# CHRYSALIS GROUP PLC

## Interim Results for the six months ended 28 February 2005

Chrysalis Group plc (LSE; CHS) today announces its unaudited interim results for the 6 months ended 28 February 2005.

**Key financials**

| | |
|---|---|
| Group turnover | £78.4m (H1 2004: £82.4m) |
| EBITA[1] | £3.1m (H1 2004: £5.0m) |
| PBIT | £1.9m (H1 2004: £4.1m) |
| Pre-tax profit | £0.3m (H1 2004: £2.2m) |
| Normalised pre-tax profit[2] | £1.2m (H1 2004: £3.0m) |
| Basic earnings per share | 0.09p per share (H1 2004: 1.03p) |
| Headline EPS[3] | 0.64p (H1 2004: 1.51p) |
| Net debt position | £36.7m at 28 February 2005 (H1 2004: £38.9m) |

**Overview**

- First half results in line with the Board's expectations
- 2005 full year results weighted to the second half
- Heart 106.2 regains position as No1 in key London market
- Chrysalis Radio acquisition of Century 106 will strengthen successful Heart branded offering in the important Midlands region
- Chrysalis Music performed strongly with NPS up by 4.6% to £4.9m (H1 2004: £4.7m)
- New divisional CEO appointed to implement rationalisation of Chrysalis Books

[1] EBITA comprises earnings before interest, tax and amortisation

[2] Pre-tax profit prior to goodwill amortisation and exceptional items

[3] Headline EPS comprises basic EPS adjusted to exclude goodwill amortisation and exceptional items from earnings

**Commenting on the results, Richard Huntingford, Chief Executive, said,**

"These results are in line with our pre-close statement and have been affected by the impact of previous, lower than expected audience figures in the Radio division and difficult first half trading conditions at the books division. During the period our core music business performed strongly and a number of programming and marketing initiatives were put in place to strengthen audiences across our radio division, the success of which was demonstrated in last week's Rajar audience survey, which showed Heart 106.2 regaining the number one position in the key London market.

The recently announced acquisition of Century 106 demonstrates our commitment to build on the unique and market leading positions we have created in both Chrysalis Radio and Chrysalis Music, enhancing the value of these assets for the long-term benefit of all shareholders in the Chrysalis Group."

**Enquiries:**

**Chrysalis Group Plc**

| | |
|---|---|
| Richard Huntingford, Group Chief Executive | 020 7470 1057 or 07802 793 444 |
| Nigel Butterfield, Group Finance Director | 020 7465 6243 or 07802 243 132 |
| Harriet Finney, Corporate Communications Director | 020 7465 6272 or 07811 370957 |

**Financial Dynamics**

| | |
|---|---|
| Tim Spratt/Charlie Palmer | 020 7831 3113 |

**Analyst Meeting:** 9.30am

**Venue:**

**Financial Dynamics**
Holborn Gate
26 Southampton Buildings
London WC2A 1PB

## CHAIRMAN'S REVIEW

The results for the six months to 28 February 2005 are in line with the company's expectations and the pre-close update given in March. As previously announced, the results for the 12 months to 31 August 2005 will be more weighted to the second half than in prior years. This second half bias is due to the number of album releases from the music division which fell either at the end of the first half or are on schedule for release in the second half of the financial year. In addition, the traditional seasonality of our book publishing business, coupled with first half weakness in the children's and promotional areas, means that profits at Chrysalis Books are geared towards the later part of the financial year.

We have recently completed the annual Group-wide review of our businesses. The Board concluded that the strategy of focusing on both our market leading music and radio businesses continues to be optimal in the interest of creating long-term shareholder value. Our key credentials as a strong, creatively-led, independent company place us in an excellent position to be able to outperform our industry peers. Both of these markets offer good growth potential and accordingly our area of primary focus will be to build on our unique position in the music industry and grow our successful radio business both organically and through acquisition. In both these areas we will seek to maximise the opportunities presented by digital technology and new distribution channels.

The Board believes firmly that this strategy, implemented by an experienced and proven management team, is the best way of delivering long term shareholder value. The Board is, however, mindful that our businesses operate in dynamic, competitive environments that will continue to see significant change and consolidation over the coming years. It will therefore regularly monitor both the performance of the businesses against this strategy and their competitive positions with a view to ensuring that maximum value from these businesses is delivered to shareholders.

## Group Financial Review

The interim results for the six months ended 28 February 2005 are reported below and in the attached financial statements.

| | H1 2005 | H1 2004 |
|---|---|---|
| | | |
| | £m | £m |
| Turnover | 79.7 | 84.6 |
| Total operating profit | 1.7 | 3.7 |
| Exceptional profits | 0.2 | 0.4 |
| PBIT | 1.9 | 4.1 |
| Interest | (1.6) | (1.9) |
| Profit before tax | 0.3 | 2.2 |
| Taxation | (0.1) | (0.4) |
| Profit after tax | 0.2 | 1.8 |
| Minority interests | (0.1) | (0.1) |
| Retained profit for the period | 0.1 | 1.7 |
| | | |
| Net assets | 54.6 | 52.0 |
| Net debt | 36.7 | 38.9 |
| | | |
| EPS | 0.09p | 1.03p |
| Headline EPS | 0.64p | 1.51p |

Turnover for the six months to 28 February 2005 was £79.7m, (H1 2004: £84.6m). The year on year decline of 5.7% is due partly to the reduced turnover at Chrysalis Books but also to the inclusion in the 2004 figures of £1.9m of turnover relating to Chrysalis Retail Entertainment and Rivals Digital Media, two companies which were sold during the course of last year. Eliminating joint ventures and associates, Group turnover was £78.4m (H1 2004: £82.4m).

Total operating profit of £1.7m (H1 2004: £3.7m) showed a year on year reduction - in the main due to the increased losses at Chrysalis Books, although both our music and radio divisions also reported marginally lower first half profits.

Exceptional profits of £0.2m primarily relate to the sale of our minority stakes in two local radio businesses.

The tax charge for the 2005 interim period amounts to £0.1m (H1 2004: £0.4m) and is entirely related to overseas taxation.

The reduction in profits for the Group in the period, resulted in basic earnings per share of 0.09p compared with just over 1p in the corresponding period in 2004. Headline EPS, which excludes goodwill amortisation and exceptional items, was 0.64p compared to 1.51p in the first half of 2004.

## RADIO

Chrysalis Radio, in line with the commercial radio industry as a whole, suffered a period of marked volatility during the first six months of the 2005 financial year. First half revenues for Chrysalis Radio fell by 2.2% to £32.6m (H1 2004: £33.3m). This performance should be viewed against a backdrop of lower than expected audience figures, particularly at our key Heart 106.2 London station which traded off hours on average 14% below the same period last year. Advertising growth for the commercial industry was flat for the comparable six months to 28 February 2005. It is therefore encouraging that, in spite of these audience figures and a challenging advertising market, we have continued to make progress in improving yields.

The decline in year on year revenues inevitably impacted the profitability of the division, and EBITA for Chrysalis Radio fell by 6.5% to £6.1m (H1 2004: £6.5m) for the first six months of the year.

| **Chrysalis Radio** | **H1 2005** | H1 2004 |
|---|---|---|
| | **£m** | £m |
| | | |
| Revenues | 32.6 | 33.3 |
| EBITA | 6.1 | 6.5 |
| EBIT | 5.3 | 5.7 |

In the 10 years that Chrysalis has been involved in commercial radio, we have built an established, strong and market leading network of brand-led stations. Chrysalis Radio has consistently followed a focused strategy of investing in major market stations with high profit potential, which deliver attractive, core demographics to major advertisers. Our success is evident across our portfolio of brands: we are the clear commercial number one station in three of the five markets in which we operate: London, the West Midlands and Yorkshire. In addition, in the competitive London marketplace we operate the number two sales house, including airtime sold on behalf of GMG, with 25% more listening hours than the number three. This allows us to offer a compelling alternative commercial proposition to the current market leader.

The acquisition of Century 106 from GCap Media, as announced yesterday, is entirely consistent with our strategy of investing in radio licences covering large metropolitan areas where there are good opportunities for audience and revenue growth. Century 106 is a well established, profitable broadcaster and will allow us to create a leading Heart branded, adult contemporary offering across the East and West Midlands – an area attractive to both national and local advertisers. We anticipate being able to grow both audience share and yield for the station towards that currently enjoyed by the Heart West Midlands station. There is also scope for some margin improvement due to economies of scale which can be exploited across the Chrysalis Radio division.

The ongoing consolidation of the UK radio sector is likely to offer up further interesting opportunities for Chrysalis Radio. We will continue to review potential acquisitions which offer both a good strategic fit with our existing stations and can be made at a price that allows us to deliver a return to shareholders. In addition, we will look at partnerships and joint ventures designed to maximise the performance of our radio brands.

Organically, we believe that there is still significant potential to grow the audience and yield of our existing stations. We anticipate further growth in audiences at Heart 106.2 following the recent changes made to the station (see below) and believe that we have a real opportunity to grow our breakfast show with the recent appointment of Jamie Theakston. We are also confident that a planned series of advertising campaigns for LBC will move us towards our target of 750,000 FM listeners by 2007. There is also scope for further improvement in yields across all of our brands as we continue to close the advertising pricing gap between Chrysalis Radio and some of our key competitors.

Digital will be an important driver of future growth. We believe our strong brands are well suited for digital roll out, offering advertisers familiar and compelling demographics covering almost 30 million adults across the key urban areas of the UK. Digital technology will also enable us to pursue broader, deeper and more interactive relationships with our listeners and offer this advantage to advertisers. The spectrum allocation under digital also paves the way for commercial radio to take listening away from the BBC.

**Heart and Galaxy**

The Heart network had a challenging first half of the financial year with two disappointing Rajars in the London market. Swift action was taken to address the decline in audiences: during 2004 we took the opportunity to update the daytime schedule for the London station, changing the presenter line up and refining the music mix and in Autumn 2004 the imaging and logos of all of our Heart activities were refreshed. These changes were supported by an extensive advertising campaign. The recent Q1 2005 Rajar survey, showing Heart as the London commercial market leader, is testament to the success of the changes and confirms that the brand refresh strategy has had a significant impact.

In addition to these first half changes, in January we announced the appointment of Jamie Theakston to host the key London breakfast show. We believe Jamie is ideally suited to Heart's target audience and will be instrumental in attracting new and lapsed listeners to the Heart London station. The new show was launched on 18 April and a marketing campaign begins shortly.

The Galaxy network of stations continues to perform well. Our Galaxy stations reach 2.2 million listeners across their analogue footprint, delivering 17.4 million listening hours. Galaxy is now the leading commercial radio youth brand across the UK, with 50% more listening hours than its nearest competitor. Galaxy has also been nominated for three separate Sony Awards this year.

## LBC

Improvements continue to be made in the presenter line-up at LBC 97.3 FM, with Daisy Sampson taking over the important weekday evening 'drive-time' slot. More recently, Jono Coleman has moved from his breakfast slot at Heart to host a weekend mid-morning entertainment show. Nick Ferrari's weekday breakfast show continues to be a station highlight, generating PR benefits for the station. Nick has been nominated for the prestigious 'Speech Broadcaster of the Year' at this year's Sony Awards – a category normally dominated by the BBC.

An outdoor advertising campaign has been planned for June, which is particularly aimed at promoting awareness of the FM frequency.

## Digital

Chrysalis invested £1.5m in digital radio in the first six months of the 2005 financial year (H1 2004: £1.4m). By measuring our stations nationally, as well as in their existing transmission areas, Chrysalis Radio now attracts an additional 745,000 listeners, generating 4.2 million hours (Q1 2005 Rajar Survey). The Heart brand performs particularly well on a national basis and is the second most listened to national commercial brand after Classic FM with almost 3 million listeners. Good progress has been made in monetising this additional inventory and we expect to report a modest level of digital revenues for the full year 2005, with more significant growth anticipated for 2006, in line with the expected growth in DAB set penetration.

Audiences for The Arrow, our digital rock station, were significantly up in the latest Rajar survey, boosting its potential to begin monetising its listening hours.

## MUSIC

Chrysalis Music performed strongly during the first half. However, its results for the financial year will be weighted towards the second half due to the timing of album releases from the recording division. As a result, turnover for the Music division was flat at £36.3m (H1 2004: £36.8m), producing EBITA of £1.5m (H1 2004: £1.9m).

| **Chrysalis Music** | **H1 2005** | H1 2004 |
|---|---|---|
| | **£m** | £m |
| Revenues | **36.3** | 36.8 |
| NPS | **4.9** | 4.7 |
| EBITA | **1.5** | 1.9 |
| EBIT | **1.2** | 1.7 |

The Board believes that Chrysalis Music is in a stronger position than ever to exploit the current opportunities offered up by changes in the music marketplace. As a leading global publishing company, UK record label and international distributor we will continue to build our music business by investing in these three complementary areas.

The business of Music Publishing has shown itself to be a relative 'safe haven' in the music industry over the past few difficult years – deriving its revenues from a wide variety of sources from ringtones to film soundtracks – and Chrysalis's catalogue of over 55,000 copyrights has been particularly resilient. Chrysalis's Music Publishing division has delivered reliable and consistent growth for well over 10 years. The growth in Chrysalis's NPS (Net Publisher's Share) for the period from 1994 to 2004 has been 219% - which should be viewed against a backdrop of global recorded music sales which have declined by 0.7% in the corresponding decade. Much of this out performance can be attributed to the active A&R (Artist & Repertoire) strategy that we have followed since 1994 as well as the wide ranging mix of copyrights owned by Chrysalis – which span six decades and are spread across many different genres.

Chrysalis Music Publishing has now completed an extremely successful three year phase of investment across its international footprint which produced clear benefit: from financial years 2001-2004, on a constant currency basis, our US operations delivered growth in NPS of 72% while in Europe our NPS grew by 22% in the same period. In the UK, Chrysalis Music Publishing secured its position as the overall leading independent publisher for 2004 with an 11.5% share of the independent sector. In the singles market Chrysalis Music outperformed Sony in 2004 – coming fourth in the overall ranking.

There is a huge opportunity for independent publishers in the current environment – as can be witnessed by our ability to attract and retain talent such as internationally renowned artists Morrissey, Outkast and David Gray – and this competitive advantage will fuel much of the further organic growth for the division. With the recent phase of investment in our Music Publishing operations complete, the focus for the management team will now be on delivering increased levels of profitability – a tight control on costs and investment will enable us to drive profits at the publishing arm ahead of NPS growth. We are confident that we are able to continue growing the NPS of this division by 5-10% annually. This will in turn add additional incremental capital value to the already significant asset we have created in our publishing catalogue.

While Music Publishing remains core to the creation of future value for Chrysalis Group, there are also a number of other areas which contribute to the long term strategic position of Chrysalis Music. Lasgo Chrysalis regularly makes a major profit contribution to the EBITA of the division. As an international wholesale distributor, Lasgo Chrysalis constantly evolves its business model to rapidly and effectively respond to the changing retail marketplace in which it operates.

The Echo Label, our recording arm, will continue to run a tight, focused roster of artists who, as they mature, will enable the label to move towards delivering a more consistent level of incremental profit for the Music division.

The digital world also opens up a significant opportunity for independents – for the first time offering a level playing field with the majors and providing cheaper solutions to breaking and marketing new acts. This development, coupled with our position and reputation as a creatively led independent music company, will put us in a stronger position than ever before to establish much broader relationships with artists beyond our traditional area of rights management. All of these ventures should allow us to continue delivering growth in profits ahead of the global music industry as a whole.

**Music Publishing**

Chrysalis Music Publishing has had an encouraging start to the year, generating year on year growth in Net Publisher's Share of 4.6% to £4.9m (H1 2004: £4.7m). The division also delivered a solid increase in EBITA as a number of our start up overseas operations moved into profit.

As previously highlighted, the major album successes for the publishing business (Feeder, Athlete, Lucie Silvas) occurred towards the end of the interim period and their contribution will therefore essentially be recognised in the second half of the financial year. The highlight of the first half of the year was Athlete's 'Tourist' and Feeder's 'Pushing the Senses' holding the number one and two positions in the UK album charts in the first week of February.

Performance and synchronisation income both showed a year on year improvement with Chrysalis copyrights being used in films and advertisements across all territories. Mechanicals showed a year on year decline owing to the significant effect of the OutKast release in the first half of last year.

**Music Recording**

The first half results for The Echo Label were particularly impacted by the second half weighting of their album release schedule. The only significant release in the first half of the year was the fifth studio album from Feeder, 'Pushing the Senses', in February. 200,000 copies of the album have already been shipped. We expect the album to continue to sell well over the coming months. The second half of the financial year includes album releases from I Am Kloot, The Engineers, Morcheeba and The Stands.

**Lasgo Chrysalis**

Revenues and EBITA at Lasgo Chrysalis, our distribution business, for the first half of the 2005 financial year showed a small year on year decline. Lasgo Chrysalis continues to outperform its competitors by constantly altering the product mix of its business in order to offset the continuing fall in average selling prices in the audio products market. As a result, 48% of Lasgo's revenues in the first half of the financial year were generated by sales of DVDs and Books, against 44% in the comparable prior year period.

**Other**

In March 2005, Chrysalis Music entered into a partnership with an established New York based artist management company, A Fein Martini. The venture is expected to make a small positive contribution to the full year numbers for the group.

## BOOKS

For the first six months of the 2005 financial year, Chrysalis Books produced revenues of £10.6m (H1 2004: £12.5m) and an EBITA loss of £2.2m (H1 2004: loss of £0.7m).

| **Chrysalis Books** | **H1 2005** | H1 2004 |
|---|---|---|
| | **£m** | £m |
| Revenues | **10.6** | 12.5 |
| EBITA | **(2.2)** | (0.7) |
| EBIT | **(2.6)** | (1.1) |

The higher level of EBITA loss in the first six months reflects the 14.8% reduction in turnover, particularly from our Children's and Promotional businesses, both of which experienced difficult trading conditions in the period.

Within the Trade and Contract businesses, trading in the first half was encouraging with good demand for titles including Michael Winner's autobiography, Jack Vettriano: A Life, the Companion series and the new Good Housekeeping Cookery Book. In addition, our trade business has recently entered into an exciting publishing partnership with The National Trust. This partnership is expected to produce 10 books each year, starting in the Autumn with two major titles 'William Morris and The Red House' and 'Gardens of the National Trust' in time for Christmas.

Our current objective is to restore Chrysalis Books to profitability as quickly as possible. As a consequence, we have taken the decision to divest of the Children's and Promotional businesses and a disposal process is underway. We have also today announced the appointment of Robin Wood as Chief Executive of

Chrysalis Books. Robin is a highly experienced illustrated books publisher who has held Managing Director positions at Harper Collins, Dorling Kindersley and BBC Worldwide. Robin takes up his position immediately and will be responsible for streamlining the business with a focus on cost reduction and delivering sustainable levels of ongoing profits.

## CHRYSALIS MOBILE

Chrysalis Mobile produced revenues of £0.2m in the first half of the financial year and an EBITA loss of £0.6m, in line with budget.

In the first six months of the 2005 financial year, Chrysalis Mobile has made good progress in establishing mobile content distribution arrangements with a number of major clients in broadcast and retail, including Tesco, Carphone Warehouse, HSBC and Hit 40. In addition, Chrysalis Mobile has forged excellent relationships with technology partners for a number of areas of content delivery – via Text, WAP and Java – and has also established cross-promotion relationships across all media channels including radio, TV, DiTV and Web. During this period, we have also identified which parts of the mobile content value chain are likely to be profitable in the long-term.

Chrysalis Mobile was set up to leverage off Chrysalis's music heritage and strong radio brands and we see the knowledge and relationships gained by this new venture as being increasingly relevant to the future of Chrysalis Radio. Digital interactive technology will provide the opportunity to develop broader and deeper relationships with our listeners across all emerging digital platforms, which in turn will lead to enhanced revenue opportunities for our radio business. In the light of this, we plan to absorb Chrysalis Mobile's profitable activities within Chrysalis Radio as part of its interactive unit with effect from 1 September 2005.

## TRADING OUTLOOK

**Chrysalis Radio:**

As with others in the industry, we have continued to experience volatility in the advertising marketplace, compounded by the General Election, which has impacted recent and current trading. As a result, revenues for March and April showed a like for like decline of 12.5%, although this should be viewed against a back drop of audience figures which were 12% down on last year and a strong comparable prior year period. Given the current short-term nature of the radio advertising market and peer group comment, the Board considers it prudent to take a cautious outlook for the remainder of our financial year and therefore would expect that full year revenues for Chrysalis Radio may show a decline in the region of 5-6%.

**Chrysalis Music:**

With a high level of visibility afforded by the recent album chart successes from Feeder, Athlete and Lucie Silvas among others, coupled with the exciting second half release schedule from the recording arm of Chrysalis Music, we feel confident that the division will continue to perform well and meet our full year expectations.

**Chrysalis Books:**

As we enter the key selling period, Chrysalis Books has a stronger publishing list than in previous years. However, the seasonal nature of the business does mean that the performance in the second half of the financial year is key to us meeting full year targets. We are delighted to welcome Robin Wood on board as the new CEO for Chrysalis Books and look forward to updating you in due course on the progress he has made with streamlining the division.

Our Radio and Music divisions are continuing to successfully build on their unique and market leading positions. Chrysalis Music has made good progress in the first half, developing its position in the UK and overseas as an all round independent music company of choice. At Chrysalis Radio, the return of Heart 106.2 as London's leading commercial station and the addition of Century 106 to our portfolio of radio assets both serve to strengthen our offering to listeners and advertisers alike. We are in a good position to continue to enhance the value of these assets in their markets for the long-term benefit of all shareholders in the Chrysalis Group, and fully intend to do so.

**Chris Wright, Chairman**
**10th May 2005**

# CHRYSALIS GROUP PLC

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 28th FEBRUARY 2005

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Note | Unaudited<br>**Six months ended 28th Feb 2005 £'000** | Unaudited<br>Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|---|
| **Turnover** | | | | |
| **Group and share of joint ventures and associates** | **3** | **79,706** | 84,559 | 167,081 |
| Less: share of joint ventures and associates | | **(1,263)** | (2,133) | (2,904) |
| **Group turnover** | **3, 4** | **78,443** | 82,426 | 164,177 |
| Operating costs before depreciation and amortisation | | **(74,056)** | (75,968) | (150,314) |
| Depreciation of tangible fixed assets | | **(1,301)** | (1,424) | (2,847) |
| Amortisation of intangible assets and acquired goodwill | | **(1,307)** | (1,321) | (2,613) |
| **Group operating costs** | | **(76,664)** | (78,713) | (155,774) |
| **EBITDA** | **3** | **4,387** | 6,458 | 13,863 |
| **EBITA** | **3** | **3,086** | 5,034 | 11,016 |
| **Group operating profit** | **4** | **1,779** | 3,713 | 8,403 |
| Share of operating results of joint venture companies | | **(95)** | 33 | (67) |
| Share of operating results of associated undertakings | | **-** | (9) | (28) |
| **Total operating profit: Group and share of joint ventures and associates** | | **1,684** | 3,737 | 8,308 |
| **Non operating items:** | | | | |
| Exceptional profits on disposals of fixed asset investments | **5** | **220** | 358 | 765 |
| **Profit before interest and tax** | | **1,904** | 4,095 | 9,073 |
| Interest receivable and similar income | | **648** | 568 | 1,221 |
| Interest payable and similar charges | | **(2,287)** | (2,444) | (4,810) |
| **Profit on ordinary activities before taxation** | **3** | **265** | 2,219 | 5,484 |
| Taxation | **6** | **(54)** | (454) | (216) |
| **Profit on ordinary activities after taxation** | | **211** | 1,765 | 5,268 |
| Minority interests (equity interests ) | | **(67)** | (51) | (77) |
| **Profit for the financial period** | | **144** | 1,714 | 5,191 |
| Dividends | | **-** | - | (2,100) |
| **Retained profit for the financial period** | | **144** | 1,714 | 3,091 |
| **Basic earnings per share** | **7** | **0.09p** | 1.03p | 3.11p |
| **Diluted earnings per share** | **7** | **0.09p** | 1.02p | 3.10p |

EBITDA comprises earnings before interest, tax, depreciation and amortisation. EBITA comprises earnings before interest, tax and amortisation. The historical cost profit is the same as that shown above.

# CHRYSALIS GROUP PLC

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 28th FEBRUARY 2005

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

| | Unaudited | | |
|---|---|---|---|
| **Consolidated statement of total recognised gains and losses** | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
| Profit for the financial period | **144** | 1,714 | 5,191 |
| Foreign exchange losses | **(61)** | (135) | (55) |
| Total recognised gains in the period | **83** | 1,579 | 5,136 |

| | Unaudited | | |
|---|---|---|---|
| **Reconciliation of movements in shareholders' funds** | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
| Retained profit for the financial period | **144** | 1,714 | 3,091 |
| Adjustment due to vesting of share options | **73** | 121 | 275 |
| Sale of own shares by Employee Share Ownership Plan | **-** | - | 701 |
| Foreign exchange losses | **(61)** | (135) | (55) |
| New share capital subscribed | **1** | 239 | 315 |
| Net addition to shareholders' funds arising in the period | **157** | 1,939 | 4,327 |
| Shareholders' funds at beginning of period | **54,470** | 50,143 | 50,143 |
| Shareholders' funds at end of period | **54,627** | 52,082 | 54,470 |

# CHRYSALIS GROUP PLC

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 28th FEBRUARY 2005

## CONSOLIDATED BALANCE SHEET

| | Note | Unaudited<br>As at<br>28th Feb<br>2005<br>£'000 | As at<br>29th Feb<br>2004<br>£'000 | As at<br>31st Aug<br>2004<br>£'000 |
|---|---|---|---|---|
| **Fixed assets** | | | | |
| Intangible assets - media rights and goodwill | | **47,596** | 50,081 | 48,899 |
| Tangible assets | | **17,882** | 18,727 | 18,402 |
| Investments | | | | |
| Investments in joint venture companies | | | | |
| Share of gross assets | | **4,427** | 4,801 | 4,431 |
| Share of gross liabilities | | **(887)** | (1,029) | (889) |
| | | **3,540** | 3,772 | 3,542 |
| Investments in associated undertakings | | **-** | 47 | 49 |
| Trade investments | | **13** | 5 | 6 |
| | | **69,031** | 72,632 | 70,898 |
| **Current assets** | | | | |
| Stock and work in progress | | **10,197** | 11,303 | 9,197 |
| Debtors due after more than one year | | **604** | 1,301 | 1,098 |
| Debtors due within one year | | **55,270** | 56,701 | 51,748 |
| Cash at bank and in hand | **8** | **24,117** | 24,315 | 32,858 |
| | | **90,188** | 93,620 | 94,901 |
| **Creditors: amounts falling due within one year** | | **(55,545)** | (61,018) | (60,152) |
| **Net current assets** | | **34,643** | 32,602 | 34,749 |
| **Total assets less current liabilities** | | **103,674** | 105,234 | 105,647 |
| **Creditors: amounts falling due after more than one year** | | **(47,922)** | (51,173) | (49,543) |
| **Provisions for liabilities and charges** | | **(1,143)** | (2,087) | (1,717) |
| **Net assets** | | **54,609** | 51,974 | 54,387 |
| **Capital and reserves** | | | | |
| Called up share capital | | **3,357** | 3,356 | 3,357 |
| Share premium account | **9** | **62,268** | 62,192 | 62,267 |
| Other reserves | **9** | **741** | 741 | 741 |
| Reserve for own shares | **9** | **(488)** | (1,292) | (561) |
| Profit and loss account | **9** | **(11,251)** | (12,915) | (11,334) |
| **Shareholders' funds (equity interests )** | | **54,627** | 52,082 | 54,470 |
| **Minority interests (equity interests )** | | **(18)** | (108) | (83) |
| | | **54,609** | 51,974 | 54,387 |

# CHRYSALIS GROUP PLC

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 28th FEBRUARY 2005

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | Unaudited Six months ended 28th Feb 2005 £'000 | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|---|
| **Cash (outflow)/inflow from operating activities** | **10(i)** | **(4,406)** | 691 | 9,010 |
| **Dividends received from joint venture companies** | | **-** | - | 3 |
| **Returns on investments and servicing of finance** | | | | |
| Interest received | | **650** | 529 | 1,280 |
| Interest paid | | **(2,130)** | (2,340) | (4,835) |
| Interest element of finance lease payments | | **(34)** | (43) | (76) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(1,514)** | (1,854) | (3,631) |
| **Taxation paid** | | **(26)** | (282) | (1,582) |
| **Capital expenditure and financial investment** | | | | |
| Payments to acquire intangible fixed assets | | **-** | (190) | (305) |
| Payments to acquire tangible fixed assets | | **(823)** | (1,204) | (2,574) |
| Receipts from sales of tangible and intangible fixed assets | | **14** | 68 | 404 |
| Disposal of own shares | | **-** | - | 710 |
| Loans (advanced to)/repaid by joint venture companies | | **(18)** | 163 | 203 |
| **Net cash outflow from capital expenditure and financial investment** | | **(827)** | (1,163) | (1,562) |
| **Acquisitions and disposals** | | | | |
| Sale of business | | **-** | - | 409 |
| Receipt of deferred consideration on disposal of Television businesses | | **3,000** | - | 1,849 |
| Sale of associated undertakings | **5** | **314** | 663 | 1,065 |
| Payments to acquire associated undertakings | | **(34)** | - | (37) |
| **Net cash inflow from acquisitions and disposals** | | **3,280** | 663 | 3,286 |
| **Equity dividend paid** | | **-** | (8,343) | (10,013) |
| **Cash outflow before use of liquid resources and financing** | | **(3,493)** | (10,288) | (4,489) |
| **Financing** | | | | |
| Issue of ordinary share capital | | **1** | 239 | 314 |
| New borrowings | | **-** | - | 26 |
| Repayment of borrowings | | **(1,575)** | - | - |
| Finance lease repayments | | **(293)** | (384) | (686) |
| **Net cash outflow from financing** | | **(1,867)** | (145) | (346) |
| **Decrease in cash in the period** | **10(iii)** | **(5,360)** | (10,433) | (4,835) |

# CHRYSALIS GROUP PLC

## UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 28th FEBRUARY 2005

## NOTES TO THE FINANCIAL INFORMATION

**1** The comparative figures for the financial year ended 31st August 2004 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and have been delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

**2** The financial statements have been prepared using the Group's accounting policies set out in the Annual Report for the year ended 31st August 2004 which have been applied consistently throughout the period.

**3 Segmental analysis**

**a Analysis by class of business**

| | **Turnover** | | **EBITDA** | | **EBITA** | | **Profit/(loss) before tax** | |
|---|---|---|---|---|---|---|---|---|
| | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 |
| Radio - Analogue | **31,792** | 32,546 | **8,108** | 8,475 | **7,532** | 7,850 | **6,789** | 7,091 |
| - Digital | **790** | 792 | **(1,470)** | (1,370) | **(1,470)** | (1,370) | **(1,470)** | (1,370) |
| | **32,582** | 33,338 | **6,638** | 7,105 | **6,062** | 6,480 | **5,319** | 5,721 |
| Music | **36,351** | 36,827 | **1,634** | 1,974 | **1,516** | 1,853 | **1,235** | 1,703 |
| Books | **10,616** | 12,463 | **(1,984)** | (550) | **(2,183)** | (726) | **(2,561)** | (1,106) |
| Mobile | **154** | - | **(563)** | - | **(574)** | - | **(574)** | - |
| Other | **3** | 1,931 | **2** | 37 | **-** | (82) | **-** | (90) |
| Corporate | **-** | - | **(1,340)** | (2,108) | **(1,735)** | (2,491) | **(1,735)** | (2,491) |
| | **79,706** | 84,559 | **4,387** | 6,458 | **3,086** | 5,034 | **1,684** | 3,737 |
| Exceptional profit on arising on corporate disposals | **-** | - | **-** | - | **-** | - | **220** | 358 |
| | **79,706** | 84,559 | **4,387** | 6,458 | **3,086** | 5,034 | **1,904** | 4,095 |
| Net interest | **-** | - | **-** | - | **-** | - | **(1,639)** | (1,876) |
| Less: share of joint ventures and associates | **(1,263)** | (2,133) | **-** | - | **-** | - | **-** | - |
| | **78,443** | 82,426 | **4,387** | 6,458 | **3,086** | 5,034 | **265** | 2,219 |

## 3 Segmental analysis

### b Analysis by geographical origin

| | Turnover | | Profit/(loss) before tax | |
|---|---|---|---|---|
| | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 |
| United Kingdom | **62,261** | 74,388 | **1,836** | 4,060 |
| North America | **6,522** | 5,534 | **126** | 278 |
| Europe | **10,923** | 4,637 | **(58)** | (243) |
| | **79,706** | 84,559 | **1,904** | 4,095 |
| Net interest | | - | **(1,639)** | (1,876) |
| Less: share of joint ventures and associates | **(1,263)** | (2,133) | **-** | - |
| | **78,443** | 82,426 | **265** | 2,219 |

## 4 Group operating profit

| | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 |
|---|---|---|
| Group turnover | **78,443** | 82,426 |
| Cost of sales | **(43,911)** | (46,529) |
| Gross profit | **34,532** | 35,897 |
| Net operating expenses: | | |
| Distribution and marketing costs | **(6,568)** | (5,957) |
| Administrative expenses | **(26,185)** | (26,227) |
| Group operating profit | **1,779** | 3,713 |

All of the Group operating profit in the six months ended 28th February 2005 and 29th February 2004 arose from continuing operations.

## 5 Exceptional profit on corporate disposals

On 15th October 2004, the Group completed the disposal of its 31% interest in BCRFM Limited to Choice Media Group (UK) Limited for cash consideration of £140,000 and the profit on disposal amounted to £101,000. On 11th January 2005, the Group completed the disposal of its 23% interest in Knowsley Community Radio Limited to The Local Radio Company plc for cash consideration of £155,000 and the profit on disposal amounted to £145,000. Other net exceptional losses of £26,000 included consideration, amounting to £200,000, in respect of the disposal of the Television businesses in August 2003, recognised in the period, net of warranty claims in respect of prior year disposals. The exceptional loss of £358,000 in 2004 related to the disposal of the Group's interest in Rivals Digital Media Limited.

## 6 Taxation

| | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|
| **UK Corporation tax** | | | |
| Current tax on income for the period | **-** | 435 | - |
| Share of joint ventures' tax | **-** | - | 1 |
| Adjustments in respect of prior period | **-** | - | (2) |
| | **-** | 435 | (1) |
| **Foreign tax** | | | |
| Current tax on income for the period | **54** | 3 | 96 |
| Withholding taxes | **-** | 16 | 144 |
| | **54** | 454 | 239 |
| Deferred tax | **-** | - | (23) |
| | **54** | 454 | 216 |

The current tax charge which amounts to 20.4% of the profits before tax is lower than the standard rate of corporation tax in the UK. The differences are explained below:

| | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|
| Profit before tax | **265** | 2,219 | 5,484 |
| UK Corporation tax at 30% (2004: 30%) | **80** | 666 | 1,645 |
| Utilisation of tax losses brought forward from prior periods | **(247)** | (301) | (472) |
| Expenses not deductible for tax purposes | **327** | 383 | 1,004 |
| Tax effect of change in accounting policy | **-** | - | (1,358) |
| Tax effect of release of LTIP provision | **-** | - | (491) |
| Income not chargeable to tax | **-** | (107) | - |
| Capital gain not chargeable to tax | **(139)** | - | (278) |
| Depreciation charges in excess of capital allowances | **-** | (187) | - |
| Capital allowances in excess of depreciation charges | **(120)** | - | (997) |
| Losses not available for use in the current period | **153** | - | 1,188 |
| Adjustments in respect of prior periods | **-** | - | (2) |
| | **54** | 454 | 239 |

## 7 Basic and diluted earnings per share

| | **Six months ended 28th Feb 2005** | Six months ended 29th Feb 2004 | Year ended 31st Aug 2004 |
|---|---|---|---|
| Profit after taxation and minority interests (£'000) | **144** | 1,714 | 5,191 |
| Profit after taxation and minority interests but before goodwill amortisation and exceptional profits and losses (£'000) | **1,085** | 2,521 | 6,754 |
| Weighted average number of shares in issue (million) | **167.6** | 166.9 | 167.1 |
| Basic earnings per share | **0.09p** | 1.03p | 3.11p |
| Diluted earnings per share | **0.09p** | 1.02p | 3.10p |

The weighted average number of shares in issue used in the calculation of basic earnings per share for the period has been adjusted for shares held by the Chrysalis Employee Share Ownership Plan Trust. The diluted earnings per share for the period, adjusts the basic earnings per share figure for the effect of dilutive options. The weighted average number of shares used in the calculation of the diluted earnings per share calculation was 167.7 million (29th February 2004: 167.5 million, 31st August 2004: 167.4 million). Earnings per share adjusted for goodwill amortisation and exceptional profits and losses is based on the profit after taxation and minority interests but before goodwill amortisation and exceptional profits and losses.

## 8 Cash at bank and in hand

Cash at bank and in hand includes £5.0 million (29th February 2004: £5.0 million), which was held temporarily in collection accounts ahead of the payment of interest and a capital repayment on securitisation borrowings on 10th March 2005. Cash balances do not include £6.7 million of funds (29th February 2004: £8.0 million) which have been used to offset overdrafts and short term borrowings.

## 9 Reserves

| | Share premium £'000 | Other reserves £'000 | Reserve for own shares £'000 | Profit & loss account £'000 |
|---|---|---|---|---|
| Reserves as at 1st September 2004 | 62,267 | 741 | (561) | (11,334) |
| Share premium on shares issued during the period | 1 | - | - | - |
| Retained profit for the period | - | - | - | 144 |
| Adjustment due to vesting of share options | - | - | 73 | - |
| Foreign exchange losses | - | - | - | (61) |
| **Reserves as at 28th February 2005** | **62,268** | **741** | **(488)** | **(11,251)** |

## 10 Notes to the consolidated cash flow statement

| (i) Reconciliation of operating profit to operating cash flows | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|
| Group operating profit | **1,779** | 3,713 | 8,403 |
| Depreciation charges | **1,301** | 1,424 | 2,847 |
| Amortisation charges | **1,307** | 1,321 | 2,613 |
| Loss on sale of fixed assets | **26** | 310 | 56 |
| Provisions utilised | **(574)** | (279) | (650) |
| (Increase)/decrease in stocks | **(1,000)** | 178 | 2,286 |
| (Increase)/decrease in debtors | **(5,923)** | (3,671) | 855 |
| Decrease in creditors | **(1,322)** | (2,305) | (7,400) |
| Net cash (outflow)/inflow from operating activities | **(4,406)** | 691 | 9,010 |

| (ii) Reconciliation of net cash flow to movement in net borrowings | **Six months ended 28th Feb 2005 £'000** | Six months ended 29th Feb 2004 £'000 | Year ended 31st Aug 2004 £'000 |
|---|---|---|---|
| Decrease in cash in the period | **(5,360)** | (10,433) | (4,835) |
| Net cash outflow/(inflow) from borrowings | **1,575** | - | (26) |
| Cash inflow from disposal of current asset investment | **-** | - | (2) |
| Cash outflow in respect of net new lease borrowings | **293** | 384 | 686 |
| Decrease in net funds resulting from cash flows | **(3,492)** | (10,049) | (4,177) |
| Non cash movements | **(94)** | (97) | (190) |
| Exchange movements | **(54)** | (197) | (147) |
| Increase in net borrowings in the period | **(3,640)** | (10,343) | (4,514) |
| Net borrowings brought forward | **(33,087)** | (28,574) | (28,574) |
| Net borrowings carried forward | **(36,727)** | (38,917) | (33,088) |

**10 Notes to the consolidated cash flow statement**

| (iii) Analysis of net borrowings | At 1st Sept 2004 £'000 | Cash flow £'000 | Non cash Items £'000 | Exchange movements £'000 | **At 28th Feb 2005 £'000** |
|---|---|---|---|---|---|
| Cash at bank and in hand | 32,858 | (8,687) | - | (54) | **24,117** |
| Bank overdrafts | (4,993) | 3,327 | - | - | **(1,666)** |
| *Decrease in cash in the year* | | *(5,360)* | | | |
| Securitisation borrowings | (51,818) | 1,575 | (94) | - | **(50,337)** |
| Other borrowings | (8,198) | - | - | - | **(8,198)** |
| *Net cash outflow from borrowings* | | *1,575* | | | |
| Finance leases | (936) | 293 | - | - | **(643)** |
| **Total** | **(33,087)** | **(3,492)** | **(94)** | **(54)** | **(36,727)** |