.I.R-Edel Associates Limited	Ordinary shares of 50p each and Ordinary 'A' shares of 50p	£10,000
A.I.R-Edel LLC (USA)	Partners Capital Contribution	US\$50,000
Air Studios (Lyndhurst) Limited	Ordinary 'A' and 'B' shares of £1 each and 'C' shares of 10p each	£6,000,050
Chrys-A-Lee Music Limited	Ordinary and non-voting shares of £1 each	£500
Downboy Music Limited	Ordinary 'A' and 'B' shares of £1 each	£1,000
Jerv Songs Limited	Ordinary 'A' and 'B' shares of £1 each	£1,000
Lucky Dog Limited	Ordinary 'A' and 'B' shares of 1p each	£100
Scala Productions Limited	Ordinary shares of £1 each	£1,000
South Pacific Pictures Limited (New Zealand)	Ordinary 'A' shares of NZ\$1 each	NZ\$2,500,000
	Redeemable preference shares of NZ\$1 each	NZ\$1,000,000
CVI Portugal Producao de Audiovisuais Lda (Portugal)	Ordinary shares of Esc1,000 each	Esc20,000,000
IMAN IDTA SL (Spain)	Ordinary shares of Euro1,000 each	Euro50,000

Particulars of the issued share capital of the principal associated companies are:

	Type of share	Issued share capital
Darkerthanblue.com Limited	'B' Ordinary shares of 1p each	£1,000
Citipages Limited	Ordinary shares of 10p each	£1,000
Rivals Europe Limited	'A' Ordinary shares of 1p each	£1,000
BCR fm Limited	Ordinary shares of £1 each	£300,000
Knowsley Community Radio Limited	Ordinary shares of £1 each	£100,000
Telford Radio Limited	Ordinary shares of £1 each	£141,000
Bridge FM Radio Limited	Ordinary shares of £1 each	£235,940

## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the thirty second Annual General Meeting of the Company will be held at **The London Kensington Hilton, 179/199 Holland Park Avenue, London W11 4UL at 11.00 am** on Friday, 2nd February 2001 for the following purposes:

### Ordinary Business

- 1 To receive and adopt the annual accounts of the Company for the year ended 31st August 2000, together with the reports of the Directors and Auditors thereon ..... *Resolution 1*
- 2 To declare a final dividend of 0.55 pence per ordinary share ..... *Resolution 2*
- 3 To re-elect R N L Huntingford as a Director ..... *Resolution 3*
- 4 To re-elect S G Lewis as a Director ..... *Resolution 4*
- 5 To re-elect C J C Levison as a Director ..... *Resolution 5*
- 6 To elect D B Murrell as a Director ..... *Resolution 6*
- 7 To reappoint KPMG Audit Plc as auditors of the Company ..... *Resolution 7*
- 8 To authorise the Directors to agree the remuneration of the auditors ..... *Resolution 8*

### Special Business

To consider, and if thought fit, pass Resolutions 9 and 12 as Ordinary Resolutions and Resolutions 10 and 11 as Special Resolutions:

- 9 That the Directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £601,927 for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the date of the passing of this resolution or at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution, whichever first occurs, but the Company shall be entitled to make an offer or agreement which requires or might require relevant securities to be allotted after expiry of this authority and the Directors shall be entitled to allot relevant securities in pursuance of that offer or agreement as if the power conferred hereby had not expired. .... *Resolution 9*
- 10 That, subject to the passing of Resolution 9, the Directors be and are hereby generally empowered pursuant to Section 95 of the Act during the period from the date of the passing of this resolution until the conclusion of the next Annual General Meeting of the Company or 15 months after the date of the passing of this resolution whichever first occurs to allot equity securities as defined in Section 94(2) of the Act pursuant to the authority conferred by Resolution 9 as if Section 89(1) of the Act did not apply to such allotment, save that the Company shall be entitled before the expiry of this authority to make an offer or agreement which requires or might require such securities to be allotted after such expiry and the Directors shall be entitled to allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired, provided that this power shall be limited:
  - a to the allotment of equity securities where such securities have been offered (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company made in proportion (as nearly as may be) to their existing holdings of ordinary shares, but subject to such exclusions or other arrangements in connection with the offering as the Directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of any territory or the requirements of any recognised regulatory body or any Stock Exchange in any territory; and
  - b to the allotment (otherwise than pursuant to paragraph (a) above) of equity securities under this authority up to an aggregate nominal amount of £167,199 (equal to 5% of the nominal value of the issued ordinary share capital as at 14th December 2000). .... *Resolution 10*
- 11 That in accordance with Article 39 of its Articles of Association the Company be and is hereby granted general and unconditional authority, pursuant to Section 166 of the Act to make one or more market purchases (as defined in Section 163(3) of the Act) of its ordinary shares of 2p each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Board of Directors of the Company may from time to time determine, provided that:
  - i this authority shall expire at the conclusion of the next Annual General Meeting of the Company or within 15 months from the date of the passing of this resolution, whichever first occurs;
  - ii the maximum aggregate number of ordinary shares authorised to be purchased shall be limited to 16,719,953 (10% of the issued ordinary share capital, as at 14th December 2000);
  - iii the minimum price which may be paid for an ordinary share is 2p;

## NOTICE OF THE ANNUAL GENERAL MEETING

- iv this authority shall not permit the payment per share of more than 5% above the average of the middle market prices shown in the quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days prior to the purchase being made;
  - v the Company shall be entitled to enter into any contract for the purchase of its own ordinary shares which might be completed wholly or partly after the expiry of this authority, and shall be entitled to make a purchase of ordinary shares in pursuance of any such contract as if the power conferred hereby had not expired; and
  - vi save as expressed herein, this authority shall only be capable of variation, revocation or renewal by the Company in General Meeting.
- 
- Resolution 11
- 12 That the Chrysalis Sharesave Scheme (the "Scheme") as summarised in note h in the notes following this notice be hereby approved and adopted and the Directors be hereby authorised to do all acts and things necessary or expedient to carry the Scheme into effect.
- 
- Resolution 12
- 13 To transact any other ordinary business of an Annual General Meeting.

By Order of the Board

**C R Potterell ACIS**

Secretary

18th December 2000

Registered Office:  
The Chrysalis Building  
Bramley Road  
London W10 6SP

## NOTICE OF THE ANNUAL GENERAL MEETING

### Notes

- a At the Extraordinary General Meeting of the Company held on 14th April 2000 each issued and unissued ordinary share of 10p in the capital of the Company was sub-divided into five ordinary shares of 2p each in the capital of the Company with effect from 8.00 am on 17th April 2000. The Directors' recommended final dividend of 0.55p per ordinary share of 2p is equivalent to the final dividend declared at each of the last five Annual General Meetings of 2.75p per ordinary share of 10p.
- b Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A form of proxy is enclosed with this notice. Completion and return of the form of proxy does not preclude a shareholder from attending the meeting and voting in person. To be effective the form of proxy (and any power of attorney, or notarially certified copy thereof, under which it is executed) must be completed and lodged with Computershare Services PLC, PO Box 1075, Bristol, BS99 3FA not later than 48 hours before the meeting.
- c In accordance with Regulation 34 of the Uncertified Securities Regulations 1995, only those members entered on the register of members of the Company as at 11.00 am on 31st January 2001 shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the register of members after 11.00 am on 31st January 2001 shall be disregarded in determining the rights of any person to attend or vote at the meeting.
- d A statement of any transactions in the shares of the Company by Directors and their family interests and copies of Directors' service contracts are available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) and will be available for inspection at the place of the meeting for a period of 15 minutes prior to the meeting and during the meeting.

### e **Authority to allot shares**

At the Annual General Meeting held on 4th February 2000, the Directors were given authority to allot ordinary share capital of the Company up to an aggregate nominal amount of £773,818 (being the maximum amount permitted under institutional guidelines). That authority is due to elapse at the conclusion of this Annual General Meeting. The Directors are seeking to renew authority to allot ordinary shares up to an aggregate nominal amount which, if all of the ordinary shares under option were to be exercised, would be an amount equal to the Company's authorised share capital. The amount in respect of which authority is sought represents 18.0% of the Company's ordinary share capital in issue as at 14th December 2000 and is an amount within the maximum amount permitted under institutional guidelines. The proposed authority (Resolution 9) will expire on the conclusion of the next Annual General Meeting or 15 months after the date of approval, whichever first occurs. The Directors have no present intentions of utilising the authority.

If new ordinary shares are to be allotted under this authority and are to be paid for in cash, Section 89(1) of the Companies Act 1985 requires that those new ordinary shares be offered first to existing shareholders in proportion to the number of shares they each hold at that time.

There may be circumstances, however, when it is in the interests of the Company for the Directors to be able to allot some of the new ordinary shares for cash otherwise than to existing shareholders in such proportions. This cannot be done under the Companies Act 1985 unless the shareholders have waived their pre-emption rights. Resolution 10 seeks such a waiver, but only (a) in respect of new ordinary shares offered largely in proportion to existing holders of ordinary shares, subject to exclusions or arrangements deemed expedient by the Directors (for example, the Directors may decide not to offer new ordinary shares to existing holders in jurisdictions outside England and Wales where to make such an offer would or might constitute an offence in such jurisdictions) and (b) for new ordinary shares having a maximum nominal value of £167,199, which is equivalent to 5% of the Company's issued ordinary share capital as at 14th December 2000. The authority given by Resolution 10 will continue until the next Annual General Meeting or 15 months after the approval of the Resolution, whichever first occurs.

### f **Purchase of own shares**

The Company is seeking at the Annual General Meeting to renew the authority of the Directors given on 14th April 2000 to take advantage, if appropriate and subject to the constraints set out in Resolution 11, of stock market conditions to purchase its own shares. The Directors have no present intention of utilising the authority and will, in assessing whether to purchase the Company's own shares, take account of all relevant factors including the effect on earnings per share and assets per share and other benefits to long term shareholders.

- g As at 14th December 2000 there are in total 2,704,086 options outstanding to subscribe for shares of the Company which together represent 1.62% of the Company's issued ordinary share capital.

### h **Adoption of the Chrysalis Sharesave Scheme ("the Scheme")**

The Scheme is a savings-related share option scheme which has been designed for approval by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988.

## NOTICE OF THE ANNUAL GENERAL MEETING

### h **Adoption of the Chrysalis Sharesave Scheme ("the Scheme") continued**

#### *Eligibility*

In order to be eligible to participate in the Scheme an individual must:

- (i) be an employee or full time Director of the Company or a subsidiary of the Company which the Directors have resolved should participate (a "participating company") on the day the options are granted; and
- (ii) have been an employee or full time Director of a participating company for such period (not exceeding five years) as the Directors may determine.

An individual is a full time Director if he is obliged to devote not less than 25 hours per week to his duties with the company concerned.

The Board has a discretion to nominate employees who do not satisfy the above conditions to participate in the Scheme. Individuals may not be granted options under the Scheme if they have a material interest in a close company and are so rendered ineligible by virtue of paragraph 8 of Schedule 9 to ICTA.

#### *Grant of Options*

The Board may invite all eligible persons to apply for options. Invitations may only be issued in the following periods:

- (i) six weeks beginning with the date on which the Scheme is approved by the Inland Revenue; and thereafter
- (ii) six weeks beginning on the dealing day next following the date on which the Company announces its results for any period; or
- (iii) at any other time in exceptional circumstances.

No options may be granted more than ten years following the adoption of the Scheme. Options granted under the Scheme are personal to the option holder and, except on the death of the option holder, may not be transferred.

#### *Savings Contracts*

An eligible employee who applies for an option under the Scheme must also enter into an Inland Revenue approved savings contract.

Under this contract, the employee will agree to make monthly savings contributions of a fixed amount (currently not less than £5 and not more than £250) for 3, 5 or 7 years (the Board can choose to offer all or any one or combination of these contracts). Ordinary shares may only be acquired under the Scheme on exercise of the option using the amount actually saved (plus any bonus and interest payable on savings).

#### *Exercise Price*

The price payable for each ordinary share under an option shall be determined by the Board provided that it shall not be less than 80% of the average middle market prices shown in the quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days last preceding the date on which invitations to apply for such options are made or such other dealing day(s) as may be agreed with the Inland Revenue.

#### *Limit*

The number of ordinary shares which may be issued in any 10 year period under all employee share schemes adopted by the Company may not exceed 10% of the Company's issued share capital from time to time.

#### *Exercise of Options*

An option granted under the Scheme may not normally be exercised until the option holder has completed his savings contract and then not more than 6 months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the Company or business which employs the option holder is transferred out of the Group. If an option holder ceases employment for any other reason within three years of the grant date, his option will lapse. His option will also lapse if he ceases employment due to misconduct more than three years after the grant date.

Special provisions also allow early exercise in the event of take-over, reconstruction or winding-up of the Company.

Ordinary shares issued on the exercise of options will rank *pari passu* with existing ordinary shares in accordance with the rules of the Scheme.

#### *Variance of capital*

In the event of any increase or variation in the share capital of the Company, the Board may make such adjustments as they consider appropriate to the number of ordinary shares under option and the price at which they may be acquired. Adjustments to the terms of options granted under the Scheme must be approved by the Inland Revenue.

#### *Alterations*

The Board may at any time alter or add to all or any of the provisions of the Scheme in any respect, provided that:

- (i) no such amendment shall be made without the prior approval of the Inland Revenue; and
- (ii) no alteration or addition to the advantage of the participants shall be made to any of the provisions dealing with eligibility, individual and overall limits, entitlement for ordinary shares and the terms of ordinary shares and variations of capital without the prior approval of the Company in general meeting.

The provisions of paragraph (ii) above shall not apply to any minor alteration or addition to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for option holders or any participating company or member of the Group.

## DIRECTORS AND ADVISORS

### Board of Directors

#### **C N Wright BA**

Executive Chairman and Founder

#### **R N L Huntingford FCA**

Group Chief Executive

#### **N R A Butterfield FCA**

Group Finance Director

#### **Lisa J Gordon MA**

Chief Executive New Media Division

#### **S G Lewis**

Chief Executive Music Division

#### **P A Lassman**

Chief Executive Media Products Division

#### **M J Pilsworth MA**

Chief Executive Visual Entertainment Division

#### **P S Riley MBA**

Chief Executive Radio Division

#### **C J C Levison MA, LL.M**

Non-Executive Director/Deputy Chairman

#### **G Howard-Spink**

Non-Executive Director

#### **Sir George Martin CBE**

Non-Executive Director

#### **D B Murrell FCA**

Non-Executive Director

#### **C R Potterell ACIS**

Company Secretary

### Auditors

KPMG Audit Plc  
8 Salisbury Square  
London EC4Y 8BB

### Brokers and Corporate Finance Advisors

Dresdner Kleinwort Benson  
20 Fenchurch Street  
London EC3P 3DB

### Bankers

The Royal Bank of Scotland  
135 Bishopsgate  
London EC2M 3UR

### Corporate PR

Buchanan Communications  
107 Cheapside  
London  
EC2V 6DT

### Solicitors

Clifford Chance  
200 Aldersgate Street  
London EC1A 4JJ

### Harbottle & Lewis

Hanover House  
14 Hanover Square  
London W1R 0BE

### Registrars

Computershare Services plc  
Registrars Department  
PO Box 82  
The Pavilions  
Bridgewater Road  
Bristol BS99 7NH

### Property Advisors

Lambert Smith Hampton  
Regent Arcade House  
19-25 Argyll Street  
London W1V 1AA

### Bollingbrook Limited

246 Lavender Hill  
London SW11 1LJ

### Registered and Head Office

The Chrysalis Building  
Bramley Road  
London W10 6SP  
Telephone 020 7221 2213  
Facsimile 020 7221 6455  
Email: [enquiries@chrysalis.co.uk](mailto:enquiries@chrysalis.co.uk)  
Website: [www.chrysalis.com](http://www.chrysalis.com)

Company Registered in England and Wales  
No. 946978

**Chrysalis Group PLC**

The Chrysalis Building

Bramley Road

London W10 6SP

Telephone: 020 7221 2213

Facsimile: 020 7221 6455

Email: [enquiries@chrysalis.co.uk](mailto:enquiries@chrysalis.co.uk)

Website: [www.chrysalis.com](http://www.chrysalis.com)