Registered in England and Wales
No. 946978

Chrysalis Group PLC
Annual Report and Accounts 2006

+60%

increase in Chrysalis Music EBITA

In 2006, we have made substantial progress in strengthening our market-leading positions in both our radio and music divisions.

+64%

increase in Chrysalis Group EBITA

Radio

Music

+26%

like-for-like increase in Chrysalis Radio EBITA

No. 1

Heart is the most listened to commercial ILR brand*

No. 1

'UK Independent Music Publisher of the Year' 2005

* Q3 2006 Rajar survey

Chairman's Statement

Welcome to the Chrysalis Annual Report, which this year comprises a Business Review, including a detailed Review of Operations and a Financial Review, as well as the Financial Statements for the 2006 financial year.

Charles Levison
1941 – 2006
Charles served as a Non-Executive Director on the Chrysalis Board for 14 years and as Deputy Chairman for ten of those years. In this time, Charles played a major role in developing Chrysalis into the media company it is today. With over 30 years of experience in the music, television, video and radio businesses, Charles brought an invaluable amount of experience to the Board as well as a huge sense of enthusiasm, fun and passion for all things Chrysalis. He is sorely missed by everyone at Chrysalis.

In 2006, we have seen the benefits of focusing on our radio and music businesses coming through as planned. In what has been a challenging year for the media industry, both Chrysalis Radio and Chrysalis Music have delivered growth in profits and outperformed their peers. This is down to the strength of our management teams and our ability to capitalise on the market-leading positions that we enjoy.

The Chrysalis Group has reported a highly commendable set of results in what has been a tough year for all companies across the media sector. In spite of these adverse trading conditions, our results for the 2006 financial year are in line with the expectations we set 12 months ago and both businesses have outperformed their respective peers. Revenues from our continuing radio and music businesses for the financial year were marginally down at £131.9 million (2005: £133.6 million), while EBITA rose 64% to reach £10.8 million. Adjusted earnings per share are up 143% to 2.89p and as a result we are proposing to increase our dividend by 10% to 1.375p per share (2005: 1.25p per share).

2006 has also been a year where we have made substantial progress in delivering on our stated strategy by further strengthening our market-leading positions in both the music and radio markets and thereby enhancing the value of these unique assets. Our music publishing division has had a year of international success with chart hits from Gnarls Barkley, The Raconteurs, Feeder, Thom Yorke, The Yeah Yeah Yeahs, The Dixie Chicks and Will Young. Our UK music publishing company was 'UK Independent Music Publisher of the Year' in 2005 and again headed the league tables in Q2 2006. In addition, we have successfully remodelled our former recording arm, The Echo Label and, in conjunction with Warner Music's 14th Floor Records, have had considerable UK chart and airplay success with singer/songwriters Nerina Pallot and Ray LaMontagne. Lasgo Chrysalis also performed outstandingly in what remains a challenging environment for the entertainment products industry.

Chrysalis Radio has continued to outperform its peers in what has been a difficult radio advertising market. It is clear that our strategy of focusing on strong brands in major markets has driven much of this outperformance. In particular, our Heart stations have performed well and, once again Heart 106.2 is the No. 1 commercial radio station in the London marketplace and remains the UK's No. 1 commercial ILR (Independent Local Radio) brand*. Last year's acquisition of Heart 106 in the East Midlands is now fully integrated and LBC, our London speech station, reached cash flow breakeven in the 2006 financial year.

The past 12 months have seen a number of changes to the Chrysalis Board. In December 2005, Nigel Butterfield stepped down as Group Finance Director after 30 years of loyal service and in January 2006, Michael Connole was appointed to the Board as his successor.
In September 2006, Jeremy Lascelles, CEO of Chrysalis Music, also joined the Board. We have also recently appointed a new Non-Executive Director, Jorgen Larsen, who brings with him a wealth of experience from his days as Chairman and Chief Executive Officer of Universal Music Group International. On a sadder note, as I'm sure many of you already know, Charles Levison, Deputy Chairman of Chrysalis, died in July, and he is a great loss to us all.

Operationally, Chrysalis has had an encouraging start to the current financial year with the third quarter Rajar results confirming the strengths of our radio brands and continued positive news flow for the music publishing business. While market conditions, particularly in radio, are very challenging, we are confident that our businesses remain well positioned to outperform the markets in which they operate during the current financial year.

It remains for me to thank all of those whose tremendous hard work, commitment and passion to the Chrysalis cause has enabled us to outperform our peers and to produce a strong financial performance, in what has been a challenging year for all the business areas in which we operate.

Chris Wright, Chairman
29 November 2006

* Q3 2006 Rajar survey

Business Review
Review of Operations

Our strategy is to focus on business areas where as a well established, creatively-led, independent company we are able to outperform our industry peers. Chrysalis Group, in its new simplified form and with a wealth of extremely talented staff across all areas in which we operate, is now in a strong position to build long-term value for all shareholders.

Our operations

Chrysalis Group operates two divisions, Chrysalis Radio and Chrysalis Music. Chrysalis Radio operates three major UK radio brands: Heart, LBC and Galaxy. Chrysalis Music comprises our international music publishing operations, our 'incubator' record label (The Echo Label) and our wholesale distribution arm, Lasgo Chrysalis.

Our strategy

Our strategy is to build on the market-leading positions enjoyed by our radio and music divisions. Both businesses have competitive advantages that allow us to target organic growth above the industry average, whilst also being well placed to maximise the opportunities presented by digital technology and new distribution channels. Where appropriate, we will also look to grow the businesses through strategic alliances and acquisitions. We are a strong, creatively-led, independent company – with ambitious and proven management teams – and are in an excellent position to capitalise on the enormous opportunities inherent within the changing media marketplace. We believe the strategy of *strengthening the competitive positions* of these two unique businesses is optimal in the interest of creating long-term shareholder value.

We are, however, mindful that our businesses operate in dynamic and competitive markets that will continue to experience change and further consolidation over the coming years. We will therefore regularly monitor both the performance of our businesses against this strategy and their competitive positions with a view to ensuring that maximum value from these businesses is delivered to our shareholders.

10.8%

increase in audience at Heart 106 since rebrand

Our performance in 2006

Radio

Market conditions for all UK commercial radio operators have remained difficult throughout 2006. Chrysalis Radio has, however, outperformed its peers and delivered year-on-year revenue growth of 4.3% to reach £65.6 million (2005: £62.9 million). On a like-for-like basis, excluding Heart 106 in the East Midlands, revenues at Chrysalis Radio were flat at £61.6 million, an excellent performance in the context of a market which we believe to have been down in the region of 4% on the comparable period.

EBITA for Chrysalis Radio was £10.2 million (2005: £7.5 million). *On a like-for-like basis, excluding Heart* 106 in the East Midlands, EBITA improved by 25.8% to reach £9.2 million (2005: £7.3 million). This improvement in the underlying performance of the business can be attributed to LBC, our speech station, reaching cash flow and EBITDA breakeven in the financial year as well as the very tight control of overheads across the division.

Heart

Our Heart brand performed strongly in 2006. Heart was the UK's No. 1 commercial ILR brand throughout the period and our key London station, Heart 106.2, was the capital's most listened to commercial station in three out of the last five quarters. Like-for-like revenues from our Heart stations, excluding Heart 106 in the East Midlands, increased by 4.5%, with much of this year-on-year growth generated by the improved terms of trade that we were able to set with key media buying agencies at the beginning of 2006. Like-for-like growth in EBITA from the Heart brand, excluding Heart 106 in the East Midlands, was up by over 20% due to the increased revenues and tight control of overheads across the Heart Network.

The integration of Heart East Midlands, acquired in May 2005, is now complete and the financial results for 2006 show that the station performed broadly in line with the internal targets we set for the station 15 months ago, an excellent result given the deterioration of the radio advertising market over that period. The station was rebranded in the autumn of last year and, in the 12 months since the rebrand, we have seen audiences grow by 10.8%. We are also seeing the benefits of combining Heart 106 with our national sales offering and have seen an encouraging uplift in yields and brandcount at the station.

LBC

LBC saw revenues increase by 10.3% in the 2006 financial year. This improvement was driven by better volumes, improved pricing and an increase in sponsorship and promotion activity. *In addition*, the new management team have focused on rationalising overheads and this has meant that LBC was cash flow breakeven in the year, and we expect to see the station move into profit in the 2007 financial year.

It was also an exciting year operationally for the LBC stations, with Nick Ferrari winning the 'Best Breakfast Show' Gold Sony Award in May and also the 'Presenter of the Year Award' in the Arqiva Commercial Radio Awards in June. For LBC 97.3, the Q3 2006 Rajar survey showed an 11.8% increase in listening hours over the past 12 months and importantly also highlighted that our FM station has further improved its audience profile, with 73% of its listeners now ABC1s versus 67% in Q3 2005.

Galaxy

While Galaxy remains the No. 1 young adult network in the UK with over 2.5 million listeners every week, consistent with the comments made at the time of the interim results in May, our Galaxy network of stations (targeting the 15-34 year old demographic) continued to experience difficult trading conditions in the second half. Audiences across the Galaxy network declined by 4% in 2006 and the advertising market for the 15-34

10.3%

increase in revenues at LBC

demographic continues to be challenging as advertisers experiment with new ways of reaching the youth market. These two factors have impacted revenues for the Galaxy brand, which consequently fell by 15.9% in the period.

We are continuing to examine ways of leveraging our loyal listener base other than through our traditional radio model. In particular, we are looking at increasing the number of platforms on which Galaxy is available, enhancing the interactivity of our websites and extending the brand into related lifestyle offerings. This broadening of the Galaxy offering will in turn deliver a more compelling solution for advertisers targeting this hard to reach demographic.

Digital

We recognise that over the medium term, it is likely that there will be a shift in the traditional revenue model of the radio industry and that radio businesses like ours will have to reduce their reliance on airtime revenue and develop new revenue streams. In response to this, we established a Digital Platforms team earlier this year, led by one of our most experienced managers, to look at how we can extend our radio brands in the digital world in order to best serve our target community of over 6 million weekly listeners. The team is assessing the platforms on which our stations should be available, examining our radio stations' internet offerings, and exploring brand extension opportunities in areas such as dating and travel.

The radio industry's investment in Digital Audio Broadcasting (DAB) is beginning to deliver a level of critical mass, with 3.5 million DAB radios now sold in the UK, and with forecasts for this figure to rise to almost 5 million by the end of 2006 and to 7 million by the end of 2007. Our own investment, consisting of transmission costs, programming costs and our share of industry marketing expenditure, has been maintained at an annual cost of £2.8 million (2005: £2.9 million).

Music

In 2006, we took the decision to downsize The Echo Label and, as a result, revenues at Chrysalis Music declined year-on-year to £67.9 million (2005: £73.5 million). Profitability, however, improved considerably and the division delivered a 60% improvement in EBITA in the 2006 financial year to reach £5.6 million (2005: £3.5 million). This increase is due to a 21.7% increase in EBITA from Lasgo Chrysalis and the elimination of losses from The Echo Label, following its restructuring.

Music Publishing

Net Publisher's Share (NPS) from our music publishing operations grew by 5.2% in 2006 to reach £11.3 million (2005: £10.7 million), against an industry for which we believe revenues were close to flat. The second half of 2006 saw a significant amount of international chart success for a number of writers signed to Chrysalis Music Publishing – including hits from artists such as Gnarls Barkley, The Dixie Chicks, Mariah Carey, Christina Aguilera, Thom Yorke and Will Young. This level of international success is testament to the sustained investment in A&R (artist and repertoire) that we have made over recent years, and gives us a substantial level of visibility into 2007 and beyond. In particular, it is important to note that the majority of the royalty receipts from our success in 2006 will flow through in 2007. This timing effect and an increase in investment in new signings that we made in 2006, which under our prudent accounting policy we expense in the income statement, meant that EBITA for our music publishing division was 12.6% down on the prior year.

The profile of our earnings continues to be drawn from right across our catalogue, with the artists OutKast, Paul Anka (co-writer of the famous song My Way), Blondie, David Bowie, Johnta Austin and Velvet Revolver all appearing in the top 10 NPS earners in 2006. For a number of years now, we have seen our mechanical income (from the sale of CDs and other physical product) gradually decline as a percentage of total NPS,

9

weeks at No. 1 for Gnarls Barkley's 'Crazy'

500K

Feeder 'The Singles' albums shipped

but this continues to be more than compensated for by growth in the higher margin areas such as performance income (principally radio and TV airplay and live performances) and synchronisation income (the use of music in film and TV, video games and in advertisements). Consequently, in 2006, less than 43% of our NPS was represented by mechanical royalty streams, down from 53% five years ago.

Lasgo Chrysalis

Lasgo Chrysalis, our entertainment products distribution business, has maintained the momentum from prior years with increased margins and profits. This performance was achieved in a very challenging market for distribution businesses where there continues to be pressure on margins from music and DVD retailers who themselves are suffering from both a depressed high street market and from the growth in the volume of product sold via internet retailers. Despite these pressures, Lasgo Chrysalis has improved its profitability, due to its reputation for superior customer service and the management team's ability to evolve the business model in order to offset much of the deflationary pressure in their marketplace. As such, Lasgo Chrysalis has also expanded its client base better to reflect consumer buying habits, and now acts as a distributor to a number of the well known internet retailers. Sales to internet retailers are now 12% of total sales.

The Echo Label

Following a disappointing performance from The Echo Label in 2005 and the recognition that it is increasingly difficult, in the current climate, for a small independent recording label to compete with the marketing muscle of the majors, we took the decision to restructure our music recording activities at the beginning of the 2006 financial year. The Echo Label now acts as an independent 'incubator' label making records for developing writer-artists, all of whom are signed to our music publishing business. We have also established relationships with a number of the major recorded music groups to allow for artists to be 'upstreamed' and developed further (at the major's cost) in return for an ongoing participation, as well as the flow-through revenue benefit to Chrysalis Music Publishing. To this end, deals were put in place with 14th Floor Records, through Warner Music, for singer/songwriters Nerina Pallot and Ray LaMontagne, both of whom are signed to our publishing company. Feeder's 'Greatest Hits' album was released in May in conjunction with EMI, and has now shipped almost 500,000 copies and reached platinum status.

As a result of these changes, The Echo Label was able to report a modest profit in 2006 against a loss of over £2.0 million in the prior year.

Air Studios (Lyndhurst)

As stated at the time of our interim results announcement, we disposed of our 50% interest in Air Studios (Lyndhurst) Limited in February 2006 which resulted in a modest profit on disposal of less than £0.1 million in the year, having written our investment down for impairment in 2005.

Current year trading outlook

Operationally, Chrysalis has had an encouraging start to the current financial year with the third quarter Rajar results confirming the strengths of our radio brands and continued positive news flow for the music publishing business.

At Chrysalis Radio, the Q3 2006 Rajar survey showed that the key Heart brand remained the UK's most listened to independent local radio brand, with over three million listeners. In addition, we have further consolidated our market-leading position in the key London market, with Heart once again the most listened to commercial station. The brand will be further supported by the new 'feelgood' TV/multimedia advertising campaign launched recently across the UK. LBC, our London speech station, also delivered good audience figures, giving us confidence that the station will meet its target of moving into profit in the current financial year.

As widely reported, the broadcast advertising market has, however, remained particularly challenging through the summer months, with no sign of any recovery into the autumn. As a consequence, Chrysalis Radio has seen revenues decline by 12% for September and October, albeit against two of the strongest months of the prior year. We believe this performance is likely to be in line with the overall radio market. In spite of this weaker than expected start to the year, our recent excellent Rajar results, coupled with easier comparables going forward, give us confidence that we can deliver modest revenue growth for the remainder of our 2007 financial year as we exploit the strength of the Heart brand and its dominant position in the London and Midlands markets. This gives rise to a flat outlook for the full year.

Chrysalis Music's publishing operations have had an excellent start to the current financial year, with a number of high profile new signings, including Damon Albarn (Blur and Gorillaz), Cee-Lo Green (Gnarls Barkley), and Soul Mekanik (co-writers for Robbie Williams). New releases in the current financial year include the album 'Idlewild' from OutKast, and new albums from Ray LaMontagne, 'Till the Sun Turns Black', Damon Albarn's 'The Good, the Bad and the Queen' and Robbie Williams' 'Rudebox'. In addition, much of the financial gain from the international chart success of the second half of 2006 will flow through in 2007, giving excellent visibility in both NPS and profits for our music publishing business. Lasgo Chrysalis continues to experience volatile trading conditions but, with ongoing tight control of overheads and diversification of its customer base, we are confident that it will be able to meet the Board's expectations.

In spite of the challenging conditions in the radio advertising market, we are confident that our radio and music businesses remain well placed to continue outperforming their respective markets in the current financial year.

Business Review

Chrysalis Radio

We aim to be the most exciting and successful of the UK's big three radio groups by exploiting our brand-led portfolio of high profit potential, major market stations across all relevant media platforms.

UK Commercial Radio Market

	Total hours (000s)
GCAP	152,978
EMAP	109,614
Chrysalis Radio Sales*	**82,144**
Chrysalis	**52,909**
GMG	29,235
Virgin	16,996

**Includes hours sold on behalf of GMG*

Source: Q3 2006 Rajar survey

Our market position and strategy

Chrysalis Radio is the third largest operator in the commercial radio market in the UK, with 52.9 million listening hours. We operate three well established and highly regarded radio brands: Heart, LBC and Galaxy as well as a newer, digital-only brand, The Arrow.

Our strategy is to be the most exciting of the big three radio companies, delivering high quality programming for our listeners and to invest in our major market stations with high profit potential, which allow us to deliver attractive, core demographics to major advertisers. The success of this strategy is evident across our portfolio of brands: we are the clear commercial number one station in four out of six markets in which we operate: London, the East and West Midlands and Yorkshire. In addition in the competitive London marketplace we operate the number one sales house, including airtime sold on behalf of Guardian Media Group, with 24.5 million listening hours.

Our brands

Since Chrysalis entered the UK radio market in 1994 with the Heart format, brand strategy has been at the centre of the way we run our radio business. Unlike most of our competitors, we have an entirely consistent and cohesive brand approach for all our relevant stakeholders. As a consequence, we are able to offer our listeners high quality, well-researched, consistent and compelling content that is produced exclusively for the demographics that each brand targets, hence providing advertisers with a highly efficient and effective platform for their marketing and communication needs.

With the arrival of new digital platforms – online, DAB (Digital Audio Broadcast), DTV (Digital Television) and mobile – we are increasingly positioning our business as one based around well defined entertainment and lifestyle brands, available to fulfil consumers' needs across whichever platforms they choose to consume their media.

Heart

Heart is the largest ILR brand in the UK, with over three million listeners tuning in each week.

100.7 Heart fm was launched in the West Midlands in 1994 as the UK's first and largest regional 'adult contemporary' station aimed at 25-44 year olds, with a female bias. Heart 106.2 in London followed a year later. Both stations are market leaders in their broadcast areas. In May 2005, the brand was extended through the acquisition and successful rebranding of Century 106 in the East Midlands.

Heart is also available via DAB in the North West, Wales, the North East, Yorkshire and Central Scotland and nationally via Sky.

LBC

The two London-based LBC speech format stations were acquired in September 2002. LBC 97.3 FM is 'Real Life, Real London' – the 'home of entertaining conversation'. With a mix of news, information, showbiz and lifestyle programming, LBC delivers one of London's most loyal and unique commercial radio audiences.

LBC News 1152 AM is 'non-stop news for London' – a rolling news service with regular news, weather, sport, business news and travel.

LBC 97.3 FM is also available via DAB in Yorkshire, West Midlands, Northwest, North East and South Wales/Severn Estuary and nationally via Sky.

Galaxy

Galaxy is the UK's largest 'Young Adult' commercial radio brand, with over 2.5 million listeners.

The Galaxy Network consists of four stations broadcasting to Birmingham, Manchester, Yorkshire and the North-East. Galaxy is also available via DAB in London and Central Scotland and nationally via Sky. Galaxy offers 'Passion for music, Passion for life' to 15-34s with a playlist made up of dance and R'n'B music.

No. 1

Heart is the most listened to commercial station in London*

How we run our business

How we serve our listeners

Chrysalis Radio offers its listeners a compelling mix of music, news and entertainment. Our formats are mainstream and highly researched to super-serve the core demographics represented by each of our brands. The strength of our brands allows us to take listeners beyond traditional radio listening to our online offering, where we are able to provide them with a range of appropriate and dedicated services from dating to travel.

We actively monitor the performance of our offering through regular audience research programmes, both quantitative and qualitative. Our research is designed to capture anything from changes in music choice to how our competitors are performing. In addition, quarterly audience figures are published by Rajar. The data collected from all these research areas are key in ensuring that we are producing the output that our listeners want to hear, as well as helping us determine the appropriate marketing strategies for each station.

How we serve our advertisers

In the national market Chrysalis Radio Sales, which also sells airtime for Guardian Media Group's (GMG) Real and Smooth stations, is market leader in terms of total commercial listening hours in the London and Yorkshire markets. We also run the second largest sales operations in the Midlands, the North West and Scotland. Across the UK, including the stations we sell on behalf of GMG, we currently trade 21.9% of all ILR listening and we sell airtime for three out of five of the top ILR brands (Heart, Galaxy and Real). Size is important with advertisers and we offer a compelling alternative to the other major radio sales houses.

Our brands are well recognised by media buyers and we can offer them access to well defined and attractive demographics – whether it be women in their 30s for Heart, young clubbers for Galaxy or upmarket speech fans aged 35-54 at LBC. The quality of our programming is also important to media buyers and provides them with a highly effective environment for their on-air campaigns.

Advertisers increasingly want innovative and flexible solutions, and at Chrysalis Radio we are able to offer this. We can provide a 360° solution, mixing traditional airtime spot advertising, on air sponsorship and promotion activity with linked online activity or email/sms campaigns.

Our commitment to digital technology

The traditional analogue radio revenue model will continue to be challenged by alternative new media advertising models for media buyers and also by the way in which our listeners choose to consume their media given the greater choice of entertainment platforms now available.

To this end we have established a 'Digital Platforms' team. Their aim is to exploit all digital media opportunities available to Chrysalis Radio to promote a deeper and more interactive relationship with our listeners which in turn we will be able to offer to advertisers. Currently, digital revenues (this comprises airtime revenue from DAB listening, other new platform listening such as Sky, as well as revenue generated from sponsorship and promotion websites, SMS/email campaigns and premium podcasting) account for less than 5% of our total radio revenues.

DAB is an important component of this area. DAB not only allows us to have a digital presence in our current analogue markets, but also gives us a 'quasi national' brand offering with our stations in other major metropolitan markets. On DAB, Heart, Galaxy and

* Q3 2006 Rajar survey

No. 1

Galaxy is the most listened to commercial young adult brand*

No. 1

Heart is the most listened to ILR brand*

No. 1

Heart has the most listened to commercial breakfast show in London*

LBC have access to up to an additional 17 million potential listeners compared to their analogue broadcast remits. Our brands are well suited to this 'quasi national' rollout, as they are already well known with the key national media buyers and have a high brand awareness and listener following.

As a medium, radio is able to offer advertisers multi-platform solutions for marketing campaigns. Currently we can offer advertisers the possibility of running a campaign on-air and online as well as access to our exclusive email and SMS databases – thereby allowing advertisers to have a direct response mechanism to their on-air advertising. These areas are proving to be particularly successful for Sponsorship and Promotional activity.

New media is also allowing us to extend our offerings to our listeners. Our brands are well placed to extend their online presence and we are currently developing our websites to provide a more interactive space for listeners. Through affiliate partnerships we are able to offer a number of services such as dating, travel, ticketing and purchase of CDs/DVDs. In the future we believe we are in a perfect position to offer our listeners 'social networking' opportunities across the UK: for example, young mums for Heart, clubbers for Galaxy and aspirational, intelligent Londoners for LBC.

We have already had success with our 'premium podcasting' activities at LBC, and have now processed over 8,000 subscriptions. In addition, we have created bespoke podcasts to complement advertising campaigns for both Chanel and Honda. Our digital platforms team are also exploring further opportunities for radio within the mobile space, and we are currently trialling digital music downloading over DAB with UBC Media.

Growth prospects for Chrysalis Radio

A return to advertising growth is key to the growth prospects for Chrysalis Radio, but the new media environment is likely to offer opportunities for us to extend our brands and strengthen our offerings for listeners and advertisers and there is still some growth to come from our existing radio business.

Organically, we believe there is still potential to grow the audience and yield at a number of our existing stations. In particular, at Heart 106 in the East Midlands which we acquired in May 2005, we anticipate further audience growth and improvement in yields. LBC, our London speech station, has reached cash flow breakeven in the 2006 financial year, and we expect further audience and profit growth here. In addition, we believe that our London flagship station, Heart 106.2, is currently extremely well placed to grow its audience and consolidate its position as London's leading commercial radio station. Being a key station in the London market also puts us in an excellent position to strengthen our relationship with key media buyers, allowing us to put in place commitments on share of spend and longer-term deals at better yields than we have historically achieved.

Over the past 11 years, Chrysalis Radio has also acquired a number of radio licences, and we will continue to review acquisition opportunities which offer both a good strategic fit with our existing stations and can be made at a price that allows us to deliver an economic return to shareholders. Our focus will always be on adding stations that fit with our brand-led, major market strategy. In addition, we will look at partnerships and strategic alliances designed to maximise the performance of our radio brands.

We believe that we have the appropriate resources, both in terms of our management teams, as well as financial means, to ensure that we are best placed to maximise the growth from our existing assets, and to capitalise on any new opportunities that may arise.

* Q3 2006 Rajar survey

Business Review

Chrysalis Music

Our strategy is to fully exploit our position within the music industry as a leading international, independent music company in order to become the home of choice for writers and artists alike and to ensure that Lasgo Chrysalis, our wholesale distribution company, continues to outperform its peers.

Share of the UK independent music publishing market 2005

1	Chrysalis	15.5%
2	Bucks	8.4%
3	Notting Hill	7.4%
4	Kobalt	7.0%
5	Catalyst	6.2%

Source: Music Week

Our market position and strategy

Music Publishing

Chrysalis Music operates the No. 1 UK independent music publisher in the UK, and one of the leading independent music publishers in the US market. We also have publishing operations in Germany, Scandinavia, France, Italy and joint ventures in Spain and Benelux. In addition, we operate 'The Echo Label', which now primarily acts as an 'incubator' label for new artists signed to our publishing division.

The business of Music Publishing, which owns, represents and exploits the copyrights of a songwriter, has remained relatively protected from the impact of illegal downloading and piracy. In the five years up to the end of 2005, the global music publishing market showed revenue growth of 12% against a decline of 9% for the global recorded music market. The music publishing industry is able to counter many of the threats to the traditional recorded music model, due to the diverse nature of a music publisher's revenue mix, which includes performance income (such as radio and TV airplay and live performances), synchronisation income from the placement of songs in advertisements, films and TV as well as the traditional mechanical revenue stream generated by the physical sale of product. Music publishing is also able to capture revenues from the new areas of music consumption such as digital downloads, ringtones and video game soundtracks.

The Chrysalis music publishing catalogue is a unique asset. We operate one of the largest independent music publishing businesses worldwide and are committed to growing the value of the business through active investment in signing new talent (A&R) as well as exploitation of our rich back catalogue.

Our catalogue has grown over the past 40 years to comprise over 65,000 music publishing copyrights. The catalogue is hugely broad and deep, with 'evergreens' from singer/songwriters Blondie, Billy Idol, David Bowie and Jethro Tull, to current chart acts such as Gnarls Barkley, Feeder, OutKast, Nerina Pallot, David Gray, and many more in between such as Leftfield, Moloko, Portishead and the Lightning Seeds. In addition, other Chrysalis songwriters have had their material recorded by artists as diverse as Madonna, Mariah Carey, Eminem, Michael Jackson and Will Young.

Chrysalis Music Publishing has delivered reliable and consistent growth over the past dozen years. Our Net Publisher's Share (NPS) has grown by over 250% in the period from 1994-2006. Much of this growth can be attributed to the excellent management team we have had in place since 1994 and the active A&R strategy we have followed since that time. In addition, over the past five years we have invested in our overseas operations, and strengthened our international presence. The result of this can be seen in the 76% growth in NPS that we have witnessed in our US operations since 2001 and the 44% growth in NPS from our European companies.

The Echo Label

A new business model for The Echo Label was established in 2006. The Echo Label now acts as an independent 'incubator' label for developing writer-artists signed to Chrysalis Music Publishing. Relationships have been established with a number of the major recorded music groups to allow for artists we sign to be 'upstreamed' and developed further (using the major's resources) in return for an ongoing participation, as well as the flow-through revenue benefit to Chrysalis Music Publishing. To this end, deals were put in place with 14th Floor Records, through Warner Music, for singer/songwriters Nerina Pallot and Ray LaMontagne, both of whom are signed to our publishing company. In addition, Feeder's 'Greatest Hits' album was released in conjunction with EMI, shipping 500,000 copies since its release in May and reaching platinum status.

No. 1

independent Publisher of the Year in 2005

+5.2%

increase in Net Publisher's Share

Chrysalis Copyrights
Chrysalis Copyrights owns rights to interests in several vintage record catalogues including The Beatles, Tom Jones and Engelbert Humperdinck. The classic songs of both Tom Jones, who continues to record successful albums and Engelbert Humperdinck have maintained their popularity and their catalogue is in constant demand for synchronisation in commercials, film and TV programming. In addition, the Beatles catalogue, in which we control the rights to the producer's share, is as popular as ever, with the last compilation album of No. 1 hits selling over 25 million copies worldwide.

How we run our business

What we offer to songwriters/artists
As a leading independent music publisher, Chrysalis aims to provide artists with a compelling alternative to the publishing arm of one of the major international music companies. We offer all of our artists, in each of our territories, a flexible, creative, collaborative and supportive environment. The success of this offering is borne out by our reputation and our ability to sign major artists; of particular note are the recent new signings including Damon Albarn (Blur and Gorillaz), Cee-Lo Green (Gnarls Barkley), and Soul Mekanik (co-writers for Robbie Williams).

The Echo Label also provides Chrysalis with a point of difference. We are able to offer selected artists, signed to our publishing business, a dedicated and sympathetic environment in which to embark on their recording career. Relationships we have in place with some of the major recording companies also mean that there is the possibility of an artist being 'upstreamed' to a major who can back their recording career with substantial marketing and promotional campaigns.

Our investment in overseas offices allows our songwriters to have opportunities outside their own domestic markets, whether it be, for example, matching a songwriter with an artist or placing a song in an overseas commercial. It also allows us to sign talent in their domestic markets.

Synchronisation is another area where we believe we are able to differentiate ourselves. We have well established synchronisation teams in our key territories who are proactive in promoting our front and back catalogue to advertising agencies, games producers and TV and film production companies. Synchronisation can play a huge role in the career of an artist and an advertising campaign or film soundtrack can launch or refresh an artist's career – as was the case with the Dandy Warhols who went on to sell several hundred thousand albums after their song 'Bohemian Like You' was used in a number of Vodafone commercials.

We measure the success of our music publishing operations through the growth in NPS. NPS equates to gross margin, being the net income that a publisher retains once it has collected all the various revenue streams and paid writers their share. It is also a key metric for merger and acquisition activity in the industry, with catalogues often bought and sold on a multiple of NPS, given the acquirers ability to fold the NPS into an existing operation without the attendant overhead of the target. Hence, any growth in NPS that we deliver, in turn enhances the capital value of the Chrysalis music publishing catalogue. At Chrysalis, we aim to grow our NPS by 5-10% per annum, depending on the phasing of our release schedule. In the financial year 2006, our NPS grew by 5.2%, to reach £11.3 million.

+60%

growth in Chrysalis Music EBITA

Growth prospects for Chrysalis Music

Our commitment to investing in new artists is the greatest driver of future growth at Chrysalis Music. A successful new signing will not only go on to generate chart success, airplay revenues and synchronisation opportunities – but also builds the reputation of our publishing operations, enabling us to continue attracting high profile new signings.

Our stated NPS growth target is between 5-10% per annum. We have consistently achieved this target over the last eight years which is why we remain confident that this is achievable for the coming years. The leads and lags of the royalty collection process mean that a *music publisher* has excellent revenue visibility. The chart success we have had in the second half of 2006, our 2007 release schedule and our recent high profile new signings ensure that we have a good pipeline of visible income for the next 12-18 months.

In addition, the investment we have made across our UK and overseas music publishing operations in the past five years is now complete, and will allow us to target improved levels of profitability now that this phase of expansion is finished.

As an industry, music publishing is likely to be a significant beneficiary of the explosive growth in the ways in which music can be consumed in the digital world. Music is a key component of almost all new media consumer propositions – whether it be downloading sites, mobile content offerings, online internet service providers or the proliferation of 'social networking' sites such as MySpace, Bebo or YouTube. Not only do these sites provide interesting alternative means for A&R and marketing activity, but as these new methods of distributing music become mainstream, and as their owners increasingly observe copyright legislation, we anticipate that they will also become a major new source of revenue generation for the music industry.

+22%

growth in Lasgo Chrysalis EBITA in 2006

12%

of Lasgo Chrysalis's sales to online retailers

Lasgo Chrysalis

Our market position and strategy

Lasgo Chrysalis is a wholesale distribution company which has been part of the Chrysalis Group since 1985. It is one of the top five distributors of entertainment product in the UK, focusing on the distribution of CDs, DVDs and books.

Lasgo Chrysalis specialises in 'campaign', rather than chart product for both major music retailers and wholesalers worldwide. In the UK it counts HMV, Virgin, Fopp and Music Zone amongst its largest clients – as well as a number of the well known online retailers. Lasgo Chrysalis acts as a distributor on behalf of all the major music and film companies as well as book publishers. 50% of Lasgo Chrysalis's business is in the UK market and the balance is to a variety of retailers, wholesalers and chain stores in over 30 countries.

The business model of Lasgo Chrysalis is continuously evolving. The company's size, together with its management's extensive knowledge of the industry, allows it to move quickly and take advantage of the changes in both the nature of the product it distributes (from vinyl to cassette to CD) and the changes that have taken place in the way consumers now purchase their entertainment products (from high street specialist shops, to retail chains, to supermarkets, to online retailers).

How we run our business

Lasgo Chrysalis provides high quality, deal-based 'campaign' product. Its customer base is reliant on this service as it provides them with higher margin product for promotion-style in store offerings.

Lasgo Chrysalis has specialist sales teams for audio, DVD and books and is extremely proactive and customer-focused. Lasgo Chrysalis also prides itself in the speed and accuracy with which it executes all business transactions. It also has an excellent record of payment to suppliers which ensures Lasgo Chrysalis is able to source sought after and higher margin 'campaign' product.

This superior level of service offered by Lasgo Chrysalis has resulted in long established and solid relationships with all the key suppliers and customers in their market, which has in turn enabled Lasgo Chrysalis to continue growing their profits in spite of the ever-changing patterns of how consumers choose to purchase their entertainment products.

Growth prospects for Lasgo Chrysalis

The traditional retail model continues to be challenged by the advent of downloading and piracy, as well as deflation in the average selling price of entertainment products and this naturally impacts the outlook for Lasgo Chrysalis. Lasgo Chrysalis is also highly geared to consumer sentiment and high street spend. However, in spite of this backdrop, Lasgo Chrysalis has in five out of the past six years grown profits year-on-year. Although much of this is due to the excellent relationships that Lasgo Chrysalis has with its suppliers and its customers, it is also due to the way in which the management team has consistently been able to alter the mix of its products and its customer base to mitigate much of the deflationary pressure in their marketplace. As a result, Lasgo Chrysalis now has trading relationships with a number of the key online retailers, and this sector now accounts for 12% of total revenues. We anticipate that the Lasgo Chrysalis business model will continue to evolve and meet the demands of its marketplace.

Richard Huntingford, Chief Executive
29 November 2006

Business Review

Financial Review

The Chrysalis Group has reported a highly commendable set of results in what has been a tough year for all companies across the media sector.

132%

increase in normalised profit before tax

10%

increase in proposed dividend

Key financial highlights

	2006 (£m)	2005 (£m)
Group turnover	131.9	133.6
EBITA[1]	10.8	6.6
EBITA margin	8.2%	4.9%
Pre-tax profit	5.3	1.0
Normalised pre-tax profit[2]	5.8	2.5
Basic EPS	2.48p	(19.75)p
Adjusted EPS[3]	2.89p	1.19p
Proposed dividend per share	1.375p	1.25p

Note 1: EBITA comprises profit from continuing operations before interest, taxation, amortisation of intangible assets, impairment of investments and profits/(losses) on sales of investments.

Note 2: Normalised pre-tax profit comprises profit from continuing operations before taxation, amortisation of intangible assets, impairment of investments, profits/(losses) on sales of investment and gains/(losses) arising on interest rate hedging instruments.

Note 3: Adjusted earnings per share comprises basic earnings per share adjusted to exclude amortisation of intangible assets, impairment of investments, profits/(losses) on sales of investments, profits/(losses) from discontinued operations and gains/(losses) arising on interest rate hedging instruments.

Basis of preparation of the financial statements

The 2006 accounts are the Group's first consolidated financial statements to be prepared under International Financial Reporting Standards as adopted by the EU (Adopted IFRS). Previously, our financial statements were prepared under UK Generally Accepted Accounting Principles (UK GAAP). As a result of the introduction of IFRS, we have changed the way we account for certain items and we have introduced additional disclosures in certain areas, some of which are more technical. The parent company's financial statements continue to be prepared in accordance with UK GAAP.

Results and commentary

The above table and following commentary are based on the continuing music and radio businesses.

We run our businesses with a focus on EBITA, pre-tax profit and adjusted earnings per share. EBITA and adjusted earnings per share are stated before adjustments for amortisation of intangible assets, impairment provisions, profits/(losses) on sales of investments and gains/(losses) on interest rate hedging instruments. We believe they are indicators of the true underlying performance of our businesses and align profit with the cash generated. In addition to these key metrics, many independent investment analysts also focus in on our normalised pre-tax profits as a measure of reflecting management performance and actions.

2006 was a successful year for Chrysalis and we showed significant improvement in overall profitability and earnings per share over the prior year in our continuing music and radio businesses.

Group revenue

Group revenue from our continuing music and radio businesses for the year showed a marginal 1.3% decrease to £131.9 million (2005: £133.6 million). The revenue from our music business was £67.9 million compared to £73.5 million in 2005, due mainly to the downsizing of The Echo Label. In spite of a very challenging trading environment, our radio business increased revenue by 4.3% from £62.9 million in 2005 to £65.6 million. On a like-for-like basis (which excludes the revenue of Heart 106 in the East Midlands which we acquired in May 2005), our radio revenues were flat at £61.6 million.

2006 was a successful year for Chrysalis and we showed significant improvement in overall profitability and earnings per share over the prior year in our continuing music and radio businesses.

EBITA
Group EBITA has increased by 64% from £6.6 million in 2005 to £10.8 million. EBITA is stated after charging depreciation amounting to £2.4 million (2005: £2.2 million). Within this overall EBITA figure, the EBITA of our music business grew from £3.5 million in 2005 to £5.6 million in 2006, an increase of 61%, reflecting the 5.2% growth in the NPS of our music publishing business, the elimination of losses in our recorded music business and another solid trading performance from our distribution business Lasgo Chrysalis. Chrysalis Radio's EBITA has increased by £2.7 million or 36% to £10.2 million (2005: £7.5 million) as a result of higher revenues referred to previously and overhead savings achieved during the year, particularly within LBC where we streamlined the programming and management. LBC is now operating with a positive EBITA.

Net corporate expenses increased by £0.6 million in the year to £4.9 million, principally because of senior executive bonuses payable for the first time since 2003, and because the comparative 2005 figure included a credit of £0.4 million in respect of the release of a long-term incentive plan provision.

Amortisation
After charging amortisation of £1.6 million, an increase of £0.9 million because of a full year's charge in respect of the acquisition of Heart 106 in the East Midlands (formerly Century 106) in May 2005, the Group reported an operating profit of £9.2 million, an increase of 83% on the corresponding figure for 2005 of £5.1 million.

Net financing cost
Our net financing cost of £4.0 million is stated net of a £1.1 million gain in respect of the change in time value of certain interest rate hedging instruments which we are unable to hedge account under IAS 39 – Financial Instruments: Recognition and Measurement. Without this credit, our interest charge would have amounted to £5.1 million, an increase of £1.1 million on the corresponding figure for 2005 of £4.0 million. The increase of £1.1 million in our underlying interest charge reflects the increased securitisation loan and a full year's charge on the borrowing in respect of the May 2005 acquisition of Heart 106 in the East Midlands (formerly Century 106).

Profit before tax
The Group profit before tax of £5.3 million, which shows a substantial £4.3 million increase over the 2005 figure of £1.0 million, reflects the increased operating profits in our radio and music businesses referred to above. Normalised pre-tax profit, which comprises profit from continuing operations before taxation, amortisation of intangible assets, impairment of investments, profits/(losses) on sales of investments and gains/(losses) arising on interest rate hedging instruments, was £5.8 million (2005: £2.5 million).

Taxation
The tax charge for the year of £0.7 million (2005: £0.5 million) reflects an effective tax rate of 13%. However, when the gain on the fair value of our hedging interest rate instruments is adjusted for, the effective tax rate increases to 17%. This adjusted rate is lower than the UK corporation tax rate of 30% because of the utilisation of tax losses and capital allowances brought forward.

Discontinued operations
The loss from discontinued operations of £0.2 million related to the trading result and disposal of the Chrysalis Books division, sold in November 2005.

Earnings per share
Basic earnings per share for 2006 were 2.48p (2005: loss of 19.75p per share) and fully diluted earnings per share, which take into account the dilutive effect of share options were also 2.48p per share (2005: loss of 19.74p per share). Adjusted earnings per share, which adjust the basic earnings per share figure to exclude amortisation of intangible assets, impairment of investments, profits/(losses) on sales of investments, profits/(losses) from discontinued operations and gains/(losses) arising on interest rate hedging instruments, amounted to 2.89p per share (2005: 1.19p per share).

Dividend
In light of the improved financial performance of the Group and the improved cash flow, the Board is proposing that the level of dividend be increased by 10% to 1.375p per share. Subject to shareholder approval at the Company's Annual General Meeting on 5 February 2007, this will be payable on 10 April 2007 to shareholders registered at the close of business on 9 March 2007.

Balance sheet

Overall, the Group's net assets have not moved significantly over the year, increasing from £17.8 million in 2005 to £18.1 million.

Goodwill, which is unchanged at £39.1 million, is no longer amortised under IFRS but reviewed annually for impairment. Intangible assets of £34.1 million include acquired radio licences and music publishing catalogues. The reduction of £1.3 million reflects amortisation of £1.6 million but also includes an addition of £0.3 million for the digital radio licence acquired when we bought out our joint venture partners in Digital News Network in July 2006. Property, plant and equipment of £16.0 million show a reduction of £0.8 million over the year because of additions of £1.7 million, disposals of £0.1 million and depreciation of £2.4 million. Deferred tax assets of £2.2 million relate mainly to the deficit on our pension scheme which is discussed below.

Current assets of £62.4 million show a reduction of £4.1 million on the corresponding figure for 2005 of £66.5 million. The reduction arises because of the removal of the now disposed Chrysalis Books assets which were held for resale last year, offset by higher cash balances.

Current liabilities of £49.8 million show a reduction of £10.1 million on last year's figure of £59.9 million mainly due to the removal of the Chrysalis Books liabilities of £9.9 million shown in last year's balance sheet.

Long-term liabilities of £86.4 million reflect an increase in our securitisation loan and include the deficit of £7.3 million on the defined benefit section of our pension scheme, both of which are discussed in more detail below.

Net cash flow

The net cash from operating activities for the year was £4.9 million, an increase of £0.6 million on the comparative figure for 2005 of £4.3 million. In addition, our net interest payments amounted to £4.3 million, we invested £1.7 million in new fixed assets during the year (2005: £2.2 million) and paid out cash of £0.6 million in relation to the disposal of the Books division. We received £1.7 million in cash on the disposal of our 50% interest in Air Studios.

On the financing of the Group's businesses, we raised £11.8 million by increasing our music publishing securitisation facility in January 2006. The amount we have drawn down is now £61.1 million of the available £69 million (which is stated net of a reserve facility of £6 million). We repaid borrowings totalling £7.6 million during the year including £5.0 million of the £20 million loan we used to acquire Heart 106 in the East Midlands. We paid a dividend totalling £2.1 million to shareholders.

Overall our cash and cash equivalents amounted to £24.6 million at 31 August 2006, an increase of £7.7 million over the corresponding figure for 2005 of £16.9 million. However, the above cash balances include £5.6 million (2005: £6.0 million) which was held temporarily in collection accounts ahead of the payment of interest on securitisation borrowings on 10 September 2006.

Our gross borrowings at 31 August 2006 amounted to £82.0 million (2005: £77.3 million) and included the music publishing securitised loan of £58.8 million (stated net of unamortised issuance costs amounting to £2.3 million), the remaining £15 million term loan in respect of the acquisition Heart 106 in the East Midlands, a property mortgage of £5.5 million and £7.2 million of loan notes in respect of prior years acquisitions.

Our net debt at 31 August 2006 amounted to £57.3 million (2005: £60.4 million).

Corporate activity

We completed the disposal of Chrysalis Books on 23 November 2005 and incurred a loss of £0.2 million on the disposal, which is included in the result from discontinued operations. We had impaired the carrying value of our investment by nearly £27.0 million in 2005.

We also disposed of our investment in Air Studios (Lyndhurst) on 8 February 2006 realising a profit of less than £0.1 million on disposal. We had impaired the carrying value of this investment by £1.4 million in 2005.

Finally, we bought out our joint venture partners in Digital News Network in July 2006 by buying their combined shareholding of just less than 72% of the share capital for a total consideration of £0.2 million. The transaction has created intangible assets amounting to £0.3 million.

Pensions

The Group operates an occupational pension scheme called the Chrysalis Group PLC Retirement Benefits Scheme ('the scheme'). The scheme contains both final salary and money purchase sections and the cost of providing benefits is determined independently by actuaries.

In arriving at their valuations of the assets and liabilities of the scheme, actuaries use their professional judgement about uncertain future events including inter alia, the return on assets, discount rates, salary increases and inflation.

The actuarial valuations form the basis of:

- The annual service cost charged in the income statement;
- The expected long-term returns on the assets of the final salary section of the scheme;
- The interest on the liabilities of the final salary section which is included in the net finance charge in the income statement;
- Actuarial gains and losses charged or credited to reserves through the statement of recognised income and expense; and
- Actuarially calculated surpluses or deficits on the final salary section of the scheme which are included within the consolidated balance sheet.

Under IFRS, actuarial valuations of the scheme are required for accounting purposes each year. Actuarial valuations for funding purposes are required every three years. Details of both these valuations are set out in note 23 of the financial statements.

Financial instruments and capital structure

The main objective of our financial management policies is to use funds from a variety of sources, principally debt and equity, to maintain an appropriate level of gearing, to maintain flexibility, to provide capital to continue to invest in our businesses and to finance appropriate acquisitions if and when they arise. Our net debt:EBITDA multiple was 4.3x at 31 August 2006.

The Group's financial instruments comprise bank borrowings, a loan securitised on our music publishing catalogue, loan stock issued by a subsidiary company, commercial leasing, cash and liquid resources and other resources such as trade creditors and debtors that arise from our trading operations.

Our £75.0 million long-term securitised loan facility originally put in place in March 2001 and increased and extended in January 2006 continues to act as the cornerstone of our borrowing strategy. When we increased this loan facility in January 2006 from its original amount of £60 million, we negotiated a new three year moratorium on capital repayments until March 2009 and an extension of the maturity date of the loan to March 2021. The security for the loan is non-recourse to the remainder of the Group. The loan facility includes a £6 million reserve facility which means in practice we can draw down £69.0 million currently, although the borrowing base can increase if our NPS continues to grow.

In May 2005, we took out a three-year £20.0 million term loan from the Royal Bank of Scotland to part finance our £30.1 million acquisition of Century Radio 106. The loan, which bears interest at LIBOR plus 1.25%, now amounts to £15.0 million following a repayment of £5.0 million in January 2006. The next instalment of £5.0 million is repayable in May 2007, with a bullet repayment of £10 million in May 2008.

Other Group indebtedness at 31 August 2006 included a £5.5 million property mortgage, £7.2 million of subsidiary company loan notes issued as consideration for corporate acquisitions and various bank overdraft facilities utilised by individual UK and overseas subsidiaries for working capital purposes and for the Group's Employee Share Ownership Plan Trust (ESOP). Limited use is made of lease and hire purchase finance for fixed asset purchases such as studio and broadcasting equipment.

The Group's policy in respect of foreign currency and interest rate risks is, where appropriate, to use uncomplicated and cost effective instruments to provide a hedge against adverse interest rate and currency movements. As far as possible, we seek to maximise the use of internal hedges by matching foreign currency income with foreign currency payments. We use a series of forward foreign currency contracts to hedge the currency risks associated with our net music publishing income, to the extent that it is committed to the interest and capital repayments on our securitised borrowings.

We utilise interest rate collars and swaps to hedge interest rate movements for both the securitisation borrowings and for the £5.5 million property mortgage secured on our head office premises. These allow the interest rates we pay to move within the collar or are fixed at the swap rate. Substantially all of the remainder of the Group's borrowings are at floating rates.

The accounting policies relating to the translation of the results, assets and liabilities of overseas companies are set out in note 1 to the accounts. Financial assets and liabilities of overseas subsidiaries are held in the currency of the country in which they operate. 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.

Note 29 also sets out the disclosures we are required to make under IAS 32 and IAS 39 which deal with financial instruments. The detailed information in the note indicates that there was a technical fair value deficit of £1.2 million (2005: £2.5 million) in respect of our interest rate collars, as the floor rates under both arrangements are currently higher than the equivalent Royal Bank of Scotland base rate. The amount represents the net present value of the opportunity cost to the Group, over the whole of the outstanding term, of the difference between the current base rate and the floor rates within the interest rate collars, assuming that the current bank base rate remains static throughout the remaining terms of the underlying hedge agreement. The floor rates contained within the interest rate collar agreements put in place were therefore those obtained in the market at that time, since when base rates have fallen by 1.0% to 4.75%. This deficit was partly offset by a £0.6 million gain on our new interest rate swap which was put in place in January 2006 as part of the increased facility. In addition, the currency hedges discussed above, indicated an unrealised gain of £0.7 million.

The Group's liquidity policy ensures continuity of funding in the short term and medium term by the use of the cash deposits, undrawn bank and other facilities. The maturity profile of financial liabilities at 31 August 2006 is described in note 29 to the accounts.

Other than noted above in relation to financial instruments, the Directors are of the opinion that the fair values of the Group's financial assets and liabilities as at 31 August 2006 are equal to or greater than their book value. Details of the fair values of financial instruments are set out in note 29 to the accounts.

As permitted by IFRS 1, comparative figures for IAS 32 and IAS 39 have not been restated and these two standards were adopted in full on 1 September 2005. A £2.2 million hedging reserve was created to reflect the fair value of our derivative financial instruments at that date.

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.

Key risks and uncertainties

The following are the key risks and uncertainties to the Group's continuing businesses:

Downturn in the UK/Global economy

Chrysalis Radio and Lasgo Chrysalis are particularly susceptible to a downturn in the UK economy and the knock-on effect on consumer confidence and consequently high street activity and advertising spend.

The radio advertising market continues to be very challenging and there are few signs of a return to sustained growth in the short term. Whilst this is an external factor, and thus beyond our control, we regularly review our progress against forecasts, in order that we are able to appropriately adjust our businesses to any change in the economic backdrop. To this end, within Chrysalis Radio we have established the 'Digital Platforms' team to take advantage of opportunities available to us beyond our traditional analogue radio model whilst at Lasgo Chrysalis, the management team has historically always been able to evolve their business model to offset much of the deflationary pressure that exists within their market.

Migration of radio advertising to other digital/online platforms

Radio industry revenues are under threat from the emergence of new advertising media, such as internet advertising.

In order to ensure that media buyers continue to be aware of the unique benefits of radio advertising, the radio industry has recently strengthened its industry body, with the creation of the 'RadioCentre', a merged entity made up of the former RAB and CRCA bodies. As an industry we also work together closely with our industry research agency, RAJAR, to ensure that advertisers are receiving the information that they need to accurately plan their campaigns for clients.

In addition, our 'Digital Platforms' team are working on new media strategies for our brands designed to create new revenue streams for us. We are therefore able to offer advertising clients a unique combination for reaching a consumer (online, on-air and text), which we hope will grow our business.

Radio industry consolidation leaves Chrysalis Radio business marginalised

The past 18 months has seen a number of major radio players merge. Chrysalis Radio, with the benefit of its long-term airtime sales contract with GMG, retains its position as the number three commercial radio sales house in the UK and the No. 1 commercial ILR radio sales house in the London marketplace.

Furthermore, our major market, focused, brand-led portfolio ensures that we continue to offer relevant advertisers a highly efficient and cost-effective means of reaching their target markets.

We will continue to look at opportunities to expand our radio business but are aware that we operate in a dynamic marketplace.

Digital piracy of music becomes endemic

Both Chrysalis Music and Lasgo Chrysalis are exposed to the changes taking place in the way we choose to consume our music.

Although a music publisher is more protected than the recorded music or distribution element of the music industry – in the five calendar years up to the end of 2005, the global music publishing market showed revenue growth of 12% against a decline of 9% for the global recorded music market – Chrysalis Music would be directly impacted by any further falls in mechanical revenues. We work together as an industry to ensure that copyrights are enforced and protected in the new media environment – and to that end we are members in the UK of BPI, AIM and PRS/MCPS alliance, and equivalent societies internationally.

As Lasgo Chrysalis's business is predicated on physical sales of product, it too would be impacted if digital downloading and piracy leads to a significant reduction in the levels of physical product sales. This would be true across both the CD and DVD elements of its business. Lasgo Chrysalis is vigilant about the levels of stock it holds and endeavours to be one step ahead of the market in terms of its business mix.

Chrysalis loses key management or fails to attract or retain the talent required for its business

The ongoing policy of the Group's Remuneration Committee is to provide competitive remuneration packages to enable the Group to attract, retain and motivate executives of the calibre and experience required, whilst cost-effectively incentivising executives to deliver long-term shareholder value. In addition, there is a thorough succession planning review carried out on a regular basis. Throughout the organisation, Chrysalis aspires to be an 'employer of first choice', seeking to provide an environment where all employees – and particularly creative talent – can flourish.

Michael Connole, Group Finance Director
29 November 2006

Board of Directors and Senior Management

At 31 August 2006

1 2 5 4 6

1. CHRIS WRIGHT CBE, BA
Executive Chairman & Co-Founder – Age 62

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 Huey Lewis and the News. He sold the original record label to Thorn EMI in 1991 but kept the publishing interests and has led the Group's expansion into radio. He is also non-executive Chairman and major shareholder of London Wasps Holdings Limited and Portman Film and Television Limited. He was awarded a CBE for services to the music and entertainment industries in the Queen's birthday honours list in June 2005.

2. RICHARD HUNTINGFORD, FCA
Group Chief Executive
Appointed 1 December 2000 – Age 50

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 1 December, 2000.

3. MICHAEL CONNOLE, FCA
Group Finance Director
Joined 1997 – Age 42

Michael Connole joined Chrysalis in 1997 as Group Financial Controller and was appointed Group Finance Director on 1 January 2006. Prior to joining Chrysalis, Michael was Vice President of Finance for the European operations of Management Consulting Group plc (previously Proudfoot plc). Having qualified as a chartered accountant in Ireland in 1988, he spent seven years with KPMG in its London office.

4. PHIL RILEY, MBA
Chief Executive, Radio Division
Joined 1994 – Age 47

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 its first radio station, 100.7 Heart fm, in the Midlands and has played a leading role in the growth of Chrysalis Radio to its position as one of the country's leading radio groups.

5. JEREMY LASCELLES
Chief Executive, Music Division
Joined 1994 – Age 51

Jeremy Lascelles started his career in the music industry in the early 70s as a band/tour manager before joining Virgin Records in 1979 as an A&R Manager. He spent 13 years there in various A&R, Marketing and MD roles before joining Chrysalis as MD of Chrysalis Music in 1994. He has overseen the growth and expansion of the publishing company which has now become the leading UK independent music publisher. Appointed as Managing Director of The Echo Label in 1998, he was then promoted to Chief Executive of the Music Division in 2001. He was appointed to the Board of the Company on 1 September 2006. In 2003, he was elected to the council of the BPI, and also to the board of AIM where he was made vice-chairman in 2004.

3 10 9 8 7

6. PETER LASSMAN
Chief Executive, Lasgo Chrysalis
Appointed 1987 – Age 54

Founded Lasgo Exports (renamed Lasgo Chrysalis) 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 where he remains a significant shareholder. Peter continues to manage the highly respected Lasgo Chrysalis London-based global distribution business, encompassing audio, DVD and books.

7. GEOFF HOWARD-SPINK
Non-Executive Director
Appointed 1997 – Age 62

A founding partner of advertising agency Lowe Howard Spink in 1981. He is also Chairman of Immedia Broadcasting plc, Mice Group PLC and non-executive director of the New Star Investment Trust.

8. HELEN KEAYS
Non-Executive Director
Appointed 2004 – Age 42

Previously a UK board director of Vodafone, she held a variety of senior marketing and customer management positions. Prior to joining Vodafone, she worked in both the retail and financial services sectors. Helen is a management consultant and also a non-executive director of The Britannia Building Society and Majestic Wine PLC. She is a Trustee of the Shakespeare Birthplace Trust.

9. DAVID MURRELL, FCA
Senior Independent Director
Appointed Non-Executive Director 2000 – Age 60

Joined KPMG's London office as a chartered accountant in 1968 and became a partner in 1981. He founded and was chairman or chief executive of KPMG's global media and entertainment practice from 1984 to 1999. He is now chairman, director or partner of several unlisted media, leisure and property businesses. He is also President elect of The Cinema and Television Benevolent Fund. David was appointed Senior Independent Director on 1 October 2003 and became Chairman of the Company's Audit Committee on that date.

10. CLIVE POTTERELL, ACIS
Company Secretary
Joined 1989 – Age 50

Qualified as Chartered Secretary in 1982. He joined Chrysalis in 1989 as Assistant Company Secretary from Pleasurama Plc and was promoted to Company Secretary in 1991. He is responsible for all company secretarial and human resources functions within the Group.

Report of the Directors

The Directors have pleasure in submitting their Report and Accounts for the year ended 31 August 2006.

Principal activities

The principal businesses of the Company, its subsidiaries, joint ventures and associates during the year ended 31 August 2006 were:

Radio Division

Ownership and operation of commercial radio stations.

Music Division

Music publishing; the production and international marketing of records, CDs and music related videos; the ownership and exploitation of sound recording masters; the wholesale distribution of CDs, DVDs, videos, books, magazines and other music-related products.

Business Review

The Company is required to produce a fair review of the business of the Company, including a description of the principal risks and uncertainties facing the Company. This review is contained in the Business Review to be found on pages 4 to 25, incorporated in this report by reference.

The Business Review contains certain forward-looking statements which by their nature involve risk and uncertainty. The forward-looking statements are based on the knowledge and information available at the date of preparation and on what are believed to be reasonable judgements. A wide range of factors may cause the actual results to differ materially from those contained within, or implied by, these forward-looking statements. The forward-looking statements should not be construed as a profit forecast.

Details of corporate acquisitions and disposals are set out in notes 4, 5 and 13 to the financial statements.

Share capital

Details of the share capital of the Company and changes during the year covered by this Report are set out in note 26 to the financial statements.

Results and dividends

The results for the year are discussed in the Financial Review on pages 19 to 25 and are shown in detail in the consolidated income statement on page 32. The Directors recommend the payment of a final dividend of 1.375 pence per ordinary share (2005: final dividend 1.25 pence per ordinary share), payable on 10 April 2007.

Employee involvement/employment of disabled persons

Details of the involvement of employees and the Group's policy on the employment of disabled persons are set out in the Group's Corporate Social Responsibility report on pages 95 to 96.

Independent Non-Executive Directors

Geoff Howard-Spink was appointed to the Board on 29 January 1997. During the year under review, he was Chairman of the Company's Remuneration Committee and a member of the Audit, Nomination and Strategy and Investment Committees.

David Murrell was appointed to the Board on 26 July 2000. During the year under review, he was Chairman of the Company's Audit Committee and a member of the Remuneration, Nomination and Strategy and Investment Committees.

Helen Keays was appointed to the Board on 1 June 2004. During the year under review, she was a member of the Company's Audit, Remuneration, Nomination and Strategy and Investment Committees.

Jorgen Larsen was appointed to the Board on 1 November 2006. Jorgen (65) began his career in advertising and market research in his native Denmark and spent five years as a marketing manager for Procter & Gamble in Geneva. Following this, he moved into the music industry where he enjoyed a long and successful career spanning 34 years, including senior roles at CBS, Sony and MCA. In December 1998 he was appointed chairman and CEO of Universal Music International, the world's largest music company, where he was responsible for overseeing the activities of the Universal Music Group in 77 countries outside of North America. Following his retirement from Universal in June 2005, he became chairman of two technology companies based in California and Denmark.

Further particulars of the other Directors are set out on pages 26 to 27.

Directors

The names of the Directors of the Company as at 31 August 2006 and those subsequently appointed appear on page 101. Nigel Butterfield resigned from the Board on 31 December 2005. Michael Connole was appointed to the Board on 1 January 2006. Charles Levison died on 7 July 2006.

Jeremy Lascelles and Jorgen Larsen were appointed to the Board on 1 September and 1 November 2006 respectively.

In accordance with the Articles of Association, Richard Huntingford, Geoff Howard-Spink and David Murrell retire by rotation and Jeremy Lascelles and Jorgen Larsen seek election in accordance with Article 71. All of the retiring Directors, being eligible, offer themselves for election/re-election. Following their individual performance reviews, the Chairman confirms that both Geoff Howard-Spink and David Murrell's performance continues to be effective and they continue to demonstrate commitment to their role. The Board recommends Jorgen Larsen be elected at the Annual General Meeting as he brings a wealth of relevant experience to the Company and will make an immediate contribution to the Board.

Directors' interests

In accordance with the statutory requirement and the requirements of the UK Listing Authority, particulars of the interests of each Director at 31 August 2006 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 1 September 2005 or appointment	At 31 August 2006	At 28 November 2006
Chris Wright	42,556,125	43,377,556	43,377,556
Control of Voting rights			
Beneficial	1,052,795	392,680	392,680
Non-beneficial	520	520	520
Michael Connole (appointed 01/01/06)	6,956	6,956	6,956
Geoff Howard-Spink	–	–	–
Richard Huntingford	520,455	520,455	520,455
Helen Keays	–	–	–
Peter Lassman	3,411,500	3,411,500	3,411,500
David Murrell	90,000	114,000	114,000
Phil Riley	531,175	531,175	531,175

At 28 November 2006, all of the Executive Directors have a technical interest in 365,745 ordinary shares of 2 pence each registered in the name of Mourant & Co Trustees Limited as the trustees of the Chrysalis Employee Share Ownership Plan ('ESOP').

Details of Directors' interests in options and awards over ordinary shares of 2 pence each of the Company are shown on pages 89 and 91.

Substantial shareholdings

On 28 November 2006, 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 *	41,417,238	24.68
FMR Corp/Fidelity International Limited *	24,734,279	14.74

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

Charitable and political contributions

During the year, the Group contributed £15,246 (2005: £51,525) to charitable organisations and £nil (2005: £nil) to political parties.

Creditor payment policy

In the United Kingdom, the Group and the Company agree payment terms with individual suppliers when they enter 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 Group-wide standard or code which deals specifically with the payment of suppliers. The Company had 23 days purchases outstanding at 31 August 2006 based on the average daily amount invoiced by suppliers during the year ended 31 August 2006 (2005: 21 days).

Directors' indemnity

The Directors have the benefit of the indemnity provision contained in the Company's Articles of Association. This provision, which is a qualifying third-party indemnity provision as defined by Section 309B of the Companies Act 1985, was in force throughout the financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and officers' liability insurance in respect of itself and its Directors.

Disclosure of information to auditors

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

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 £643,288;

(ii) renew the authority of the Directors to allot shares other than pro rata to existing shareholders generally up to a maximum of 8,391,750 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) authorise the Company to make political contributions as defined in Section 347A of the Companies Act 1985; and

(v) approve the Remuneration Report.

Please also refer to the Notice of the Annual General Meeting on pages 97 to 100.

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
29 November 2006

The Chrysalis Building
Bramley Road
London W10 6SP

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Chrysalis Group PLC

We have audited the Group and parent company financial statements (the 'financial statements') of Chrysalis Group PLC for the year ended 31 August 2006 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 30.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover 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 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. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. 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 and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 August 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 August 2006;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

KPMG Audit Plc

29 November 2006

Consolidated income statement

For the year ended 31 August 2006

	Note	Year ended 31 August 2006 £'000	2005 £'000
Continuing operations			
Group revenue	2	131,904	133,649
Operating costs before depreciation, amortisation, profit on sale of investments and impairment of investments		(118,628)	(124,845)
Amortisation of intangible assets		(1,645)	(698)
Depreciation of property, plant and equipment		(2,430)	(2,178)
Profit on sale of investments		42	497
Impairment of investment		–	(1,375)
Group operating expenses		(122,661)	(128,599)
Group profit from operations	6	9,243	5,050
Finance income	7	1,558	1,774
Financing costs	8	(5,529)	(5,799)
Net financing cost		(3,971)	(4,025)
Share of losses of equity accounted investments	3	(3)	(75)
Profit before tax		5,269	950
Income tax expense	11	(699)	(513)
Profit after tax		4,570	437
Discontinued operations			
Loss from discontinued operations (net of tax)	4	(212)	(33,509)
Profit/(loss) after discontinued operations for the year		4,358	(33,072)
Attributable to:			
Equity holders of parent		4,149	(33,093)
Minority interests		209	21
Profit/(loss) after discontinued operations for the year		4,358	(33,072)
Earnings per share (pence per share)			
Basic earnings per share	30	2.48	(19.75)
Diluted earnings per share	30	2.48	(19.74)
Earnings per share from continuing operations			
Basic earnings per share	30	2.60	0.25
Diluted earnings per share	30	2.60	0.25
Dividend approved in the year		1.25	1.25
Dividend paid in the year (£'000)		2,101	2,101

The attached notes on pages 37 to 70 form part of these accounts.

Consolidated statement of recognised income and expense

For the year ended 31 August 2006

	Note	Year ended 31 August 2006 £'000	2005 £'000
Exchange differences on translation of foreign operations		54	(98)
Adjustment due to vesting of shares		–	124
Actuarial losses on defined benefit pension schemes		(1,250)	(1,128)
Effective portion of changes in fair value of cash flow hedges		1,202	–
Tax on income and expense recognised directly in equity		–	202
Income and expense recognised directly in equity		6	(900)
Profit for the year		4,358	(33,072)
Total recognised income and expense for the year	27	4,364	(33,972)
Effect of change in accounting policy:			
Impact of IAS 32 and IAS 39, net of tax on 1 September 2005 (with prior year not restated) in hedging reserve	27	(2,245)	
		2,119	
Attributable to:			
Equity holders of parent		4,159	(33,993)
Minority interests		205	21
Total recognised income and expense for the year		4,364	(33,972)

Consolidated balance sheet

As at 31 August 2006

	Note	2006 £'000	2005 £'000
Assets			
Goodwill	12	**39,115**	39,115
Other intangible assets	12	**34,071**	35,364
Property, plant and equipment	14	**16,004**	16,768
Investments accounted for using the equity method	15	**527**	457
Deferred tax assets	16	**2,218**	1,939
Total non-current assets		**91,935**	93,643
Inventories	17	**2,251**	1,926
Trade and other receivables	18	**35,419**	33,550
Derivative financial instruments	29	**71**	–
Cash and cash equivalents	19	**24,639**	16,923
Assets classified as held for sale	20	**–**	14,076
Total current assets		**62,380**	66,475
Total assets		**154,315**	160,118
Liabilities			
Interest-bearing loans and borrowings	21	**(69,343)**	(65,878)
Employee benefits	23	**(7,337)**	(6,669)
Provisions	24	**(811)**	(951)
Deferred tax liabilities	16	**(8,886)**	(8,886)
Total non-current liabilities		**(86,377)**	(82,384)
Interest-bearing loans and borrowings	21	**(12,628)**	(11,465)
Trade and other payables	22	**(36,981)**	(38,256)
Provisions	24	**(189)**	(282)
Liabilities classified as held for sale	25	**–**	(9,909)
Total current liabilities		**(49,798)**	(59,912)
Total liabilities		**(136,175)**	(142,296)
Net assets		**18,140**	17,822
Equity attributable to equity holders of parent			
Issued capital	26	**3,357**	3,357
Share premium	27	**62,269**	62,268
Other reserves	27	**(779)**	206
Retained earnings	27	**(46,933)**	(48,030)
		17,914	17,801
Minority interests		**226**	21
Total equity		**18,140**	17,822

The financial statements were approved by the Board on 29 November 2006 and were signed on its behalf by:

Rupert Huntingford Michael Connole

Rupert Huntingford Michael Connole

R N L Huntingford
Director

M D Connole
Director

The attached notes on pages 37 to 70 form part of these accounts.

Consolidated cash flow statement

For the year ended 31 August 2006

	Note	Year ended 31 August 2006 £'000	2005 £'000
Cash flows from operating activities			
Profit/(loss) for the year		4,358	(33,072)
Adjustments for:			
Depreciation and amortisation		4,076	2,876
Finance income		(863)	(1,183)
Financing costs		4,834	5,208
Share of losses of equity accounted investments		3	75
Impairment of investment		-	1,375
Gain on sale of investments		(42)	(497)
Gain on sale of property, plant and equipment		(74)	(60)
Equity-settled share-based payment expenses		299	133
Income tax expense		699	513
Discontinued operations		212	33,509
Non-cash items		(168)	–
		13,334	8,877
Decrease in trade and other receivables		9,582	664
Increase in inventories		(325)	(526)
Decrease in trade and other payables		(12,951)	(894)
Decrease in provisions and employee benefits		(233)	(840)
		9,407	7,281
Interest received		881	1,181
Interest paid		(5,099)	(4,807)
Interest element of finance lease payments		(59)	(57)
Dividends received from equity accounted investments		–	9
Income tax (paid)/received		(258)	656
		(4,535)	(3,018)
Net cash from operating activities		4,872	4,263
Cash flows from investing activities			
Acquisition of subsidiary undertakings, net of cash and cash equivalents	13	(166)	(30,082)
Acquisition of intangible assets		–	(119)
Acquisition of property, plant and equipment		(1,723)	(2,176)
Acquisition of equity accounted investments		(22)	–
Receipt of deferred consideration from prior year disposals		1,036	3,000
Expenses incurred from sale of subsidiary undertakings		(576)	–
Proceeds from the sales of intangible assets and property, plant and equipment		129	145
Proceeds from the sale of equity accounted investments		1,687	381
Loans advanced to equity accounted investments		(82)	(29)
Net cash from/(used in) investing activities		283	(28,880)
Cash flows from financing activities			
Proceeds from the issue of share capital		1	1
New borrowings		11,800	20,000
Repayment of borrowings		(7,573)	(3,150)
Capital element of finance lease payments		581	(535)
Equity dividends paid		(2,094)	(2,094)
Net cash from financing activities		2,715	14,222
Net increase/(decrease) in cash and cash equivalents		7,870	(10,395)
Cash and cash equivalents at start of the year		16,923	32,858
Bank overdrafts at 1 September		–	(4,993)
Effects of exchange rate changes on cash and cash equivalents		(154)	17
Cash and cash equivalents at end of year		24,639	17,487

Consolidated cash flow statement continued

For the year ended 31 August 2006

Cash flows from discontinued operations were as follows:

	Note	Year ended 31 August 2006 £'000	2005 £'000
Net cash (decrease)/increase from operating activities		(535)	404
Net cash used in investing activities		–	(336)
Net cash (used in)/from financing activities		(29)	2
Net (decrease)/increase in cash and cash equivalents		(564)	70
Cash and cash equivalents at 1 September		564	494
Cash and cash equivalents at end of year in discontinued operations		–	564
Cash and cash equivalents	19	24,639	16,923
Cash held within assets classified as held for sale		–	564
		24,639	17,487

Notes to the consolidated accounts

For the year ended 31 August 2006

1 Accounting policies

Basis of presentation

The Group financial statements consolidate those of Chrysalis Group PLC and its subsidiaries (together referred to as the 'Group') and the Group's interest in associates and jointly controlled entities.

As required by EU law (IAS Regulation EC 1606/2002) the Group's accounts have been prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standard Board (IASB), as adopted by the EU ('Adopted IFRS'). These are the Group's first consolidated financial statements prepared under IFRS and IFRS 1 (First-time adoption of International Financial Reporting Standards) has been applied.

The accounts are principally prepared on the historical cost basis except the following assets and liabilities are stated at their fair value: derivative financial instruments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

IFRS 1 sets out the procedures that the Group must follow when IFRS is adopted for the first time as the basis for preparing Group consolidated financial statements. It sets out a number of exemptions that are available on first-time adoption to assist companies in the transition to reporting under IFRS. The Group has taken the following decisions on these exemptions:

a) Business combinations: The Group has taken the exemption from restating business combinations occurring before the date of transition, 1 September 2004.

b) Share-based payments: The Group has applied the recognition and measurement requirements of IFRS 2 only to equity-settled share options and awards granted after 7 November 2005 that had not yet vested as at 1 January 2005. The Group has applied IFRS 2 only to cash-settled share options and awards not settled before 1 January 2005.

c) Financial instruments: The Group has taken the exemption from applying IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) to the comparative information to be presented in the Group's first IFRS financial statements and has adopted IAS 32 and IAS 39 with effect from 1 September 2005. As such, the measurement, recognition and presentation requirements previously applied to financial instruments under UK GAAP have been retained in preparing comparative information.

d) Fair value or revaluation as deemed cost: The Group has elected for all items to take their cost or revalued amount as shown previously under UK GAAP as their deemed cost under Adopted IFRS.

e) Cumulative translation differences: The Group has taken the option to set the cumulative level of translation differences relating to foreign operations held within reserves to nil at 1 September 2004.

In addition to the IFRS 1 exemptions above, the Group has chosen to adopt the following standards early:

f) Employee benefits: The Group has adopted the amendment to IAS 19 issued on 16 December 2004 whereby actuarial gains and losses are recognised through the statement of recognised income and expense in full in the period in which they arise.

g) The Group has applied IFRS 5 – Non-current assets held for sale and discontinued operations from 1 September 2004.

The comparatives information presented in these accounts has been restated and represented under IFRS. The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments.

In the comparative period, other than the following, all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction, the unrecognised gains and losses arising on the instrument were recognised either in the income statement or combined into the carrying value of the associated asset or liability. Interest differential arising from interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

Corresponding amounts for the comparative year are presented and disclosed in accordance with the requirements of the Companies Act 1985, FRS 4 and FRS 13 (as applicable in the year ended 31 August 2005). The main differences between the comparative year and current year bases of accounting are shown and described below:

Effect on the balance sheet at 1 September 2005:
Is to recognise as an adjustment to opening shareholders' funds fair value losses of £2.2 million on financial assets and liabilities measured at fair value that would not have been recognised under UK GAAP.

Effect on the current year income statement of the new policies:
Is to recognise fair value losses of £0.2 million on financial assets and liabilities designated at fair value through profit after tax that would not have been recognised under UK GAAP.

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRSs'). The Company has elected to prepare its parent company financial statements in according with UK GAAP; these are presented on pages 71 to 80.

The accounting policies set out below, except as noted above, have been applied consistently in presenting the consolidated financial information.

Revenue recognition
Revenue is stated exclusive of VAT and consists of sales of goods and services to third parties. Revenue from the provision of services is recognised when the outcome can be estimated reliably and by reference to the stage of completion of the transaction. Revenue from the sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership and control of the goods sold and the amount of revenue can be measured reliably. Key classes of revenue are recognised on the following basis:

Advertising and sponsorship	on transmission
Music publishing royalties	on a notified earnings basis
Record royalties	on a receivable basis as reported by licensees
Record sales	on invoice

Revenue on barter transactions is recognised when the goods or services being exchanged are not of the same nature and can be reliably measured.

Music publishing royalties
Music publishing royalties derived from the inclusion of the Group's copyrights on recorded music products or from performance are recognised when they are earned by the Group from the relevant collection society or record company. Royalties derived from the synchronisation of the Group's copyrights on television programmes, films or advertisements are recognised as earned. Any unrecouped royalty advances received are carried forward until the end of the relevant contract period.

Royalties payable are expensed on an accruals basis except that advances payable are carried forward within trade and other receivables where they relate to proven artists or song writers and where it is estimated that sufficient future royalties will be recouped against those advances. Advances paid to unproven songwriters are written off in the income statement in the year they are incurred.

Record royalties
Royalty income is included on a receivable and/or due 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 recouped against those products.

Advances received in respect of licence royalties are carried forward and recognised as income as sales are earned over the life of the licence.

Where profit-sharing arrangements are entered into with other record companies to exploit individual albums or artists, the company recognises its share of the profits earned in line with the sales of the underlying product. Non-refundable advances of profit share received from the other party are also recognised in line with sales of the underlying product. Licence royalties are included on a receivable and notified basis based on sales of underlying product. Advances received in respect of licence royalties are recognised in line with sales of underlying product.

Record producer royalties
Royalties received from record producer services are accounted for when they are earned.

Current/non-current distinction
Current assets include assets held primarily for trading purposes, cash and cash equivalents and assets expected to be realised in, or intended for sale or consumption in, the course of the Group's operating cycle, and also includes any other assets expected to be settled or realised within 12 months. All other assets are classified as non-current assets.

Current liabilities include liabilities held primarily for trading purposes, liabilities expected to be settled in the course of the Group's operating cycle and those liabilities due within one year from the reporting date. All other liabilities are classified as non-current liabilities.

Property, plant and equipment
Owned assets
Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases
Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below. Lease incentives received are recognised on the income statement as an integral part of the total lease expense.

All other leases are operating leases, the rentals on which are charged to the income statement on a straight-line basis over the lease term.

Depreciation
Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold buildings	up to 50 years
Leasehold properties	shorter of residual lease term or 50 years
Furniture, fixtures, plant and equipment	3 to 10 years
Motor vehicles	3 to 5 years

Intangible assets
Business combinations and goodwill
All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. In respect of business acquisitions that have occurred since 1 September 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually and on transition to IFRS for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

In respect of acquisitions prior to 30 September 1998, goodwill has been written off directly to retained earnings. Negative goodwill arising on an acquisition is recognised immediately in the income statement.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets
Other intangible assets consisting of radio broadcast licences, customer order books or music publishing copyrights acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation
Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets (including customer relationships) are amortised from the date they are available for use. The estimated useful lives are as follows:

Acquired radio broadcast licences	up to 20 years	Straight line
Acquired customer order books	up to 3 months	Straight line
Acquired music publishing copyrights	up to 50 years	Straight line
Other intangible assets	up to 20 years	Straight line

Impairment of assets
The carrying amounts of the Group's assets other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash-generating unit is the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 September 2004, the date of transition to Adopted IFRSs, even though no indication of impairment existed.

Calculation of recoverable amount
The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment
An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade and other receivables
Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Inventories
Inventories of CDs, videos, DVDs and published books are stated at the lower of cost or net realisable value. Cost includes all direct costs incurred in bringing the stocks to their present location and condition, including in the case of the initial print run of books published by Group subsidiary undertakings, the proportional allocation of all editorial, origination and printing costs relating to such inventories. Inventories of books which have been held for between one and three years are written off on a formula basis to reflect their diminishing net realisable value. Net realisable value is based on estimated selling price less any further cost expected to be incurred on disposal.

Foreign currencies
Foreign currency transactions
Transactions in foreign currencies are translated into sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into sterling using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated into sterling at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the translation reserve. They are released into the income statement upon disposal.

The Group has taken advantage of relief available in IFRS 1 to deem the cumulative translation differences for all foreign operating to be zero at the date of transition to IFRS, 1 September 2004.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

Interest-bearing borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Non-current assets held for sale and discontinued operations
A non-current asset or a group of assets containing a non-current asset is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale and sale is highly probable within one year (a disposal group).

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement. In accordance with IFRS 5, the above policy is effective from 1 September 2004.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on the income statement (including the comparative period) analysing the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the remeasurement to fair value less costs to sell or on disposal of the assets/disposal groups constituting discontinued operations.

Taxation
Tax on the profit or loss for the period comprises both current and deferred tax. Taxation is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Employee benefits
Defined contribution schemes
Obligations under the Group's defined contribution schemes are recognised as an expense in the income statement as incurred.

Defined benefit plans
The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and the fair value of plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rate rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 September 2004, the date of transition to Adopted IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 September 2004, the Group recognises them in the period they occur directly into equity through the statement of recognised income and expense.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Share-based compensation
The share option programme allows Group employees to acquire shares of the ultimate parent company; these awards are granted by the ultimate parent. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to market-based conditions not being achieved.

Share appreciation rights are also granted by the Company to employees. The fair value amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the share appreciation rights is measured based on an option valuation model, taking into account the terms and conditions upon which the instruments were granted. The liability is remeasured at each balance sheet date and at settlement date and any changes in fair value recognised in profit or loss spread equally over the vesting period.

Own shares held by ESOP trust
Transactions of the Group-sponsored ESOP trust are included in the Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

Derivative financial instruments and hedging
The Group uses a limited number of derivative financial instruments to hedge its exposure to fluctuations in interest and foreign exchange rates. The Group does not hold or issue derivative instruments for speculative purposes.

Interest rate collars are used to manage the interest basis of borrowings. The Group also held forward foreign exchange contracts taken out to hedge foreign currency transactions arising from royalty income used to repay securitisation borrowings.

The accounting policy applied to 1 September 2005 was not to make any fair value adjustments to the foreign currency hedges or interest rate collars detailed above.

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Cash flow hedges
Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial cost or other carrying amount of the non-financial asset or liability. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss remains in the hedging reserve and is reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when a non-financial asset is depreciated.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Fair value hedges
Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the income statement over the remaining life of the hedged item.

Effect of first time adoption
The Group has taken advantage of the transitional arrangements of IFRS 1 not to restate corresponding amounts in accordance with IAS 32 and IAS 39. Instead the following policies were applied in respect of financial instruments.

In the comparative period other than the following, all financial assets and financial liabilities were carried at cost (amortised as appropriate) less, in the case of financial assets, provision for any permanent diminution in value. Gains and losses on forward foreign exchange contracts treated as hedging instruments were not recognised in the income statement. On recognition of the hedged transaction the unrecognised gains and losses arising on the instrument were recognised either in the income statement or combined into the carrying value of the associated asset or liability. Interest differentials arising from interest rate swaps were recognised by adjusting net interest payable or receivable over the period of the contract.

Dividends
Dividends are reported as a movement in equity in the period in which they are approved by the shareholders. Interim dividends are recognised as a movement in equity when paid.

Expenses
Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Finance lease payments
Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income
Finance income is the interest received on funds invested and the expected return on pension scheme assets; both are recognised in the income statement as they accrue using the effective interest method.

Financing costs
Financing costs comprise interest payable on borrowings using the effective interest rate method, amortisation of debt issuance costs, facility fees, expenses relating to pension scheme liabilities as well as gains and losses on hedging instruments that are recognised in the consolidated income statement (see page 32).

2 Segmental reporting

a Business analysis (primary segment)

	Revenue 2006 £'000	Revenue 2005 £'000	EBITDA 2006 £'000	EBITDA 2005 £'000	Depreciation 2006 £'000	Depreciation 2005 £'000	EBITA 2006 £'000	EBITA 2005 £'000
Radio	**65,614**	62,884	**11,538**	8,658	**(1,352)**	(1,141)	**10,186**	7,517
Music	**67,922**	73,521	**5,797**	3,693	**(234)**	(235)	**5,563**	3,458
Corporate	**–**	–	**(4,059)**	(3,547)	**(844)**	(802)	**(4,903)**	(4,349)
	133,536	136,405	**13,276**	8,804	**(2,430)**	(2,178)	**10,846**	6,626
Less share of equity accounted investments								
Radio	**(1,565)**	(1,551)	**–**	–	**–**	–	**–**	–
Music	**(67)**	(1,205)	**–**	–	**–**	–	**–**	–
	131,904	133,649	**13,276**	8,804	**(2,430)**	(2,178)	**10,846**	6,626

	Amortisation of intangibles 2006 £'000	Amortisation of intangibles 2005 £'000	Segment result 2006 £'000	Segment result 2005 £'000	Total assets 2006 £'000	Total assets 2005 £'000	Total liabilities 2006 £'000	Total liabilities 2005 £'000
Radio	**(1,488)**	(553)	**8,698**	6,964	**75,034**	75,547	**(30,086)**	(29,291)
Music	**(157)**	(145)	**5,406**	3,313	**51,508**	49,716	**(83,365)**	(75,963)
Corporate	**–**	–	**(4,903)**	(4,349)	**27,773**	34,855	**(22,724)**	(37,042)
	(1,645)	(698)	**9,201**	5,928	**154,315**	160,118	**(136,175)**	(142,296)
Profit on sale of equity accounted investments (Radio)	**–**	–	**–**	497	**–**	–	**–**	–
Profit/(impairment) of equity accounted investment (Music)	**–**	–	**42**	(1,375)	**–**	–	**–**	–
	(1,645)	(698)	**9,243**	5,050	**154,315**	160,118	**(136,175)**	(142,296)

EBITA comprises earnings (profit from continuing operations) before interest, tax, amortisation of intangible assets, impairment of investments and profit on sale of investments.

The results from discontinued operations are excluded from the above. Please refer to note 4 for the results of discontinued operations.

b Geographic analysis (secondary segment)

	Revenue 2006 £'000	Revenue 2005 £'000	Depreciation 2006 £'000	Depreciation 2005 £'000	Amortisation of intangibles 2006 £'000	Amortisation of intangibles 2005 £'000	Impairment 2006 £'000	Impairment 2005 £'000
United Kingdom	**110,020**	111,913	**(2,335)**	(2,083)	**(1,597)**	(677)	**–**	(1,375)
North America	**10,320**	9,386	**(64)**	(54)	**(8)**	(3)	**–**	–
Europe	**11,432**	12,290	**(31)**	(41)	**(40)**	(18)	**–**	–
Rest of world	**132**	60	**–**	–	**–**	–	**–**	–
	131,904	133,649	**(2,430)**	(2,178)	**(1,645)**	(698)	**–**	(1,375)

	Segment result 2006 £'000	Segment result 2005 £'000	Segment assets 2006 £'000	Segment assets 2005 £'000	Capital expenditure 2006 £'000	Capital expenditure 2005 £'000
United Kingdom	**8,843**	4,241	**142,562**	147,239	**1,688**	2,155
North America	**137**	402	**4,283**	4,723	**30**	51
Europe	**252**	399	**7,468**	8,152	**5**	11
Rest of world	**11**	8	**2**	4	**–**	–
	9,243	5,050	**154,315**	160,118	**1,723**	2,217

In presenting information on the basis of geographic segments, segment revenue is based on the geographical location of the entity that generated the revenue. Segment assets are based on the geographical location of the assets.

The total net assets shown above include the Group's share of equity accounted investments' net assets.

3 Segmental reporting of equity accounted investments

a Joint ventures

	Revenue 2006 £'000	Revenue 2005 £'000	Share of loss after taxation 2006 £'000	Share of loss after taxation 2005 £'000	Equity accounted investments 2006 £'000	Equity accounted investments 2005 £'000
i Analysis by class of business						
Radio	1,565	1,551	(16)	(14)	336	322
Music	67	1,205	13	(61)	191	135
	1,632	2,756	(3)	(75)	527	457
ii Analysis by geographical origin						
United Kingdom	1,632	2,756	(3)	(115)	527	423
Europe	–	–	–	40	–	34
	1,632	2,756	(3)	(75)	527	457

iii Analysis of total recognised gains and losses

Total recognised losses in respect of equity accounted investments were £3,000 (2005: total recognised losses of £75,000).

iv Amortisation of acquired goodwill

Amortisation of acquired goodwill relating to joint ventures amounts to £nil (2005: £nil) and accordingly, has no impact in arriving at the Group's share of operating results of joint venture companies.

The Group's investment in joint ventures included £nil (2005: £nil) of acquired goodwill.

4 Discontinued operations

Discontinued operations comprise the following:

	2006 £'000	2005 £'000
Chrysalis Books Group (See below)	(212)	(32,581)
Chrysalis Mobile	–	(928)
	(212)	(33,509)

Losses attributed to Chrysalis Books Group were as follows:

	2006 £'000	2005 £'000
Revenue	5,992	21,288
Expenses	(6,380)	(53,869)
Loss from operating activities	(388)	(32,581)
Profit on sale of discontinued operation	85	
Tax on loss on sale of discontinued operation	91	
Loss for the year	(212)	

On 23 November 2005, the Group sold its Books business to Chrysalis Books management. The comparative income statement has been re-analysed to show the discontinued operations separately from continuing operations. The effect of the disposal was a decrease in the net assets of the Group of £0.1 million. The Directors had made impairment provisions totalling £27.0 million in the year ended 31 August 2005. The net cash outflow on the disposal after deducting cash disposed was £0.6 million.

The comparative figures include the results of Chrysalis Mobile which was discontinued in the year ended 31 August 2005.

5 Sale of 50% shareholding in Air Studios (Lyndhurst) Limited

The Group announced on 8 February 2006 that it had sold its 50% shareholding in Air Studios (Lyndhurst) Limited for a cash consideration of £1.6 million. The Group had previously treated this investment as an investment accounted for using the equity method.

The Directors had made an impairment provision of £1.4 million in the year ended 31 August 2005, to write the investment down to its realisable value. The net cash inflow on the disposal after deducting the expenses associated with the sale was £1.6 million.

The loss attributed to the continuing operations for the year ended 31 August 2006 was £0.1 million (2005: £0.1 million excluding the impairment of £1.4 million).

6 Group operating profit/(loss)

	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Group turnover		131,904		133,649
Cost of sales		(68,915)		(74,969)
Gross profit		62,989		58,680
Distribution and marketing costs		(9,814)		(12,561)
Administrative expenses				
Other	(39,899)		(37,315)	
Amortisation of intangible assets	(1,645)		(698)	
Depreciation of property, plant and equipment	(2,430)	(43,974)	(2,178)	(40,191)
		9,201		5,928
Profit on disposal of investments		42		497
Impairment of investment		–		(1,375)
Group operating profit		9,243		5,050

7 Finance income

	2006 £'000	2005 £'000
Bank interest receivable	799	1,154
Expected return on pension scheme assets	695	591
Other interest receivable	64	29
	1,558	1,774

8 Financing costs

	2006 £'000	2005 £'000
Bank loans and overdrafts	3,973	4,195
Amortisation of issuance costs on securitisation loan	209	189
On lease and hire purchase agreements	59	60
Interest cost on pension scheme liabilities	866	840
Other	422	515
	5,529	5,799

9 Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
The profit on ordinary activities before taxation for the year is stated after charging/(crediting):		
Amortisation of intangible fixed assets	1,645	698
Depreciation of tangible fixed assets	2,430	2,178
Profit on disposal of tangible fixed assets	(74)	(60)
Operating lease rentals		
property	1,275	1,280
equipment	360	356
Rent receivable	(237)	(198)

The remuneration of the auditors in respect of audit services provided to the Group during the year was £242,500 (2005: £330,000) of which £222,500 (2005: £265,000) was paid to KPMG Audit Plc and its associates. The remuneration of the auditors and their associates in respect of non-audit services to the Group was £78,000 (2005: £55,750) all of which was paid to KPMG Audit Plc and its associates. Auditors' remuneration for audit services to the Group includes £71,000 (2005: £71,000) for audit services to the Company.

10 Employees

	2006 £'000	Restated 2005 £'000
Payroll costs (including Directors) were as follows:		
Wages and salaries	26,663	23,550
Social security costs	2,779	2,288
Other pension costs	1,666	1,311
	31,108	27,149

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

	2006 Number	Restated 2005 Number
Direct labour, technical and related services	30	25
Administration	345	293
Sales and distribution	225	234
	600	552

	2006 £'000	2005 £'000
Directors' remuneration		
Directors' emoluments	2,573	1,894
Compensation for loss of office	937	–
Company contributions to money purchase pension schemes	136	97
Amount receivable under long-term incentive plans	179	66
	3,825	2,057

	2006 £'000	2005 £'000
Highest paid Director		
Directors' emoluments (including amounts received under long-term incentive plans)	746	450

The highest paid Director is a member of the final salary section of the Group's pension scheme and his accrued benefit for the year was £85,201 (2005: highest paid Director was a member of the final salary section of the Group's pension scheme and his accrued benefit for the year was £70,113). Information on Directors' remuneration and share options is included in the Report of the Board on remuneration on pages 85 to 94.

Details of individual Directors' emoluments, pension entitlements, long-term incentive plans and share options are disclosed in the Report of the Board on remuneration on pages 85 to 94.

Share-based payments
The income statement includes a charge for share-based payments of £0.3 million (2005: £0.1 million).

These charges, which have being calculated in accordance with IFRS 2 – Share-Based Payments, arise on certain long-term incentive plans (LTIPs) granted to employees and on the Group's Sharesave scheme. The charge is calculated by spreading the fair value of the awards over the vesting period. The fair values have been calculated using the Monte Carlo or binomial models, depending on the scheme. Assumptions have been made in these models for the expected volatility of the Group's share price, risk-free interest rates, the expected yield and the likelihood of early exercise.

As stated in note 1 above, the Group has applied the recognition and measurement requirements of IFRS 2 only to equity-settled share options and awards granted after 7 November 2005 that had not yet vested as at 1 January 2005. The Group has applied IFRS 2 only to cash-settled share options and awards not settled before 1 January 2005.

11 Income tax expense

The results of discontinued operations (note 4) are excluded from the following calculations.

	2006 £'000	2005 £'000
UK Corporation tax		
Current tax on income for the year at 30% (2005: 30%)	916	–
Adjustments in respect of prior years	–	74
	916	74
Overseas tax		
Current tax on income for the year at 30% (2005: 30%)	31	186
Withholding taxes	31	297
Total current tax	978	557
Deferred tax – origination and reversal of temporary differences	(279)	(44)
Total tax charge for the year	699	513

Reconciliation of notional tax charge at UK standard rate to the actual charge:

The total tax charge is higher than the standard rate of corporation tax in the UK. The differences are explained below.

	2006 £'000	2005 £'000
Profit before tax	5,269	950
Notional tax charge at UK standard rate of 30%	1,581	285
Utilisation of losses brought forward from prior years	(392)	(390)
Utilisation of losses from discontinued businesses	–	(2,862)
Losses not available for use in the current year	133	1,922
Expenses (deductible)/not deductible for tax purposes	337	572
Depreciation in excess of capital allowances	–	555
Capital allowances in excess of depreciation	(334)	–
Tax effect of hedging credit	(334)	–
Capital gains not chargeable to tax	(13)	(58)
Provision against carrying value of equity accounted investment	–	413
Irrecoverable withholding tax	–	48
Over/(under) provision in respect of prior years	–	72
Other timing differences	(279)	(44)
	699	513

The Group's consolidated effective tax rate in respect of continuing operations for the year ended 31 August 2006 is 13% (2005: 54%). The difference between this and the standard rate of corporation tax of 30% is mainly due to the availability of losses brought forward from previous periods.

12 Fixed assets – goodwill and other intangible assets

	Music publishing catalogues £'000	Radio licences £'000	Radio sales order book £'000	Book publishing rights £'000	Total other intangible assets £'000	Goodwill £'000
Cost						
At 1 September 2004	6,939	–	–	1,465	8,404	41,423
Additions	55	29,491	129	–	29,675	8,948
Disposals	–	–	–	–	–	–
At 31 August 2005	**6,994**	**29,491**	**129**	**1,465**	**38,079**	**50,371**
Amortisation						
At 1 September 2004	553	–	–	374	927	–
Charge for the year	145	424	129	–	698	–
Reclassified as assets held for sale	–	–	–	72	72	–
Impairment	–	–	–	1,019	1,019	11,256
Disposals	–	–	–	–	–	–
Exchange differences	(1)	–	–	–	(1)	–
At 31 August 2005	**697**	**424**	**129**	**1,465**	**2,715**	**11,256**
Net book values						
At 31 August 2005	**6,297**	**29,067**	–	–	**35,364**	**39,115**
Net book values						
At 31 August 2004	6,386	–	–	1,091	7,477	41,423
Cost						
At 1 September 2005	6,994	29,491	129	1,465	38,079	50,371
Additions	–	365	–	–	365	–
Disposals	–	–	–	(1,465)	(1,465)	(11,256)
Exchange differences	(16)	–	–	–	(16)	–
At 31 August 2006	**6,978**	**29,856**	**129**	–	**36,963**	**39,115**
Amortisation						
At 1 September 2005	697	424	129	1,465	2,715	11,256
Charge for the year	171	1,474	–	–	1,645	–
Disposals	–	–	–	(1,465)	(1,465)	(11,256)
Exchange differences	(3)	–	–	–	(3)	–
At 31 August 2006	**865**	**1,898**	**129**	–	**2,892**	–
Net book values						
At 31 August 2006	**6,113**	**27,958**	–	–	**34,071**	**39,115**

The acquisition of Century Radio 106 Limited which occurred in May 2005, took place during the transition period for IFRS 3 purposes. The principal impact is that intangible assets amounting to £29.6 million (principally comprising radio broadcast licences and the customer order book), which meet the definition for recognition under IAS 38 (Intangible Assets) and whose fair value can be measured, are recognised separately from goodwill. These assets are then amortised over their useful lives which the Directors have assessed as being three months for the order book and 20 years for the radio broadcast licences. The annual amortisation charge is £1.5 million.

12 Fixed assets – goodwill and other intangible assets continued

Impairment tests for cash-generating units containing goodwill

The following units have significant carrying amounts of goodwill:

	2006 £'000	2005 £'000
LBC Radio Limited	21,523	21,523
Galaxy Radio Birmingham Limited	4,390	4,390
Chrysalis Music Holdings GmbH	3,213	3,213
Chrysalis Radio East Midlands Limited	8,886	8,886
	38,012	38,012

The recoverable amounts of the above cash-generating units ('CGUs') are based on value in use calculations. These cash flow projections are based on actual operating results and their respective five-year business plans. Cash flows from year five are calculated in perpetuity with reference to the 'year five' estimate and exclude any subsequent growth assumptions. Furthermore, future cash flows are adjusted to reflect either an increase or decrease in working capital. A pre-tax discount rate of 9.43% is subsequently applied to determine the present value of future cash flows.

The present value of CGU cash flows is then compared to the carrying value of goodwill to determine whether the goodwill is impaired. For 2006 no impairment adjustment was deemed necessary.

13 Corporate acquisitions

The Group acquired the 71.9% of the share capital of Digital News Network Limited ('DNN') held by its joint venture partners on 28 July 2006, having previously held 28.1%. As a result of the transaction, DNN is now a 100% subsidiary of the Group. The total cash consideration paid was £0.2 million (including expenses) and the fair value of the digital radio licence acquired was £0.4 million.

On 18 May 2005, the Group acquired 100% of the ordinary share capital of Century Radio 106 Limited from GCap Media Plc for a total cash consideration of £30.1 million (including acquisition costs of £300,000). The book value and fair value of the acquired assets amounted to £500,000 which created an intangible asset of £29.7 million, and goodwill of £8.9 million.

This acquisition contributed earnings before interest and tax to the Group from the date of acquisition to 31 August 2005 of £0.2 million.

14 Property, plant and equipment

	Land and buildings freehold £'000	Land and buildings leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 September 2004	12,999	1,746	16,475	957	32,177
Additions	–	9	2,091	117	2,217
Disposals	–	–	(61)	(360)	(421)
Reclassified as assets held for sale	–	(405)	(1,811)	(192)	(2,408)
Exchange differences	–	–	(2)	–	(2)
At 31 August 2005	12,999	1,350	16,692	522	31,563
Accumulated depreciation					
At 1 September 2004	2,392	777	10,020	586	13,775
Charge for the year	267	93	1,680	138	2,178
Disposals	–	–	(12)	(324)	(336)
Reclassified as assets held for sale	–	(88)	(680)	(51)	(819)
Exchange differences	–	(2)	(1)	–	(3)
At 31 August 2005	2,659	780	11,007	349	14,795
Net book values					
At 31 August 2005	10,340	570	5,685	173	16,768

14 Property, plant and equipment continued

	Land and buildings freehold £'000	Land and buildings leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 September 2005	12,999	1,350	16,692	522	31,563
Additions	–	195	1,413	118	1,726
Disposals	–	(13)	(356)	(240)	(609)
Exchange differences	–	–	(20)	–	(20)
At 31 August 2006	12,999	1,532	17,729	400	32,660
Accumulated depreciation					
At 1 September 2005	2,659	780	11,007	349	14,795
Charge for the year	268	188	1,890	84	2,430
Disposals	–	(27)	(330)	(197)	(554)
Exchange differences	–	–	(15)	–	(15)
At 31 August 2006	2,927	941	12,552	236	16,656
Net book values					
At 31 August 2006	10,072	591	5,177	164	16,004

Property, plant and equipment at net book value include £1,010,000 (2005: £644,000) in respect of assets held under hire purchase contracts and finance leases. Depreciation includes £173,000 (2005: £295,000) in respect of these assets.

Included in cost of freehold land and buildings in the Group is an amount of £785,000 (2005: £785,000) in respect of interest capitalised in previous years.

15 Investments accounted for using the equity method

	Investment in joint ventures £'000	Investment in associates £'000	Joint venture loans £'000	Associate loans £'000	Total £'000
At 1 September 2004	3,343	8	199	41	3,591
Additions/(disposals)	(67)	(8)	–	–	(75)
Loan advances/(repayments)	–	–	70	(41)	29
Share of loss for the year	(79)	–	–	–	(79)
Impairment provision	(1,375)	–	–	–	(1,375)
Reclassified as asset held for sale	(1,625)	–	–	–	(1,625)
Dividend received	(9)	–	–	–	(9)
At 31 August 2005	188	–	269	–	457

	Investment in joint ventures £'000	Joint venture loans £'000	Total £'000
At 1 September 2005	188	269	457
Additions/(disposals)	(10)	–	(10)
Loan advances/(repayments)	–	83	83
Share of loss for the year	(3)	–	(3)
At 31 August 2006	175	352	527

Loans due from joint ventures are all trading loans. Investments in joint ventures includes unamortised goodwill of £nil (2005: £37,000) which arose on acquisitions.

16 Deferred tax assets and liabilities

	Assets 2006 £'000	Assets 2005 £'000	Liabilities 2006 £'000	Liabilities 2005 £'000	Net 2006 £'000	Net 2005 £'000
Intangible assets	–	–	(8,886)	(8,886)	(8,886)	(8,886)
Employee benefits	2,196	1,917	–	–	2,196	1,917
Tax value of loss carry-forwards recognised	22	22	–	–	22	22
Net deferred tax assets/(liabilities)	2,218	1,939	(8,886)	(8,886)	(6,668)	(6,947)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006 £'000	2005 £'000
Unutilised trading losses	9,520	15,139
Differences between accumulated depreciation and capital allowances	3,213	2,762
Share-based payments	49	40

Deferred tax assets have not been recognised in respect of these items because it is not probable that future tax profits will be available against which the Group can utilise benefit from them.

Additional potential deferred tax assets of £18.1 million (2005: £18.1 million), primarily in respect of capital losses, have not been recognised due to uncertainties as to whether gains will arise in the appropriate form against which such losses could be utilised.

Movement in deferred tax during the prior year

	1 September 2004 £'000	Recognised in income statement £'000	Recognised on acquisition £'000	31 August 2005 £'000
Intangible assets	–	–	(8,886)	(8,886)
Employee benefits	1,917	–	–	1,917
Tax value of loss carry-forwards recognised	–	22	–	22
Total	1,917	22	(8,886)	(6,947)

Movement in deferred tax during the year

	1 September 2005 £'000	Recognised in income statement £'000	Recognised on acquisition £'000	31 August 2006 £'000
Intangible assets	(8,886)	–	–	(8,886)
Employee benefits	1,917	279	–	2,196
Tax value of loss carry-forwards recognised	22	–	–	22
Total	(6,947)	279	–	(6,668)

17 Inventories

	2006 £'000	2005 £'000
Finished goods	2,251	1,926

18 Trade and other receivables

	2006 £'000	2005 £'000
Current assets		
Trade receivables	18,494	18,405
Other receivables	2,235	2,491
Corporate and other taxes	829	507
Prepayments and accrued income	2,097	2,605
Advances to artists, composers and authors	11,764	9,542
	35,419	33,550

19 Cash and cash equivalents

	2006 £'000	2005 £'000
Cash and cash equivalents per balance sheet	24,639	16,923
Bank overdrafts	–	–
Cash and cash equivalents in the statement of cash flows	24,639	16,923

Cash and cash equivalents at 31 August 2006 comprise cash deposits and exclude £7.7 million (2005: £6.8 million) of cash deposits which have been used to offset overdraft and short-term borrowings. Cash and cash equivalents include £5.6 million (2005: £6.0 million), which was temporarily held in collection accounts ahead of the payment of interest on securitisation borrowings on 10 September 2006.

Details of currency and interest rate profile of cash deposits are set out in note 29.

20 Assets classified as held for sale

	2006 £'000	2005 £'000
Property, plant and equipment	–	1,136
Assets previously accounted for using the equity method	–	1,625
Inventories	–	3,067
Trade and other receivables due within one year	–	7,684
Cash and cash equivalents	–	564
Total	–	14,076

21 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group exposure to interest rate and foreign currency risk, see note 29.

	2006 £'000	2005 £'000
Current liabilities		
Securitisation loan	–	2,957
Bank loans, overdrafts and loan notes	12,200	8,139
Lease and hire purchase obligations	428	369
	12,628	11,465
Non-current liabilities		
Securitisation loan	61,075	47,704
Less: unamortised issuance costs	(2,262)	(1,835)
	58,813	45,869
Bank term loan	10,000	20,000
Lease and hire purchase obligations	530	9
	69,343	65,878

21 Interest-bearing loans and borrowings continued

Bank loans and overdrafts falling due within one year are stated net of £7.7 million (2005: £6.8 million) cash deposits held with the same bank and are secured by a fixed and floating charge over the assets of the Group including those cash deposits.

Bank term loan represents a three-year £20 million loan with Royal Bank of Scotland which was taken out to part finance the acquisition of Century Radio 106 Limited in May 2005. £5 million was repaid in January 2006. Of the remaining £15 million, £5 million is repayable in May 2007. The remaining £10 million is repayable in May 2008. The loan bears interest based on LIBOR plus a margin.

Securitisation loan falling due after more than one year comprises £58.8 million (2005: £45.9 million) in respect of amounts drawn down on a £75 million securitisation loan facility. The gross amount drawn down and not repaid at 31 August 2006 was £61.1 million (2005: £50.1 million). The unamortised issuance costs relating to the facility were £2.3 million (2005: £1.8 million). The issuance costs are being amortised over the 15 year period of the loan.

The original £60 million securitisation loan facility, which was put in place on 1 March 2001, is funded by Music Finance Corporation Inc., a special purpose vehicle company owned by Royal Bank of Scotland Plc based in the USA, which uses the US asset-backed commercial paper market to provide its capital on the basis of the underlying transaction structure, supported by a liquidity facility arranged by the Group's UK bankers. The transaction is based upon the securitisation of the Group's worldwide music publishing catalogue and its related income stream or NPS. Interest is payable twice yearly in March and September and is set with reference to prevailing rates in the US commercial paper market.

In January 2006, the Group increased this facility to £75 million, reflecting the increased value of the underlying catalogue. The structure of the increased facility remains substantially unaltered save for the term, which has been extended by five years to 2021. The maximum amount that can be drawn down, after taking into account a liquidity reserve of £6 million, has increased to £69 million.

The 15-year loan facility provides a flexible repayment structure including a new three-year revolving period which ends in March 2009, followed by the amortisation of 70% of the loan in two instalments per year, over a 12-year period. The remaining 30% of the loan is subject to a bullet repayment at the end of the term.

22 Trade and other payables

	2006 £'000	2005 £'000
Current liabilities		
Trade payables	19,614	22,436
Other payables	3,979	2,529
Corporate tax	1,008	91
Social security and other taxes	1,726	1,624
Accruals and deferred income	10,654	11,576
	36,981	38,256

23 Employee benefits

Employee benefits comprise the deficit on the final salary section of the pension scheme and other employee-related accruals.

The UK Group operates a funded pension scheme with both final salary and money purchase sections. The deficit of the scheme calculated in accordance with IAS 19: Employee Benefits amounted to £7.3 million (2005: £6.3 million) and has been included within liabilities in the balance sheet in accordance with IAS 19 (Employee Benefits).

The total charge to the income statement in respect of the employee pension scheme for the year was £1.4 million (2005: £1.3 million), of which £0.3 million (2005: £0.2 million) related to the annual service charge and £0.2 million (2005: £0.2 million) related to the interest charge in respect of the members of the final salary section of the scheme.

The final salary section of the scheme was closed to new entrants after 1 July 1994. Since that date, all eligible employees can choose to join the money puchase section of the scheme. 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 final salary section of the scheme are determined by a qualified actuary on the basis of triennial valuations using the attained age method. Contributions to the money purchase section depend on the age of the employee.

The most recent actuarial valuation, as at 1 September 2005, showed that the market value of the scheme's assets was £27.4 million and the actuarial value of those assets represented 81% of the benefits that had accrued to members after allowing for expected future increases in earnings. The deficit amounting to £6.4 million, which relates entirely to the final salary section of the scheme, is being funded by temporarily increased contributions by the Group of £0.7 million per annum, in addition to the employers' contribution rate of 43.6% for the remaining members of the final salary section of the scheme.

23 Employee benefits continued

The key assumptions affecting the results of the 1 September 2005 valuation were:

- investment returns would be 5.0% per annum (previously 5.0% per annum); and
- salary increases would average 3.5% per annum (previously 3.5% per annum).

At 31 August 2006, the outstanding pension contributions relating to the final salary section of the scheme were £0.1 million (2005: £0.1 million).

Final salary section of the scheme

	2006 £'000	2005 £'000
Present value of funded final salary obligations	19,758	17,333
Fair value of scheme assets	(12,437)	(10,993)
Recognised liability for final salary obligations	7,321	6,340

Movement in present value of final salary obligation

	2006 £'000	2005 £'000
At beginning of year	(17,333)	(14,443)
Current service cost	(329)	(228)
Interest cost	(866)	(840)
Curtailments	–	–
Actuarial losses	(1,588)	(1,964)
Benefits paid	399	181
Contributions by members	(41)	(39)
At end of year	(19,758)	(17,333)

Movements in fair value of scheme assets

	2006 £'000	2005 £'000
At beginning of year	10,993	9,041
Expected return on scheme assets	695	591
Actuarial gains	338	836
Contributions by employer	769	667
Contributions by members	41	39
Benefits paid	(399)	(181)
At end of year	12,437	10,993

Expense recognised in the consolidated income statement

	2006 £'000	2005 £'000
Current service cost	329	228
Interest on final salary scheme obligations	866	840
Expected return on final salary scheme assets	(695)	(591)
Total	500	477

The expense is recognised in the following line items in the consolidated income statement:

	2006 £'000	2005 £'000
Personnel costs	329	228
Financing costs	171	249
Total	500	477

Cumulative actuarial losses, reported in the statement of recognised income and expense since 1 September 2004, the transition date to Adopted IFRSs as adopted by the EU, are £2.4 million (2005: £1.1 million).

23 Employee benefits continued

The fair value of the scheme assets and the return on those assets were as follows:

	2006 £'000	2005 £'000
Equities	5,655	5,310
Bonds	5,869	5,072
Other	913	611
Total assets at end of year	12,437	10,993

The actual return on the scheme assets was £1,033,000 (2005: £1,427,000). The expected long-term rate of return on assets' assumption is assessed by considering the current level of returns on risk-free investments (primarily government bonds) and the expectations for the risk premium of each asset class. The expected return for each asset class is then weighted based on the asset allocation to develop the expected long-term rate of return on assets' assumption for the portfolio.

Principal actuarial assumptions (expressed as weighted averages):

	2006 %	2005 %
Discount rates	5.10	5.00
Expected rate of return on final salary pension scheme assets	6.23	6.21
Indexed pension increases	3.00	2.50
Future salary increases	4.00	3.50
Other material assumptions – inflation	3.00	2.50

For mortality rates, the Group has used PA92 tables (2005: PA92 tables) with mortality projected to 2020 (2005: 2020) for pensioner members. Expectation of life at normal retirement age is 86.5 years for males and 89.4 for females.

History of the scheme

The history of the scheme for the current and prior years is as follows:

	2006 £'000	2005 £'000
Balance sheet		
Present value of final salary obligation	19,758	17,333
Fair value of scheme assets	(12,437)	(10,993)
Deficit	7,321	6,340

	2006 £'000	2005 £'000
Experience adjustments		
Experience adjustments on scheme liabilities	(343)	–
Experience adjustments on scheme assets	–	1,228

The Group currently expects to contribute approximately £0.7 million to the final salary section of the scheme in respect of the deficit, in the next financial year.

Money purchase section of the scheme

The total expense relating to this section of the scheme in the current year was £0.9 million (2005: £0.8 million).

Share-based payments

a) The Chrysalis Group PLC 1994 Executive Share Option Scheme

Options granted under the Chrysalis Group PLC 1994 Executive Share Option Scheme are normally exercisable no earlier than three years and no later than ten years following the date of the grant. There are no performance criteria that need to be met before options vest. There is no cash settlement alternative for the scheme. In accordance with the transitional arrangements, the Group has elected not to retrospectively apply IFRS 2 – Share-Based Payment ('IFRS 2') in relation to share options prior to 7 November 2002. No options have been issued in respect of the scheme since January 2002 and accordingly no charge to the consolidated income statement arises in respect of this scheme.

b) The Chrysalis Sharesave Scheme

Options granted under the Chrysalis Sharesave Scheme, established in 2001, are normally exercisable for a six-month period at the end of either a three-year or five-year savings contract. There are no performance criteria attached to these awards.

23 Employee benefits continued

Details of the share options outstanding during the year are as follows:

	Sharesave scheme options Number	Weighted average exercise prices £
Outstanding at 1 September 2004	582,305	1.88
Granted	239,974	1.39
Lapsed	(326,582)	1.93
Outstanding at 31 August 2005	495,697	1.61
Granted	238,206	1.31
Exercised	(716)	1.396
Lapsed	(237,755)	1.59
Outstanding 31 August 2006	495,432	1.48
Exercisable at 31 August 2006	495,432	1.48
Exercisable at 31 August 2005	495,697	1.61
Final exercise date	**31 August 2011**	

Included within the scheme are 57,306 options that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002.

For the options outstanding at 31 August 2006, the weighted average remaining contractual life is 3.25 years (2005: 3.25 years).

c) The Chrysalis Group PLC 2003 Executive Share Option Scheme and the Chrysalis Group PLC Long-Term Incentive Plan
Options granted under the Chrysalis Group PLC 2003 Executive Share Option Scheme ('ESOS') and awards under the Chrysalis Group PLC 2003 Long-Term Incentive Plan ('LTIP') are normally exercisable no earlier than three years and no later than ten years following the date of grant. The options and awards are subject to the acheivement of certain performance criteria, details of which are set out in the Report of the Board on remuneration on pages 85 to 94.

Details of the options and awards outstanding during the year are as follows:

	ESOS options Number	Weighted average exercise prices £	LTIP awards Number	Weighted average exercise prices £
Outstanding at 1 September 2004	1,351,868	2.14	1,304,538	0.02
Granted	876,197	1.79	413,278	0.02
Lapsed	(99,518)	1.92	(54,858)	0.02
Outstanding at 31 August 2005	2,128,547	2.00	1,662,958	0.02
Granted	1,306,860	1.46	446,078	0.02
Lapsed	(428,463)	2.02	(839,946)	0.02
Outstanding 31 August 2006	3,006,944	1.77	1,269,090	0.02
Exercisable at 31 August 2006	3,006,944	1.77	1,269,090	0.02
Exercisable at 31 August 2005	2,128,547	2.00	1,662,958	0.02
Final exercise date	**29 November 2015**			

The Group has elected not to retrospectively apply IFRS 2 to options and awards issued prior to 7 November 2002. There are no ESOS options or LTIP awards included above that were issued prior to this date.

The weighted average remaining contractual lives at 31 August 2006 of the ESOS options was 1.78 years (2005: 1.48 years) and of the LTIP awards was 1.82 years (2005: 1.65 years).

The Remuneration Committee of the Board has agreed to settle the awards made in respect of the LTIP Scheme in August 2003, November 2003 and December 2004 in cash if and when they vest. The Directors do not believe that any liability will arise on these awards as the performance criteria are unlikely to be met. No charge to the consolidated income statement has been made in respect of these cash-settled awards.

23 Employee benefits continued

The fair value of equity-settled options and awards is estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options and awards were granted. The services received and the liability to pay for those services are recognised over the expected vesting period. Estimates of early exercise are incorporated into the binomial model. For awards with market conditions attached, the impact of total shareholder return conditions is modelled using a Monte Carlo model based on weekly returns of the constituents of the FTSE 250 index. The volatility of the Group's share price is based on the historic volatility (calculated based on the weighted average remaining life of the awards), adjusted for any expected changes to future volatility due to publicly available information.

The following table lists the variables used in the models for the years ended 31 August 2006 and 2005.

	2006 Sharesave options	2006 ESOS options	2006 LTIP awards	2006 Matching awards	2005 Sharesave options	2005 ESOS options	2005 LTIP awards	2005 Matching awards
Weighted average share price at grant	167.0p	148.5p	148.5p	166.25p	185.0p	178.0p	178.0p	183.0p
Weighted average share exercise price	131p	146p	2p	2p	139.6p	179.25p	2p	2p
Weighted average expected volatility	27.7%	39.9%	27.6%	27.7%	30.8%	40.0%	31.0%	30.8%
Weighted average expected life (years)	3.25	*	3.00	3.00	3.25	*	3.00	3.00
Risk-free rate	4.22%	4.26%	4.27%	4.26%	4.39%	4.59%	4.53%	4.47%
Weighted average expected dividend yield	0.75%	0.84%	0.84%	0.75%	0.68%	0.70%	0.70%	0.68%

* The expected life of the options is based on the expected exercise behaviour linked to share price and period since grant, assuming the options are exercised over the period of ten years from grant.

24 Provisions

Property provision	2006 £'000
At 1 September 2005	1,233
Utilised in the year	(233)
At 31 August 2006	1,000

Property provisions relate to two properties acquired with the acquisition of the since disposed Chrysalis Books division which are deemed surplus to the Group's current requirements and therefore rentals have been fully provided up to the end of the leases.

25 Liabilities classified as held for sale

	2006 £'000	2005 £'000
Interest-bearing loans and borrowings	–	24
Provisions	–	302
Trade and other payables	–	9,583
Total	–	9,909

26 Issued share capital

	Number	2006 £'000	Number	2005 £'000
a Authorised				
Ordinary shares of 2 pence each	200,000,000	4,000	200,000,000	4,000
b Allotted, called up and fully paid				
Ordinary shares of 2 pence each				
At beginning of year	167,834,836	3,357	167,834,265	3,357
Issued in year – exercise of share options	716	–	571	–
At end of year	167,835,552	3,357	167,834,836	3,357

Outstanding options granted under the Chrysalis Group PLC 1994 Executive Share Option Scheme at 31 August 2006 were:

Option granted	Number of shares	Exercise price	Normal exercise date
25 January 1999	100,000	127.1p	January 2002 – January 2009
7 May 1999	750,000	153.2p	May 2002 – May 2009
1 December 1999	500,000	196.5p	December 2002 – December 2009
24 May 2000	85,000	218p	May 2003 – May 2010
24 November 2000	366,666	300p	November 2003 – November 2010
8 December 2000	100,000	320p	December 2003 – December 2010
23 November 2001	100,000	230p	November 2004 – November 2011
	2,001,666		

Outstanding options granted under the Chrysalis Group PLC 2003 Executive Share Option Scheme at 31 August 2006 were:

Option granted	Number of shares	Exercise price	Normal exercise date
1 August 2003	513,126	209p	August 2006 – August 2013
18 November 2003	530,637	218.5p	November 2006 – November 2013
3 December 2004	674,692	179.25p	December 2007 – December 2014
29 November 2005	1,288,489	145.5p	November 2008 – November 2015
	3,006,944		

Outstanding awards made under the Chrysalis Group PLC 2003 Long-Term Incentive Plan at 31 August 2006 were:

Performance Share Awards

Award date	Number of shares	Exercise price	Normal exercise date
18 November 2003	201,113	2p	November 2006 – November 2013
3 December 2004	255,890	2p	December 2007 – December 2014
29 November 2005	433,583	2p	November 2008 – November 2015
	890,586		

Matching Share Awards

Option granted	Number of shares	Exercise price	*Normal exercise date*
17 December 2003	293,728	2p	December 2006 – December 2013
20 December 2004	78,464	2p	December 2007 – December 2014
20 December 2005	6,312	2p	December 2008 – December 2015
	378,504		

The above options and awards include the options and awards granted to Directors, which are subject to performance criteria and which are disclosed in the Report of the Board on remuneration on pages 85 to 94.

26 Issued share capital continued

Outstanding options granted under the Chrysalis Sharesave Scheme at 31 August 2006 were:

Option granted	Number of shares	Exercise price	Normal exercise date
March 2001	21,823	244p	May 2006 – November 2006
December 2001	35,483	186p	February 2007 – August 2007
December 2002	4,478	169p	February 2006 – August 2006
December 2002	11,676	169p	February 2008 – August 2008
December 2003	47,088	174p	February 2007 – August 2007
December 2003	2,922	174p	February 2009 – August 2009
December 2004	133,360	139.6p	February 2008 – August 2008
December 2004	33,142	139.6p	February 2010 – August 2010
January 2006	164,412	131p	February 2009 – August 2009
January 2006	41,048	131p	February 2011 – August 2011
	495,432		

27 Capital and reserves

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
At 1 September 2004	3,357	62,267	180	(12,043)	53,761	–	53,761
Shares issued in the year	–	1	–	–	1	–	1
Total recognised income and expense	–	–	26	(34,019)	(33,993)	21	(33,972)
Share-based payments	–	–	–	133	133	–	133
Equity dividends	–	–	–	(2,101)	(2,101)	–	(2,101)
At 31 August 2005	3,357	62,268	206	(48,030)	17,801	21	17,822

Analysis of other reserves

	Other reserve £'000	Foreign exchange reserve £'000	Hedging reserve £'000	Reserve for own shares £'000	Total £'000
At 1 September 2004	741	–	–	(561)	180
Total recognised income and expense	–	(98)	–	124	26
At 31 August 2005	741	(98)	–	(437)	206

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
At 31 August 2005	3,357	62,268	206	(48,030)	17,801	21	17,822
Effect of change in accounting policy:							
Impact of adoption of IAS 32 and IAS 39							
at 1 September 2005	–	–	(2,245)	–	(2,245)	–	(2,245)
At 1 September 2005	3,357	62,268	(2,039)	(48,030)	15,556	21	15,577
Shares issued in the year	–	1	–	–	1	–	1
Total recognised income and expense	–	–	1,260	2,899	4,159	205	4,364
Share-based payments	–	–	–	299	299	–	299
Equity dividends	–	–	–	(2,101)	(2,101)	–	(2,101)
At 31 August 2006	3,357	62,269	(779)	(46,933)	17,914	226	18,140

27 Capital and reserves continued

Analysis of other reserves

	Other reserve £'000	Foreign exchange reserve £'000	Hedging reserve £'000	Reserve for own shares £'000	Total £'000
At 31 August 2005	741	(98)	–	(437)	206
Effect of change in accounting policy:					
Impact of adoption of IAS 32 and IAS 39 at 1 September 2005	–	–	(2,245)	–	(2,245)
At 1 September 2005	741	(98)	(2,245)	(437)	(2,039)
Total recognised income and expense	–	58	1,202		1,260
At 31 August 2006	741	(40)	(1,043)	(437)	(779)

28 Dividends

The following dividend was paid by the Company during the year:

	2006 £'000	2005 £'000
Final 1.25p per share paid 5 April 2006	2,101	2,101

The Directors are proposing a dividend at 1.375p per share in the notice of the Annual General Meeting on page 97.

29 Derivative financial instruments

2006 IAS 32 and IAS 39 disclosures

Financial instruments are only permitted for use in managing financial risk arising from the Group's operations on the authority of the Board.

The accounting policies relating to financial instruments are set out in the accounting policies in note 1.

The main financial risks faced by the Group relate to credit, *interest and exchange rates. The policies for managing these risks are discussed* in the Financial Review on pages 19 to 25 and are summarised below:

Credit risk

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit insurance is used in respect of certain debts. Where credit insurance has not been deemed to be cost effective, credit evaluations are performed on customers with potential credit exposure over certain amounts. The Group does not require collateral in respect of financial assets. At the balance sheet date there were no significant concentrations of credit risk represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The Group uses derivatives, where appropriate, to protect against fluctuating interest rates. It is and has been, throughout the year under review, the Group's policy that no speculative trading in financial instruments is undertaken.

Interest rate collars and swaps, in sterling, have been entered into to achieve a suitable mix of fixed and floating rate exposure. The collars mature over the next one to ten years and have floating rates ranging from 5.02% to 7.70%. At 31 August 2006, the Group had interest rate collars with a notional contract amount of £47.7 *million (2005: £50.8 million). The swaps mature over the next one to 15 years and* have a fixed rate of 4.58%. At 31 August 2006, the Group had interest rate swaps with a notional contract amount of £21.3 million (2005: £nil). These interest rate collars and swaps are stated at fair value.

Exchange rate risk

The Group uses derivatives, where appropriate, to protect against fluctuating foreign exchange rates. It is and has been throughout the year under review, the Group's policy that no speculative trading in financial instruments shall be undertaken.

Forward foreign exchange contracts have been entered into to hedge foreign currency transactions arising from royalty income used to repay securitisation borrowings. The forward foreign exchange contracts mature over the next one to five years. At 31 August 2006, the Group had forward foreign exchange contracts with a notional contract amount of £17.7 million (2005: £3.5 million). These forward foreign exchange contracts are stated at fair value.

Effective interest rates and repricing analysis

In respect of income earning financial assets and interest bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or, if earlier, are repriced.

29 Derivative financial instruments continued

	Effective interest rate %	0-1 years £'000	1-2 years £'000	2-5 years £'000	Over 5 years £'000	Total 2006 £'000
Cash and cash equivalents	3.88	24,639	–	–	–	24,639
Interest rate collars	5.02	(138)	(138)	(349)	(584)	(1,209)
Interest rate swaps	4.58	39	39	116	385	579
Forward foreign exchange contracts		170	155	376	–	701
Secured bank loans	6.07	(5,000)	(10,000)	(8,958)	(49,855)	(73,813)
Loan notes	5.75	(7,200)	–	–	–	(7,200)
Finance lease liabilities	9.69	(428)	(391)	(139)	–	(958)
		12,082	(10,335)	(8,954)	(50,054)	(57,261)

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in interest and foreign exchange rates would have an impact on consolidated earnings.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Note	Carrying amount 2006 £'000	Fair value 2006 £'000
Trade and other receivables	18	35,419	35,419
Cash and cash equivalents	19	24,639	24,639
Interest rate collars	29	(1,209)	(1,209)
Interest rate swaps	29	579	579
Forward foreign exchange contracts	29	701	701
Secured bank loans	21	(73,813)	(73,813)
Trade and other payables	22	(36,981)	(36,981)
		(50,665)	(50,665)
Unrecognised losses			–

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the tables:

Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

Trade and other receivables/payables

For receivables and payables, the notional amount is deemed to reflect the fair value. The impact of discounting for those due after more than one year is not deemed to be significant.

Interest rate collars/swaps

As stated above, the fair value of interest rate collars and swaps are calculated using prevailing interest rates as at the balance sheet dates.

Assets/liabilities classified as held for sale

The fair value is based on the Directors' view that the carrying value ascribed to certain of the assets had been impaired. They also considered the provisions required for redundancy and other closure costs.

29 Derivative financial instruments continued

2005 FRS 13 Disclosures

i Currency and interest rate analysis

As at 31 August 2005, the currency and interest rate profile of the Group's financial liabilities after taking into account the effect of interest rate collars were as follows:

	Floating rate liabilities £'000	Fixed rate liabilities £'000	Total £'000
Sterling	(71,306)	(402)	(71,708)
European currencies	–	–	–
At 31 August 2005	(71,306)	(402)	(71,708)
Sterling	(58,941)	(936)	(59,877)
European currencies	(52)	–	(52)
At 31 August 2004	(58,993)	(936)	(59,929)

Floating rate borrowings bear interest with reference to bank rates and, in respect of the securitisation, to the prevailing rates in the US Commercial paper market. The weighted average interest rate on fixed rate borrowings was 11.15% (2004: 10.68%) and the weighted average time for which the rate is fixed was 1.08 years (2004: 1.44 years). The maturity of the borrowings is shown in note 21.

As at 31 August 2005, the Group's undrawn borrowing facilities were as follows:

	Less than 1 year £'000	Between 1-2 years £'000	Over 2 years £'000	Total £'000
Property mortgage	–	–	5,500	5,500
ESOP loan	544	–	–	544
Leasing	3,098	–	–	3,098
Overdrafts	50	–	–	50
	3,692	–	5,500	9,192

ii Currency exposure

As at 31 August 2005, the currency exposures of the Group were as follows:

	Australian Dollar £'000	Danish Krone £'000	Canadian Dollar £'000	Euro £'000	Swedish Krone £'000	US Dollar £'000	Total £'000
Functional currency of Group operations							
Sterling	79	–	–	3,660	700	3,623	8,062
Euro	–	–	–	–	–	(106)	(106)
At 31 August 2005	79	–	–	3,660	700	3,517	7,956
Sterling	256	(28)	235	2,700	406	6,257	9,826
Euro	–	–	–	–	–	(106)	(106)
At 31 August 2004	256	(28)	235	2,700	406	6,151	9,720

iii Comparison of book value and fair value of the Group's financial assets and liabilities

At 31 August 2005, the book value of interest rate collars used to manage the Group's interest rate exposure was £nil (2003: £nil). The fair value of interest rate collars at 31 August 2005 indicated a technical deficit to the Group of £2,518,000 (2004: £1,261,000) and arises because at the year end, the prevailing interest rate had fallen below the contractual floor rate in the collar. The fair value was calculated by reference to prevailing market interest rates. There were no forward foreign exchange contracts at 31 August 2005 (2004: nil).

iv Hedging

At 31 August 2005, the Group held forward foreign exchange contracts taken out to hedge foreign currency transactions arising from royalty income used to repay securitisation borrowings.

The potential gain on these contracts is £273,000 (2004: gain of £458,000). The gains experienced by the Group on such contracts during the year were £312,000 (2004: £212,000).

30 Earnings/(loss) per share

	2006 £'000	2005 £'000
Profit attributable to equity holders of parent	4,149	(33,093)
Add back losses from discontinued operations	212	33,509
Earnings from continuing operations	4,361	416
Amortisation of intangible assets	1,645	698
Gains on sales of investments	(42)	(497)
Impairment of investment	–	1,375
Gain on interest rate hedging instruments	(1,114)	–
Adjusted earnings	4,850	1,992
Weighted average number of shares in issue (millions)		
Basic	167.6	167.6
Diluted	167.6	167.7
Earnings/(loss) per share		
Basic	2.48p	(19.75)p
Diluted	2.48p	(19.74)p
Earnings per share from continuing operations		
Basic	2.60p	0.25p
Diluted	2.60p	0.25p
Loss per share from discontinued operations		
Basic	(0.13)p	(19.99)p
Diluted	(0.13)p	(19.98)p
Adjusted earnings per share		
Basic	2.89p	1.19p

The weighted average number of shares in issue used in the calculation of basic earnings per share for the year has been adjusted for shares held by the Chrysalis Employee Share Ownership Plan Trust. The diluted earnings per share for the year, adjusts the basic earnings per share figure for the effect of dilutive options.

31 Operating leases

At 31 August 2006, the total future minimum lease payments under non-cancellable operating leases were as follows:

	Land and buildings 2006 £'000	Land and buildings 2005 £'000	Other 2006 £'000	Other 2005 £'000
Expiring within one year	94	225	152	58
Expiring between one and five years	531	491	457	320
Expiring after five years	1,411	1,665	–	9
	2,036	2,381	609	387

The Group leases a number of buildings for office space, motor vehicles and office equipment under operating leases. The lease terms vary from between three years and 16 years, with options in certain cases, to renew leases after that.

32 Contingent liabilities and capital commitments

a 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.

b There were no significant capital expenditure commitments at 31 August 2006 (2005: £nil).

33 Related party transactions

The Group has a related party relationship with its subsidiaries and joint venture companies (see note 35) and with its Board of Directors (see the Report of the Board on remuneration on pages 85 to 94). Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Other than their remuneration, details of which are disclosed on page 88, and their interests in share options and awards disclosed in the Report of the Board on remuneration on pages 85 to 94, the following transactions arose with Directors in the normal course of business:

a During the year, a quasi loan was made to C N Wright. The highest amount outstanding during the year was £36,314 (2005: £31,794). The amount outstanding at 31 August 2006 was £nil (2005: £nil).

b Until his death on 7 July 2006, C J C Levison was 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, Scan Corporate Recovery Limited. All fees paid to Harbottle & Lewis by the Group were on ordinary commercial terms incurred in the normal course of the Group's business. Neither Mr Levison nor Scan Corporate Recovery Limited participated in any fees or profits of Harbottle & Lewis relating to the Group, or any of its subsidiary or joint venture companies.

34 Accounting estimates, judgements and adopted IFRSs not yet applied

Estimates

The key assumptions concerning the future and other key sources of estimation at the balance sheet date that have a risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Intangible assets

When the Group makes an acquisition, management review the business and assets acquired to determine whether any intangible assets should be recognised separately from goodwill. If such an asset is identified it is valued by discounting the probable future cash flows expected to be generated by the asset over the estimated life of the asset. Where there is uncertainty over the amount of economic benefit and the useful life, this is factored into the calculation. Details of intangible assets are given in note 12.

Impairment of goodwill

The Group determines whether goodwill is impaired at a minimum on an annual basis. This requires an estimation of the value in use of the cash-generating units to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit that holds the goodwill at a determined discount rate to calculate the present value of those cash flows. Note 12 sets out details of impairment in the year.

Recoverability of trade receivables

Trade receivables are reflected net of estimated provisions for doubtful accounts. This provision is based primarily on the Group's ageing policy guidelines and on individual customer analysis.

Employee post-retirement benefit obligations

The Group has two principal defined benefit pension plans. The obligations under these plans are recognised in the balance sheet and represent the present value of the obligation calculated by independent actuaries, with input from management. These actuarial valuations include assumptions such as discount rates, return on assets, salary progression and mortality rates. These assumptions vary from time to time according to prevailing economic and social conditions. Details of the assumptions used are provided in note 23.

Adopted IFRSs not yet applied

The following IFRSs were available for early adoption but have not been applied by the Group in these financial statements.

IFRS 7 – Financial Instruments: Disclosure

This is applicable for the years commencing on or after 1 January 2007. The application of IFRS 7 in 2006 would not have affected the balance sheet or income statement as the standard is concerned only with disclosure. The Group plans to adopt this in 2008.

Amendments to IAS 39 and IFRS 4

The Company has not adopted amendments to IAS 39 and IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 September 2006.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other Companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

The Company does not expect the amendments to have any impact on the financial statements for the period commencing 1 September 2006.

35 Principal subsidiary and joint venture companies

The principal subsidiary and joint venture companies of Chrysalis Group PLC at 31 August 2006 were as follows:

		Effective interest %
	Holding companies	
*	Chrysalis Holdings Limited	100.0
	Chrysalis Investments Limited	100.0
*	Chrysalis Music Holdings Inc (USA)	100.0
*	Chrysalis Music Investments Inc (USA)	100.0
	Chrysalis Music Holdings GmbH (Germany)	100.0
	Chrysalis Radio Holdings Limited	100.0
	Music	
*	Air Chrysalis Scandinavia AB (Sweden)	100.0
*	Air Chrysalis Scandinavia Limited	100.0
*	A Fein Martini LLC (USA)	50.1
*+	Chrys-A-Lee Music Limited	50.0
*	ChrysalisClip Music SL (Spain)	50.1
	Chrysalis Copyrights Limited	100.0
	Chrysalis Music Group Inc (USA)	100.0
*	Chrysalis Music International BV (Holland)	100.0
*	Chrysalis Music Italy srl (Italy)	100.0
*	Chrysalis Music Limited	100.0
*	Chrysalis Music Publishing Limited	100.0
*	Chrysalis Music Publishing (Aust) Pty Limited (Australia)	100.0
*	Chrysalis Music Publishing GmbH (Germany)	100.0
*	Chrysalis Music France SAS (France)	100.0
*	Chrysalis Strengholt Music France SNC (France)	50.1
*	Chrysalis Music Benelux VOF (Holland)	50.1
*	Chrysalis Songs Limited	100.0
*	Downboy Music Limited	100.0
*	Global Chrysalis Music Publishing Company Limited	100.0
*	Jerv Songs Limited	100.0
*	Klynch Music Limited	100.0
*	Chrysalis Radio Holdings Limited	100.0
	Lasgo Chrysalis Limited	100.0
*	The Echo Label Limited	100.0
*	The Hit Label Limited	100.0
*	The Hit Record Company Limited	100.0
*	Tin Pan Alley Music Limited	100.0

		Effective interest %
	Radio	
*	Chrysalis Radio Midlands Limited	100.0
*	Chrysalis Radio East Midlands Limited	100.0
*	Chrysalis Radio London Limited	100.0
*	Chrysalis Radio Limited	100.0
*	Galaxy Radio Manchester Limited	100.0
*	Galaxy Radio Yorkshire Limited	100.0
*	Galaxy Radio Birmingham Limited	100.0
*	Galaxy Radio Northeast Limited	100.0
*	LBC Radio Limited	100.0
*+	MXR Holdings Limited	39.1
*+	Digital News Network Limited	100.0

* *Denotes shares held by other subsidiaries.*
\+ Denotes joint venture company.

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 and Chrysalis Radio London Limited where redeemable preference shares are also held by the Group.

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

	Type of share	Issued share capital
Chrys-A-Lee Music Limited	Ordinary and non-voting shares of £1 each	£500
MXR Holdings Limited	Ordinary shares of £1 each	£750,000

36 Explanation of transition to adopted IFRSs

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with 'IFRSs as adopted by the EU'.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 August 2006, the comparative information presented in these financial statements for the year ended 31 August 2005 and in the preparation of an opening balance sheet at 1 September 2004 (the Group's date of transition).

In preparing the opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanantion of how the transition from UK GAAP to adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following notes and tables.

Income statement

The results from discontinued operations have been reclassified as a single line item, now disclosed after profit after tax (i).

The Group's share of the profit of joint ventures and associates is now presented including its share of interest and tax. The interest and tax lines in the income statement now exclude these amounts (ii).

Dividends are no longer shown on the face on the income statement, but disclosed within the reconciliation of movements in capital and reserves once they are declared by the shareholders (ii).

Balance sheet

The assets and liabilities relating to discontinued operations and the investment accounted for using the equity method have been reclassified as two line items within current assets and current liabilities in the balance sheet (i).

Provisions are analysed between current and non-current liabilities (ii).

Deferred tax is shown separately on the face of the balance sheet and disclosed as non-current (ii).

The final salary pension deficit is shown separately on the face of the balance sheet (iii).

Cash flow statement

The reconciliation of operating profit to operating cash flows is shown at the beginning of the cash flow statement rather than in a note.

IAS 19 – Employee Benefits (iii)

The principal impact of IAS 19 (Employee Benefits) on the Group is in relation to accounting for final salary pension schemes.

IAS 19 requires final salary pension schemes to be recognised on the balance sheet and the accounting to be based on fair values at the balance sheet date. The amount recognised and the associated expenses are measured on an actuarial basis. As discussed in note 1, the Group has chosen to adopt the amendment to IAS 19 early and recognise actuarial gains and losses arising from the full year actuarial valuation in full through the statement of recognised income and expense in the period in which they arise. The treatment and impact is broadly in line with that previously disclosed in accordance with FRS 17 under UK GAAP.

The net operating charge through the income statement increases by £16,000 after the reversal of the previous SSAP 24 charge, whilst the net financing cost, for which there was no equivalent under UK GAAP (SSAP 24), is £249,000.

The balance sheet shows a total IAS 19 pension deficit of £6.3 million at 31 August 2005 of which, under UK GAAP, the unfunded element of £5.7 million was not previously recognised and an amount of £600,000 was included within provisions under SSAP 24. A movement through the statement of recognised income and expense for the year of £1.1 million reflects the actuarial gains and losses. The deficit is shown before a deferred tax asset of £1.9 million recognised within non-current assets in the balance sheet. The net impact on the balance sheet of recognising the pension liability and deferred tax asset is £4.4 million.

On an ongoing funding basis, the latest actuarial valuations show a total deficit of £5.0 million at 31 August 2005 against the IAS 19 deficit of £6.3 million. This is a more relevant figure as it is these valuations that determine the future funding requirements for the Group.

Expenditure relating to money purchase pension schemes continues to be charged through the income statement as incurred.

IFRS 2 – Share-Based Payments (iv)

The Chrysalis Group PLC 2003 Long-Term Incentive Plan ('the LTIP Scheme')

The income statement includes a charge for share-based payments of £0.3 million (2005: £0.1 million).

These charges, which have been calculated in accordance with IFRS 2 – Share-Based Payments, arise on certain long-term incentive plans (LTIPs) granted to employees and on the Group's Sharesave scheme. The charge is calculated by spreading the fair value of the awards over the vesting period. The fair values have been calculated using the Monte Carlo or binominal models, depending on the scheme. Assumptions have been made in these models for the expected volatility of the Group's share price, risk-free interest rates, the expected dividend yield and the likelihood of early exercise.

36 Explanation of transition to adopted IFRSs continued

IFRS 2 requires a charge for all such grants including awards, options and sharesave schemes, based on fair value, unlike 2005 UK GAAP which based the charge on the intrinsic market value of the underlying shares at the date of grant and allowed the provision for any liability to take account of the likelihood of the ultimate payout, taking into account the likelihood of performance criteria being met.

As stated in note 23 above, the Group has applied the recognition and measurement requirements of IFRS 2 only to equity-settled share options and awards granted after 7 November 2005 that had not yet vested as at 1 January 2005. The Group has applied IFRS 2 only to cash-settled share options and awards not settled before 1 January 2005.

The Remuneration Committee of the Board has agreed to settle the awards made in respect of the LTIP Scheme in August 2003, November 2003 and December 2004 in cash if, and when, they vest. The Directors do not believe that any liability will arise on these awards as the performance criteria are unlikely to be met. No provision has therefore been made in respect of these awards. The Remuneration Committee has also taken the exemption under IFRS 1 not to apply IFRS 2 to liabilities that were settled before 1 September 2005.

The Chrysalis Sharesave Scheme

Full provision is required for all employee sharesave schemes under IFRS 2. The charge under IFRS 2 in respect of the Group's employee Sharesave Schemes is £0.1 million higher in 2005 than under UK GAAP. There is no impact on the net assets of the Group as the charge to the income statement is matched by an equal credit through reserves.

IFRS 3 – Business combinations (v)

The Group has taken the exemption from applying IFRS 3 (Business Combinations) to combinations occurring before 1 September 2004. The goodwill arising from combinations occurring before that date therefore remains at the amount shown under UK GAAP at 1 September 2004 and therefore, there is no impact on the 2004 opening balance sheet.

Business combinations occurring after 1 September 2004 have been accounted for in accordance with IFRS 3. This impacts the acquisition accounting for Century Radio 106 Limited which occurred in May 2005, which was during the transition period for IFRS 3 purposes. The principal impact is that intangible assets amounting to £29.6 million (principally comprising radio broadcast licences and the customer order book), which meet the definition for recognition under IAS 38 (Intangible Assets) and whose fair value can be measured are recognised separately from goodwill. These assets are then amortised over their useful lives. The application of recognition principles of IFRS 3 results in the recognition of additional intangible assets and the application of IAS 12 results in changes to the deferred tax recognised.

IFRS 3 does not permit the amortisation of goodwill, requiring instead that it is subjected to annual impairment testing and whenever there is an indication of impairment. Combined with the amortisation of newly recognised intangibles, this results in a net reduction in the Group's amortisation charge for the year ended 31 August 2005 of £1.6 million. The component parts are a reversal of previously amortised goodwill of £2.9 million, offset by the inclusion of the amortisation of new intangible assets of £0.5 million and impairment of goodwill relating to the discontinued books operation of £0.8 million. On transition, certain items recognised as other intangible assets under IFRS (but not all such items) have been reclassified to goodwill. The balance sheet shows the corresponding increase to goodwill. This has resulted in additional goodwill of £8.9 million in relation to the Century 106 acquisition.

On the balance sheet at 31 August 2005, goodwill is lower than previously reported under UK GAAP by £15.5 million while other intangible assets increase by £25.9 million, due to the reclassification of a radio licence, giving a net increase in intangible assets on the face of the balance sheet of £1.6 million.

IAS 12 – Income taxes

IAS 12 (Income Taxes) requires deferred tax to be provided on temporary differences rather than timing differences under UK GAAP.

The total impact on the 2005 income statement is a reduction in the tax charge of £0.1 million. On the balance sheet, the net deferred tax asset increases by £1.9 million. The tax recognised directly through equity in 2005 is £1.8 million. The key impacts on deferred tax are in the following areas:

The final salary pension scheme deficit, recognised in the balance sheet, results in an increase to the deferred tax asset of £1.9 million at 31 August 2005. The movements in this asset are through the statement of recognised income and expense, in respect of the actuarial gains and losses (£202,000) and through the income statement with a £79,000 reduction to the charge in 2005, in respect of the operating charge and net interest.

Deferred tax is provided on share-based payments where the tax base exceeds the cumulative share-based expense recognised in the income statement. At 31 August 2005, there is no additional deferred tax asset being recognised through the income statement in 2005. Movements through equity for the year are nil.

IAS 10 – Events after the Balance Sheet Date

Under IAS 10 (Events after the Balance Sheet Date), dividends are recognised in the period in which they are declared. Additionally, the Group no longer shows dividends on the face of the income statement but instead shows them as a movement in equity. The impact on the balance sheet is to reduce liabilities by £2.1 million at 31 August 2005.

36 Explanation of transition to adopted IFRSs continued

IAS 32 and IAS 39 – Financial Instruments

The Group has taken the IFRS 1 exemption from applying IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement) to its 2005 results. As such, the 2005 information in this document for financial instruments continues to be presented under the current UK GAAP basis.

Under IFRS, all derivative financial instruments are recognised as assets or liabilities in the balance sheet at fair value. Gains and losses on remeasurement are recognised in the income statement unless they meet the definition of a cash flow hedge under IAS 39, in which case the elements of the gains and losses which fulfil the hedge effectiveness criteria are taken directly to equity, to be recycled when the forecast transaction takes place.

Marketable shares and securities classified as available for sale are recognised at fair value with fair value movements going directly to equity. Impairments of available for sale financial assets are recorded in the income statement.

Debt instruments are measured initially at fair value and measured subsequently at amortised cost, unless they are designated as the hedged item in a hedge relationship, in which case their carrying value is adjusted by fair value gains and losses attributable to the hedged risk with movements being taken to the income statement to match against the movement in the hedging item.

The impact on the 1 September 2005 balance sheet is limited with the net assets effect being a decrease of £2.2 million from IAS 39 itself and an increase to deferred tax assets of £0.7 million resulting from the application of IAS 12 to these adjustments.

Loss per share

Basic loss per share for 2005 under IFRS was 19.75p (UK GAAP: 20.55p). The diluted loss per share for 2005 under IFRS was 19.74p (UK GAAP: 20.54p). Adjusted loss per share for 2005 under IFRS was 2.04p (UK GAAP: adjusted earnings per share of 1.2p). Adjusted loss per share comprise basic earnings per share adjusted to exclude amortisation of intangible assets, impairments of investments, profits/(losses) on sales of investments, profits/(losses) from discontinued activities and gains arising on interest rate hedging instruments.

Reconciliation of consolidated income statement

For year ended 31 August 2005	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(iv) £'000	(v) £'000	IFRS £'000
Group revenue	155,237	(21,588)					133,649
Operating expenses before depreciation and amortisation	(151,259)	26,563		(16)	(133)		(124,845)
Significant impairment of trading assets and closure costs	(15,456)	15,456					–
Significant impairment of intangible assets and acquired goodwill	(11,525)	11,525					–
Amortisation of intangible assets	(3,103)	823				1,582	(698)
Depreciation of property, plant and equipment	(2,631)	453					(2,178)
Profit on sale of investments		497					497
Impairment of investment		(1,375)					(1,375)
Group operating expenses	(183,974)	53,942	–	(16)	(133)	1,582	(128,599)
Group (loss)/profit from operations	(28,737)	32,354	–	(16)	(133)	1,582	5,050
Finance income	1,189		(6)	591			1,774
Financing cost	(4,959)			(840)			(5,799)
Net financing costs	(3,770)	–	(6)	(249)	–	–	(4,025)
Share of losses of equity accounted investments	(79)		4				(75)
Impairment of investment	(1,375)	1,375					–
Significant profits on disposals of fixed asset investments	220	(220)					–
(Loss)/profit before tax	(33,741)	33,509	(2)	(265)	(133)	1,582	950
Income tax expense	(594)		2	79			(513)
(Loss)/profit after tax	(34,335)	33,509	–	(186)	(133)	1,582	437
Loss from discontinued operations	–	(33,509)	–	–	–	–	(33,509)
Net (loss)/profit after discontinued operations and for the year	(34,335)	–	–	(186)	(133)	1,582	(33,072)

References to roman numerals in columns above relate to adjustments discussed on pages 66 to 68.

36 Explanation of transition to adopted IFRSs continued

Reconciliation of equity

As at 31 August 2005	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(v) £'000	IFRS £'000
Assets						
Goodwill	54,574				(15,459)	39,115
Other intangible assets	9,437				25,927	35,364
Property, plant and equipment	17,904	(1,136)				16,768
Investments accounted for using the equity method	2,082	(1,625)				457
Deferred tax assets	–		37	1,902		1,939
Total non-current assets	83,997	(2,761)	37	1,902	10,468	93,643
Inventories	4,993	(3,067)				1,926
Trade and other receivables	41,271	(7,684)	(37)			33,550
Cash and cash equivalents	17,941	(564)	(454)			16,923
Assets classified as held for sale	–	14,076				14,076
Total current assets	64,205	2,761	(491)	–	–	66,475
Total assets	148,202	–	(454)	1,902	10,468	160,118
Liabilities						
Interest-bearing loans and borrowings	(65,902)	24				(65,878)
Employee benefits	(329)			(6,340)		(6,669)
Provisions	(2,135)	302	282	600		(951)
Deferred tax liabilities	–				(8,886)	(8,886)
Total non-current liabilities	(68,366)	326	282	(5,740)	(8,886)	(82,384)
Interest-bearing loans and borrowings	(11,919)		454			(11,465)
Trade and other payables	(49,940)	9,583	2,101			(38,256)
Provisions	–		(282)			(282)
Liabilities classified as held for sale	–	(9,909)				(9,909)
Total current liabilities	(61,859)	(326)	2,273	–	–	(59,912)
Total liabilities	(130,225)	–	2,555	(5,740)	(8,886)	(142,296)
Net assets	17,977	–	2,101	(3,838)	1,582	17,822
Equity attributable to equity holders of parent						
Issued capital	3,357					3,357
Share premium	62,268					62,268
Other reserves	741		(535)			206
Retained earnings	(48,410)		2,636	(3,838)	1,582	(48,030)
	17,956	–	2,101	(3,838)	1,582	17,801
Minority interests (equity interests)	21					21
Total equity	17,977	–	2,101	(3,838)	1,582	17,822

References to roman numerals in columns above relate to adjustments discussed on pages 66 to 68.

36 Explanation of transition to adopted IFRSs continued

Reconciliation of equity

As at 1 September 2004	UK GAAP £'000	(i) £'000	(ii) £'000	(iii) £'000	(v) £'000	IFRS £'000
Assets						
Goodwill	38,211				3,212	41,423
Other intangible assets	10,688				(3,212)	7,476
Property, plant and equipment	18,402					18,402
Investments accounted for using the equity method	3,591	(3,138)				453
Deferred tax assets	–		189	1,621		1,810
Total non-current assets	70,892	(3,138)	189	1,621	–	69,564
Inventories	9,197					9,197
Trade and other receivables	52,852		(189)			52,663
Cash and cash equivalents	32,858					32,858
Assets classified as held for sale	–	3,138				3,138
Total current assets	94,907	3,138	(189)	–	–	97,856
Total assets	165,799	–	–	1,621	–	167,420
Liabilities						
Interest-bearing loans and borrowings	(49,257)					(49,257)
Employee benefits	(286)			(5,402)		(5,688)
Provisions	(1,717)		533	1,054		(130)
Total non-current liabilities	(51,260)	–	533	(4,348)	–	(55,075)
Interest-bearing loans and borrowings	(16,629)					(16,629)
Trade and other payables	(43,523)		2,101			(41,422)
Provisions	–		(533)			(533)
Liabilities classified as held for sale	–					–
Total current liabilities	(60,152)	–	1,568	–	–	(58,584)
Total liabilities	(111,412)	–	2,101	(4,348)	–	(113,659)
Net assets	54,387	–	2,101	(2,727)	–	53,761
Equity attributable to equity holders of parent						
Issued capital	3,357					3,357
Share premium	62,267					62,267
Other reserves	741					741
Retained earnings	(11,978)		2,101	(2,727)		(12,604)
Total equity	54,387	–	2,101	(2,727)	–	53,761

References to roman numerals in columns above relate to adjustments discussed on pages 66 to 68.

Consolidated cash flow as at 31 August 2005

Cash and cash equivalents of £0.6 million held by the books division, has been reclassified as an asset held for sale for the purposes of the cash flow statement under IFRS. There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP, other than presentational changes.

Company balance sheet

As at 31 August 2006

	Note	2006 £'000	Restated 2005 £'000
Fixed assets			
Tangible assets	39	11,805	12,172
Investments	40	134,671	138,261
		146,476	150,433
Current assets			
Debtors (including £2,196,000 (2005: £1,902,000) deferred tax asset due after one year)	41	5,281	5,405
Cash at bank and in hand		13,165	743
		18,446	6,148
Creditors: amounts falling due within one year	42	62,309	(49,776)
Net current liabilities		43,863	(43,628)
Total assets less current liabilities		102,613	106,805
Creditors: amounts falling due after more than one year	42	(96)	(7)
Provisions for liabilities and charges	44	(1,000)	(1,233)
Net assets excluding pension liabilities		101,517	105,565
Pension liabilities		(7,321)	(6,340)
Net assets including pension liabilities		94,196	99,225
Capital and reserves			
Called up share capital	45	3,357	3,357
Share premium account	45	62,269	62,268
Revaluation reserve	45	3,900	3,900
Other reserves	45	(354)	(184)
Profit and loss account	45	25,024	29,884
Shareholders' funds equity (equity interests)	45	94,196	99,225

The financial statements were approved by the Board on 29 November 2006 and were signed on its behalf by:

R N L Huntingford
Director

M D Connole
Director

The attached notes on pages 72 to 80 form part of these accounts

37 Accounting policies

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

- FRS 20 – Share-Based Payments;
- FRS 21 – Events after the Balance Sheet Date;
- The presentation requirements of FRS 25 – Financial instruments: Presentation and Disclosure; FRS 26 – Financial Instruments: Measurement, and
- FRS 28 – Corresponding Amounts.

The recognition and measurement requirements of FRS 17 – Retirement Benefits have also been adopted, previously the transitional disclosures of that standard have been followed.

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

In 2006, the Company adopted FRS 21 – Events after the Balance Sheet Date which requires recognition of dividends as a liability in the period in which they are paid or proposed. A prior year adjustment has been made to recognise the final dividend previously recognised at 31 August 2005, in the financial statements for that year.

Basis of preparation
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, as modified by the periodic revaluation of certain fixed assets.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account. Under Financial Reporting Standard no. 1, the Company is exempt from the requirements to prepare a cash flow statement on the grounds that it is included in the consolidated accounts.

Fixed asset investments
In the Company's financial statements, investments in subsidiary undertakings and participating interests in joint venture companies and associates are stated at cost less provisions for any impairment.

Depreciation
Depreciation is provided on a straight-line basis in order to write off the cost of tangible fixed assets over their expected useful economic lives or net realisable values, on the following bases:

Tangible fixed assets

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

Leases
Where the Company 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.

Post-retirement benefits
Pensions relating to current and past service are funded by annual contributions to the Chrysalis Group PLC Retirement Benefits Scheme, which has money purchase and final salary sections.

The assets of the money purchase section of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The assets of the final salary section of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full on the face of the balance sheet. The movement in the scheme's surplus/deficit is split between operating charges and finance items in the profit and loss account and, in the statement of total recognised gains and losses, the actuarial gains or losses.

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

Translation of foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction unless foreign exchange contracts are in place, in which case the transaction is translated at the contract rate.

37 Accounting policies continued

Share-based payments

The Company's share option programme allows employees of the Company and its subsidiaries to acquire shares of the Company. The fair value of options granted after 7 November 2002 and those not yet vested as at 1 September 2005 is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

For cash-settled share-based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking into account the terms and conditions upon which the instruments were granted. The liability is revalued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Where the employees are employed by a subsidiary of the Company, the fair value is treated as a capital contribution with a corresponding increase in investments.

Dividends

Dividends from subsidiary companies are accounted for when declared payable. Dividends payable to shareholders are recognised either in the case of final dividends in the period when they are approved by the shareholders at the Annual General Meeting or, in the case of interim dividends, in the period in which they are paid.

Cash and liquid resources

Cash for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into cash at, or close to, their carrying values or traded in an active market.

38 Employees

	2006 £'000	2005 £'000
Payroll costs (including Directors) were as follows:		
Wages and salaries	5,365	4,144
Social security costs	474	392
Other pension costs	532	311
	6,371	4,847

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

	2006 Number	2005 Number
Administration	58	54

Directors' emoluments

Details of individual Directors' emoluments, pension entitlements, long-term incentive plans and share options are disclosed in the Report of the Board on remuneration on pages 85 to 94.

39 Fixed assets – tangible assets

	Land and buildings freehold £'000	Land and buildings leasehold £'000	Furniture, fixtures, plant and equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 September 2004	12,999	393	5,580	144	19,116
Additions	–	–	341	–	341
Disposals	–	–	–	(56)	(56)
At 31 August 2005	**12,999**	**393**	**5,921**	**88**	**19,401**
Accumulated depreciation					
At 1 September 2004	2,392	241	3,759	90	6,482
Charge for the year	267	19	487	25	798
Disposals	–	–	–	(51)	(51)
At 31 August 2005	**2,659**	**260**	**4,246**	**64**	**7,229**
Net book values					
At 31 August 2005	**10,340**	**133**	**1,675**	**24**	**12,172**
Net book values					
At 31 August 2004	10,607	152	1,821	54	12,634
Cost					
At 1 September 2005	12,999	393	5,921	88	19,401
Additions	–	–	512	–	512
Disposals	–	–	–	(35)	(35)
At 31 August 2006	**12,999**	**393**	**6,433**	**53**	**19,878**
Accumulated depreciation					
At 1 September 2005	2,659	260	4,246	64	7,229
Charge for the year	267	19	571	–	857
Disposals	–	–	–	(13)	(13)
At 31 August 2006	**2,926**	**279**	**4,817**	**51**	**8,073**
Net book values					
At 31 August 2006	**10,073**	**114**	**1,616**	**2**	**11,805**

Included in cost of freehold land and buildings in the Company is an amount of £785,000 (2005: £785,000) in respect of interest capitalised in previous years.

40 Fixed assets – investments

	Shares in subsidiaries £'000	Loans to subsidiaries £'000	Shares in participating interests £'000	Loans to participating interests £'000	Other investments £'000	Total £'000
Cost or valuation						
At 1 September 2004	16,118	134,654	3,000	233	5	154,010
Movement in year	101	36,864	–	(136)	–	36,829
At 31 August 2005	**16,219**	**171,518**	**3,000**	**97**	**5**	**190,839**
Provisions						
At 1 September 2004	22	24,722	–	42	–	24,786
Movement in year	–	26,417	1,375	–	–	27,792
At 31 August 2005	**22**	**51,139**	**1,375**	**42**	**–**	**52,578**
Net book values						
At 31 August 2005	**16,197**	**120,379**	**1,625**	**55**	**5**	**138,261**
Net book values						
At 31 August 2004	16,096	109,932	3,000	191	5	129,224
Cost or valuation						
At 1 September 2005	16,219	171,518	3,000	97	5	190,839
Movement in year	165	(37,237)	(3,000)	(52)	3,495	(36,629)
At 31 August 2006	**16,384**	**134,281**	**–**	**45**	**3,500**	**154,210**
Provisions						
At 1 September 2005	22	51,139	1,375	42	–	52,578
Movement in year	–	(35,164)	(1,375)	–	3,500	(33,039)
At 31 August 2006	**22**	**15,975**	**–**	**42**	**3,500**	**19,539**
Net book values						
At 31 August 2006	**16,362**	**118,306**	**–**	**3**	**–**	**134,671**

The movement in shares in subsidiaries relates to share-based payments. Detailed disclosures are contained within note 27 of the Group accounts.

If the Company was to realise its fixed asset investments at their carried amounts, no liability to taxation on the gains would be likely to arise as the transaction would either be exempt under the substantial shareholder tax legislation or sheltered by capital losses. Shares in subsidiaries includes an amount of £3,900,000 (2005: £3,900,000) in respect of a Directors' 1989 revaluation of an 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 subsidiaries and joint ventures at 31 August 2006 are set out in note 35.

41 Debtors

	2006 £'000	Restated 2005 £'000
Due within one year		
Trade debtors	232	8
Other debtors	1,440	1,557
Corporate and other taxes	1,126	1,678
Prepayments and accrued income	287	260
Deferred tax asset	2,196	1,902
	5,281	5,405

42 Creditors

	2006 £'000	Restated 2005 £'000
Amounts falling due within one year		
Bank loans and overdrafts	7,040	1,113
Hedging instruments	44	–
Lease and hire purchase obligations	73	15
Trade creditors	147	330
Amounts owed to subsidiary companies	50,860	44,347
Other creditors	256	59
Social security and other taxes	149	154
Accruals and deferred income	3,740	3,758
	62,309	49,776
Amounts falling due after more than one year		
Lease and hire purchase obligations	96	7

Amounts falling due after more than one year are analysed as follows:

	Between 1-2 years £'000	Between 2-5 years £'000	Over 5 years £'000	Total £'000
Lease and hire purchase obligations net of future finance charges	66	30	–	96

43 Derivative financial instruments

2006 FRS 25 and 26 disclosures

The accounting policies and disclosures relating to financial instruments, which include those held by the Company, are set out in note 29 of the Group accounts.

2005 FRS 13 disclosures

i Currency and interest rate analysis

As at 31 August 2005, the currency and interest rate profile of the Company's financial liabilities after taking into account the effect of interest rate collars were as follows:

	Floating rate liabilities £'000	Fixed rate liabilities £'000	Total £'000
At 31 August 2005			
Sterling	(1,113)	(22)	(1,135)
At 31 August 2004			
Sterling	(5,020)	(90)	(5,110)

Floating rate borrowings bear interest with reference to bank rates. The weighted average interest rate on fixed rate borrowings is 8.13% (2004: 7.93%) and the weighted average time for which the rate is fixed was 1.32 years (2004: 1.34 years). The maturity of the borrowings is shown in note 42.

43 Derivative financial instruments continued

ii Currency exposure

As at 31 August 2005, the currency exposures of the Company were as follows:

Functional currency of Group operations	Euro £'000	US Dollar £'000	Total £'000
At 31 August 2005			
Sterling	320	86	406
At 31 August 2004			
Sterling	271	579	850

iii Comparison of book value and fair value of the Company's financial assets and liabilities

At 31 August 2005, the book value of interest rate collars used to manage the Company's interest rate exposure was £nil (2004: £nil). The fair value of interest rate collars at 31 August 2005 indicated a technical deficit to the Company of £170,238 (2004: £99,822) and arises because at the year end, the prevailing interest rate had fallen below the contractual floor rate in the collar. The fair value was calculated by reference to prevailing market interest rates. There were no forward foreign exchange contracts at 31 August 2005 (2004: £nil).

44 Provisions for liabilities and charges

Property provision	2006 £'000
At 1 September 2005	1,233
Utilised in the year	(233)
At 31 August 2006	1,000

Property provisions relate to two properties acquired in prior years with the acquisition of the since disposed Chrysalis Books division which are deemed surplus to the Company's current requirements and therefore rentals have been fully provided up to the end of the leases.

A deferred tax asset arises in the UK which is not recognised in the accounts because the Directors believe that suitable taxable profits are unlikely to arise from which the future reversal of timing differences could be deducted. The deferred tax asset can be analysed as follows:

	2006 Unprovided £'000	2005 Unprovided £'000
Unrecognised tax assets		
Unutilised trading losses	1,901	3,578
Differences between accumulated depreciation and capital allowances	1,177	736
	3,078	4,314
Recognised tax assets		
Other timing differences	–	–

45 Reconciliation of movement in shareholders' funds

	Share capital £'000	Share premium £'000	Revaluation reserve £'000	Other reserves £'000	Profit and loss £'000	Total £'000
At 31 August 2005 (as originally reported)	3,357	62,268	3,900	(184)	31,520	100,861
Effect of change in accounting policy						
Adoption of FRS 17	–	–	–	–	(3,838)	(3,838)
Adoption of FRS 20	–	–	–	–	101	101
Adoption of FRS 21	–	–	–	–	2,101	2,101
Revised 31 August 2005	3,357	62,268	3,900	(184)	29,884	99,225
Effect of adoption of FRS 26	–	–	–	(170)	–	(170)
Opening shareholders' funds at 1 September 2005						
(as restated including the impact of FRS 26)	3,357	62,268	3,900	(354)	29,884	99,055
Share premium on shares issued in the year	–	1	–	–	–	1
Share-based payments	–	–	–	–	299	299
Total recognised gains and losses for the year	–	–	–	–	(3,058)	(3,058)
Adoption of FRS 21	–	–	–	–	(2,101)	(2,101)
At 31 August 2006	**3,357**	**62,269**	**3,900**	**(354)**	**25,024**	**94,196**

Analysis of other reserves

	Other reserves £'000	Hedging reserve £'000	Reserve for own shares £'000	Total £'000
At 31 August 2005	253	–	(437)	(184)
Effect of change in accounting policy				
Adoption of FRS 26	–	(170)	–	(170)
At 1 September 2005 restated and 31 August 2006	**253**	**(170)**	**(437)**	**(354)**

During the year, the Company adopted FRS 21: Events after the Balance Sheet Date, which superseded SSAP 17. Under the new standard, final dividends payable are only recognised in the period in which they are approved at the Annual General Meeting and therefore become a liability and interim dividends are recognised in the period in which they are paid, whereas under SSAP 17, dividends were accrued for when proposed. This has resulted in an increase of £2.1 million in the retained profit for the year ended 31 August 2005.

As stated in note 37, the Company has adopted FRS 26 – Financial Instruments: Measurement, from 1 September 2005 and the impact of £(170,000) on reserves is shown above.

No profit and loss account has been presented for the holding company as allowed by section 230(4) of the Companies Act 1985. The loss for the financial year for the Company was £3,058,000 (2005: restated loss of £19,540,000).

The revaluation reserve resulted from the Directors' valuation in 1989 of shares in a subsidiary undertaking.

46 Financial commitments

At 31 August 2006, annual commitments under non-cancellable operating leases were as follows:

	Land and buildings 2006 £'000	Land and buildings 2005 £'000	Other 2006 £'000	Other 2005 £'000
Expiring within one year	–	–	90	16
Expiring between one and five years	–	–	224	19
Expiring after five years	798	870	–	–
	798	870	314	35

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

2005 leases were for cars and photocopiers no longer in use. The current year figure relates to a lease concerning the hire of photocopiers throughout the Company which commenced on 30 August 2006. Most of these costs will be recharged to subsidiary companies, but the Company recognises the full liability.

47 Pension costs

The actuarial valuation of the scheme at 1 September 2002 was updated to 31 August 2006 on a revised set of assumptions consistent with those required under FRS 17 by the Group's actuaries. The major assumptions used were as follows:

	2006	2005	2004
Rate of increase in pensionable salaries	**4.0%**	3.5%	5.0%
Rate of increase in pensions in payment	**3.0%**	2.5%	3.0%
Discount rate	**5.1%**	5.0%	5.8%
Inflation assumption	**3.0%**	2.5%	3.0%

Net assets of the scheme

The Company's share of the net pension asset/(liability) which is recognised in the balance sheet as at 31 August 2006 is as follows:

	Long-term rate of return per annum 2006	2005	2004	2006 £'000	2005 £'000	2004 £'000
Equities	**8.0%**	8.0%	7.5%	**5,655**	5,310	4,202
Fixed interest securities	**4.8%**	4.5%	5.4%	**5,869**	5,072	4,394
Property	**8.0%**	8.0%	7.5%	**74**	54	45
Cash	**4.5%**	4.5%	4.5%	**839**	557	400
Total market value of assets				**12,437**	10,993	9,041
Present value of liabilities				**(19,758)**	(17,333)	(14,443)
Deficit in the scheme in accordance with FRS 17				**(7,321)**	(6,340)	(5,402)
Related deferred tax asset at 30%				**2,196**	1,902	1,621
Net pension liability on a FRS 17 basis				**(5,125)**	(4,438)	(3,781)

Analysis of amount charged to operating profit

	2006 £'000	2005 £'000
Current service cost	**329**	228
Past service cost	**–**	–
Total operating charge	**329**	228

Analysis of amount charged to other finance income

	2006 £'000	2005 £'000
Expected return on the pension scheme assets	**695**	591
Interest on the pension scheme liabilities	**(866)**	(840)
Net expense	**(171)**	(249)

Analysis of actuarial loss

	2006 %	2005 %	2004 %	2006 £'000	2005 £'000	2004 £'000
Actual return less expected return on pension scheme assets	**–**	–	–	**338**	836	(81)
Percentage of year end scheme assets	**2.7**	7.6	0.9	**–**	–	–
Experience gains and losses arising on the scheme liabilities	**–**	–	–	**(343)**	1,228	(99)
Percentage of present value of year end scheme liabilities	**1.7**	7.1	0.7	**–**	–	–
Changes in assumptions underlying the present value of the scheme liabilities	**–**	–	–	**(1,245)**	(3,192)	(77)
Percentage of present value of year end scheme liabilities	**6.3**	18.4	0.5	**–**	–	–
Actuarial loss				**(1,250)**	(1,128)	(257)

The actuarial gains and losses are those resulting from the actual performance of the scheme being different from that predicted. For example, from changes in economic conditions, from the performance of the investment managers who manage the scheme's assets or from changes in the demographic profile of the Group's employees.

47 Pension costs continued

Movement in the deficit during the year

	2006 £'000	2005 £'000
Deficit in the scheme at the beginning of the year	**(6,340)**	(5,402)
Movement in the year:		
– current service cost	**(329)**	(228)
– contributions (employer and employee)	**769**	667
– other finance income	**(171)**	(249)
– actuarial (loss)/gain	**(1,250)**	(1,128)
Deficit in the scheme at the end of the year	**(7,321)**	(6,340)

48 Related party transactions

The Company has a related party relationship with its subsidiaries and joint venture companies (see note 35) and with its Board of Directors (see the Report of the Board on remuneration on pages 85 to 94). Under FRS 8 – Related Party Disclosures, the Company has taken advantage of the exemption from disclosing transactions with other group companies, also see note 33.

49 Contingent liabilities

The Company is a member of a group of UK companies that are part of a cross guarantee banking arrangement and has, together with its subsidiaries, given joint and several guarantees to the Group's bankers in respect of certain borrowings. The total liabilities to the bank under the cross guarantee arrangement was £0.7 million at 31 August 2006 (2005: £0.8 million).

From time to time, in the normal course of business, the Company may give guarantees in respect of certain leasing, property and other liabilities of subsidiary companies. The total liabilities under these products at 31 August 2006 was £0.8 million (2005: £0.4 million).

Corporate governance

The Board remains committed to ensuring that an appropriate standard of corporate governance is maintained throughout the Group. During the year ended 31 August 2006, the Company complied with the provisions of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 ('the Code'), except in respect of the number of Independent Non-Executive Directors on the Board as explained below.

The Board

The Group is controlled through its Board of Directors. The Board's main roles are to create value for its shareholders, to provide entrepreneurial leadership of the Group and to ensure that the necessary financial and other resources are made available to enable the Group's objectives to be met.

The Board meets regularly five times a year. 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 and all Directors receive notice of such meetings and are given the opportunity to comment on the issues being discussed if they are unable to attend the meeting.

The specific matters reserved for the Board include: setting Group strategy; approving an annual budget and medium-term forecasts; reviewing operational and financial performance; approving major acquisitions, divestments and capital expenditure; succession planning; approving appointments to the Board and of the Company Secretary; approving policies relating to Directors' remuneration and contracts.

The Board has delegated the responsibility of developing and recommending strategic objectives to reflect the long-term objectives and priorities of the Group to the Strategy and Investment Committee.

The Board is supplied on a monthly basis with detailed management accounts and an overview of Group financial and operational information including an assessment of the business risks and opportunities.

Directors and Directors' independence

The Board currently comprises the Executive Chairman, five Executive Directors and four Independent Non-Executive Directors. The names of the Directors together with their biographical details are set out on pages 26 to 28.

The Board is aware that the current balance of the Board does not comply with paragraph A.3.2 of the Code which provides that at least half of the Board, excluding the Chairman, comprise Independent Non-Executive Directors. The Board believes that there are an appropriate number of Independent Non-Executive Directors who can challenge the Board and bring strong independent judgement, knowledge and experience to the Board's deliberations. The Independent Directors are of sufficient calibre and number that their views carry significant weight in the Board's decision-making.

As reported last year, the Directors have reviewed the balance of the Board and subsequent to the year end appointed Jeremy Lascelles as an Executive Director and Jorgen Larsen as an Independent Non-Executive Director. The Board will continue to keep the balance of the Board under review having regard to the provisions of the Code.

The Directors are given access to independent professional advice at the Group's expense when they deem it necessary in order for them to carry out their responsibilities.

None of the Directors took independent professional advice during the period under review. Directors also have access to the advice and services of an experienced Company Secretary who is responsible for advising the Board on governance matters. The Company's Articles of Association and the schedule of matters reserved to the Board for decisions provide that the appointment and removal of the Company Secretary is a matter for the Board as a whole.

The roles of the Chairman and Chief Executive

The division of responsibility between the Chairman of the Board, Chris Wright, and the Group Chief Executive, Richard Huntingford, are clearly defined.

The Chairman together with the Chief Executive leads the Board in the determination of its strategy having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders. The Chairman is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman facilitates the effective contribution of Non-Executive Directors and oversees the performance evaluation of the Board.

Details of the Chairman's external commitments are included in the Chairman's biography on page 26. The Chairman performs a number of external roles for no fee but the Board is satisfied that these are not such as to interfere with the performance of the Chairman's duties to the Group.

The role of Deputy Chairman was carried out by Charles Levison until his death in July 2006. The Board is currently reviewing the role of Deputy Chairman.

The Group Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

The Board has appointed David Murrell as the Senior Independent Director. David is available to meet shareholders on request and to ensure that the Board is aware of shareholders' concerns not resolved through the existing mechanism for investor communications.

Professional development

The Board has approved an induction programme for new Directors so that they receive information about the Group, the role of the Board and the matters reserved for its decision, the Terms of Reference and membership of the Board Committees, and the latest financial information about the Group. This is supplemented by visits to the Group's key locations and discussions with Divisional Chief Executives and key management within each operating area.

Performance evaluation

The Board has established a formal process led by the Chairman for an annual evaluation of the performance of the Board, its principal committees and individual Directors.

The Board has again appointed an independent consultant to produce a questionnaire which provides a framework for the Board evaluation process. The independent consultant ensures that each Board member completes the questionnaire on a confidential basis and then collates and consolidates the results for the Board. Individual Director assessments are carried out by the Chairman in respect of the Chief Executive and the Non-Executive Directors and by the Chief Executive in respect of the other Executive Directors. The individual reviews assess and discuss the Directors' past performance, objectives and goals for the following year.

The Senior Independent Director carries out a performance review of the Chairman.

Board committees

The number of scheduled Board meetings and committee meetings attended by each Director during the year was as follows:

	Board		Remuneration Committee		Audit Committee		Nomination Committee		Strategy and Investment Committee	
Director	No. of scheduled meetings eligible to attend	No. of scheduled meetings attended	No. of scheduled meetings eligible to attend	No. of scheduled meetings attended	No. of scheduled meetings eligible to attend	No. of scheduled meetings attended	No. of scheduled meetings eligible to attend	No. of scheduled meetings attended	No. of scheduled meetings eligible to attend	No. of scheduled meetings attended
Chris Wright	5	5	n/a	n/a	n/a	n/a	2	2	6	6
Richard Huntingford	5	5	n/a	n/a	n/a	n/a	n/a	n/a	6	6
Michael Connole (appointed 01/01/06)	3	3	n/a	n/a	n/a	n/a	n/a	n/a	4	4
Nigel Butterfield (resigned 31/12/05)	2	2	n/a	n/a	n/a	n/a	n/a	n/a	2	2
Geoff Howard-Spink	5	5	3	3	3	3	2	2	6	5
Helen Keays	5	4	3	3	3	3	2	2	6	6
Peter Lassman	5	4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Charles Levison (deceased 07/07/06)	4	3	n/a	n/a	n/a	n/a	2	2	5	3
David Murrell	5	4	3	3	3	3	2	2	6	6
Phil Riley	5	5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Remuneration 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.

Details of the membership of the Committee during the year under review can be found on page 85. The Committee meets regularly with the Executive Chairman and Group Chief Executive to review and agree the remuneration of the Executive Directors and to approve remuneration policies overall for the Group. The Committee met three times during the financial year.

Full details of the Committee are set out in the Report of the Board on remuneration on pages 85 to 94.

With the specific approval of the Board in each case, Executive Directors may accept external appointments as Non-Executive Directors of other companies and retain any related fees paid to them. Chris Wright is Non-Executive Chairman of London Wasps Holdings Limited and Portman Film and Television Limited for which he currently receives no fee. Richard Huntingford served as a Non-Executive Director of Virgin Mobile Holdings (UK) plc from 1 November 2005 to 4 July 2006. Richard Huntingford received a fee of £30,461.

The Remuneration Committee Terms of Reference can be found on the Company's website at www.chrysalis.com.

Audit Committee

The members of the Committee were David Murrell (Chairman), Geoff Howard-Spink, and Helen Keays, all of whom were considered Independent Non-Executive Directors during the year under review. The Committee meets at least three times per annum to review the plan and scope of the external audit work, the interim and full results and more frequently if required. Meetings are usually attended by the external auditors and the Group Finance Director. During the year under review, the Committee met three times.

The Audit Committee Terms of Reference can be found on the Company's website at www.chrysalis.com.

The Committee has at least one member possessing what the Smith Report describes as recent and relevant experience. David Murrell, a chartered accountant, was a partner with KPMG as can be seen from the Directors' biographical details appearing on pages 26 and 27.

The principal duties of the Committee are: to review, and challenge where necessary, the actions and judgements of the management in relation to the Company's financial statements, interim reports, preliminary announcements and related formal statements before submission to, and approval by, the Board, and before clearance by the auditors; to review the effectiveness of the Company's procedures in respect of internal control and risk management; to consider annually whether there is a need for an internal audit function where no such function exists; make recommendations to the Board concerning the appointment of the Group's external auditors; and to monitor the external auditors' independence.

During the year ending 31 August 2006, the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements and interim result statements prior to Board approval and reviewing the external auditors' detailed reports thereon;
- reviewing the Group's trading update announcements;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing the Group's report on internal Risks and Control ensuring the effectiveness of the internal controls; and
- reviewing the external auditors' plan for the audit of the Group accounts, which included key areas of extended scope work, key risks of the accounts, confirmation of the auditors' independence and the proposed audit fee, and approving the Terms of Engagement for the audit.

The Audit Committee has previously approved the Group's whistle-blowing procedures which ensure that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence.

The Committee recommended to the Board the adoption of a policy in respect of non-audit work being undertaken by the auditors.

Auditors' Independence and Objectivity
The Audit Committee monitors regularly the non-audit services being provided to the Group by its external auditors and has developed an auditor independence policy to ensure this does not impair their independence or objectivity. The policy sets out principles which underpin the provision of non-audit services by the external auditors. Prior approval of the Audit Committee is required for any services provided by the external auditors where the cumulative fee is likely to be in excess of £100,000 in any one financial year.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 9 to the financial statements on page 45.

The Nomination Committee
During the year under review, the members of the Nomination Committee were Chris Wright (Chairman), Charles Levison, Geoff Howard-Spink, Helen Keays and David Murrell.

The principal duties of the Nomination Committee are to consider appointments to the Board and make recommendations in this respect to the Board, review the structure, size and composition of the Board, consider succession planning, ensure that a formal and rigorous evaluation of the Board and its Committees and individual Directors is undertaken at least once a year and to make recommendations to the Board in respect of membership of the Committees. During the year under review, the Committee formally met twice.

The Committee oversaw the search for a new Finance Director and appointed external consultants to produce a long list of candidates. The long list of candidates was reviewed by the Group Chief Executive and the external consultants after which a short list was produced. The candidates on the short list all met with the members of the Nomination Committee and the Group Chief Executive. Following these meetings, the Committee met to consider each candidate and make a formal recommendation to the Board. This process resulted in the appointment of Michael Connole as Group Financial Director.

As reported last year, the Board in conjunction with the Nomination Committee, has kept under review the position in respect of the number of Independent Non-Executive Directors on the Board. The Board and the Committee have during the year concluded that a further Independent Non-Executive Director should be appointed following the death of Charles Levison and in recognition of the fact that Geoff Howard-Spink will no longer be classed as an Independent Director under the Code from February 2007. During the year under review, the Nomination Committee has been fully involved in the search for a new Independent Non-Executive Director, resulting in the appointment of Jorgen Larsen on 1 November 2006.

The task of ensuring that a formal and rigorous evaluation of the Board is carried out annually has been delegated to the Committee. The results of the evaluation were discussed by the Board as a whole.

Strategy and Investment Committee
The Strategy and Investment Committee sets the strategy for the Group's businesses and approves specific investment and divestment opportunities. The members of the Strategy and Investment Committee during the year under review were Chris Wright, Richard Huntingford, Nigel Butterfield (resigned 31 December 2005), Michael Connole (appointed 1 January 2006), Charles Levison (died 7 July 2006), Geoff Howard-Spink, Helen Keays and David Murrell.

Re-election
Subject to the Company's Articles of Association, the Companies Act and satisfactory performance evaluation, all Directors are required to seek re-election at least every three years in accordance with the Code. Geoff Howard-Spink, who will be deemed under the Code as a non-independent Non-Executive Director, will be required to seek re-election annually.

Investor relations
The Directors value contact with the Company's institutional and private investors. Harriet Finney, as Director of Corporate Communications, ensures that the Company maintains its relationship with both private and institutional investors. Members of the Board meet regularly with institutional shareholders and analysts. The Directors also welcome the opportunity to meet with private investors at the Company's Annual General Meeting.

Non-compliance with the Code

The Group does not comply with provision A.3.2 of the Code which provides that at least *half of the Board, excluding the* Chairman, comprises Independent Non-Executives Directors.

Statement of internal controls

In accordance with the requirements of the Listing Rules, the Directors are responsible for maintaining an effective system of internal control that provides reasonable assurance that the Group's assets are safeguarded and that material financial errors and irregularities are prevented or detected with a minimum of delay. The system of internal control is designed to manage rather than eliminate the risks to business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material loss or misstatement of the financial statements.

The Group views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. This is done using a simple and flexible framework which provides a consistent and sustained way of implementing the Group's values. These business risks, which may be strategic, operational, reputational, financial or environmental, should be understood and visible. The business context determines in each situation the level of acceptable risk and controls.

The Directors have thoroughly reviewed the risk management process in place within the Group twice in the last five years. The result is that there is an effective ongoing process for the identification, evaluation and management of the significant risks facing the Group which has been further strengthened in the past six months.

The key procedures in place to review the effectiveness of the system of internal control include the following:

- An organisational structure with clearly defined areas of responsibility and delegation of authority;
- Regular reports to the Directors on the effectiveness of the Group's system of internal controls;
- The recognition of the fact that the responsibility for the risk and internal control process requires a broader range of skills than finance professionals can provide has meant that the responsibility for the risk function now sits within the Chief Executive's Office (formerly within Group Finance). The responsibilities of the function are monitoring and reviewing business risks and internal controls, including risk management, and to report regularly to the Directors on the status of key business risks and the Group's system of internal controls;
- The operation of risk management processes in which each business produces a database of key risks facing its objectives, the likelihood of each risk occurring, its impact on finances and image if it were to occur and the procedures in place to manage these risks to the desired level. This information is filtered to produce a register of the key risks facing the Group and an assessment of the adequacy and effectiveness of their controls is made. These risks and the management thereof are reported to and reviewed by the Audit Committee and the Board on a regular basis;
- The risks identified in the risk database and the management thereof are reported to and reviewed by the Audit Committee and the Board on a regular basis in the form of the Monthly Status Report;
- High level controls exercised by the 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, divisional chief* executives and divisional finance directors;
- Monitoring processes which include detailed written monthly status reports, including an assessment of business risks, 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 re-forecasts, the preparation of a rolling forecast on a monthly basis and the supervisory roles of the Group Chief Executive and the Group Finance Director;
- The close day-to-day involvement of the divisional chief executives in all the businesses for which they are responsible; and
- In the case of companies acquired during the year, the internal controls in place in these companies are reviewed against the Group's benchmarks of effective risk management and are integrated into the Group's system of internal control. In the case of associates and joint ventures, the Directors are provided with sufficient evidence during the year to establish the effectiveness of the system of internal controls operation in these companies.

Going concern

The Corporate Governance statement on going concern can be found in the Financial Review on page 24.

Report of the Board on remuneration

This report has been prepared in accordance with the Code and the Directors' Remuneration Report Regulations 2002.

During the year under review, the members of the Remuneration Committee ('the Committee') were Geoff Howard-Spink (Chairman), David Murrell and Helen Keays, all of whom were Independent Non-Executive Directors during the year under review. Chris Wright and Richard Huntingford do not sit on the Committee but do provide advice to the Committee on Directors' remuneration other than their own. The Committee met three times during the year under review.

The Committee has appointed New Bridge Street Consultants LLP, a firm of independent remuneration consultants, to assist it in its deliberations. The firm provides general advice on remuneration, including provision of comparative information in respect of Directors' remuneration and advice on the operation of the Group's short-term and long-term incentive plans. New Bridge Street Consultants LLP do not provide any other services to the Company.

The Remuneration Committee's Terms of Reference are published on the Company's website, www.chrysalis.com.

This report will be put to an advisory vote of the Company's shareholders at the Annual General Meeting on Monday 5 February 2007.

Remuneration review

As reported last year, the Committee in conjunction with its advisors, New Bridge Street Consultants LLP, has undertaken a review of the Group's short-term and long-term incentive schemes during the year.

The Committee has considered the effectiveness of the Group's long-term incentive arrangements both in terms of incentivising and retaining executives. The Committee's conclusion was that the current LTIP arrangements are not effectively achieving these goals at this time and, in response, during the year introduced a deferred share bonus plan. Under the deferred share bonus plan, Executive Directors will be granted an award over Chrysalis shares with an initial value of 50% of the Executive Directors' annual cash bonus paid. The deferred share bonus will normally vest three years after the date of its grant subject to the Executive Director remaining employed with the Group. No further performance conditions apply on the vesting of the shares because the grant of the deferred share bonus is itself performance-related. All deferred share bonus awards will be satisfied by the Company purchasing shares in the market, thus there will be no dilution to shareholders.

Wishing to keep the total remuneration packages on an expected value basis approximately equal before and after the introduction of the deferred share bonuses, the Committee will reduce the grant of LTIP awards (described below). With this in mind, in 2006, it has not and will not grant any performance or matching share awards under the LTIP.

To ensure that there is adequate focus on year-on-year-creation of shareholder value it is the Committee's intention to continue to grant share options (again described below) on an annual basis.

The Committee will keep its remuneration policy under careful review to ensure that executives are being incentivised and retained in an effective manner. It welcomes any feedback from shareholders who should contact the Company Secretary in the first instance.

Total remuneration policy

The Committee, in forming its policy on remuneration, has given due consideration to the provisions of the Code, to the needs of the Group and the shareholders. The ongoing policy of the Committee is to provide a competitive remuneration package to enable it to attract, retain and motivate executives of the calibre and experience required and the need to cost-effectively incentivise executives to deliver long-term shareholder value.

It is the aim of the Committee to reward Directors on a basis which is 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 broader principle that their remuneration should be competitive with the senior management of comparable companies operating in similar areas to the Group.

The Committee sets performance criteria for both short-term and long-term incentive schemes, based on the financial targets set during the Group's budgeting and forecasting process, taking into account the strategic aims of the Group as well as the interests of shareholders.

The Committee determines whether performance measures and targets, for both the long-term and short-term performance-related incentive schemes, have been met, based on relevant financial information and advice from its advisors and, where necessary, after consultation with the Company's auditors.

The Board has adopted shareholding guidelines for Executive Directors. The Executive Directors are expected to build up a personal shareholding of Chrysalis Group PLC ordinary shares by the acquisition of shares and the retention of shares (with any cash-settled awards being used to buy shares) acquired via the Company's share-based incentive plans of an amount equal to once times annual salary within five years of adoption of the guidelines or of appointment if later.

The remuneration policy for Non-Executive Directors is determined by the Board, taking into account the limit set in the Articles of Association.

The remuneration for Executive Directors currently comprises four elements: base salary; short-term incentive plans; long-term incentive schemes including deferred share bonuses and share options; and post-retirement and other benefits. Details of each element are explained below.

Base salaries

The policy in respect of base salary is to pay a fair and reasonable base salary for the executive's role, taking into consideration comparative salaries for similar roles in similar business sectors. Base salaries 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 they are responsible and the Group as a whole.

Short-term incentive plans

Executive Directors who served during the year under review participate in annual performance-related bonus arrangements payable in cash and deferred shares. These have been individually tailored to incentivise each Director to enhance the profitability of the division or business for which they are responsible or are based on the profitability of the Group as a whole. No benefits under any of the short-term bonus arrangements are pensionable.

The Executive Directors have the opportunity for the achievement of on-target performance and, in certain cases, of the achievement of personal aims and objectives set by the Committee to earn a cash bonus of between 40% to 75% of their base salary. A maximum cash bonus opportunity of 100% of base salary is possible for significant over-achievement of the defined targets. The targets are based upon the profits before tax of the Group, the Division, or the individual business unit for which they are responsible.

As explained above, as part of the remuneration review, the Committee introduced a deferred share bonus plan during the year. This means that any cash bonus is supplemented by a deferred share bonus with an initial value equal to 50% of the cash bonus. These shares will vest providing that the Executive Director remains in employment with the Group for the three-year vesting period.

Chris Wright also has a discretionary performance-related bonus capped at £75,000, the total cash bonus payable to Chris Wright in any one year is capped at 100% of salary.

Long-term incentive schemes

The Committee's current policy is that long-term incentives for the majority of the Executive Directors will be provided through the deferred share bonus plan as described above and the Chrysalis Group PLC 2003 Executive Share Option Scheme ('the Option Scheme'). For completeness, shareholder approval has previously been obtained for the Chrysalis Group PLC 2003 Long-Term Incentive Plan ('the LTIP'), but it has not been used this year and it is not the Committee's intention to grant further performance share awards while the deferred share bonus plan provides a better mechanism to incentivise executives.

A Sharesave Scheme also operates to give all eligible UK employees the opportunity to have a financial stake in the Company, in which the Executive Directors are entitled to participate.

Share options

The maximum value of options granted to an individual under the Option Scheme is limited to 150% of salary per annum. In exceptional circumstances the Committee can grant options with a value of up to 300% of salary per annum.

Options granted under the Option Scheme will only be exercisable if the performance condition is met. The performance condition is based on achieving certain levels of headline earnings per share as defined by the Institution of Investment Management and Research ('EPS'). Following the introduction of International Financial Reporting Standards, the Committee will consider the impact that these have on the EPS performance condition and will ensure that a fair and consistent comparison is made.

For options granted during the year ended 31 August 2007 to become exercisable, the Company's EPS must grow by at least 5% per annum compound. At this level of growth, 40% of the options will become exercisable. For all of the options to become exercisable, the Company's EPS must grow by at least 12.5% per annum compound. There is a straight-line vesting between these two points.

The performance of the Company will be measured over three financial years, measuring from the base financial year, being the year ended immediately prior to the grant. There is no retesting facility.

An EPS condition was chosen as, in the Committee's opinion, EPS growth requires substantial improvement in the Company's underlying financial performance before the options may be exercised. The Committee will regularly review the performance conditions for future option grants, but future conditions must be considered by the Committee to be no less challenging in the circumstances than the initial condition approved by shareholders in 2003. The condition may be varied in certain circumstances following the grant of an option to take account of technical changes so as to achieve its original purpose.

LTIP

For information, the LTIP comprises two types of equity-based incentive schemes allowing for the award of Performance Shares and Matching Shares.

Performance Share awards are conditional awards of shares. The maximum value of Performance Share awards that can be awarded to an individual under the LTIP is limited to 50% of salary per annum. In exceptional circumstances the Committee can make an award with a value of up to 100% of salary per annum.

Matching Share awards are conditional awards of shares which are linked to the investment by the executive of annual bonus in the Company's shares. Subject to a Committee invitation, an Executive may invest up to 50% of any annual bonus paid and receive a Matching Share award of up to two and a half shares for every one purchased.

Performance Share awards will not normally be exercisable before the third anniversary of their grant and only then to the extent that a specified performance condition is satisfied and the individual remains employed. Matching Share awards become exercisable on the same basis but, in addition, Matching Share Awards will only become exercisable to the extent that the related investment shares have not been sold by the Executive.

The performance condition for the Performance Share awards and Matching Share awards is based upon the performance of the Company in terms of relative total shareholder return. This is explained in detail on pages 91 and 92.

Service contracts

The Committee reviews and agrees Directors' service agreements. The Committee agrees with 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. All of the Executive Directors' service agreements can be terminated by either party by giving 12 months' notice or by making a payment not exceeding 12 months' salary, bonuses and benefits.

Non-Executive Directors are not employed under contracts of service but are appointed for terms of 12 months pursuant to letters of engagement which are renewable for further terms of 12 months.

Name	Commencement	Expiry dates
Chris Wright	22/04/2002	terminable on 12 months' rolling notice
Nigel Butterfield (resigned 31 December 2005)	14/01/2000	terminable on 12 months' rolling notice
Michael Connole	01/01/2006	terminable on 12 months' rolling notice
Geoff Howard-Spink	01/02/2006	01/02/2007
Richard Huntingford	20/03/2001	terminable on 12 months' rolling notice
Helen Keays	01/06/2006	01/06/2007
Jeremy Lascelles	01/09/2005	Fixed term to 31/08/08 subject to 12 months' notice to terminate then or any time thereafter.
Jorgen Larsen	01/11/2006	01/11/2007
Peter Lassman	19/06/2001	terminable on 12 months' rolling notice
Charles Levison (died 7 July 2006)	01/09/2005	01/09/2006
David Murrell	15/07/2006	15/07/2007
Phil Riley	03/02/2000	terminable on 12 months' rolling notice

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. 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.

Explanation from the Committee relating to payments made to Nigel Butterfield

Agreement was reached with Nigel Butterfield for his employment to come to an end on 31 December 2005 when he retired from the Board. In agreeing the payments which were made to Mr Butterfield the Remuneration Committee took legal advice in respect of the quantum of the payment having regard to his contractual entitlement to salary, benefits and long-term and short-term bonus arrangements. The only non-contractual payments made were in respect of a compromise agreement that prevents any claim of constructive or unfair dismissal plus a contribution to the executives' legal costs made directly to the lawyers who acted for him.

Part of the settlement made to Mr Butterfield was paid into his pension scheme.

TSR

The graph below shows Chrysalis' TSR relative to the FTSE All Share Media Index. The FTSE All Share Media sector was chosen as the Company's broad equity market index because the Company has been a member of this index throughout the five-year period.

Chrysalis TSR vs. FTSE Media sector TSR

With the exception of the details of the Pension scheme on pages 92 to 94, the following information contained in tabular form and other financial information has been audited.

Directors' remuneration

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 under review, excluding contributions to retirement benefit schemes.

					Total excluding long-term incentives		Long-term incentives received	
	Salary and fees(i) £'000	Benefits(ii) £'000	Compensation for loss of office	Annual bonus £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Executive								
Chris Wright	329	6	–	197	532	325	–(iii)	–
Nigel Butterfield (resigned 31 December 2005)	106	4	937(iv)	–	1,047	310	–	–
Michael Connole (appointed 1 January 2006)	123	10	–	105	238	–	–(v)	–
Richard Huntingford	400	10	–	291	701	407	–(vi)	–
Peter Lassman	250	29	–	179	458	369	–(vii)	–
Phil Riley	258	27	–	103	388	281	–(viii)	–
Non-Executive								
Geoff Howard-Spink	25	–	–	–	25	25	–	–
Helen Keays	25	–	–	–	25	25	–	–
Charles Levison (died 7 July 2006)	35	–	–	–	35	79	–	–
David Murrell	44	–	–	–	44	47	–	–
Total	1,595	86	937	875	3,493	1,868		

Notes

(i) Salary and fees comprise basic salary, car allowance and fees.

(ii) Benefits comprise company cars, healthcare insurance, permanent health insurance and life assurance.

(iii) An accounting provision exists in respect of his long-term incentive of £25,000 (2005: nil).

(iv) £565,000 of this amount was paid as a contribution into Mr Butterfield's pension.

(v) An accounting provision exists in respect of his long-term incentive of £14,682 (2005: n/a).

(vi) An accounting provision exists in respect of his long-term incentive of £46,081 (2005: nil).

(vii) An accounting provision exists in respect of his long-term incentive of £250,290 (2005: £106,545).

(viii) An accounting provision exists in respect of his long-term incentive of £34,482 (2005: nil).

Directors' interests in share options

Share options have been granted to certain Executive Directors in accordance with the rules of the Chrysalis Group PLC 1994 Executive Share Option Scheme ('the 1994 Scheme') approved by shareholders on 21 February 1994 and/or the Chrysalis Group PLC 2003 Executive Share Option Scheme ('the 2003 Scheme') approved by shareholders on 4 February 2003. Further particulars of the schemes are given in note 23 to the accounts.

The Sharesave options granted are in accordance with the rules of the Chrysalis Sharesave Scheme approved by shareholders on 2 February 2001. Further particulars of the Sharesave scheme are given in note 23 to the accounts.

The following table shows details of the options for ordinary shares of 2 pence each, held by Directors under the 1994 Scheme, the 2003 Scheme and the Sharesave Scheme.

	At 1 September 2005 or appointment	Granted/ (lapsed) during the year	At 31 August 2006 or resignation	At 28 November 2006	Exercise price	Date of grant	Date from which exercisable	Expiry date
Chris Wright								
1994 Scheme								
Unapproved	366,666	–	366,666	366,666	300p	24/11/2000	24/11/2003	23/11/2010
2003 Scheme								
Approved	14,354	–	14,354	14,354	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	76,909	–	76,909	76,909	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	89,862	–	89,862	89,862	218.5p	18/11/2003	18/11/2006	17/11/2013
Unapproved	112,853	–	112,853	112,853	179.25p	03/12/2004	03/12/2007	02/12/2014
Unapproved	–	214,806	214,806	214,806	145.5p	29/11/2005	29/11/2008	28/11/2015
Unapproved	–	–	–	56,976	128p	27/11/2006	27/11/2009	26/11/2016
Sharesave	6,906	–	6,906	–	244.32p	30/03/2001	01/05/2006	31/10/2006
Nigel Butterfield (resigned 31 December 2005)								
1994 Scheme								
Unapproved	500,000	–	500,000	n/a	196.5p	01/12/1999	01/12/2002	30/11/2009
2003 Scheme								
Approved	14,354	–	14,354	n/a	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	50,717	–	50,717	n/a	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	64,187	–	64,187	n/a	218.5p	18/11/2003	18/11/2006	17/11/2013
Unapproved	80,613	–	80,613	n/a	179.25p	03/12/2004	03/12/2007	02/12/2014
Michael Connole (appointed 01 January 2006)								
1994 Scheme								
Unapproved	50,000	–	50,000	50,000	127.1p	25/01/1999	25/01/2002	24/01/2009
Unapproved	50,000	–	50,000	50,000	320p	08/12/2000	08/12/2003	07/12/2010
Unapproved	37,000	–	37,000	37,000	230p	23/11/2001	23/11/2004	22/11/2011
Approved	13,000	–	13,000	13,000	230p	23/11/2001	23/11/2004	22/11/2011
2003 Scheme								
Unapproved	39,473	–	39,473	39,473	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	40,778	–	40,778	40,778	218.5p	18/11/2003	18/11/2006	17/11/2013
Unapproved	53,389	–	53,389	53,389	179.25p	03/12/2004	03/12/2007	02/12/2014
Unapproved	127,281	–	127,281	127,281	145.5p	29/11/2005	29/11/2008	28/11/2015
Unapproved	–	–	–	51,562	128p	27/11/2006	27/11/2009	26/11/2016
Sharesave	8,871	–	8,871	8,871	186p	01/02/2002	01/02/2007	31/07/2007
Richard Huntingford								
1994 Scheme								
Unapproved	750,000	–	750,000	750,000	153.2p	07/05/1999	07/05/2002	06/05/2009
2003 Scheme								
Approved	14,354	–	14,354	14,354	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	142,105	–	142,105	142,105	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	171,624	–	171,624	171,624	218.5p	18/11/2003	18/11/2006	17/11/2013
Unapproved	215,341	–	215,341	215,341	179.25p	03/12/2004	03/12/2007	02/12/2014
Unapproved	–	397,938	397,938	397,938	145.5p	29/11/2005	29/11/2008	28/11/2015
Unapproved	–	–	–	109,570	128p	27/11/2006	27/11/2009	26/11/2016
Sharesave	11,837	–	11,837	11,837	139.06p	15/12/2004	01/02/2010	30/07/2010
Peter Lassman								
Sharesave	5,598	(5,598)	–	–	168.8p	20/12/2002	01/02/2006	30/07/2006
	–	7,137	7,137	7,137	131p	11/01/2006	01/03/2009	31/08/2009
Phil Riley								
2003 Scheme								
Approved	14,354	–	14,354	14,354	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	100,478	–	100,478	100,478	209p	01/08/2003	01/08/2006	31/07/2013
Unapproved	114,416	–	114,416	114,416	218.5p	18/11/2003	18/11/2006	17/11/2013
Unapproved	143,654	–	143,654	143,654	179.25p	03/12/2004	03/12/2007	02/12/2014
Unapproved	–	265,463	265,463	265,463	145.5p	29/11/2005	29/11/2008	28/11/2015
Unapproved	–	–	–	77,343	128p	27/11/2006	27/11/2009	26/11/2016
Sharesave	6,906	–	6,906	–	244.32p	30/03/2001	01/05/2006	31/10/2006

The mid-market price of the Company's shares at 31 August 2006 was 117.75 pence (2005: 156.25 pence) and the range of market prices during the year was between 102p and 169p. No options were exercised during the current or preceding year. All options were granted for nil consideration.

For options granted under the 2003 Scheme, vesting will be dependent on the EPS performance condition described below. Options granted on 1 August and 18 November 2003 will become exercisable as follows:

Growth in EPS in excess of inflation	Vesting percentage
20% per annum	40%
30% per annum	100%
Between 20% and 30% per annum	Pro rata between 40% and 100%

Options granted on 3 December 2004 and 29 November 2005 will become exercisable as follows:

Growth in EPS in excess of inflation	Vesting percentage
15% per annum	40%
25% per annum	100%
Between 15% and 25% per annum	Pro rata between 40% and 100%

Options granted on 27 November 2006 will become exercisable as follows:

Growth in EPS	Vesting percentage
5% per annum	40%
12.5% per annum	100%
Between 5% and 12.5% per annum	Pro rata between 40% and 100%

The performance of the Company will be measured over three financial years from the year ended immediately prior to the grant. For options granted in August and November 2003 and December 2004, if the target is not met over this period it can be re-tested for a further two years from a fixed base.

Options granted under the 1994 Scheme will only be exercisable if the performance condition is met. The Committee has set individual performance conditions for the grant of options under the 1994 Scheme, details of which are shown below.

Chris Wright

These options are only exercisable if the performance criteria based on the achievement of pre-agreed levels of TSR are met. TSR is the aggregate of the increase or decrease in the market value of a 2 pence ordinary share during the period, together with the value arising from the notional reinvestment of dividends declared during the period in further Chrysalis shares. If the performance criteria is not met by the end of the period, the option remains capable of exercise providing that TSR performance targets are met, such TSR targets shall be deemed to be increased by 10% in each successive financial year.

The Committee determined on 5 February 2003, following the calculation of the TSR of the Company that 20% of the options were deemed to have vested and that Mr Wright is now entitled to exercise his option over 73,333 Chrysalis ordinary shares of 2 pence each, at an exercise price of 300p per share.

Richard Huntingford

These options are only exercisable if the performance criteria based on the achievement of pre-agreed levels of TSR are met. The options are only exercisable on a graduating scale, enabling 41.66% of the options to be exercised if TSR is between 7.5% and 8.5% per annum, rising to 100% of the options if TSR is over 13%. If the performance criteria is not met by the end of the period, the option remains capable of exercise providing that TSR performance targets are met, such TSR targets shall be deemed to be increased by 10% in each successive financial year.

The Committee determined on 5 February 2003, following the calculation of the TSR of the Company, that 58.33% of the options were deemed to have vested and that Mr Huntingford is now entitled to exercise his option over 437,475 Chrysalis ordinary shares of 2 pence each, at an exercise price of 153.2p per share.

Nigel Butterfield

The exercise of these options was originally subject to performance criteria based on earnings per share. In 2000, the Committee set new performance criteria based on TSR. The options are only exercisable on a graduating scale enabling 25% of the options to be exercised if TSR is between 7.5% and 8.5% per annum, rising to 100% of the options if TSR is 20% or more. If the performance criteria is not met by the end of the period, the option remains capable of exercise providing that TSR performance targets are met, such TSR targets shall be deemed to be increased by 10% in each successive financial year.

Directors' interests in the LTIP

The table below shows the Directors' interests in Performance Shares of the Company's ordinary shares of 2 pence each.

	At 1 September 2005 or appointment	Awarded/ (lapsed) during the year	At 31 August 2006 or resignation	At 28 November 2006	Mid-market price of shares at date of grant	Date of award	Date from which vesting	Expiry date
Chris Wright	34,569	(34,569)	–	–	203p	01/08/2003	01/08/2006	01/08/2013
	34,038	–	34,038	34,038	220.25p	18/11/2003	18/11/2006	18/11/2013
	42,747	–	42,747	42,747	178p	03/12/2004	03/12/2007	03/12/2014
	–	72,318	72,318	72,318	148.5p	29/11/2005	29/11/2008	29/11/2015
Nigel Butterfield	26,028	(26,028)	–	–	203p	01/08/2003	01/08/2006	01/08/2013
(resigned 31 December 2005)	25,675	–	25,675	n/a	220.25p	18/11/2003	18/11/2006	18/11/2013
	32,245	–	32,245	n/a	178p	03/12/2004	03/12/2007	03/12/2014
Michael Connole	15,446	–	15,446	15,446	220.25p	18/11/2003	18/11/2006	18/11/2013
(appointed 01 January 2006)	20,223	–	20,223	20,223	178p	03/12/2004	03/12/2007	03/12/2014
	42,084	–	42,084	42,084	148.5p	29/11/2005	29/11/2008	29/11/2015
Richard Huntingford	58,672	(58,672)	–	–	203p	01/08/2003	01/08/2006	01/08/2013
	64,359	–	64,359	64,359	220.25p	18/11/2003	18/11/2006	18/11/2013
	80,753	–	80,753	80,753	178p	03/12/2004	03/12/2007	03/12/2014
	–	132,619	132,619	132,619	148.5p	29/11/2005	29/11/2008	29/11/2015
Phil Riley	43,062	(43,062)	–	–	203p	01/08/2003	01/08/2006	01/08/2013
	42,906	–	42,906	42,906	220.25p	18/11/2003	18/11/2006	18/11/2013
	53,870	–	53,870	53,870	178p	03/12/2004	03/12/2007	03/12/2014
	–	88,470	88,470	88,470	148.5p	29/11/2005	29/11/2008	29/11/2015

The table below shows the Directors' interests in Matching Shares of the Company's Ordinary Shares of 2 pence each.

	At 1 September 2005 or appointment	Awarded/ (lapsed) during the year	At 31 August 2006 or resignation	At 28 November 2006	Mid-market price of shares at date of grant	Date of award	Date from which vesting	Expiry date
Chris Wright	123,797	(123,797)	–	–	200p	29/08/2003	29/08/2006	29/08/2013
	28,407	–	28,407	28,407	220p	17/12/2003	17/12/2006	17/12/2013
Nigel Butterfield (resigned 31 December 2005)	56,817	–	56,817	n/a	220p	17/12/2003	17/12/2006	17/12/2013
Michael Connole (appointed 01 January 2006)	14,445	–	14,445	14,445	220p	17/12/2003	17/12/2006	17/12/2013
Richard Huntingford	160,255	(160,255)	–	–	200p	29/08/2003	29/08/2006	29/08/2013
	92,897	–	92,897	92,897	220p	17/12/2003	17/12/2006	17/12/2013
Phil Riley	66,105	(66,105)	–	–	200p	29/08/2003	29/08/2006	29/08/2013
	95,452	–	95,452	95,452	220p	17/12/2003	17/12/2006	17/12/2013
	45,962	–	45,962	45,962	182.5p	20/12/2004	20/12/2007	20/12/2014

The performance condition applying to the Performance Share Awards and Matching Share Awards has been based upon the performance of the Company in terms of TSR compared to a peer group. The original peer group for the November 2003 awards comprise 12 media and publishing companies (excluding the Company) over a three-year period. These were:

Bloomsbury Publishing plc
Daily Mail and General Trust plc
EMI Group plc
Capital Radio plc
EMAP plc
GWR Group plc
The Quarto Group inc
Scottish Radio Holdings plc
The Television Corporation plc
Sanctuary Group plc
SMG plc
Wireless Group plc

The Remuneration Committee has amended the peer group for the December 2004 awards by removing The Television Corporation plc, as the Group is no longer in the television programme production business.

A number of these companies no longer exist in the quoted environment and the Committee is reviewing the make up of the peer group in accordance with terms of the rules of the scheme.

The extent to which the Performance Share Awards and Matching Share Awards will vest is as follows:

TSR performance ranking	Matching Share Awards matching ratio (on a pre-tax basis)	Performance Share Awards vesting percentage
Below median	0	0%
Median	1:1	25%
Upper quartile	2.5:1	100%
Between median and upper quartile	pro rata between 1:1 and 2.5:1	pro rata between 25% and 100%

The performance condition applying to Performance Share Awards and Matching Share Awards made after 1 September 2005 is based upon the performance of the Company in terms of TSR compared to the FTSE All Share Media Index. The extent to which the Performance Share Awards and Matching Share Awards will vest is:

TSR performance ranking	Matching Share Awards matching ratio (on a pre-tax basis)	Performance Share Awards vesting percentage
Less than the Index	0	0%
Equal to the Index	1:1	25%
Outperformance of the Index by 10%	2.5:1	100%
Between the Index and 10% outperformance	pro rata between 1:1 and 2.5:1	pro rata between 25% and 100%

The performance period will begin on the first day of the financial year in which the grant is made and end three years later, there is no opportunity to retest the performance condition. TSR will be averaged over the six-month periods, beginning three months prior to the beginning and end of the performance period.

Non-equity based LTIPs and exceptional awards

Due to the diverse nature of the Group's businesses, certain Executive Directors have individual LTIP schemes of which they are the only member, which were specifically designed to recruit or retain the Director in unusual circumstances.

Peter Lassman

On 24 September 2003, the Committee made a cash-based long-term incentive award to Peter Lassman under an arrangement in which he is the sole participant. The value of the bonus was calculated by reference to the aggregated results for the three years to 31 August 2006 of Lasgo Chrysalis Limited. 25% of the award will be payable upon achieving the target on a sliding scale up to 100% of the award for significant overachievement of the target. The award will become payable on signature of the audited accounts for the year ending 31 August 2006. No payment under this long-term incentive scheme is pensionable.

Pension scheme

The Executive Directors are entitled to become members of the Senior Executive Sections of the Chrysalis Group PLC Retirement Benefits Scheme ('the Scheme'). Each member contributes 5% of their pensionable salary to the Scheme. Members of the final salary section are entitled to a pension at the date of retirement based on final pensionable salary and years of completed service. Pension is accrued at a rate of one-fortieth of pensionable salary for each year of pensionable service. Members of the money purchase 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 contribution are invested. The policy for Executive Directors is to provide pension benefits at a normal retirement age of 60.

Phil Riley, Michael Connole and Nigel Butterfield are or were members of the money purchase section of the Scheme and Richard Huntingford is a member of the final salary section of the Scheme. Peter Lassman has remained a member of the pension scheme established by Lasgo Chrysalis Limited prior to the Group acquiring its interest in Lasgo. The Lasgo Chrysalis scheme is a money purchase scheme. Mr Lassman does not contribute to the scheme. Under the terms of the Scheme, pensionable salaries exclude bonuses and members of the final salary section of the Scheme are subject to a Company cap for the year under review of £200,000. During the year under review, there were no arrangements for pensions in excess of the Inland Revenue limits.

The final salary section of the Scheme provides for a spouse's/dependant's pension of two-thirds of the prospective pension on death in service. On death after retirement, the Scheme provides for a spouse's/dependant's pension of 50% of the member's pension before exchange of pension for a cash sum, if any. All pensions accrued whilst a member of the senior executive section of the final salary section of the Scheme increase in payment at a rate of 5% per annum compound, the balance, if any, is subject to statutory increases. *The application of increases is subject to pensions remaining within Inland Revenue limits.*

Members of the final salary section may retire early from service with the consent of the Company. Any pension is subject to reduction to reflect payment from an earlier age on a basis that is cost neutral to the Scheme and as recommended by the Scheme actuary.

Members of the money purchase section of the Scheme are entitled to a spouse's/dependant's pension of one-third of pensionable salary on death in service, the pension increasing at the rate of 5% per annum compound, subject to Inland Revenue limits. On death after retirement, benefits are secured by the accumulated fund on the open annuity market. The level of spouse's/dependant's benefit to be provided is selected by the member, subject to the provision of a spouse's pension being provided to satisfy the regulations for the Scheme being contracted out. The level of increases on benefits is selected by the member, although any pension secured by funds relating to contributions paid from April 1997 are increased by the rate of 5% per annum, or the rate of increase in the Retail Prices Index if less.

Members of the money purchase section may retire early from service with the consent of the Company, with benefits being secured as described above based on the accumulated fund at the time of retirement.

No discretionary benefits are provided or taken account of in assessing transfer values from either the money purchase section or the final salary section of the Scheme.

Money purchase scheme

	Company contributions 2006 £	2005 £
Director		
Chris Wright	–	1,289
Nigel Butterfield (resigned 31 December 2005)	**22,157**	41,538
Michael Connole (appointed 01 January 2006)	**24,667**	n/a
Peter Lassman	**34,161**	35,000
Phil Riley	**52,747**	19,845
	133,732	97,672

Final salary scheme

	Accrued pension as at 31 August 2005 £	Accrued pension as at 31 August 2006 £	Increase in accrued pension over the year* £	Transfer value of increase in accrued pension** £
Richard Huntingford	76,279	85,201	6,862	61,947

* After discounting the effect of inflation.

** Excluding the amount attributable to the member's own contributions.

The movement in transfer values during the year shown below are based on the methodologies prescribed by the UK Directors' Remuneration Report Regulations 2002.

	Transfer value as at 31 August 2005 of accrued pension as at 31 August 2005 £	Transfer value as at 31 August 2006 of accrued pension as at 31 August 2006 £	Directors' contributions paid 1 September 2005 to 31 August 2006 £	Increase in accrued pension over the year ignoring price inflation £	Difference in transfer values less allowance for Directors' contributions £
Director					
Richard Huntingford	716,583	858,713	10,000	8,922	132,130***

*** No allowance has been made for price inflation as per the Directors' Remuneration Report Regulations 2002.

Approved by and signed on behalf of the Board

G Howard-Spink
Chairman of the Remuneration Committee
29 November 2006

Corporate social responsibility

The Group continues to recognise the importance of its responsibility to the environment, the community, its employees and shareholders.

This report sets out how the Group deals with its environmental, corporate and social responsibilities. The Group's Corporate and Social Responsibility ('CSR') Committee, made up of senior executives from various areas within the Group, has met throughout the year to oversee the evolution and implementation of the Group's CSR policy. The Group's CSR Policy Statement can be found on the Company's website at www.chrysalis.com. During the year under review, the Group maintained the standards required to continue to be part of the FTSE4Good Index.

Environment

The Board believe that the Group's businesses have minimal impact on the environment but, where they do, the Group ensures that a responsible approach to their obligations is taken at all times. The Group has had its energy consumption and CO_2 emissions independently verified by Future Forests, an independent environmental consultancy, with a view to reducing these wherever practicable. The Group is aware that some of its suppliers have an environmental impact and therefore, wherever possible, we ensure that our suppliers maintain a high standard of environmental responsibility.

The Group encourages recycling of waste products produced by our businesses wherever possible and has continued throughout the year to work closely with recycling companies to ensure the recycling of as much waste as is practicable.

The Group has, wherever economically feasible, introduced fair trade products throughout the business.

Community/Charity

During the year, the Group continued its Work in the Community policy, enabling staff to take paid time off to work in the community. Members of staff from around the Group have taken part in numerous community projects. In London we have continued our quarterly interactive music and radio workshops for young offenders.

Once again, all of the Chrysalis Radio stations have carried out many community-focused activities over the year and have contributed to many local charitable causes, assisting them in raising considerable sums of money.

100.7 Heart FM has again organised its annual Run for Home fundraising event. Now in its tenth successive year, the station raised over £116,000 for its own First Steps appeal. Since the First Steps appeal began in 1995, the station has raised over £1.3 million for charities across the West Midlands and Warwickshire.

Both the Galaxy and Heart Networks ran a number of campaigns during the year, focusing on important social, community and cultural issues. The stations gave airtime with a value in excess of £200,000 to such causes as the Samaritans, Childline, Cancer Research, World Vision, the Princes Trust and many others.

LBC was again the official media partner of the Crisis Square Mile Run in June, raising money for the homeless charity.

Chrysalis Radio Chief Executive Phil Riley's Radio Riders again embarked on an epic marathon challenge to raise money for charity. Phil together with nine colleagues, cycled from Land's End to John O'Groats, a distance of over 900 miles in just 12 days to help raise over £100,000 for Nordoff-Robbins Music Therapy.

The Music Industry has initiated many charitable projects throughout the world and our music division staff both in the UK and overseas have devoted time to these worthwhile causes.

Employees

The key to the Group's success is its people and the Group's people strategy seeks to recruit, retain, reward and develop the best creative talent across our businesses. Chrysalis Group's Human Resources Department has responsibility for putting in place real value-adding policies, practices and initiatives which support this strategy and drive the Group forward towards its goal of 'employer of first choice' status.

During the year, we continued to consult with our staff in many ways to ensure that the Group is aware of what our employees really think about the business and its management. In 2006, a staff survey was carried out, with all employees given the opportunity to comment on five areas: communication; environment, resources and culture; learning and development; management; and recognition and morale. The results concluded that 87% of employees agreed that they are proud to work for the Company and 80% would recommend Chrysalis as an employer to friends. 74% agreed that they have the opportunity to do what they do best everyday with 76% agreeing that their opinions count.

Internal communication is considered a vital part of good management practice and the Group has a dedicated Director of Corporate Communications with responsibility for both external and internal communications. 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 via the Group's intranet site, Chrysalis Source. In addition, a monthly newsletter from the Group Chief Executive is sent to all staff. In the staff survey, 78% of employees agreed that they are aware of the Company's goals and objectives and 75% agreed that they are kept informed of how the Company is performing.

A competitive remuneration package is vital in order to attract, retain and motivate our employees. As part of the ongoing development of our remuneration strategy, our Flexible Benefits Scheme, Flex+ is reviewed on an annual basis and additional benefits added if appropriate. The Scheme has been designed to allow our employees a greater degree of flexibility and choice over the benefits offered as well as maximising the financial value of these benefits.

We recognise that a diverse workforce can bring significant added value to our business and the Group encourages applications from all sectors of the community in which we operate. Formal policies are in place in the areas of equality of opportunity, bullying, harassment and whistle-blowing. These policies clearly communicate the Group's intent in providing equality of opportunity for all employees. 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 their employment with the Group, every effort will be made for them to continue employment within their existing capacity where practical or, failing that, in some suitable alternative capacity.

In 2006, the Group continued to measure ethnicity across all its businesses. Measures are in place to further encourage diversity of ethnicity in our workforce and to reinforce our standards set out in the policies detailed above. During 2006, a diversity workshop was delivered to all managers across the Company.

The Group recognises that its competitive advantage is in part sustained by the quality of training it offers to its employees and it provides significant investment in this area. Working closely with the business to maximise this investment, the Group's Human Resources team continue to develop leading edge bespoke training solutions across such key areas as management and leadership development.

Health and safety

The Group meets its health and safety responsibilities by ensuring that each business complies with the health and safety policy set by the Group. The Group takes all practical measures possible to ensure the health and safety of its employees, contractors and the members of the public with whom it interacts.

The Radio Division in particular prides itself on its health and safety policies when organising events at which members of the public attend, whilst the staff who are responsible for organising such events regularly undertake specific health and safety training. The Division's health and safety policy contains a direct chain of responsibilities so that all staff who are involved in organising events are aware of their own and their colleagues' responsibilities.

Notice of Annual General Meeting

If you have sold or transferred all of your shares in Chrysalis Group PLC, please forward this document and the enclosed form of proxy to the purchaser or the stockbroker or other agent through whom the sale was effected for delivery to the purchaser.

Notice is hereby given that the thirty-eighth Annual General Meeting of the Company will be held at Screen West, John Brown Citrus Publishing, The New Boathouse, 136-142 Bramley Road, London W10 6SR at 11:00 am on Monday 5 February 2007 for the following purposes:

Ordinary Business

Resolution 1 – To receive and adopt the annual accounts of the Company for the year ended 31 August 2006, together with the reports of the Directors and Auditors thereon.

Resolution 2 – To declare a final dividend of 1.375 pence per ordinary share.

Resolution 3 – To re-elect R N L Huntingford as a Director.

Resolution 4 – To re-elect D B Murrell as a Director.

Resolution 5 – To re-elect G Howard-Spink as a Director.

Resolution 6 – To elect J Lascelles as a Director

Resolution 7 – To elect J Larsen as a Director

Resolution 8 – To reappoint KPMG Audit Plc as Auditors of the Company.

Resolution 9 – To authorise the Directors to agree the remuneration of the auditors.

Special Business

To consider, and, if thought fit, pass Resolutions 10, 13, 14 and 15 as Ordinary Resolutions and Resolutions 11 and 12 as Special Resolutions:

Resolution 10 – 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 £643,288 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 before the expiry of this authority 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 11 – That, subject to the passing of Resolution 10, 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 10 or to allot equity securities as defined in Section 94(3A) of the Act, in either case, 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 to:

(a) allotments 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 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) the allotment (otherwise than pursuant to paragraph (a) above) of equity securities under this authority up to an aggregate nominal amount of £167,835 (equal to approximately 5% of the nominal value of the issued share capital as at 28 November 2006).

Resolution 12 – 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 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 16,783,555 (10% of the issued ordinary share capital, as at 28 November 2006);

(iii) the minimum price which may be paid for an ordinary share is 2p;

(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 13 – That the Company be and is hereby generally and unconditionally authorised to make donations to EU political organisations and to incur EU political expenditure in an aggregate amount not exceeding £50,000 during the period expiring 15 months after the date of the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company unless previously renewed, varied or revoked by the Company in General Meeting. Such authority shall extend to enable any such donation to be made or expenditure to be incurred either by the Company or by its wholly-owned subsidiary, Chrysalis Radio London Limited. For the purposes of this resolution, the expressions 'donations', 'EU political organisations' and 'EU political expenditure' have the meaning given to them in Section 347A of the Act.

Resolution 14 – That the Remuneration Report contained within the Report and Accounts for the year ended 31 August 2006 be and is hereby approved.

Resolution 15 – To transact any other ordinary business of an Annual General Meeting.

By order of the Board

C R Potterell ACIS
Secretary
29 November 2006

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

Notes

Proxies

a 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. Shareholders may register their appointment of a proxy by returning the form of proxy included with this notice (and any power of attorney, or notarially certified copy thereof, under which it is executed) in accordance with the instructions contained in the form of proxy or by submitting the form of proxy via the internet in accordance with the directions below or through the CREST system in accordance with the directions below.

b To be effective, the form of proxy (and any power of attorney, or notarially certified copy thereof, under which it is executed), electronic appointment of proxy or CREST appointment of proxy, must (subject to the Articles of Association) be received by Computershare Investor Services PLC, not less than 48 hours before the meeting i.e. not later than 11.00am on Saturday, 3 February 2007.

Appointment of Proxies electronically

c If you wish to submit your form of proxy via the internet, you will need an internet-enabled PC with Internet Explorer 4 or Netscape 4 or above. You will also need your shareholder reference number (SRN) and Personal Identification Number (PIN) (which are printed on the enclosed form of proxy) to access the service. Your PIN will expire 48 hours prior to the meeting time and date.

Before you can appoint a proxy you will be asked to agree to the terms and conditions for electronic proxy appointment. It is important that you read these terms and conditions as they set out the basis on which proxy appointment via the internet shall take place.

Use of the electronic proxy appointment service is entirely voluntary.

Appointment of Proxies through CREST

d CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Annual General Meeting, including any adjournment(s) thereof, by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed (a) voting service provider(s), should refer to their CREST sponsors or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the Company's agent (ID number 3RA50) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members and, where applicable, their CREST sponsors and voting service providers should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed (a) voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

General

e In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the register of members of the Company as at 11:00am on 3 February 2007 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 11:00am on 3 February 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

f A statement of any transactions in the shares of the Company by Directors and their family interests and copies of Directors' service contracts (including the terms of appointment of the Non-Executive Directors) 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.

Resolutions

g The Directors recommend a final dividend of 1.375 pence per ordinary share of 2p (Resolution 2).

h Authority to allot shares. At the Annual General Meeting held on 9 February 2006, the Directors were given authority to allot ordinary share capital of the Company up to an aggregate nominal amount of £643,303 (being the maximum amount permitted under institutional guidelines). That authority is due to lapse 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 approximately equal to the Company's authorised but unissued share capital. The amount in respect of which authority is sought represents 19.16% of the Company's ordinary share capital in issue as at 28 November 2006 and is an amount within the maximum amount permitted under institutional guidelines. At that date, the Company held no shares in Treasury. The proposed authority 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 intention of utilising the authority (Resolution 10).

i Disapplication of pre-emption rights. If new ordinary shares are to be allotted under the authority granted by Resolution 10 and are to be paid for in cash, Section 89(1) of the Act 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 Act unless the shareholders have waived their pre-emption rights. Resolution 11 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 £167,835, which is equivalent to approximately 5% of the Company's issued ordinary share capital as at 28 November 2006. The requirements of Section 89 of the Act, outlined above, also apply to the sale by the Company of any shares it holds as treasury shares, except to the extent these are disapplied. The authority sought by Resolution 11 disapplies the application of Section 89 of the Act from a sale of treasury shares to the extent specified in the Resolution. The authority given by Resolution 11 will continue until the next Annual General Meeting or 15 months after the approval of the Resolution, whichever first occurs (Resolution 11).

j Purchase of own shares. The Company is seeking at the Annual General Meeting to renew the authority of the Directors given on 9 February 2006 and in previous years to take advantage, if appropriate and subject to the constraints set out in Resolution 12, 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. As at 28 November 2006, the Company held no shares in Treasury and there were in total 6,648,192 options and awards outstanding to subscribe for shares of the Company which together represent 3.96% of the Company's issued ordinary share capital. If the authority to purchase the Company's shares granted at last year's Annual General Meeting and the authority proposed to be granted under Resolution 12 were both exercised in full, such options outstanding as at 28 November 2006 would, assuming no further ordinary shares are issued after that date, represent 4.95% of the issued share capital of the Company at that date. This percentage would reduce to 4.40% if no further purchases are made under the authority granted at last year's Annual General Meeting but the authority proposed to be granted under Resolution 12 was exercised in full. The Act allows shares purchased by the Company out of distributable profits to be held as treasury shares, which may then be cancelled, sold for cash or used to meet the Company's obligations under its employee share schemes. Any shares purchased under the authority to be conferred may either be held as treasury shares or cancelled by the Company, depending on which course of action is considered by the Directors to be in the best interests of shareholders at the time. The authority sought by Resolution 12 will expire on the conclusion of the next Annual General Meeting or 15 months after the date of approval, whichever first occurs (Resolution 12).

k Political donations. At the Annual General Meeting held on 9 February 2006, the Company and its wholly-owned subsidiary, Chrysalis Radio London Limited, were given authority to make donations to EU political organisations and to incur EU political expenditure in an aggregate amount not exceeding £50,000. That authority is due to lapse at the conclusion of this Annual General Meeting. The Directors are seeking to renew authority for the Company and its wholly-owned subsidiary, Chrysalis Radio London Limited, to make donations to EU political organisations and to incur EU political expenditure in an aggregate amount not exceeding £50,000 in the forthcoming year. This authority will not be used to make political donations as they are normally understood (Resolution 13).

l Remuneration Report. The Act requires that each year an ordinary resolution is proposed at the Annual General Meeting where the annual accounts for that financial year are laid to approve the Board's remuneration report for that financial year. The Remuneration Report is set out on pages 85 to 94 of the Report and Accounts (Resolution 14).

Directors and advisors

Board of Directors

C N Wright CBE, BA
Executive Chairman and Founder

R N L Huntingford FCA
Group Chief Executive

M D Connole FCA
Group Finance Director

P S Riley MBA
Chief Executive Radio Division

P A Lassman
Chief Executive
Lasgo Chrysalis Limited

J Lascelles (appointed 1 September 2006)
Chief Executive Music Division

D B Murrell FCA
Non-Executive Director/
Senior Independent Director

G Howard-Spink
Non-Executive Director

Mrs H Keays
Non-Executive Director

J Larsen (appointed 1 November 2006)
Non-Executive Director

C R Potterell ACIS
Company Secretary

Advisors

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Corporate Brokers
Investec Bank (UK) Limited
2 Gresham Street
London EC2V 7QP

Bankers
The Royal Bank of Scotland
135 Bishopsgate
London EC2M 3UR

National Westminster Bank
30 North Audley Street
London W1A 4UQ

Corporate PR
Financial Dynamics
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

Solicitors
Harbottle & Lewis
Hanover House
14 Hanover Square
London W1S 1HP

Clifford Chance
10 Upper Bank Street
London E14 5JJ

Registrars
Computershare Investor
Services plc
Registrars Department
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NR

Property Advisors
Lambert Smith Hampton
UK House
180 Oxford Street
London W1D 1NN

Bollingbrook Limited
Mortimer House
230-236 Lavender Hill
London SW11 1LE

Registered and Head Office

The Chrysalis Building
Bramley Road
London W10 6SP
Telephone: 020 7221 2213
Facsimile: 020 7221 6455
Email: enquiries@chrysalis.com
Website: www.chrysalis.com

Company Registered in England and Wales
No. 946978

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Chrysalis Group PLC
The Chrysalis Building
Bramley Road
London
W10 6SP
Telephone: 020 7221 2213
E-mail: enquiries@chrysalis.com
Web: www.chrysalis.com

Group
www.chrysalis.com

Chrysalis Radio
www.heart1062.co.uk
www.heartfm.co.uk
www.106fm.co.uk
www.heart.co.uk
www.lbc.co.uk
www.galaxy102.co.uk
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Chrysalis Music
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