

**Chrysalis Group PLC**

**Directors' report and financial statements**

30 September 2008

Registered number 946978

THURSDAY



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COMPANIES HOUSE

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

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## Directors' report

The directors present their annual report and the audited financial statements for the 13 months ended 30 September 2008.

### Principal activities

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

### Business review

On 10 December 2007, Chrysalis PLC returned £96.5m to shareholders by implementing a corporate reorganisation under which Chrysalis PLC was introduced as the holding company of Chrysalis Group PLC. The reorganisation was effected by way of a scheme of arrangement ('the Scheme') under section 425 of the Companies Act 1985 and a reduction of capital under section 135 of the Companies Act 1985. The terms of the Scheme were that each shareholder in Chrysalis Group PLC received two new ordinary 64p shares in Chrysalis PLC and 287.5p in cash for every five 2p ordinary shares they held in Chrysalis Group PLC (a cash return of 57.5p per share). A reduction of capital was subsequently implemented to reduce the nominal value of the new ordinary shares in Chrysalis PLC from 64p per ordinary share to 2p per ordinary share. Following the implementation of the Scheme, shareholders' proportional holdings in Chrysalis PLC was the same as their previous proportional holding in Chrysalis Group PLC and there were 67,137,183 shares in issue with a nominal value of £1.3m. Chrysalis Group PLC was subsequently delisted.

On 15 April 2008, the accounting reference date was changed to 30 September to align with the new accounting reference date of the Chrysalis Group. The current financial period comprises the 13 months to 30 September 2008 and the comparative period is 12 months to 31 August 2007.

The loss for the period was £5.6m (2007: profit of £45.0m) is set out in the profit and loss account on page 7.

Chrysalis PLC manages the Group on a divisional basis. For this reason, the Directors believe that further key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the company. This company is included in the corporate division of Chrysalis PLC and the performance is discussed in the Group's Annual Report which does not form part of this report.

The directors do not recommend the payment of a dividend (2007: £2,304,000).

### Directors

The directors who held office during the period and to the date of this report were as follows:

CN Wright  
J Lascelles  
G Howard-Spink  
J Larsen  
P Lassman  
D Murrell  
RNL Huntingford (resigned 24 September 2007)  
M Connole (resigned 4 December 2007)  
A Mollett (appointed 1 February 2008)

## **Directors' report (continued)**

### **Principal risks and uncertainties**

The company has limited exposure to credit, price or liquidity risk due to the nature of its principal activities. The company also has access to the Group-wide credit facilities.

The company has a single source of third party debt which exposes it to interest rate risk. The Group's treasury function takes out contracts to manage this risk at a group level.

Group-wide risks and the risk management policies in place are discussed in the Group's Annual Report which does not form part of this report.

### **Supplier payment policy**

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditor days of the company at 30 September 2008, calculated in accordance with the requirements of the Companies Act 1985, were 94 days (2007: 23 days). This represents the ratio, expressed in days between the amounts invoiced to the company in the year by its suppliers and the amounts due, at the period end, to trade creditors falling due to payment within one year.

### **Disclosure of information to auditors**

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

### **Auditors**

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf



**A Mollett**  
*Director*

The Chrysalis Building  
Bramley Road  
London  
W10 6SP

28 April 2009

## **Statement of directors' responsibilities**

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

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

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

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

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

## **Independent auditors report to the members of Chrysalis Group PLC**

We have audited the financial statements of Chrysalis Group PLC for the 13 month period ended 30 September 2008 ended which comprise of the Profit and Loss account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

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

### **Basis of audit opinion**

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

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2008 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

*KPMG Audit Plc*

KPMG Audit Plc

30 April 2009

8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

*Chartered Accountants  
Registered Auditor*

## **Profit and loss account**

*for the 13 months ended 30 September 2008*

|  | <i>Note</i> | <b>13 months ended<br/>30 September<br/>2008<br/>£000</b> | <b>12 months ended<br/>31 August<br/>2007<br/>£'000</b> |
|--|-------------|---|---|
| Costs relating to offer process                                    | 2           | (900)   | -   |
| Costs of pension scheme buy-out                                    | 2           | (8,230)   | -   |
| Costs of vacant properties   | 2           | (1,115)   | -   |
| Impairment of tangible fixed assets                                | 2           | (1,515)   | -   |
| Other administration expenses                                      |             | (2,130)   | (3,805)   |
| Administrative expenses  |             | (13,890)  | (3,805)   |
| Income from shares in group undertakings                           |             | -   | 10,845  |
| <b>Operating (loss)/profit</b>                                     |             | <b>(13,890)</b>   | <b>7,040</b>  |
| (Loss)/gain on sale of investment                                  | 2           | (528)   | 36,907  |
| <b>(Loss)/profit on ordinary activities before finance charges</b> |             | <b>(14,418)</b>   | <b>43,947</b>   |
| Interest payable and similar charges                               | 4           | (3,856)   | (5,606)   |
| Interest receivable and similar income                             | 5           | 12,069  | 4,109   |
| <b>(Loss)/profit on ordinary activities before taxation</b>        | 2           | <b>(6,205)</b>  | <b>42,450</b>   |
| Tax credit on (loss)/profit on ordinary activities                 | 6           | 563   | 2,571   |
| <b>(Loss)/profit for the period</b>                                |             | <b>(5,642)</b>  | <b>45,021</b>   |

Amounts relating to (loss)/profit on ordinary activities before taxation in the current and previous period derive from continuing activities.

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

The notes on pages 10 to 24 form part of these financial statements.



**Statement of total recognised gains and losses**  
*for the period ended 30 September 2008.*

|  | <b>13 months ended<br/>30 September<br/>2008<br/>£'000</b> | <b>12 months ended<br/>31 August<br/>2007<br/>£'000</b> |
|--|--|---|
| (Loss)/profit for the period                     | (5,642)  | 45,021  |
| Actuarial gain on pension scheme                 | 1,364  | 2,160   |
| Deferred tax on actuarial gain                   | (398)  | (902)   |
|  | <hr/>  | <hr/>   |
| Total recognised gains and losses for the period | <u>(4,676)</u>   | <u>46,279</u>   |

**Balance sheet**  
at 30 September 2008

|   | Note | 30 September<br>2008<br>£'000 | 31 August<br>2007<br>£'000 |
|---|------|-------------------------------|----------------------------|
| <b>Fixed assets</b>                                   |      |                               |                            |
| Tangible assets                                       | 7    | 8,550                         | 10,716                     |
| Investments   | 8    | 134,848                       | 33,502                     |
|   |      | <hr/> 143,398                 | <hr/> 44,218               |
| <b>Current assets</b>                                 |      |                               |                            |
| Debtors   | 9    | 1,062                         | 4,734                      |
| Cash  |      | 14,151                        | 158,865                    |
| Retirement benefits                                   | 13   | 1,495                         | -                          |
|   |      | <hr/> 16,708                  | <hr/> 163,599              |
| <b>Creditors: amounts falling due within one year</b> | 10   | <hr/> (25,090)                | <hr/> (64,686)             |
| <b>Net current (liabilities)/assets</b>               |      | <hr/> (8,382)                 | <hr/> 98,913               |
| <b>Total assets less current liabilities</b>          |      | <hr/> 135,016                 | <hr/> 143,131              |
| <b>Retirement benefit liabilities</b>                 | 13   | -                             | (4,620)                    |
| <b>Provision for other liabilities</b>                | 11   | (1,115)                       | -                          |
| <b>Net assets</b>                                     |      | <hr/> 133,901                 | <hr/> 138,511              |
| <b>Capital and reserves</b>                           |      |                               |                            |
| Called up share capital                               | 14   | 3,357                         | 3,357                      |
| Share premium   | 15   | 62,269                        | 62,269                     |
| Revaluation reserve                                   | 15   | 3,900                         | 3,900                      |
| Other reserves  | 15   | 83                            | (473)                      |
| Profit and loss account                               | 15   | 64,292                        | 69,458                     |
| <b>Shareholders' funds</b>                            |      | <hr/> 133,901                 | <hr/> 138,511              |

These financial statements were approved by the Board of directors on 28 April 2009 and were signed on its behalf by:



**A Mollett**  
Director

The notes on pages 10 to 24 form part of these financial statements.

## Notes to the financial statements

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except as noted below.

#### **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 FRS 1 *Cash Flow Statements* the Company is exempt from the requirements to prepare a cash flow statement on the grounds that it is included in the consolidated accounts of its parent company, Chrysalis PLC.

The Company has taken advantage of the exemption contained in FRS 8 *Related Parties* and has therefore not disclosed transactions or balances with entities which form part of the Group.

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

The Company has taken advantage of the exemption contained in FRS 25 *Financial Instruments: Disclosure and presentation* as the disclosure and presentation requirements have been adopted on a consolidated basis. The consolidated financial statements of Chrysalis PLC, within which this Company is included, can be obtained from the address given in Note 16.

#### **Going concern**

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

#### **Fixed asset investments**

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 basis:

##### **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**

Costs in respect of operating leases are charged to the profit and loss account on a straight-line basis over the life of the lease.

## **Notes to the financial statements**

### **1. Accounting policies (continued)**

#### **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 both the final salary and the money purchase sections 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 in respect of the members of the money purchase section represents the contributions payable to the scheme in respect of the accounting period.

Contributions to the final salary section of the Scheme are charged to the profit and loss account, so as to spread the cost of pensions over employees' working lives with the Group. 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's 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 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.

#### **Classification of financial instruments issued by the Company**

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists, these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

## Notes to the financial statements

### 1. Accounting policies (continued)

#### Provisions

A provision is recognised in the balance sheet when the Company has a 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 time value of money and, where appropriate, the risks specific to the liability.

#### Own shares held by ESOP trust

Transactions of the Company-sponsored ESOP Trust are treated as being those of the Company and are therefore reflected in the Company's financial statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

#### 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.

### 2. (Loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities is stated after charging/(crediting) the following:

|   |     | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|---|-----|--|---|
| Costs relating to offer process                           | (a) | 900  | -   |
| Costs of pension scheme buy-out                           | (b) | 8,230  | -   |
| Costs of vacant properties                                | (c) | 1,115  | -   |
| Impairment of tangible fixed assets                       | (d) | 1,515  | -   |
| Loss/(gain) on sale of investment                         | (e) | 528  | (36,907)                                      |
| Depreciation  |     | 667  | 909   |
| Operating lease rentals                                   |     |  |   |
| - land and buildings                                      |     | 798  | 798   |
| - other   |     | 72   | 31  |
| Auditor remuneration                                      |     |  |   |
| - audit of these financial statements                     |     | 8  | 6   |
| - for other services pursuant to legislation              |     | 35   | 29  |
| - for services relating to corporate finance transactions |     | 175  | 302   |

- a) The Directors of Chrysalis PLC announced on 5 December 2007 that they were in preliminary discussions with select parties which may or may not lead to an offer being made for the entire issue share capital of the Company. They subsequently announced on 15 April 2008 that the offer process has resulted in a firm proposal from a third party to acquire Chrysalis PLC for 155p per share in cash. The Directors stated that they had consulted with the Group's advisors and its major shareholders and had unanimously rejected the proposal as they believed the proposal significantly undervalued the Group. As a result, the Directors stated that it has terminated the process and confirmed that they had ended discussions with potential buyers. Costs of £0.9m were incurred in considering and assessing the offers received from third parties, principally legal and professional fees.

## Notes to the financial statements

### 2. (Loss)/profit on ordinary activities before taxation (continued)

- b) On 31 January 2008, the Directors committed to the winding up of the Chrysalis Group Retirement Benefits Scheme ("the Pension scheme"). This amount represents the net cost of the buyout by Paternoster UK Limited. Further details are included in note 13.
- c) This relates to the cost of vacant leasehold properties in the UK. Further details are included in note 11.
- d) Further to the disposal of the Radio business, the Group's main premises are surplus to requirements and are being actively marketed. In light of current market conditions, the Directors have assessed the fair value of the land and buildings to be £8.0m. This has resulted in an impairment charge of £1.5m in the current period.
- e) This relates to amounts paid to a former director, Richard Huntingford, following the disposal of the Radio business and his resignation from the Board in September 2007. The comparative amount relates to the net gain on the disposal of the Radio business-related assets held in this company.

### 3. Employee costs

The average monthly number of employees (including directors) was:

|                | 13 months ended<br>30 September<br>2008<br>Number | 12 months ended<br>31 August<br>2007<br>Number |
|----------------|---|--|
| Administration | 23  | 53   |

Their aggregate remuneration (excluding directors) comprised:

|                       | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|-----------------------|--|---|
| Wages and salaries    | 648  | 1,376   |
| Social security costs | 76   | 187   |
| Other pension costs   | 71   | 167   |
|                       | 795  | 1,730   |

## Notes to the financial statements

### 2. Employee costs (continued)

#### Directors' remuneration

|                                 | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|---------------------------------|--|---|
| Emoluments                      | 770  | 1,265   |
| Compensation for loss of office | 1,392  | -   |
|                                 | <u>2,162</u>                                     | <u>1,265</u>                                  |

None of the directors (2007: nil) were members of the defined benefit or contribution schemes.

The remuneration of the highest paid director:

|            | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|------------|--|---|
| Emoluments | 368  | 435   |

Transactions with directors:

During the period, a quasi loan was made to Chris Wright. The highest amount outstanding during the year was £23,323 (2007: £27,291). The amount outstanding at 30 September 2008 was £nil (2007: £nil).

### 4. Interest payable and similar charges

|   | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|---|--|---|
| Bank loans and overdrafts                             | 2,162  | 4,302   |
| Amortisation of issuance costs on securitisation loan | 263  | 227   |
| Interest costs of pension scheme liabilities          | 1,431  | 1,010   |
| Interest payable on intercompany balances             | -  | 67  |
|   | <u>3,856</u>                                     | <u>5,606</u>                                  |

## Notes to the financial statements

### 5. Interest receivable and similar income

|  | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|--|--|---|
| Bank interest receivable                     | 4,216  | 1,066   |
| Interest receivable on intercompany balances | 6,506  | 2,239   |
| Return on pension scheme assets              | 1,347  | 802   |
|  | <hr/> 12,069 <hr/>                               | <hr/> 4,107 <hr/>                             |

### 6. Taxation credit on (loss)/profit on ordinary activities

Analysis of credit in the period:

|  | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|--|--|---|
| <i>UK corporation tax</i>                          |  |   |
| Current tax credit on (loss)/profit for the period | -  | 2,571   |
| Refund in respect of prior period assessments      | 827  | -   |
| Group relief                                       | 632  | -   |
|  | <hr/> 1,459 <hr/>                                | <hr/> 2,571 <hr/>                             |
| <i>Deferred tax</i>                                |  |   |
| Write-off of deferred tax asset                    | (896)  | -   |
|  | <hr/> 563 <hr/>                                  | <hr/> 2,571 <hr/>                             |



## Notes to the financial statements

### 6. Taxation credit on (loss)/profit on ordinary activities (continued)

#### *Factors affecting the tax credit for the current period*

The tax for the period differs from the standard rate of corporation tax in the UK at 29.165% (2007: 30%). The differences are explained below.

|  | 13 months ended<br>30 September<br>2008<br>£'000 | 12 months ended<br>31 August<br>2007<br>£'000 |
|--|--|---|
| (Loss)/profit on ordinary activities before tax    | (6,205)  | 42,449  |
| Current credit/(charge) tax at 29.165% (2007: 30%) | 1,810  | (12,735)                                      |
| <i>Effects of:</i>                                 |  |   |
| Utilisation of tax losses                          | 513  | (797)   |
| Non-deductible expenses                            | (1,686)  | 26  |
| Group relief                                       | 632  |   |
| Non-taxable income                                 | -  | 16,077  |
| Depreciation in excess of capital allowances       | (637)  | -   |
| Refund in respect of prior period assessments      | 827  | -   |
| <b>Current tax credit for the period</b>           | <b>1,459</b>                                     | <b>2,571</b>                                  |

### 7. Tangible assets

|                                 | Land and<br>buildings<br>freehold<br>£'000 | Land and<br>buildings<br>leasehold<br>£'000 | Furniture,<br>fixtures, plant<br>and equipment<br>£'000 | Motor<br>vehicles<br>£'000 | Total<br>£'000 |
|---------------------------------|--|---|---|----------------------------|----------------|
| <b>Cost</b>                     |  |   |   |                            |                |
| At beginning of period          | 12,999                                     | 189   | 3,256   | 32                         | 16,476         |
| Additions                       | -  | -   | 16  | -                          | 16             |
| Disposals                       | -  | -   | -   | (32)                       | (32)           |
| <b>At end of period</b>         | <b>12,999</b>                              | <b>189</b>                                  | <b>3,272</b>  | <b>-</b>                   | <b>16,460</b>  |
| <b>Accumulated depreciation</b> |  |   |   |                            |                |
| At beginning of period          | 3,194                                      | 94  | 2,444   | 28                         | 5,760          |
| Charge for the period           | 290  | 20  | 353   | 4                          | 667            |
| Disposals                       | -  | -   | -   | (32)                       | (32)           |
| Impairment loss                 | 1,515                                      | -   | -   | -                          | 1,515          |
| <b>At end of period</b>         | <b>4,999</b>                               | <b>114</b>                                  | <b>2,797</b>  | <b>-</b>                   | <b>7,910</b>   |
| <b>Net book value</b>           |  |   |   |                            |                |
| At 30 September 2008            | 8,000                                      | 75  | 475   | -                          | 8,550          |
| At 31 August 2007               | 9,805                                      | 95  | 812   | 4                          | 10,716         |

## Notes to the financial statements

### 8. Fixed asset investments

|                        | Shares in<br>subsidiaries<br>£'000 | Loans to group<br>undertakings<br>£'000 | Loans to<br>participating<br>interests<br>£'000 | Other<br>investments<br>£'000 | Total<br>£'000 |
|------------------------|------------------------------------|---|---|-------------------------------|----------------|
| <b>Cost</b>            |                                    |   |   |                               |                |
| At beginning of period | 16,479                             | 27,210                                  | 43  | 5                             | 43,737         |
| Movement in the period | -                                  | 101,346                                 | -   | -                             | 101,346        |
| At end of period       | 16,479                             | 128,556                                 | 43  | 5                             | 145,083        |
| <b>Provisions</b>      |                                    |   |   |                               |                |
| At beginning of period | 2,142                              | 8,051                                   | 42  | -                             | 10,235         |
| Movement in the period | -                                  | -                                       | -   | -                             | -              |
| At end of period       | 2,142                              | 8,051                                   | 42  | -                             | 10,235         |
| <b>Net book value</b>  |                                    |   |   |                               |                |
| At 30 September 2008   | 14,337                             | 120,505                                 | 1   | 5                             | 134,848        |
| At 31 August 2007      | 14,337                             | 19,159                                  | 1   | 5                             | 33,502         |

The majority of the movement in loans to group undertakings relates to the loan between the Company and Chrysalis PLC used to fund the return of capital to shareholders.

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 include an amount of £3.9m (2007: £3.9m) 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.

All investments are unlisted. The principal companies in which the company's interest was more than 10% at 30 September 2008 were as follows:

|  | Principal<br>activity | Class<br>of share | Percentage<br>of shares<br>held |
|--|-----------------------|-------------------|---------------------------------|
| <b>Subsidiary undertakings</b>                 |                       |                   |                                 |
| Armourvale Limited                             | Holding company       | Ordinary          | 100%                            |
| Chrysalis Music Limited                        | Music publishing      | Ordinary          | 100%                            |
| Chrysalis Music International BV (Netherlands) | Music publishing      | Ordinary          | 100%                            |
| Chrysalis Music SAS (France)                   | Music publishing      | Ordinary          | 100%                            |
| Downboy Music Limited                          | Music production      | Ordinary          | 100%                            |
| The Echo Label Limited                         | Music production      | Ordinary          | 96%                             |
| Jerve Songs Limited                            | Music production      | Ordinary          | 100%                            |
| Chrysalis Retail Entertainment Limited         | Retail broadcasting   | Ordinary          | 100%                            |
| Lapishaven Limited                             | Holding company       | Ordinary          | 100%                            |
| The Hit Label Limited                          | Music production      | Ordinary          | 50%                             |

## Notes to the financial statements

### 8. Fixed asset investments (continued)

#### *Associated undertakings and joint ventures*

|                           |                  |          |     |
|---------------------------|------------------|----------|-----|
| Chrys-a-lee Music Limited | Music production | Ordinary | 50% |
| Tuchwood Records Limited  | Music production | Ordinary | 50% |

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

### 9. Debtors

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Due within one year</i>                        |               |               |
| Trade debtors                                     | 143           | 246           |
| Other debtors                                     | 118           | 1,643         |
| Corporate and other taxes                         | 378           | 1,337         |
| Prepayment and accrued income                     | 423           | 214           |
| Deferred tax asset (due after more than one year) | -             | 1,294         |
|   | 1,062         | 4,734         |

### 10. Creditors: amounts falling due within one year

|                                    | 2008<br>£'000 | 2007<br>£'000 |
|------------------------------------|---------------|---------------|
| Bank loans and overdrafts          | 5,500         | 6,858         |
| Trade creditors                    | 443           | 41            |
| Amounts owed to group undertakings | 16,737        | 47,946        |
| Other creditors                    | 20            | 1,098         |
| Social security and other taxes    | 169           | 1,527         |
| Accruals and deferred income       | 2,221         | 7,216         |
|                                    | 25,090        | 64,686        |

## Notes to the financial statements

### 11. Provisions for liabilities

|                                  | £'000 |
|----------------------------------|-------|
| <i>Vacant property provision</i> |       |
| At beginning of period           | -     |
| Charged in the period            | 1,115 |
|                                  | <hr/> |
| At end of period                 | 1,115 |
|                                  | <hr/> |

The provision represents management's best estimate of the Group's liability in respect of operating leases over vacant properties. It is expected that these costs will be incurred over the next three financial periods.

|   | £'000 |
|---|-------|
| <i>Deferred tax assets</i>                  |       |
| At beginning of period                      | 1,294 |
| Written off in the period                   |       |
| - Recognised in the profit and loss account | (896) |
| - Recognised directly in equity             | (398) |
|   | <hr/> |
| At end of period                            | -     |
|   | <hr/> |

Other deferred tax assets arising in the UK are not recognised in the financial statements as the Directors believe that suitable taxable profits are unlikely to arise from which the future reversal of timing differences could be deducted. The unrecognised deferred tax assets can be analysed as follows:

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Unrecognised deferred tax assets</i>                             |               |               |
| Unutilised trading losses   | 1,807         | 2,818         |
| Differences between accumulated depreciation and capital allowances | 1,902         | 1,061         |
|   | <hr/>         | <hr/>         |
|   | 3,709         | 3,879         |
|   | <hr/>         | <hr/>         |

## Notes to the financial statements

### 12. Financial commitments

At 30 September 2008, annual commitments under non-cancellable operating leases were as follows:

|                                     | Land and building |            | Other     |            |
|-------------------------------------|-------------------|------------|-----------|------------|
|                                     | 2008              | 2007       | 2008      | 2007       |
|                                     | £'000             | £'000      | £'000     | £'000      |
| Expiring within one year            | -                 | -          | -         | 81         |
| Expiring between one and five years | 798               | 798        | 76        | 32         |
| Expiring after five years           | -                 | -          | -         | -          |
|                                     | <u>798</u>        | <u>798</u> | <u>76</u> | <u>113</u> |

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

Other amounts relate to a lease for the hire of photocopiers throughout the Group which commenced on 30 August 2006. Most of these costs will be recharged to subsidiary companies, but the Company recognises the full liability.

### 13. Retirement benefits

The Company operates a funded pension scheme with both final salary and money purchase sections.

On 31 January 2008, the Directors committed to the winding up of the Chrysalis Group Retirement Benefits Scheme ("the Pension Scheme"). This has been accounted for as a settlement and curtailment under FRS 11 Retirement Benefits as at 31 January 2008. The buy-out of the Pension Scheme is being effected through a buy-out policy with Paternoster UK Limited.

The buy-out is expected to be legally completed by September 2009, at which stage the Pension Scheme will be wound up.

The total cost of the buy-out charged to the profit and loss account comprises:

|   | £'000        |
|---|--------------|
| Settlement and curtailment cost           | 7,630        |
| Provision for legal and professional fees | 600          |
|   | <u>8,230</u> |

In addition to the buy-out cost, the charge to the profit and loss account in respect of the employee pension scheme for the period was £0.3m (2007: £1.2m), of which £0.2m (2007: £0.4m) related the annual service charge and £0.1m (2007: £0.2m) related to the interest charge in respect of the members of the final salary section of the scheme.

The scheme assets and liabilities at 30 September 2008 were valued based on the settlement cost agreed with Paternoster UK Limited.

## Notes to the financial statements

### 13. Retirement benefits (continued)

At 30 September 2008, the outstanding pension contributions relating to the final salary section of the scheme were £nil (2007: £0.1m).

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Final salary section of the scheme</i>                 |               |               |
| Present value of funded final salary obligations          | (23,976)      | (18,493)      |
| Fair value of scheme assets                               | 25,471        | 13,873        |
|   | <hr/>         | <hr/>         |
| Recognised asset/(liability) for final salary obligations | 1,495         | (4,620)       |
| Related deferred tax asset at 28%                         | -             | 1,294         |
|   | <hr/>         | <hr/>         |
| Net pension asset/(liability)                             | 1,495         | (3,326)       |
|   | <hr/>         | <hr/>         |

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Movement in present value of final salary obligation</i> |               |               |
| At beginning of period                                      | (18,493)      | (19,758)      |
| Current service cost  | (110)         | (360)         |
| Interest cost   | (1,431)       | (1,010)       |
| Actuarial gains/(losses)                                    | 680           | 2,378         |
| Settlement and curtailment loss                             | (7,630)       | -             |
| Past service cost   | (71)          | (37)          |
| Benefits paid   | 3,096         | 335           |
| Contributions by members                                    | (17)          | (41)          |
|   | <hr/>         | <hr/>         |
| At end of period  | (23,976)      | (18,493)      |
|   | <hr/>         | <hr/>         |

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <i>Movement in fair value of scheme assets</i> |               |               |
| At beginning of period                         | 13,873        | 12,437        |
| Expected return on scheme assets               | 1,347         | 802           |
| Actuarial gain/(loss)                          | 684           | (218)         |
| Contributions by employer                      | 12,646        | 1,146         |
| Contributions by members                       | 17            | 41            |
| Benefits paid                                  | (3,096)       | (335)         |
|  | <hr/>         | <hr/>         |
| At end of period                               | (25,471)      | 13,873        |
|  | <hr/>         | <hr/>         |

## Notes to the financial statements

### 13. Retirement benefits (continued)

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <i>Expense recognised in operating profit</i>        |               |               |
| Current service cost                                 | 110           | 360           |
| Past service cost                                    | 71            | 37            |
| Cost of buy-out (before legal and professional fees) | 7,630         | -             |
|  | <hr/> 7,811   | <hr/> 397     |

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Expense recognised in other finance income</i> |               |               |
| Interest on final salary scheme obligation        | 1,431         | 1,010         |
| Expected return on final salary scheme assets     | (1,347)       | (802)         |
|   | <hr/> 84      | <hr/> 208     |

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

|                  | 2008<br>£'000 | 2007<br>£'000 |
|------------------|---------------|---------------|
| Insured pensions | 25,471        | -             |
| Equities         | -             | 6,990         |
| Bonds            | -             | 6,057         |
| Other            | -             | 826           |
|                  | <hr/> 25,471  | <hr/> 13,873  |

For the 12 months ended 31 August 2007, the actual return on scheme assets was £1.0m.

At 31 August 2007, 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.

|  | 2008 | 2007  |
|--|------|-------|
| <i>Principal actuarial assumptions</i>   |      |       |
| Discount rates   | n/a  | 5.90  |
| Expected return on final salary pension scheme assets (%)                      | n/a  | 6.63  |
| Indexed pension increases (%)  | n/a  | 3.25  |
| Increase in pensions in deferment (%)  | n/a  | 3.25  |
| Future salary increases (%)  | n/a  | 4.25  |
| Other material assumptions – inflation (%)                                     | n/a  | 3.25  |
| Life expectancy for a male pensioner aged 60 at period end (years)             | n/a  | 85.40 |
| Life expectancy when 60 for a male non-pensioner aged 50 at period end (years) | n/a  | 86.50 |

## Notes to the financial statements

### 13. Retirement benefits (continued)

For 2007 mortality rates, the Company has used PA92 tables with mortality projected to 2020 for pensioner members. Expectation of life at normal retirement age is 86.5 years for males and 89.4 years for females.

#### *History of the scheme*

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

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| <i>Balance sheet</i>                         |               |               |
| Present value of final salary obligation     | (23,976)      | (18,493)      |
| Fair value of scheme assets                  | 25,471        | 13,873        |
|  | <hr/> 1,495   | <hr/> (4,620) |
|  | <hr/>         | <hr/>         |
|  | 2008<br>£'000 | 2007<br>£'000 |
| <i>Experience adjustments</i>                |               |               |
| Experience adjustments on scheme liabilities | 278           | 116           |
| Experience adjustments on scheme assets      | 684           | (218)         |

#### *Money purchase section of the scheme*

The total expense relating to this section of the scheme in the current period was £0.3m (2007: £0.9m).

### 14. Called up share capital

|   | 2008<br>£'000 | 2007<br>£'000 |
|---|---------------|---------------|
| <i>Authorised</i>                                     |               |               |
| 200,000,000 ordinary shares of 2p each                | 4,000         | 4,000         |
|   | <hr/>         | <hr/>         |
| <i>Authorised, allotted, called up and fully paid</i> |               |               |
| 167,834,836 ordinary shares of 2p each                | 3,357         | 3,357         |
|   | <hr/>         | <hr/>         |



## Notes to the financial statements

### 15. Share premium and reserves

|  | Share<br>premium<br>£'000 | Revaluation<br>reserves<br>£'000 | Other<br>reserves<br>£'000 | Profit and<br>loss<br>£'000 | Total<br>£'000 |
|--|---------------------------|----------------------------------|----------------------------|-----------------------------|----------------|
| At the beginning of the period                             | 62,269                    | 3,900                            | (473)                      | 69,458                      | 135,154        |
| Loss for the period  | -                         | -                                | -                          | (5,642)                     | (5,642)        |
| Actuarial gains on defined benefit<br>pension scheme       | -                         | -                                | -                          | 1,364                       | 1,364          |
| Tax on income and expense<br>recognised directly in equity | -                         | -                                | -                          | (398)                       | (398)          |
| Vesting of shares  | -                         | -                                | 556                        | (556)                       | -              |
| Share-based payments                                       | -                         | -                                | -                          | 66                          | 66             |
| <b>At the end of period</b>                                | <b>62,269</b>             | <b>3,900</b>                     | <b>83</b>                  | <b>64,292</b>               | <b>130,544</b> |

|                                | Other<br>reserves<br>£'000 | Hedging<br>reserve<br>£'000 | Reserve for<br>own shares<br>£'000 | Total<br>£'000 |
|--------------------------------|----------------------------|-----------------------------|------------------------------------|----------------|
| At the beginning of the period | 253                        | (170)                       | (556)                              | (473)          |
| Vesting of shares              | -                          | -                           | 556                                | 556            |
| <b>At the end of period</b>    | <b>253</b>                 | <b>(170)</b>                | <b>-</b>                           | <b>83</b>      |

### 16. Ultimate parent company

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