

Chrysalis Radio Midlands Limited
(formerly Heart of England Radio Limited)

Directors' report and financial statements

31 August 1998

Registered number 2828239



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 August 1998.

Principal activities

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

Results

The company recorded a retained profit of £921,000 (1997: loss of £69,000) in the year which was transferred to reserves. The results for the year are fully set out on page 5.

Business review and future developments

In October 1993, the company was awarded an eight year licence to transmit throughout the West Midlands and Warwickshire. Broadcasting began in September 1994. The transmission area covers an adult population of approximately three million. 100.7 Heart FM was the first adult contemporary music station in the UK. All the music played is aimed at a core market: adults aged 25-44. The company aims to establish itself as the market leader within its core demographic.

Post balance sheet events

On 7 December 1998, the company changed its name to Chrysalis Radio Midlands Limited.

Directors and directors' interests

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

CJC Levison*	
Viscountess PA Cobham*	
PS Riley	
RNL Huntingford	
DA Thomson	
P Fairburn	
M Evans	
B Nielsen*	
D Jones*	(resigned 30 June 1998)
DT Hall	(appointed 30 June 1998)

* Non-executive directors

CJC Levison and RNL Huntingford are directors of Chrysalis Group plc, the ultimate holding company, and their interests in the shares of that company are disclosed in its statutory accounts.

The interests of other directors, including family interests, in the share capital of the holding company at the year end were as follows:

	1998 Number of shares	Number of options	1997 Number of shares	Number of options
PS Riley	27,601	-	6,402	25,000
P Fairburn	2,074	-	-	5,000
DA Thomson	2,359	10,088	2,359	10,000

Directors' report (continued)

Directors and directors' interests

Viscountess PA Cobham has an option to purchase if issued, at par, the 2564 'B' ordinary shares in the company. This option is exercisable at any time after 31 August 1998 up until 31 July 2001.

On 18 February 1998 in accordance with the scheme, the number of shares under option and the option price were amended as a result of the increase in the holding company's issued share capital following the Placing and Open Offer which was completed on 29 August 1997.

On 4 March 1998 PS Riley exercised 25,220 share options over the ordinary shares of 10p each in Chrysalis Group plc at a price of £1.71 per share. The market price on the date of exercise was £7.30. On 21 August 1998 P Fairburn exercised 5,044 share options over the ordinary shares of 10p each in Chrysalis Group plc at a price of £2.46 per share. The market price on the date of exercise was £7.45.

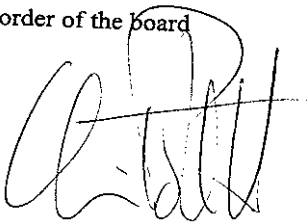
Proposed dividend

The directors do not recommend the payment of a dividend (1997: £Nil).

Year 2000 compliance

The Chrysalis Group, of which this company is part, has upgraded both its internal computer network and its main accounting software over the past 18 months. In carrying out these two major upgrades, the Directors have sought to ensure that the new hardware and software selected was Year 2000 compliant. The Directors of the Group are also in the process of assessing the compliance of all other computer hardware, software and other electronic equipment which uses time-coded software in use throughout the Group. Where instances of non-compliance have been found, these have been noted and the necessary changes are being made as part of the Group's normal ongoing replacement cycle before 31 December 1999. An internal working party comprising senior information technology and accounting personnel meets on a regular basis to plan and control the implementation of changes and review progress.

By order of the board



CR Potterell
Company Secretary

The Chrysalis Building
Bramley Road
London
W10 6SP

23 June 1999

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

Auditors' report to the members of Chrysalis Radio Midlands Limited

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

Respective responsibilities of directors and auditors

As described on page 3, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1998 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

23 June 1999

Profit and loss account
for the year ended 31 August 1998

	<i>Note</i>	1998 £000	1997 £000
Turnover			
Cost of sales	1	5,052 (932)	3,411 (718)
Gross profit		<hr/> 4,120	<hr/> 2,693
Distribution costs			
Administrative expenses		(1,290) (1,665)	(1,129) (1,428)
Operating profit		<hr/> 1,165	<hr/> 136
Interest payable and similar charges			
	5	(244)	(205)
Profit/(loss) on ordinary activities before taxation		<hr/> 921	<hr/> (69)
Taxation			
	6	-	-
Profit/(loss) on ordinary activities after taxation, being retained profit/(loss)		<hr/> 921 <hr/> <hr/>	<hr/> (69) <hr/> <hr/>

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.

Note on historical cost profits and losses

There is no difference between the results as disclosed in the profit and loss account and the results as given by an unmodified historical cost basis.

A statement of movement on reserves is set out in note 12.

Chrysalis Radio Midlands Limited
(formerly Heart of England Radio Limited)
Directors' report and financial statements
31 August 1998

Balance sheet
at 31 August 1998

	Note	1998 £000	1997 £000	£000
Fixed assets				
Tangible fixed assets	7		394	522
Current assets				
Debtors				
Cash	8	1,867 1	1,227	
Creditors: Amounts falling due within one year	9	1,868 (615)	1,227 (669)	
Net current assets			1,253	558
Total assets less current liabilities			1,647	1,080
Creditors: Amounts falling due after more than one year	10		(2,420)	(2,774)
Net liabilities			(773)	(1,694)
Capital and reserves				
Called up share capital	11	500		500
Profit and loss account	12	(1,273)		(2,194)
Shareholders' funds			(773)	(1,694)

Included above are non-equity shareholders' funds amounting to £400,000 (1997: £400,000).

These financial statements were approved by the board of directors on 23 June 1999 and were signed on its behalf by:



RNL Huntingford
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. The ultimate holding company has confirmed that it will continue to provide financial support to the company to enable it to meet its liabilities as they fall due.

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:

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

The company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of a company incorporated in Great Britain and registered in England and Wales.

Pensions

The company is a member of the Chrysalis Group plc defined contribution pension scheme.

The assets of the scheme are held separately from those of the group in an independently administered fund. The amounts 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.

Notes (continued)

2 Profit on ordinary activities before taxation

	1998 £000	1997 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned		
Leased	90	72
Auditors' remuneration:	125	101
Audit		
Property rentals payable under operating lease	8	8
Plant and machinery rentals payable under operating lease	75	75
Profit on disposal of fixed assets	13	13
	(8)	-
	<u> </u>	<u> </u>

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

3 Directors' remuneration

	1998 £000	1997 £000
<i>Remuneration as executives</i>		
Salaries and benefits in kind		
Company contributions to defined contribution pension schemes	259	314
	17	22
	<u> </u>	<u> </u>
<i>Emoluments as directors</i>	276	336
Fees		
	21	15
	<u> </u>	<u> </u>
	297	351
	<u> </u>	<u> </u>

The emoluments (excluding pension contributions) of the highest paid director were £114,000 (1997: £101,000). Four directors (1997: four) are members of the Chrysalis Group plc defined contribution pension scheme. Company pension contributions in respect of the highest paid director were £7,000 (1997: £7,000).

Notes (continued)

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 employees	
	1998	1997
Sales and distribution	19	19
Administration	34	33
	<hr/>	<hr/>
	53	52
	<hr/>	<hr/>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	1,587	1,456
Social security costs	109	113
Pension costs	59	54
	<hr/>	<hr/>
	1,755	1,623
	<hr/>	<hr/>

5 Interest payable and similar charges

	1998	1997
	£000	£000
Finance charges payable in respect of finance leases and hire purchase contracts	13	18
Interest payable to parent and fellow subsidiary undertakings	231	187
	<hr/>	<hr/>
	244	205
	<hr/>	<hr/>

6 Taxation

There is no tax charge in the year as a result of trading losses brought forward.

Notes (continued)

7 Tangible fixed assets

	Plant, equipment, furniture and fittings £000	Motor vehicles £000	Total £000
<i>Cost or valuation</i>			
At beginning of year			
Additions	730	254	984
Disposals	34	64	98
	-	(61)	(61)
At end of year	764	257	1,021
<i>Depreciation</i>			
At beginning of year			
Charge for year	324	138	462
Disposals	152	63	215
	-	(50)	(50)
At end of year	476	151	627
<i>Net book value</i>			
At 31 August 1998	288	106	394
At 31 August 1997	406	116	522

Included in the total net book value of motor vehicles is £106,000 (1997: £116,000) in respect of assets held under hire purchase agreements. Depreciation for the year on these assets was £63,000 (1997: £39,000). Included in the total net book value of plant, equipment, furniture and fittings is £46,000 (1997: £108,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £62,000 (1997: £62,000).

Debtors

	1998 £000	1997 £000
Trade debtors		
Amounts owed by parent and fellow subsidiary undertakings	1,319	925
Other debtors	345	170
Prepayments and accrued income	65	65
	138	67
	1,867	1,227

Included within other debtors is £Nil (1997: £65,000) which is recoverable after more than one year.

Notes (continued)

9 Creditors: Amounts falling due within one year

	1998 £000	1997 £000
Bank overdrafts	6	19
Trade creditors	154	218
Taxation and social security	30	45
Other creditors	49	27
Accruals and deferred income	342	273
Obligations under finance lease and hire purchase agreements	34	87
	<u>615</u>	<u>669</u>

10 Creditors: Amounts falling due after more than one year

	1998 £000	1997 £000
Amounts owed to parent and fellow subsidiary undertakings	2,397	2,760
Obligations under finance leases and hire purchase contracts	23	14
	<u>2,420</u>	<u>2,774</u>

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

	1998 £000	1997 £000
Within one year	34	87
In the second to fifth years	23	14
	<u>57</u>	<u>101</u>

Notes (continued)

11 Called up share capital

	1998	1997
	£000	£000
<i>Authorised:</i>		
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
	<hr/> 503	<hr/> 503
<i>Allotted, called up and fully paid:</i>		
100,000 ordinary shares of £1 each	100	100
400,000 0% redeemable preference shares of £1 each	400	400
	<hr/> 500	<hr/> 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 preference shares are redeemable at the company's option and it is intended that they will be redeemed as soon as the company is able to do so, 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.

A holder of ordinary "B" shares can convert part or whole of their share holdings, at any time after 31 August 1998, into ordinary shares. These converted ordinary shares will then rank pari passu to the other ordinary shares.

Notes (continued)

12 Reconciliation of movement in shareholders' funds

	Profit and loss account £000	Share capital £000	Total £000
At beginning of prior year			
Loss for prior year	(2,125)	500	(1,625)
	(69)	-	(69)
At beginning of year	(2,194)	500	(1,694)
Profit for the year	921	-	921
At end of year	(1,273)	500	(773)

3 Lease commitments

The company had the following annual commitments under non cancellable operating leases.

	1998		1997	
	Other £000	Land and buildings £000	Other £000	Land and buildings £000
Rentals due in the next year on operating leases which expire:				
Within two and five years	31	-	-	-
After five years	-	86	-	86
	31	86	-	86

Capital commitments

	1998 £000	1997 £000
Expenditure contracted for but not yet incurred:	Nil	Nil

Ultimate holding company

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.