Chrysalis Radio Midlands Limited

Directors' report and financial statements

Registered number 2828239

31 August 2004

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 2004.

Principal activities

The principal activity of the company is that of a commercial radio station broadcasting in the West Midlands and Warwickshire. The radio station trades as 100.7 Heart FM.

Results

The company recorded a profit after tax of £4,781,000 *(2003: £4,577,000)* in the year. The results for the year are set out in full on page 5.

Dividend

An ordinary dividend of £5,000,000 *(2003: £4,500,000)* was proposed during the year.

Directors and directors' interests

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

R Burman*	(resigned 13 May 2004)
AD Carruthers	
Viscountess PA Cobham*	
MR Evans	
PM Fairburn	
W Lyn*	(resigned 13 May 2004)
BA Nielsen*	(resigned 13 May 2004)
SD Parkinson	
PS Riley	
A Wright	
D Thomson	
N Greenslade	

* Non-executive directors

None of the directors who held office at the end of the year had any direct interest in the shares of the company either at the start or end of the year.

According to the directors' register of interests no rights to subscribe for shares in or debentures of the company were granted to any of the directors or their immediate families, or exercised by them, during the year.

At 31 August 2004, PS Riley was also a director of Chrysalis Group PLC, the ultimate holding company, and his share interests are disclosed in the directors' report of that company.

The following directors held interests in the 2p ordinary shares of Chrysalis Group PLC in the year:

	31 August 2004	31 August 2003
MR Evans	**87,949**	40,000
PM Fairburn	**3,000**	3,000
SD Parkinson	**48,443**	3,000
D Thomson	**135,798**	3,000

None of the other directors held any disclosable interest in the ultimate holding company.

Directors' report *(continued)*

Auditors

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

By order of the board

CR Potterell
Company Secretary

The Chrysalis Building
Bramley Road
London
W10 6SP

31 January 2005

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

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

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

KPMG Audit Plc
2 Cornwall Street
Birmingham
B3 2DL

Independent auditors' report to the members of Chrysalis Radio Midlands Limited

We have audited the financial statements on pages 5 to 13.

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 are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report 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 if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

31 January 2005

Profit and loss account
for the year ended 31 August 2004

	Note	**2004** **£000**	2003 £000
Turnover	*1*	**15,035**	13,845
Cost of sales		**(4,797)**	(4,491)
Gross profit		**10,238**	9,354
Distribution costs		**(833)**	(719)
Administrative expenses		**(2,703)**	(2,192)
Operating profit		**6,702**	6,443
Interest receivable from parent and fellow subsidiary companies	*5*	**156**	134
Interest payable and similar charges	*6*	**(2)**	(5)
Profit on ordinary activities before taxation	*2*	**6,856**	6,572
Taxation	*7*	**(2,075)**	(1,995)
Profit on ordinary activities after taxation		**4,781**	4,577
Dividend proposed		**(5,000)**	(4,500)
Retained (loss)/ profit for the year		**(219)**	77

The above results derive entirely from the company's continuing activities.

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the results as stated above for the current year and previous year.

A statement of movement on reserves is set out in note 14.

Balance sheet
at 31 August 2004

	Note	2004		2003	
		£000	**£000**	£000	£000
Fixed assets					
Tangible fixed assets	*9*		**310**		331
Current assets					
Debtors	*10*	**9,552**		10,230	
Cash at bank and in hand		**371**		289	
		9,923		10,519	
Creditors: Amounts falling due within one year	*11*	**(8,370)**		(8,764)	
Net current assets			**1,553**		1,755
Total assets less current liabilities			**1,863**		2,086
Creditors: Amounts falling due after more than one year	*12*		**-**		(4)
Net assets			**1,863**		2,082
Capital and reserves					
Called up share capital	*13*		**500**		500
Profit and loss account	*14*		**1,363**		1,582
Shareholders' funds			**1,863**		2,082

Included above are non-equity shareholders' funds amounting to £400,000 *(2003: £400,000).*

These financial statements were approved by the board of directors on 31 January 2005 and were signed on its behalf by:

PS Riley
Director

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements:

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the sale of advertising airtime and sponsorship to customers, net of agency commissions, during the year and is derived wholly from the UK.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost, less the estimated residual value of tangible fixed assets, by equal instalments over their estimated useful economic lives as follows:

Short leasehold buildings	over life of lease
Plant, equipment, furniture and fittings	over 2-10 years
Motor vehicles	over 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.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Cash flow statement

The company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of Chrysalis Group plc and its cash flows are included within the consolidated cash flow statement of that company.

Pension scheme

The employees of the company may participate in the Chrysalis Group PLC Retirement Benefits Scheme. The assets of the Scheme are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Related party disclosures

Under Financial Reporting Standard 8, the company is exempt from the disclosure of transactions with other group undertakings on the grounds that it is a wholly owned subsidiary of Chrysalis Group PLC and its results are included in the consolidated financial statements of that company.

Deferred 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. Under FRS 19 deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise provided under FRS 19 and except that deferred tax assets are recognised only to the extent that it is more likely than not that they will be recovered.

Notes *(continued)*

2 Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated		
after charging/(crediting)		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**127**	153
Leased	**13**	20
Auditors' remuneration:		
Audit	**7**	7
Property rentals payable under operating lease	**142**	86
Plant and machinery rentals payable under operating lease	**88**	20
Profit on disposal of fixed assets	**(13)**	(7)

The directors consider that there is only one class of business, all originating in the United Kingdom.

3 Directors' remuneration

	2004 £000	2003 £000
Remuneration as executives		
Salaries and benefits in kind	**488**	289
Pension contributions	**19**	17
	507	306
Emoluments as directors		
Fees	**19**	30
	526	336

The emoluments (excluding pension contributions) of the highest paid director were £125,000 *(2003: £63,000)*. Six directors *(2003: seven)* are members of the defined contribution section of the Chrysalis Group PLC pension scheme. Company pension contributions in respect of the highest paid director were £2,000 *(2003: £5,000)*.

4 Staff numbers and costs

The average number of persons employed by the company (including directors, except those of Chrysalis Group PLC) during the year, analysed by category, was as follows:

	Number of directors 2004	2003
Sales and distribution	**34**	35
Administration	**44**	44
	78	79

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	**3,073**	2,701
Social security costs	**300**	241
Pension costs	**112**	118
	3,485	3,060

Notes *(continued)*

5 Interest receivable and similar income

	2004 £000	2003 £000
Receivable from group undertakings	**156**	134

6 Interest payable and similar charges

	2004 £000	2003 £000
Finance charges payable in respect of finance leases and hire purchase contracts	**2**	5

7 Taxation

(a) Analysis of charge in the year

	2004 £000	2003 £000
Current tax		
UK corporation tax at 30%	**1,776**	1,964
Total current tax	**1,776**	1,964
Deferred tax (note 8)		
Origination and reversal of timing differences	**299**	31
Tax on profit on ordinary activities	**2,075**	1,995

(b) Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2003: lower)* than the standard rate of corporation tax in the UK of 30% *(2003: 30%)*. The differences are explained below:

	2004 £000	2003 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**6,856**	6,572
Current tax at 30% *(2003: 30%)*	**2,057**	1,972
Effects of:		
Expenses not deductible for tax purposes	**15**	24
Depreciation for the year less than capital allowances	**(259)**	(32)
Other timing differences	**(37)**	-
Total current tax charge (see above)	**1,776**	1,964

(c) Factors that may affect future tax charges

There are no known factors that may affect future tax charges.

Notes *(continued)*

8 Deferred tax

	2004 £000	2003 £000
Accelerated capital allowances	**124**	164
Other timing differences	-	259
Deferred tax asset	**124**	423
At start of year	**423**	454
Deferred tax credit/(charge) in profit and loss account for the year (note 7)	**(299)**	(31)
At end of year (note 10)	**124**	423

9 Tangible fixed assets

	Plant, equipment, furniture and fittings £000	Motor Vehicles £000	Total £000
Cost or valuation			
At beginning of year	1,409	163	1,572
Additions	136	-	136
Disposals	-	(99)	(99)
At end of year	1,545	64	1,609
Depreciation			
At beginning of year	1,142	99	1,241
Charge for year	119	21	140
Disposals	-	(82)	(82)
At end of year	1,261	38	1,299
Net book value			
At 31 August 2004	**284**	**26**	**310**
At 31 August 2003	267	64	331

Included in the total net book value of motor vehicles is £22,000 *(2003: £49,000)* in respect of assets held under hire purchase agreements. Depreciation for the year on these assets was £13,000 *(2003: £20,000)*.

Notes *(continued)*

10 Debtors

	2004 £000	2003 £000
Trade debtors	**2,614**	2,365
Amounts owed by parent and fellow subsidiary undertakings	**6,280**	7,013
Other debtors	**321**	234
Prepayments and accrued income	**213**	195
Deferred tax asset	**124**	423
	9,552	10,230

The amounts owed by the parent company are interest bearing at base rate less 1% and are payable on request.

11 *Creditors: Amounts falling due within one year*

	2004 £000	2003 £000
Trade creditors	**69**	109
Amounts owed to parent and fellow subsidiary undertakings	**5,455**	4,647
Taxation and social security	**2,173**	2,424
Other creditors	**12**	877
Accruals and deferred income	**657**	685
Obligations under finance lease and hire purchase contracts	**4**	22
	8,370	8,764

The amounts owed to the parent company are interest bearing at base rate plus 1.5% and are repayable on request.

12 Creditors: Amounts falling due after more than one year

	2004 £000	2003 £000
Obligations under finance leases and hire purchase contracts	-	4

The maturity of obligations under finance leases and hire purchase contracts is as follows:

Within one year	-	4
In the second to fifth years	-	-
	-	4

Finance leases are secured on the assets to which they relate.

Notes *(continued)*

13 Called up share capital

	2004 £000	2003 £000
Authorised:		
100,000 ordinary shares of £1 each	**100**	100
2,564 ordinary "B" shares of £1 each	**3**	3
400,000 0% redeemable preference shares	**400**	400
	503	503
Allotted, called up and fully paid:		
100,000 ordinary shares of £1 each	**100**	100
400,000 0% redeemable preference shares of £1 each	**400**	400
	500	500

The 0% redeemable preference shares represent non equity shareholders' funds.

Rights to dividend and redemption

The profits available for distribution shall be distributed by way of dividend among the holders of the ordinary shares and the redeemable preference shares on a pro rata basis. The holders of the redeemable preference shares are not entitled to a preferred dividend. The redeemable preferences shares are redeemable at the company's option and it is intended that they will be redeemed in accordance with the articles of association.

Winding up

On a return of capital on a winding up, the assets of the company available for distribution among shareholders shall be applied first in repaying to the holders of the redeemable preference shares the paid up amount on each such share, and secondly to the holders of the ordinary shares.

Voting

The preference shares do not carry a vote unless they have not been redeemed in accordance with the articles or else if a resolution proposed at a general meeting seeks to wind up the company or alters in any way the rights, privileges or restrictions attached to the preference shares.

Ordinary "B" shares

The holder of any ordinary "B" shares shall be entitled to receive notice of general meetings, but not to attend or vote at them. The ordinary "B" shares do not entitle the holders to participate in the profits or assets of the company.

14 Reconciliation of movement in shareholders' funds

	Share capital £000	Profit and loss account £000	Total £000
At beginning of year	500	1,582	2,082
Loss for the year	-	(219)	(219)
At end of year	**500**	**1,363**	**1,863**

15 Contingent liabilities

The company, together with other group companies, has given a guarantee and a floating charge over certain of its assets to secure borrowings of other group companies.

Notes *(continued)*

16 Operating lease commitments

At the year end, the company had the following annual commitments under non cancellable operating leases.

	2004 Land and buildings £000	**Other £000**	2003 Land and buildings £000	Other £000
Rentals due in the next year on operating leases which expire:				
Within one year	-	**18**	86	-
Within two and five years	-	**87**	-	17
After five years	-	-	-	-
	-	**105**	86	17

17 Capital commitments

There were no capital commitments at the year end (2003: £Nil).

18 Pension scheme

The UK Chrysalis Group operates a pension scheme with a defined benefits section and a defined contributions section. The defined benefits section was closed to new entrants after 1 July 1994. The assets of the scheme are held under trust separately from those of the group and are invested by external fund managers.

Contributions to the defined benefit section of the scheme are determined by a qualified actuary based on triennial valuations using the attained age method.

Because the company is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement Benefits" the scheme has been accounted for in these financial statements as if it were a defined contribution scheme.

The pension charge for the year represents contributions payable by the company to the scheme and amounted to £112,000 *(2003: £118,000)*.

At 31 August 2004 contributions amounting to £12,000 *(2003: £12,000)* were payable to the scheme and are included in creditors.

Further details of the scheme, including details of the latest actuarial valuation for the defined benefits section of the scheme, are given in the financial statements of Chrysalis Group PLC, the ultimate holding company.

19 Ultimate holding company

The immediate parent company is Chrysalis Radio Holdings Limited, a company incorporated in Great Britain and registered in England and Wales.

The ultimate holding company is Chrysalis Group PLC, a company incorporated in Great Britain and registered in England and Wales. Copies of the latest published financial statements of that company can be obtained from The Chrysalis Building, Bramley Road, London W10 6SP. No other group financial statements include the results of the company.