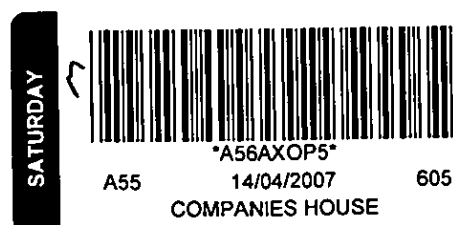


Company Registration No. 03106027 (England and Wales)

SILK FM LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2006



SILK FM LIMITED

COMPANY INFORMATION

Directors	A W MacKenzie Radio Investments Ltd
Secretary	L A Wells
Company number	03106027
Registered office	11 Duke Street High Wycombe Buckinghamshire HP13 6EE
Auditors	BDO Stoy Hayward LLP Northside House 69 Tweedy Road Bromley Kent, BR1 3WA

SILK FM LIMITED

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SILK FM LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2006

The directors present their report and financial statements for the year ended 30 September 2006

Principal activities and review of the business

The principal activity of the company continues to be that of operating a local radio station

Results and dividends

The results for the year are set out on page 5

The directors do not recommend the payment of a dividend

Directors

The following directors have held office since 1 October 2005

A W MacKenzie
Radio Investments Ltd

Directors' interests

Radio Investments Ltd owns 100% of the issued share capital in the company. No other director had any beneficial interest in the share capital of the company. A W MacKenzie is a director in the ultimate parent company, The Local Radio Company plc. His interests in The Local Radio Company plc are disclosed in that company's accounts.

Auditors

The company has by elective resolution dispensed with the obligation to appoint auditors annually in accordance with section 386(1) of the Companies Act 1985. Therefore, the auditors, BDO Stoy Hayward LLP, will be deemed to be reappointed for each succeeding financial year.

SILK FM LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 of the company 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 enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

This report has been prepared in accordance with special provisions of Part VII of the Companies Act 1985 relating to small companies.

On behalf of the board



A W Mackenzie

Director

20 December 2006

SILK FM LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SILK FM LIMITED

We have audited the financial statements of Silk FM Limited for the year ended 30 September 2006 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of the directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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 and whether the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records or 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 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.

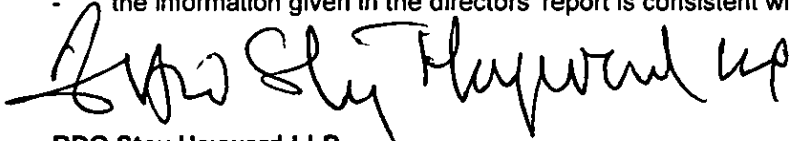
SILK FM LIMITED

INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF SILK FM LIMITED

Opinion

In our opinion

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its loss for the year 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



BDO Stoy Hayward LLP

20 December 2006

Chartered Accountants
Registered Auditor

Northside House
69 Tweedy Road
Bromley
Kent, BR1 3WA

SILK FM LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 SEPTEMBER 2006

	Notes	2006 £	2005 £
Turnover	2	582,158	682,870
Cost of sales		(127,291)	(148,054)
Gross profit		454,867	534,816
Administrative expenses		(495,416)	(535,652)
Operating loss	3	(40,549)	(836)
Interest payable and similar charges	4	(3,506)	(4,163)
Loss on ordinary activities before taxation		(44,055)	(4,999)
Tax on loss on ordinary activities	5	-	-
Loss for the year	12	(44,055)	(4,999)

The profit and loss account has been prepared on the basis that all operations are continuing operations

The notes on pages 7 - 12 form part of the financial statements


There are no recognised gains and losses other than those passing through the profit and loss account

SILK FM LIMITED

BALANCE SHEET AS AT 30 SEPTEMBER 2006

	Notes	2006 £	£	2005 £	£
Fixed assets					
Tangible assets	6		96,308		102,623
Current assets					
Debtors	7	261,325		279,375	
Cash at bank and in hand		27,367		43,026	
		<u>288,692</u>		<u>322,401</u>	
Creditors' amounts falling due within one year	8	<u>(91,388)</u>		<u>(71,597)</u>	
Net current assets			<u>197,304</u>		<u>250,804</u>
Total assets less current liabilities			<u>293,612</u>		<u>353,427</u>
Creditors' amounts falling due after more than one year	9		<u>(8,880)</u>		<u>(24,640)</u>
			<u>284,732</u>		<u>328,787</u>
Capital and reserves					
Called up share capital	11		4,600		4,600
Share premium account	12		478,500		478,500
Profit and loss account	12		<u>(198,368)</u>		<u>(154,313)</u>
Shareholders' funds	13		<u>284,732</u>		<u>328,787</u>

Approved by the Board and authorised for issue on 20 December 2006


A W MacKenzie
Director

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention

The company has taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from the requirement to produce a cash flow statement on the grounds that it is a subsidiary undertaking where 90 percent or more of the voting rights are controlled within the group

1.2 Changes in accounting policies

During the year the company adopted FRS 21 Events after the balance sheet date, FRS 28 Corresponding amounts and the presentational requirements of FRS 25 Financial instruments (Disclosure and Presentation)

None of these standards had any impact on the net assets of the company nor on the profit of the company

1.3 Turnover

Turnover represents the total invoiced value, excluding value added tax and trade discounts, of services rendered during the period and is recognised as related advertising is broadcast

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows

Land and buildings	2%
Other operating assets	12.5% to 33.3%

Other operating assets include studio equipment, transmitter equipment and fixtures and fittings

1.5 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

1.6 Pensions

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable

1.7 Deferred taxation

Deferred taxation is recognised on all timing differences that have arisen but not reversed at the balance sheet date. The recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient suitable taxable profits in the future to absorb the reversal of underlying timing differences. A deferred tax asset is not recognised to the extent that the transfer of economic benefit is uncertain. Any assets or liabilities recognised have not been discounted

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

3	Operating loss	2006	2005
		£	£
	Operating loss is stated after charging		
	Depreciation of tangible assets	13,913	14,760
	Operating lease rentals		
	- Plant and machinery	17,907	24,300
	- Other assets	20,222	15,269
	Auditors' remuneration	4,000	4,000
	Remuneration of auditors for non-audit work (Tax)	700	700
		<u> </u>	<u> </u>
4	Interest payable	2006	2005
		£	£
	On bank loans and overdrafts	3,506	4,163
		<u> </u>	<u> </u>
5	Taxation	2006	2005
		£	£
	Current tax charge	-	-
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(44,055)	(4,999)
		<u> </u>	<u> </u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005 - 30.00%)	(13,217)	(1,500)
		<u> </u>	<u> </u>
	Effects of		
	Non deductible expenses	1,360	2,052
	Depreciation in excess of capital allowances	4,174	4,428
	Tax losses carried forward	7,874	-
	Group relief	-	(4,929)
	Other tax adjustments	(191)	(51)
		<u> </u>	<u> </u>
		13,217	1,500
		<u> </u>	<u> </u>
	Current tax charge	-	-
		<u> </u>	<u> </u>

On the basis of these accounts no provision has been made for corporation tax

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

6 Tangible fixed assets

	Land and buildings	Other operating assets	Total
	£	£	£
Cost			
At 1 October 2005	124,094	199,929	324,023
Additions	-	7,598	7,598
Disposals	-	(26,252)	(26,252)
At 30 September 2006	124,094	181,275	305,369
Depreciation			
At 1 October 2005	31,199	190,201	221,400
On disposals	-	(26,252)	(26,252)
Charge for the year	4,372	9,541	13,913
At 30 September 2006	35,571	173,490	209,061
Net book value			
At 30 September 2006	88,523	7,785	96,308
At 30 September 2005	92,895	9,728	102,623

7 Debtors

	2006 £	2005 £
Trade debtors	72,389	56,412
Amounts owed by parent and fellow subsidiary undertakings	168,186	204,119
Prepayments and accrued income	20,750	18,844
	261,325	279,375

Amounts falling due after more than one year and included in the debtors above are

	2006 £	2005 £
Amounts owed by group undertakings	168,186	204,119

The above amount represents amounts due from Radio Services Limited, a fellow member of The Local Radio Company Group. It is not anticipated that this loan will be repaid in the foreseeable future.

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

8 Creditors, amounts falling due within one year	2006 £	2005 £
Bank loans and overdrafts	18,895	18,897
Trade creditors	11,806	12,215
Other creditors	688	440
Taxes and social security costs	20,144	23,330
Other creditors	27,806	-
Accruals and deferred income	12,049	16,715
	<u>91,388</u>	<u>71,597</u>

9 Creditors: amounts falling due after more than one year	2006 £	2005 £
Bank loans	<u>8,880</u>	<u>24,640</u>
Wholly repayable within five years	27,775	43,537
Included in current liabilities	<u>(18,895)</u>	<u>(18,897)</u>
	<u>8,880</u>	<u>24,640</u>

The loan repayable within five years is a commercial mortgage loan facility. This is secured by a First Legal Charge over Radio House, Bridge Street, Macclesfield, the company's place of business.

10 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £2,353 (Sept 2005 - £4,727). Contributions totalling £136 (Sept 2005 - £360) were payable to the fund at the year end and are included in creditors.

11 Share capital	2006 £	2005 £
Authorised		
50,000,000 Ordinary Shares of 1p each	<u>500,000</u>	<u>500,000</u>
Allotted, called up and fully paid		
460,000 Ordinary Shares of 1p each	<u>4,600</u>	<u>4,600</u>

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

12 Statement of movements on reserves

	Share premium account £	Profit and loss account £
Balance at 1 October 2005	478,500	(154,313)
Loss for the year	-	(44,055)
Balance at 30 September 2006	478,500	(198,368)

13 Reconciliation of movements in shareholders' funds

	2006 £	2005 £
Loss for the financial year	(44,055)	(4,999)
Opening shareholders' funds	328,787	333,786
Closing shareholders' funds	284,732	328,787

14 Contingent liabilities

The Company is a joint guarantor to the group's bank overdraft facility with National Westminster Bank plc together with wholly owned subsidiaries of The Local Radio Company plc. The Company therefore has a contingent liability equal to the amount due to National Westminster Bank plc by the group at the year end.

15 Financial commitments

At 30 September 2006 the company was committed to making the following payments under non-cancellable operating leases in the year to 30 September 2007

	Land and buildings 2006 £	2005 £
Operating leases which expire in over five years	18,897	18,897

16 Capital commitments

There were no capital commitments at 30 September 2006 or 30 September 2005

SILK FM LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2006

17 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

	2006 Number	2005 Number
Average number of employees during the period	11	11

Employment costs

	2006 £	2005 £
Wages and salaries	193,978	209,854
Social security costs	18,886	21,321
Other pension costs	2,353	4,727
	215,217	235,902

18 Control

At 30 September 2006 the company's ultimate parent company was The Local Radio Company plc, which was the parent of both the largest and the smallest groups of which the company was a member

Copies of the consolidated financial statements of The Local Radio Company plc are available from 11 Duke St, High Wycombe, Buckinghamshire HP13 6EE

19 Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with members of the group headed by The Local Radio Company PLC on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements