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COMPANY NUMBER: 4689130

Milestone Group PLC

Report and Financial Statements

Year Ended

30 September 2004

BDO

BDO Stoy Hayward
Chartered Accountants

Milestone Group PLC

Annual report and financial statements for the year ended 30 September 2004

Contents

Page:

Directors

J Blackwell
A T Craig
B R Chester
M N Levine
T E McGowran

Secretary and registered office T Eustace, 20 Marcham Road, Abingdon, Oxfordshire OX14 1AA

Company number 4689130

Auditors BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, Berkshire RG1 3EX

Contents *(continued)*

Nominated Adviser and Broker	Arden Partners, Nicholas House, 3 Laurence Pountney Hill, London EC4R 0EU
Registrars	Capita IRG plc, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
Solicitors	Lawrence Graham, 190 Strand, London WC2R 1JN

Milestone Group PLC

Chairman's statement and highlights

HIGHLIGHTS DURING THE YEAR

- Turnover on continuing activities up to £5.7million (2003: £5.4million*).
- Operating losses for the year (excluding goodwill amortisation and impairment) of £1.9 million (2003: loss of £2.7 million*), in line with expectations.
- Successful disposal of non-core radio assets including Time FM 106.8 Limited and Fusion 107.3 FM Limited for £1.25million.
- Progress made on Publishing Division, with sales of £3.8million (2003: £3.7million*), including:
  - Continued success of Basingstoke Observer with ABC Verification and gain in market share;
  - Courier Group moving from door-to-door to collection distribution;
  - Appointment of Tom McGowran as Publishing Director;
  - Courier/ Journal joint re-branding.
- Continued progress on Radio Division, with continuing revenues of £1.8million up 24% (2003: £1.4million*):
  - All stations have increased RAJAR audience ratings, with Passion 107.9 in Oxford, doubling its reach year on year and Rugby FM, consolidating its position as the outright market leader, with a 43% reach in the latest Wave 4, 2004 release.
    - Revenue growth on 2003 for all stations
    - Passion 107.9 +140 %
    - Kestrel FM +15%
    - Kick FM +3%
    - Rugby FM +18%
- Television Division revenue stable.
  - Major Regulatory review of digital opportunities for local television due 2005 – impairment of goodwill £2.8million;
  - Focus on cost cutting successfully implemented;
  - Significant potential new long term contracts.
- Cross media revenues substantially increased during the year with £0.2million of revenues identified as coming from the unique cross-media offer.

*Comparable figures consist of the audited figures for the group from 1 July 2003 to 30 September 2003 plus the un-audited figures for the nine months from 1 October 2002 to 30 June 2003.

Milestone has continued to develop its core business, providing a range of opportunities for clients to advertise on our local media delivery platforms, with a continued strong emphasis on quality of client service and value.

The year has seen a number of challenges overcome and the board is focussed on moving into positive cash flows in the three operating divisions; Publishing, Radio and Television in this current financial year.

In May 2004, we welcomed Tom McGowran as our new Publishing Director. As former Chief Executive of Tindle Newspapers, Tom has a wealth of experience in the local publishing sector. In September 2004, we invited Tom to join the main PLC board and his knowledge and ability is a significant and welcome addition to the Group.

Since joining us, Tom has put in place new structures and disciplines, which have already started to have an impact on improving sales yields in the publishing division.

Our radio stations have again increased their audiences as demonstrated by RAJAR. Locally focussed radio stations, are a key part of our cross media strategy and there are exciting opportunities to add to our portfolio through new licence applications in the coming year. This will require further investment in our operations and we are confident that with our commitment to making radio licences work, this is an area of real opportunity.

Local Television is currently under review by Ofcom and Department for Culture Media and Sport (DCMS). Whilst the board sees significant opportunity in this area, it has decided, to write-off the remaining goodwill, £2.8milion within the Group's television division. The board continues to believe that the Group's investment in local television will provide a satisfactory return.

Milestone is now much better placed to grow organically and by acquisition across all platforms of local media.

I would again like to place on record my thanks to our staff without whose skills, intelligence and enthusiasm we could not deliver the quality products that we do.

Julian Blackwell

Julian Blackwell
Chairman

Turnover for the year to September 2004 was up to £5.9million, (£5.8million in 2003). Turnover without the disposal of the London stations was £5.7million (£5.4million 2003).

The operating loss (excluding goodwill write off and impairment) for the 12 months ended 30 September 2004 was £1.9 million, in line with our expectations at the time of the March interim statement (2003: £2.7 million).

We anticipate that all divisions will become cash flow positive in the course of the current financial year.

Milestone has continued to produce original content, targeted at discrete local communities, through local news and entertainment across our publishing, radio and television platforms – as part of the cross media strategy supported by paid for commercial advertising. Cross promotion and cross selling have resulted in a steady growth in listeners and new revenues.

We have disposed of non-core assets, and acquired and developed new ones, which I believe, have great potential for the future. We will continue to explore opportunities to enhance shareholder value by acquiring (and on occasions rationalising) assets as appropriate. An active and targeted programme of new radio licence applications is a large part of this effort.

Publishing Division

Sales £3.8million (2003: £3.7million), Operating loss £0.2million (2003: loss £0.2million).

The revenue in the Publishing division increased by 2%.

Last year we reported the integration of the management and back office functions of the Basingstoke Observer and Courier Newspapers. This process was further enhanced in May 2004 by the appointment of Tom McGowran as Group Publishing Director.

The publishing division consists of the Courier Group, based in Oxfordshire and focussed on serving the majority of this county, and the Basingstoke Observer, serving North Hampshire. A range of titles and 'sister' titles are published, specialising in local news, property and motors – all distributed free within their circulation areas.

Revenue at the Basingstoke Observer has increased 23% helped by the introduction of the Basingstoke Property weekly. Besides benefiting from its integration with the Courier Group, the Basingstoke Observer benefits from the cross media activities with Kestrel FM and some 10% of its revenue derives from this relationship. The Basingstoke Observer has achieved ABC verification.

ABC holds one of the most renowned brands within the media industry providing circulation figures for newspapers, magazines, business-to-business publications, directories, leaflets, exhibitions and websites. The core values of the ABC brand are independence, transparency and comparability. The Basingstoke Observer having obtained the ABC certificate for its collection distribution can now build upon this to attract national advertising.

Revenue at the Courier Group fell back 2.7% as the number of titles was rationalised and management focussed on improving revenue contribution. A new monthly arts and culture magazine "Oxfordshire Living" was launched. The Courier has also helped develop the "what's on and what's happening" Passion Magazine in conjunction with Passion 107.9, our Oxford radio station.

***Publishing Division** (continued)*

In December 2003 we commenced the introduction of an in-house advertisement design and production department. This resulted in an increase in the cost of sales whilst parallel external and internal operations continued during the set-up stages. The department is now fully operational with all 'pre-press' requirements being satisfied in house and increased efficiency and cost savings being delivered.

As mentioned in our interim statement, in addition to the set up costs of the production department, the short-term nature of sales contracts at the Courier Group led to fluctuating revenues and an overall negative impact on the publishing division's profitability to September 2004. A comprehensive programme of staff training and new sales and production procedures has led to improved revenue yields and longer-term contracts.

Publishing Division post balance sheet events

Subsequent to the year-end, the Courier and Journal titles have been re-branded as "Courier Journal" with a combined new masthead and local versions targeted at individual conurbations within Oxfordshire. This has led to cost efficiencies in print.

Commencing in December 2004, the Courier Journal is progressively switching to collection distribution from dispensers, rather than door-to-door. As the Basingstoke Observer (which moved to collection distribution two years ago) has shown, this enables an increase in the number of conurbations served by the titles whilst reducing distribution costs and enabling an increase in the advertiser base.

The Basingstoke Observer has also cut its fixed costs through the negotiation of a new printing contract.

The print contract was moved to an independent contractor who could provide more colour at a competitive price. This contract will be kept under review as the need to increase the number of colour pages has already exceeded expectations as we develop the Property Weekly supplement.

Radio Division

Revenue from continuing activities £1.8million (2003: £1.4million), Operating loss £0.2million (2003: £0.5million).

In January 2004, the Group completed the disposal of its two non-core South London radio stations Time FM 106.8 and Fusion 107.3 FM. The results for the year include a £0.3million loss on this disposal at an aggregate consideration of £1.25million.

The period saw improved revenues at each of the four local commercial radio stations controlled by the Group:

- Passion 107.9 (Central Oxfordshire) + 140%
- Kestrel FM (North Hampshire) + 15%
- Kick FM (West Berkshire) + 3%
- Rugby FM (Rugby, Warwickshire) + 18%

Radio division post-balance sheet events

Subsequent to the year-end, the radio division has continued its steady audience growth. The latest official listening figures from RAJAR (Wave 4, 2004, released January 2005) show increased market share at all four radio stations compared to the same period last year. In particular, Passion 107.9, which has benefited from cross-promotion with Milestone's other media assets in Oxfordshire, has seen its weekly adult audience reach double year-on-year.

The Group continues to seek appropriate opportunities to expand its radio interests organically and by acquisition. The Burn FM Limited, the consortium in which we were a minority shareholder, was not, awarded the new FM Licence for Blackburn in December 2004. We are currently minority shareholders in a further consortium that has submitted an application for the FM licence for Cornwall.

Applications for radio licences remain as competitive as ever. The Group has a policy of submitting well-researched, targeted, applications for such licences with a high success rate. We intend to continue to pursue this strategy and we will be submitting an application for the licence for Banbury due in February 2005. We also welcome Ofcom's recent announcement that it will be advertising a licence in Warwick in summer 2005, an area in which Milestone has been campaigning for a new licence to be made available.

Television Division

Revenue £0.2million (2003: £0.2million), Operating loss £0.5million (2003: loss £0.6million).

The acquisition of the minority shares of Oxford Broadcasting Limited announced in September 2003 was completed in October 2003.

In March 2004, the Group was able to acquire the terrestrial Local Television licences for Southampton and Portsmouth. Whilst the latter was acquired 'off air' we rapidly took the opportunity to re-brand Southampton Television as 'SIX TV'.

Independent research projects completed in the summer and autumn of 2004, gave SIX TV (of available homes that could receive the signal) a daily adult audience reach of 15% in Oxfordshire and 19% in Southampton.

We have implemented significant cost-savings by operating our two current 'on air' licences, SIX TV Oxford and SIX TV Southampton with a greatly reduced core staff. This will improve the operating results.

Local television licences have previously been issued on a four-year basis. The licence for Six TV Oxford was last renewed in June 2003 and was being amortized on this basis. In December 2004, Ofcom announced that all local TV licences would be extended to June 2007. Whilst this has the effect of extending the licences for Southampton and Portsmouth beyond their renewal dates of April 2005/October 2006 and February 2005 respectively, it brings into question the future of local analogue TV licences overall. We are lobbying continually and strongly with DCMS and Ofcom that there should be an automatic rollover to Digital for those analogue licences, which are extant. Ofcom and DCMS have indicated that their review of Digital local television will be undertaken in 2005 and for this reason the board after careful deliberation and having taken advice from its advisors have decided that the prudent accounting treatment is to reduce the goodwill relating to these TV licences to zero.

Television Division post-balance sheet events

Subsequent to the year-end, we have further reduced costs by introducing a commission-only sales force. We have also gained our first significant contract to provide programming to the education sector. Operating losses will continue to be reduced pending clarification of Ofcom's review.

Dividend Policy

The Board's intention is for the Company to re-invest any net earnings to finance the growth and expansion of its business and accordingly they do not intend that the Company shall pay dividends in the foreseeable future. The Board will continue to review the appropriateness of its dividend policy as the business of the Group develops.

Outlook

Through increased efficiencies and further growth in turnover the Group is moving its current trading activities towards a position of positive cash-flow on our existing operations in the current year. Trading in the first quarter of the new period gives the confidence that this will be achieved. We look forward to further capitalising on our cross media strategy.

Andy Craig
Chief Executive

Directors and Board Committees

The Board comprises three executive Directors and two non-executive Directors.

Directors

Julian Blackwell, Non-Executive Chairman, aged 76

Julian has worked in the Oxford-based Blackwell bookselling and publishing companies in many roles from packer to president; he was also the launch Chairman of FOX FM (the original ILR station for Oxfordshire) from 1989 to 1998. In the community he was High Sheriff of Oxfordshire from 1991 to 1992 and is currently a Deputy Lieutenant of Oxfordshire. In 2000 Julian was the joint-founder (with Andrew Craig) of Aroma Broadcasting, formed to invest in SIX TV, part of the new tier of terrestrial local television, now a subsidiary of the Group.

Andrew Craig, Chief Executive, aged 50

Andy's career began in the early days of local broadcasting with Radio 210 in Reading and Metro Radio in Newcastle. He has since gained 25 years experience in professional broadcasting for ITV and the BBC. Nine years ago Andy founded Milestone Pictures, a niche broadcasting company which became focused on the values of localness which he felt had been lost in the consolidation of UK media. In May 2002 Andy became Chief Operating Officer of Fusion Group following the merger of Milestone Pictures' and Fusion's radio interests.

Brian Chester, Finance Director, aged 53

Brian spent 14 years working for Philips Electronics Limited and Polygram BV in various financial roles. In 1987, he was appointed financial controller of Bourne Publicity Limited and, following his promotion to finance director in 1989, was instrumental in its sale to Bemrose Corporation plc where he remained division finance director until January 2000 when he joined Fusion Group in April 2000.

Mark Levine, Non-Executive Director, aged 27

Mark Levine is a portfolio manager with the London arm of Elliott Associates, L.P., a New York based private investment partnership. Elliott Associates manages partners' capital of approximately $3.8billion. In November 2000 the Elliott group became the primary funding partner of the Fusion Group (now a wholly owned subsidiary of Milestone). Prior to joining Elliott Advisors (UK) Limited in June 2000 Mark was employed as a portfolio analyst at Elliott's New York office. He also sits on the supervisory board of Hid Radio Rt., a diversified Hungarian media company.

Tom McGowran, Publishing Director, aged 56 (Appointed 31 August 2004)

Tom spent 13 years as the chief executive of Tindle Newspapers, the private publishing business. He was responsible for overseeing its increase in profitability from just over £1 million in 1996 to over £5 million in 2003.

Corporate governance statement

There is commitment to high standards of corporate governance throughout the group. The directors acknowledge the importance of the Combined Code (1998) and have complied with the requirements so far as is appropriate to a group of the size and nature of Milestone Group PLC.

Directors

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions.

Biographies of the board members appear on page 7 of this report. These indicate the high levels and range of business experience which are essential to effectively manage a business of this size.

Communication

The group places a great deal of importance on communication with its shareholders. The full report and financial statements are available to all shareholders on request and to other parties who have an interest in the group's performance.

There is regular dialogue with individual institutional shareholders as well as general presentations if deemed appropriate, after the announcement of results. All shareholders have the opportunity to put questions at the company's annual general meeting.

Audit and internal control

The board is responsible for ensuring that the group maintains a system of internal financial controls, including suitable monitoring procedures. The objective of the system is to safeguard the group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

An audit committee has been established which will meet at least twice each year and be responsible for ensuring that the financial performance of the group is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. It will meet once a year with the auditors without executive board members present. The audit committee comprises the two non-executive directors Julian Blackwell and Mark Levine.

Milestone Group PLC

Remuneration report

Compliance

As well as complying with the provisions of the Combined Code (1998) as disclosed in the corporate governance statement, the company has applied the principles relating to directors' remuneration as described below.

Details of each individual director's remuneration and share options are included in the directors' remuneration section of this report and those of directors' shareholdings are set out in the report of the directors.

Remuneration committee

A remuneration committee has been established to review the performance of executive directors and to set the scale and structure of their remuneration, the basis of their remuneration and the terms of their service agreements with due regard to the interests of shareholders. The remuneration committee also determines the allocation of share options to employees under the Option Schemes. No director shall be permitted to participate in discussions or decisions concerning their own remuneration. The remuneration committee comprises the two non-executive directors Julian Blackwell and Mark Levine, together with Andy Craig the Chief Executive.

Nominations committee

A nominations committee has also been established consisting of the two non-executive directors and will make recommendations on the appointment of further directors to the Board.

Directors contracts

Directors service contracts

Executive directors

A T Craig and B R Chester entered into service agreements with the company dated 26 June 2003. Each agreement is terminable on 12 months' notice by either party, save for certain circumstances where they are terminable without notice. The remuneration provisions under each of the agreements provide that A T Craig shall receive a basic salary of £120,000 per annum and B R Chester shall receive a basic salary of £90,000 per annum.

T E McGowran entered into a service agreement with the company dated 1 June 2004, terminable on 6 months' notice by either party, save for certain circumstances where it is terminable without notice. The remuneration provisions provide that he shall receive a basic salary of £75,000 per annum.

Non-executive directors

The services of J Blackwell as Non-Executive Director and Chairman and M N Levine as Non-Executive Director are provided under the terms of appointment letters dated 25 June 2003. The appointments are for an initial 12 months continuing thereafter subject to termination on 3 months' written notice by either party, save for certain circumstances where they are terminable without notice. No fees (other than expenses) are payable to J Blackwell or M N Levine.

There are no service agreements in existence between any of the directors and the company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.

Directors' remuneration

The emoluments of the individual directors were as follows:

	Salary 2004 £	Fees 2004 £	Benefits in kind 2004 £	Total emoluments 2004 £	Total emoluments 2003 £	Pension contributions 2004 £	Pension contributions 2003 £
Executive directors							
A T Craig	120,000	-	10,800	**130,800**	32,700	**12,000**	3,000
B R Chester	90,000	-	11,304	**101,304**	27,131	**9,000**	2,250
T E McGowran	6,250	-	763	**7,013**	-	-	-
Non-executive directors							
J Blackwell	-	-	-	-	-	-	-
M N Levine	-	-	-	-	-	-	-
R F Laughton	-	10,657	-	**10,657**	1,880	-	-
	216,250	**10,657**	**22,867**	**249,774**	61,711	**21,000**	5,250

R F Laughton received fees for services as director to the date of his resignation on 31 August 2004.

T E McGowran was appointed a director of the company on 31 August 2004.

Directors' remuneration *(continued)*

Share options have been granted to executive directors under the Milestone Group PLC 2003 Unapproved Share Option Scheme as detailed below:

Option Holder	Date of Grant	Ordinary Shares	Exercise Price (p)	Exercise Period
A T Craig	25/06/2003	1,404,000	100	26/06/2006 to 24/06/2013
B R Chester	25/06/2003	432,000	100	26/06/2006 to 24/06/2013

On behalf of the Board

MARK LEVINE

Chairman, Remuneration Committee

Date: 22/FEB/05

Report of the directors for the year ended 30 September 2004

The directors present their report together with the audited financial statements for the year ended 30 September 2004.

Results and dividends

The consolidated results of the group for the year are set out on page 18 and show the loss for the year.

The directors do not recommend the payment of a dividend.

Principal activities, review of business and future developments

The Milestone Group's business comprises three main operating divisions; a Publishing Division, a Radio Division and a Television Division. The directors believe benefits will be seen from the divisions working together to produce quality content, to promote each other's services and to develop joint revenue opportunities.

The Milestone Group was formed in the period ended 30 September 2003 by the merger of three separate groups; the MGH interests, the Fusion Group and the Courier Group.

An overall review of the business and future developments of the group is given in the Chairman's statement and the Chief Executive's review.

Dividend policy

The Board's intention is for the company to re-invest any net earnings to finance the growth and expansion of its business and accordingly they do not intend that the company shall pay dividends in the foreseeable future. The Board will continue to review the appropriateness of its dividend policy as the business of the group develops. At that time, the payment of dividends will be subject to the availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance further development of the group's activities.

Policy on the payment of creditors

For the majority of suppliers to the group, payments are made between 30 and 60 days from the month of invoice.

For certain transactions, payment terms are agreed with suppliers as part of the overall terms of the transaction. In respect of the group, year end creditors represent 38 days average purchases and expenses. For the company, year end creditors represent 98 days average purchases and expenses.

Employment of disabled persons

It is the policy of the company to give full and fair consideration to applications for employment received from disabled applicants, having particular regard to their aptitudes and abilities relevant to the position of employment for which they have applied.

Post balance sheet events

Details of a post balance sheet event are provided in note 32 to these financial statements.

Going concern

The directors have satisfied themselves that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Substantial shareholdings

On 7 February 2005, the following shareholders had an interest in 3 per cent or more of the company's ordinary shares. No other persons have reported an interest of 3 per cent or more in the company's ordinary shares.

Shareholder	Number of ordinary shares	Percentage of ordinary share capital
Credit Suisse First Boston Nominees	**4,780,413**	21.63%
HSBC Global Custody Nominee (UK) Limited	**3,773,906**	17.07%
Mr Andrew T Craig	**2,471,838**	11.18%
Mr Julian Blackwell	**1,522,500**	6.89%
Chetwynd Nominees Limited	**1,466,285**	6.63%
Productive Nominees Limited	**1,298,500**	5.87%
Chase Nominees Limited	**1,195,000**	5.41%
Cost Nominees Limited	**720,371**	3.26%

1,500,000 of the ordinary shares of J Blackwell are held by Banco Nominees (Guernsey) Limited to the order of the trustee of The Julian Blackwell Trust, in which Mr Blackwell's family are potential beneficiaries.

22,500 of the ordinary shares of J Blackwell are held by Douglas Deakin Young Nominees, an entity of which Mr Blackwell is the beneficial holder.

497,583 of the ordinary shares of A T Craig are held by MGH Investments Limited, a company ultimately controlled by him.

Elliott International Limited and Elliott Associates L.P., collectively hold 6,246,698 ordinary shares at 7 February 2005, which represents 28.25% of the ordinary share capital. The 4,780,413 ordinary shares of Credit Suisse First Boston Nominees are held by Elliott International Limited, the 1,466,285 ordinary shares of Chetwynd Nominees Limited are held by Elliott Associates L.P.

Directors

The directors of the company and their beneficial interests at the end of the year (including those of their immediate family and any company controlled by them) in the ordinary share capital of the company are shown below:

Ordinary shares of 10p each	At 30 September 2004	At 30 September 2003
J Blackwell	**1,522,500**	1,522,500
A T Craig	**2,471,838**	2,459,338
B R Chester	**18,503**	18,503
R F Laughton (resigned 31 August 2004)	-	-
M N Levine	-	-
T E McGowran (appointed 31 August 2004)	-	-

Further information on directors' shareholdings at 7 February 2005 has been shown in the substantial shareholdings section of this report.

Further details of the directors' share options are shown in the remuneration report on page 11. Details of any directors' interests in transactions of the group are given in note 26 to these financial statements.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

T Eustace
Secretary

Date: 22 February 2005

Statement of 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 group and of the loss of the group for that year. 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

To the shareholders of Milestone Group PLC

We have audited the financial statements of Milestone Group PLC for the year ended 30 September 2004 on pages 18 to 48 which have been prepared under the accounting policies set out on pages 23 to 25.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 group 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 and other members of the group is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's statement and highlights, the Chief Executive's Review, the Corporate Governance Statement, the Remuneration Report and the Report of the Directors. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 United Kingdom 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 group'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 affairs of the group and the company at 30 September 2004 and of the loss of the group for the year then ended and the financial statements have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Reading

Date: 22 February 2005

Milestone Group PLC

Consolidated profit and loss account for the year ended 30 September 2004

	Note	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Turnover	2	**5,852,803**	1,191,089
Cost of sales		**3,351,014**	672,751
Gross Profit		**2,501,789**	518,338
Distribution costs		**123,875**	28,868
Administrative expenses:	3,4		
Impairment of goodwill	6	**2,884,549**	2,189,490
Other administrative expenses		**5,891,833**	1,924,720
		8,776,382	4,114,210
		(6,398,468)	(3,624,740)
Other operating income	5	**68,806**	40,130
Group operating loss	6	**(6,329,662)**	(3,584,610)
Share of operating loss in associated undertakings	14	**229,750**	77,930
Loss on disposal of group operations	7	**305,927**	-
Loss on ordinary activities before interest		**(6,865,339)**	(3,662,540)
Interest receivable - group	8	**36,766**	19,834
- associated undertakings	14	**604**	-
Interest payable - group	9	**(11,735)**	(13,760)
- associated undertakings	14	**(21,341)**	-
Loss on ordinary activities before taxation		**(6,861,045)**	(3,656,466)
Taxation on loss from ordinary activities	10,14	**(29,211)**	5,523
Loss on ordinary activities after taxation		**(6,831,834)**	(3,661,989)
Minority interest		**25,671**	26,051
Loss for the financial year	21	**(6,806,163)**	(3,635,938)
Basic and diluted loss per share	11	**(31.11) p**	(39.08) p

All amounts relate to continuing activities
All recognised gains and losses are included in the profit and loss account
The notes on pages 23 to 48 form part of these financial statements

Milestone Group PLC

Consolidated balance sheet at 30 September 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Intangible assets	12		**8,686,209**		14,075,558
Tangible assets	13		**1,011,068**		1,098,148
Fixed asset investments	14		**1,074,075**		1,237,787
			10,771,352		16,411,493
Current assets					
Debtors	15	**1,392,062**		1,431,334	
Cash at bank and in hand		**299,786**		894,770	
		1,691,848		2,326,104	
Creditors: amounts falling due within one year	16	**1,909,633**		1,874,771	
Net current (liabilities)/assets			**(217,785)**		451,333
Total assets less current liabilities			**10,553,567**		16,862,826
Creditors: amounts falling due after more than one year	17		**142,095**		152,163
Provisions for liabilities and charges	19		**-**		15,523
			10,411,472		16,695,140

The notes on pages 23 to 48 form part of these financial statements

Consolidated balance sheet at 30 September 2004 *(Continued)*

	Note	2004 £	2003 £
Capital and reserves			
Called up share capital	20	**2,210,510**	2,159,998
Share premium account	21	**7,222,235**	6,997,235
Merger reserve	21	**11,119,585**	10,889,978
Profit and loss account	21	**(10,234,857)**	(3,428,694)
Equity shareholders' funds	22	**10,317,473**	16,618,517
Minority interests (equity)		**93,999**	76,623
		10,411,472	16,695,140

The financial statements were approved by the Board on 22 February 2005

A T Craig
Director

The notes on pages 23 to 48 form part of these financial statements

Milestone Group PLC

Company balance sheet at 30 September 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	13		**295,204**		596
Investments	14		**18,379**		2,548,380
			313,583		2,548,976
Current assets					
Debtors – due within 1 year	15	**332,951**		-	
Debtors – due after more than 1 year	15	**6,695,745**		7,554,462	
		7,028,696		7,554,462	
Creditors: amounts falling due within one year	16	**481,549**		208,014	
Net current assets			**6,547,147**		7,346,448
Total assets less current liabilities			**6,860,730**		9,895,424
Creditors: amounts falling due after more than one year	17		**2,832,557**		2,500,000
			4,028,173		7,395,424
Capital and reserves					
Called up share capital	20		**2,210,510**		2,159,998
Share premium account	21		**7,222,235**		6,997,235
Profit and loss account	21		**(5,404,572)**		(1,761,809)
Equity shareholders' funds	22		**4,028,173**		7,395,424

The financial statements were approved by the Board on 22 February 2005

A T Craig
Director

The notes on pages 23 to 48 form part of these financial statements

Milestone Group PLC

Consolidated cash flow statement for the year ended 30 September 2004

	Note	2004 £	2004 £	2003 £	2003 £
Net cash outflow from operating activities	28		(1,776,239)		(1,036,278)
Returns on investments and servicing of finance					
Interest received		36,766		19,834	
Interest paid		(11,735)		(13,760)	
Net cash inflow from returns on investments and servicing of finance			25,031		6,074
Taxation					
UK corporation tax			-		-
Capital expenditure					
Payments to acquire tangible fixed assets		(86,170)		(5,917)	
Receipts from sale of tangible fixed assets		20,354		-	
Net cash outflow from capital expenditure			(65,816)		(5,917)
Acquisitions and disposals					
Purchase of subsidiary undertakings		-		(4,500,000)	
Overdraft acquired with subsidiary undertakings		-		(314,557)	
Sale of business operations	7	1,250,000		-	
Bank overdraft disposed of with business operations	7	12,027		-	
Costs of disposal of business operations	7	(151,479)		-	
Investment in associated undertaking	14	(73,087)		-	
Net cash inflow/(outflow) from acquisitions and disposals			1,037,461		(4,814,557)
Cash outflow before financing			(779,563)		(5,850,678)
Financing					
Issue of share capital		-		8,130,000	
Cost of issuing share capital		-		(657,765)	
Loan repayments		(2,298)		(978,000)	
Capital element of finance leases repaid		(44,039)		-	
Cash (outflow)/inflow from financing			(46,337)		6,494,235
(Decrease)/increase in cash in the year		29,30	(825,900)		643,557

The notes on pages 23 to 48 form part of these financial statements

1 Accounting policies

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable accounting standards.

The company has taken advantage of the exemption allowed under Section 230 of the Companies Act 1985 from presenting its own profit and loss account in these financial statements. The company's own loss for the year ended 30 September 2004 is £3,642,763 (2003 - £1,761,809).

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of Milestone Group PLC and all of its subsidiary undertakings as at 30 September 2004 using the acquisition method of accounting. Under the acquisition method, the results of subsidiary undertakings are included from the date of acquisition.

Valuation of investments

Investments in subsidiaries are stated at cost (being the par value of shares issued where merger relief applies) less impairment. Other investments held as fixed assets are stated at cost less any provision for impairment in value.

Goodwill

Goodwill arising on an acquisition of a subsidiary or associated undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired.

Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. This has been estimated as follows:

Publishing Division	– 20 years
Radio Division	– over the licence period
Television Division	– over the licence period

Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Associates

An entity is treated as an associated undertaking where the group has a participating interest and exercises significant influence over its operating and financial policy decisions.

In the group financial statements, interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings based on audited financial statements. In the consolidated balance sheet, the interests in associated undertakings are shown as the group's share of the identifiable net assets including any unamortised premium paid on acquisition. The premium on acquisition is dealt with under the goodwill policy.

1 Accounting policies *(continued)*

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax.

Turnover represents advertising income, from the group's radio, television and publishing divisions. Airtime is recognised on the date of broadcast and advertising revenues from publishing, are recognised on publication of the related advert.

Income relating to invoices raised in advance of the airing or publication of an advert are treated as deferred income and are carried forward on the balance sheet.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, evenly over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	-	10-20% per annum, or over the period of the lease or licence
Fixtures, fittings and computer and office equipment	-	12.5%-33% per annum, or over the period of the licence
Plant and machinery	-	10-50% per annum
Production and studio equipment	-	20% per annum
Motor vehicles	-	25-33% per annum

Finance costs

Finance costs are charged to profit over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Financial instruments

In relation to the disclosures made in note 18:

- short term debtors and creditors are not treated as financial assets or financial liabilities;
- the group does not hold or issue derivative financial instruments for trading purposes.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates it will make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

1 Accounting policies *(continued)*

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components. The interest element of the payment is charged to the profit and loss account over the period of the lease and is calculated so that it represents a constant proportion of the balances of capital repayments outstanding. The capital element reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight line basis over the term of the lease.

Pension costs

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

Share based employee remuneration

When shares and share options are awarded to employees a charge is made to the profit and loss account based on the difference between the market value of the company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (Revised 2003) 'Employee Share Schemes'. The credit entry for this charge is taken to the profit and loss reserve and reported in the reconciliation of movements in shareholders' funds.

National Insurance on Share Options

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved schemes after 19 May 2000, provision for any National Insurance contribution has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

Impairment of fixed assets and goodwill

The need for any fixed asset impairment write down is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

2 Turnover, loss and net assets

The turnover, pre tax loss and net assets at the balance sheet date are attributable to the principal activities of the group. These categories have been analysed by class of business as set out below. The United Kingdom is the only geographical market.

	Turnover Year ended 30 September 2004 £	Pre-tax loss Year ended 30 September 2004 £	Turnover 1 July 2003 to 30 September 2003 £	Pre-tax loss 1 July 2003 to 30 September 2003 £
Analysis by class of business:				
Publishing Division - group	**3,721,833**	**(517,283)**	803,113	(328,441)
Radio Division:				
Group	**1,890,203**	**(3,951,751)**	319,120	(2,688,111)
Associated undertakings	**-**	**(236,799)**	-	(77,930)
Television Division - group	**240,767**	**(1,113,164)**	68,856	(317,917)
	5,852,803	**(5,818,997)**	1,191,089	(3,412,399)
Head office costs	**-**	**(1,042,048)**	-	(244,067)
	5,852,803	**(6,861,045)**	1,191,089	(3,656,466)

	Net assets 30 September 2004 £	Net assets 30 September 2003 £
Net operating assets:		
Publishing Division - group	**6,137,337**	6,502,237
Radio Division:		
Group	**3,430,653**	5,487,570
Associated undertakings	**1,051,546**	1,215,258
Television Division - group	**(84,879)**	3,631,143
	10,534,657	16,836,208
Head office cost liabilities	**(123,185)**	(141,068)
	10,411,472	16,695,140

3 Employees

The average number of employees of the group during the year, including executive directors, was as follows:

	Year ended 30 September 2004 Number	1 July 2003 to 30 September 2003 Number
Sales, operations and administration	**132**	127
Management	**12**	10
	144	137

Staff costs for all employees, including executive directors, consist of:

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Wages and salaries	**2,769,061**	640,190
Social security costs	**281,872**	55,993
Pension costs	**25,528**	5,725
	3,076,461	701,908

4 Directors' remuneration

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Directors' emoluments and fees	**249,774**	61,711
Company contributions to money purchase pension schemes	**21,000**	5,250

There were two directors in the company's defined contribution pension scheme during the year (2003 – 2).

Further disclosures on the remuneration of each individual director is included in the Remuneration Report.

5 Other operating income

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Other operating income	**15,708**	9,050
Rental income	**53,098**	31,080
	68,806	40,130

6 Operating loss

		Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
This is arrived at after charging:			
Depreciation		**242,376**	88,774
Loss on disposal of fixed assets		**14,719**	-
Amortisation of goodwill arising on consolidation		**1,580,121**	343,588
Market research		**49,426**	27,605
Hire of plant and machinery - operating leases		**17,138**	18,756
Hire of other assets - operating leases		**85,233**	57,258
Hire of land and buildings - operating leases		**139,500**	5,500
Auditors' remuneration	- audit services (company £47,000)	**127,000**	118,178
	- non-audit services	**65,095**	12,850
Impairment of goodwill		**2,884,549**	2,189,490

In addition non-audit fees of £nil (2003 - £235,027) have been charged to the share premium account.

The directors have considered the carrying value of goodwill in accordance with FRS 11 "Impairment of Fixed Assets and Goodwill". Based on their review they have concluded that the goodwill is impaired and have therefore written it down to the lower of the carrying value and the net recoverable amount.

7 Disposal of group operations

On 15 January 2004, the group disposed of Time FM 106.8 Limited and Fusion 107.3 FM Limited.

The loss on disposal has been calculated as follows:

	Time FM 106.8 Limited £	**Fusion 107.3 FM Limited £**	**Total £**
Cash proceeds	625,000	625,000	**1,250,000**
Costs of disposal	(79,124)	(72,355)	**(151,479)**
	545,876	552,645	**1,098,521**
Net assets disposed of	(92,438)	(89,163)	**(181,601)**
Profit before goodwill	453,438	463,482	**916,920**
Goodwill (note 12)	(611,475)	(611,372)	**(1,222,847)**
Loss on disposal	(158,037)	(147,890)	**(305,927)**

The net inflow of cash in respect of the sale of Time FM 106.8 Limited and Fusion 107.3 FM Limited is as follows:

	£
Cash consideration	**1,250,000**
Costs of disposal of group operations	**(151,479)**
	1,098,521
Bank overdraft transferred on disposal	**12,027**
Net inflow of cash	**1,110,548**

8 Interest receivable

	Year ended 30 September 2004 £	**1 July 2003 to 30 September 2003 £**
Bank interest	**8,267**	4,614
Interest from associated undertaking	**21,354**	15,220
Other interest	**7,145**	-
	36,766	19,834

9 Interest payable and similar charges

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Bank loans and overdrafts	**11,694**	13,760
Finance lease and hire purchase interest	**41**	-
	11,735	13,760

10 Taxation on loss from ordinary activities

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
UK corporation tax		
Current tax on losses of the year	-	-
Deferred tax		
Origination and reversal of timing differences	**(15,523)**	5,523
Other tax		
Share of associated undertaking's tax credit	**(13,688)**	-
Taxation on loss from ordinary activities	**(29,211)**	5,523

The tax assessed for the year is different than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
Loss on ordinary activities before tax	**(6,861,045)**	(3,656,466)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2003 - 30%)	**(1,303,599)**	(1,096,940)
Effects of:		
Expenses not deductible for tax purposes	**543,154**	859,494
Capital allowances for year in excess of depreciation	**11,839**	72,011
Unutilised tax losses	**846,110**	158,605
Income not taxable for tax purposes	**(75,105)**	(2,200)
Utilisation of tax losses	**(19,517)**	-
Other items	**(2,882)**	9,030
Current tax charge for the year	-	-

10 Taxation on loss from ordinary activities *(continued)*

Factors that may affect future tax charges

Deferred tax assets of approximately £1.5 million (group) and £155,000 (company) (2003 - £3 million (group) and £23,854 (company)) have not been recognised in the financial statements as there is currently insufficient evidence that any deferred tax assets would be recoverable.

The group has unutilised tax losses of approximately £8 million (2003 - £10 million) available for relief against future profits, subject to agreement by the Inland Revenue.

11 Loss per share

Basic loss per share has been calculated in accordance with FRS 14. Basic loss per share has been calculated by dividing the loss on ordinary activities before taxation by the weighted average number of ordinary shares in issue during the year. The weighted average number of equity shares in issue was 21,877,541 (2003 - 9,303,269) and the loss was £6,806,163 (2003 - £3,635,938). The effect of all potential ordinary shares is antidilutive.

12 Intangible assets

Group	**Goodwill on consolidation £**
Cost	
At 1 October 2003	16,608,636
Additions	298,168
Disposals	(2,559,773)
At 30 September 2004	**14,347,031**
Amortisation and impairment	
At 1 October 2003	2,533,078
Provided for the year	4,464,670
Disposals	(1,336,926)
At 30 September 2004	**5,660,822**
Net book value	
At 30 September 2004	**8,686,209**
At 30 September 2003	14,075,558

Included within the amortisation charge for the year is an amount of £2,884,549 (2003 - £2,189,490) in respect of the impairment in value of goodwill, as detailed in note 6.

13 Tangible assets

Group	Leasehold improvements	Fixtures, fittings, equipment and plant	Production and studio equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 October 2003	504,365	1,347,759	426,432	107,573	2,386,129
Additions	-	100,061	275,774	-	375,835
Disposals	-	(87,328)	-	(5,466)	(92,794)
Disposal of subsidiaries	(108,844)	(252,255)	(133,811)	(10,932)	(505,842)
At 30 September 2004	**395,521**	**1,108,237**	**568,395**	**91,175**	**2,163,328**
Depreciation					
At 1 October 203	158,463	671,682	378,288	79,548	1,287,981
Provided for the year	60,521	168,751	2,563	10,541	242,376
Disposals	-	(54,533)	-	(3,188)	(57,721)
Disposal of subsidiaries	(35,619)	(183,780)	(94,492)	(6,485)	(320,376)
At 30 September 2004	**183,365**	**602,120**	**286,359**	**80,416**	**1,152,260**
Net book value					
At 30 September 2004	**212,156**	**506,117**	**282,036**	**10,759**	**1,011,068**
At 30 September 2003	345,902	676,077	48,144	28,025	1,098,148

The net book value of tangible fixed assets for the group includes an amount of £24,345 (2003 - £30,772) in respect of assets held under finance leases or hire purchase contracts, all of which relate to fixtures and fittings held. The depreciation charge in respect of such assets amounted to £1,678 (2003 - £521) for the year.

13 Tangible assets *(continued)*

Company	Leasehold improvements	Production and studio equipment	Fixtures and fittings	Computer and office equipment	Total
	£	£	£	£	£
Cost					
At 1 October 2003	-	-	-	616	616
Transfer from group undertakings	1,318	275,000	11,966	123,941	412,225
Additions	-	-	793	3,707	4,500
At 30 September 2004	**1,318**	**275,000**	**12,759**	**128,264**	**417,341**
Depreciation					
At 1 October 2003	-	-	-	20	20
Transfer from group undertakings	351	-	3,447	90,401	94,199
Charge for the year	264	-	4,216	23,438	27,918
At 30 September 2004	**615**	**-**	**7,663**	**113,859**	**122,137**
Net book value					
At 30 September 2004	**703**	**275,000**	**5,096**	**14,405**	**295,204**
At 30 September 2003	-	-	-	596	596

14 Fixed asset investments

Group	Other investment	Associated undertakings	Total
	£	£	£
Cost			
At 1 October 2003	22,529	1,293,188	1,315,717
Additions	-	73,087	73,087
At 30 September 2004	**22,529**	**1,366,275**	**1,388,804**
Share of retained losses			
At 1 October 2003	-	77,930	77,930
Share of losses for the year	-	236,799	236,799
At 30 September 2004	**-**	**314,729**	**314,729**
Net book value			
At 30 September 2004	**22,529**	**1,051,546**	**1,074,075**
At 30 September 2003	22,529	1,215,258	1,237,787

14 Fixed asset investments *(continued)*

The other investment represents a 13% shareholding of Milestone Radio Holdings Limited in CKFM Kernow Limited.

The associated undertakings represent a 44% shareholding of Milestone Radio Holdings Limited in The Burn FM Limited and a 37% shareholding of The Milestone Radio Company Limited in Reading Broadcasting Company Limited.

Included within the carrying value of associated undertakings is goodwill of £1,408,038 (2003 - £1,445,113) and the share of operating losses for the year includes a goodwill amortisation charge of £110,162 (2003 - £26,780).

The group had the following interests in Reading Broadcasting Company Limited, an associated undertaking:

	2004	**2004**	**2003**	**2003**
	£	**£**	**£**	**£**
Share of turnover		**263,923**		170,235
Share of assets				
Share of fixed assets	**68,858**		82,652	
Share of current assets	**76,189**		52,377	
		145,047		135,029
Share of liabilities				
Due within one year	**(44,818)**		(28,304)	
Due after more than one year	**(441,325)**		(346,979)	
		(486,143)		(375,283)
Share of net liabilities		**(341,096)**		(240,254)

14 Fixed asset investments *(continued)*

Company	**Shares in subsidiary undertakings £**
Cost	
At 1 October 2003	2,619,873
Additions	25,512
At 30 September 2004	**2,645,385**
Provision for diminution in value	
At 1 October 2003	71,493
Provided for the year	2,555,513
At 30 September 2004	**2,627,006**
Net book value	
At 30 September 2004	**18,379**
At 30 September 2003	2,548,380

On 3 November 2003, the company increased its shareholding in Oxford Broadcasting Limited from 90.74% to 100%, in exchange for the issue at par of 255,119 ordinary shares of 10p each in Milestone Group PLC.

Subsidiary and associated undertakings

At 30 September 2004, the principal investments of the group, all of which have been included in the consolidated financial statements were as stated below:

Principal subsidiary undertakings

Name	**Nature of business**	**Proportion of voting rights and ordinary share capital held**
Tri Media Publishing Limited (1)	Holding Company	100
Basingstoke Observer Limited (2)	Newspaper Publishing	100
Courier Newspapers (Oxford) Limited (2)	Newspaper Publishing	100
Milestone Television Company Limited (1)	Holding Company	100
Six TV Limited (3)	Holding Company	100
Aroma Broadcasting Limited (4)	Holding Company	100
Oxford Broadcasting Limited (1)	Television Broadcasting	100
Soundview Investments Limited (1)	Holding Company	100
Listenear Limited (5)	Media Consultancy	100
Milestone Radio Holdings Limited (5)	Holding Company	100

14 Fixed asset investments *(continued)*

Principal subsidiary undertakings

Name	Nature of business	Proportion of voting rights and ordinary share capital held
Fusion Radio Group Limited (6)	Holding Company	100
Links Investments Limited (6)	Holding Company	100
Passion Radio (Oxford) Limited (6)	Radio Broadcasting	100
Jazztech Limited (6)	Holding Company	100
Fusion Radio Stations Limited (7)	Holding Company	100
Fusion Radio Sales Limited (7)	Radio Advertising and Management Services	100
Milestone FM Limited (8)	Holding Company	100
The Milestone Radio Company Limited (9)	Holding Company	100
Milestone Pictures Limited (9)	Holding Company	100
Newbury Community Radio (Investments) Limited (10)	Holding Company	100
Rugby Broadcasting Company Limited (10)	Radio Broadcasting	52
Kestrel FM Limited (11)	Radio Broadcasting	54
West Berkshire Radio Limited (12)	Radio Broadcasting	55

Principal associated undertakings and participating interests

The Burn FM Limited (14)	Radio Broadcasting	44
Reading Broadcasting Company Limited (13)	Radio Broadcasting	37

All undertakings listed above were incorporated or registered in the United Kingdom. All undertakings operate from the United Kingdom.

1. Subsidiary undertakings held by Milestone Group PLC.
2. Subsidiary undertakings held by Tri Media Publishing Limited.
3. Subsidiary undertaking held by Milestone Television Limited.
4. Subsidiary undertaking held by Six TV Limited.
5. Subsidiary undertakings held by Soundview Investments Limited.
6. Subsidiary undertakings held by Milestone Radio Holdings Limited.
7. Subsidiary undertakings held by Fusion Radio Group Limited.
8. Subsidiary undertaking held by Links Investments Limited.
9. Subsidiary undertakings held by Jazztech Limited.
10. Subsidiary undertakings held by The Milestone Radio Company Limited.
11. Subsidiary undertaking held by The Milestone Radio Company Limited and Milestone Pictures Limited.
12. Subsidiary undertaking held by Newbury Community Radio Investments Limited and The Milestone Radio Company Limited.
13. Associated undertaking held by The Milestone Radio Company Limited.
14. Associated undertaking held by Milestone Radio Holdings Limited.

15 Debtors

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Trade debtors	**978,361**	**3,212**	1,053,917	-
Amounts due from subsidiary undertakings	**-**	**6,966,848**	-	7,554,462
Amounts due from associated undertakings	**29,565**	**28,390**	-	-
Other debtors	**66,384**	**9,458**	150,438	-
Corporation tax recoverable	**1,835**	**-**	1,835	-
Prepayments and accrued income	**315,917**	**20,788**	225,144	-
	1,392,062	**7,028,696**	1,431,334	7,554,462

With the exception of £6,695,745 included in amounts due from subsidiary undertakings (2003 - £7,554,462 (company)), all amounts fall due for payment within one year.

16 Creditors: amounts falling due within one year

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Bank loans and overdrafts (secured)	**482,129**	**40,569**	251,213	-
Trade creditors	**683,834**	**239,168**	678,371	77,655
Amounts due to subsidiary undertakings	**-**	**1,312**	-	66,350
Other creditors	**88,159**	**6,499**	106,209	-
Taxation and social security	**326,562**	**109,932**	307,474	-
Directors' loan account	**5,450**	**-**	5,450	-
Obligations under finance leases and hire purchase contracts	**10,989**	**-**	7,593	-
Accruals and deferred income	**312,510**	**84,069**	518,461	64,009
	1,909,633	**481,549**	1,874,771	208,014

The bank loans and overdrafts are secured by a floating charge over all the current and future assets of the group and the company.

There is also, a composite guarantee dated 14 June 2001 between the following companies: Milestone Group PLC, Milestone Radio Holdings Limited, Fusion Radio Group Limited, Links Investments Limited, Passion Radio (Oxford) Limited and Fusion Radio Sales Limited (see note 27).

17 Creditors: amounts falling due after more than one year

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Bank loan	**7,901**	-	10,199	-
Amounts owed to subsidiary undertakings	-	**2,832,557**	-	2,500,000
Obligations under finance leases and hire purchase contracts	**5,624**	-	13,394	-
Other loans	**128,570**	-	128,570	-
	142,095	**2,832,557**	152,163	2,500,000

The bank loan commenced in 1999 and is repayable in monthly instalments over a 10 year term. Interest is payable at 3.35% per annum above Barclays bank base rate.

The other loans represent interest-free shareholder loans with no fixed repayment dates.

Group

	Bank loans and overdrafts 2004 £	Finance leases and hire purchase contracts 2004 £	Bank loans and overdrafts 2003 £	Finance leases and hire purchase contracts 2003 £
Maturity of debt:				
In one year or less, or on demand	**482,129**	**10,989**	251,213	7,593
In more than one year, but not more than two years	**3,118**	**5,218**	3,043	7,593
In more than two years but not more than five years	**4,783**	**406**	7,156	5,801
	7,901	**5,624**	10,199	13,394

18 Financial instruments

The group holds or issues financial instruments to finance its operations and to manage the interest rate risks arising from its operations and from its sources of finance. In addition various financial instruments such as trade debtors and trade creditors, arise directly from the group's operations.

The board have not treated short term debtors and creditors as financial assets and financial liabilities respectively for the purposes of the disclosures required by FRS 13 "Derivatives and other Financial Instruments: Disclosures".

The group's financial instruments, all of which are denominated in sterling, comprised financial assets and financial liabilities, details of which are as follows:

Financial assets

The group's financial assets were:

	Floating rate financial assets	
	30 September 2004	**30 September 2003**
	£	**£**
Cash at bank and in hand	**299,786**	894,770

As at 30 September 2004, £299,786 (2003 - £644,770) of the group's financial assets was money held in bank current and reserve accounts, which were instant access. As at 30 September 2004 £nil (2003 - £250,000) was held in a Treasury Reserve account which was accessible within one week. This money is used to provide the necessary finance for the group's operations.

The group does not undertake any foreign currency transactions and therefore is not susceptible to exchange rate fluctuations.

Financial liabilities

The group's financial liabilities were:

As at 30 September 2004	**Floating rate financial liabilities**	**Interest free financial liabilities**
	£	**£**
Bank loans and overdrafts - due in less than 1 year	**482,129**	-
Bank loans - due in more than 1 year	**7,901**	-
Other loans - due in more than 1 year	-	**128,570**

As at 30 September 2003	**Floating rate financial liabilities**	**Interest free financial liabilities**
	£	**£**
Bank loans and overdrafts - due in less than 1 year	251,213	-
Bank loans - due in more than 1 year	10,199	-
Other loans - due in more than 1 year	-	128,570

18 Financial instruments *(continued)*

Financial liabilities

The group's financial liabilities falling due within one year of £482,129 at 30 September 2004 (2003 - £251,213) comprised two bank overdrafts. One was from National Westminster Bank Plc and the other was from Barclays Bank Plc. At the year end the amounts outstanding in respect of each of these overdrafts was £384,396 (2003 - £143,437) and £94,614 (2003 - £93,878) respectively. Both of these overdrafts were repayable on demand. At 30 September 2004 the remaining balance of £3,119 relates to a flexible business bank loan, as referred to below. At 30 September 2003 the remaining balance of £13,898 related to an overdraft of £10,855 for which there was no formal overdraft facility, together with £3,043 relating to a flexible business bank loan.

The overdraft facility provided by National Westminster Bank Plc was given to cover Milestone Group PLC and Milestone Radio Holdings Limited and its subsidiary companies and carried interest at 3% per annum over the bank's base rate. At 30 September 2004 the bank rate was 4.75% (2003 - 3.5%). The overdraft was secured by a fixed and floating charge over the assets of Milestone Group PLC and Milestone Radio Holdings Limited and its subsidiary companies. This facility was due for renewal on 31 October 2004 at which time the facility was being reviewed.

Following this review, the overdraft facility was replaced with an invoice discounting arrangement. This arrangement provides a maximum invoice discounting facility of £550,000 for Courier Newspapers (Oxford) Limited and £200,000 for Basingstoke Observer Limited. The maximum facility available is based on a draw down of 75% of the value of gross invoices raised by the respective companies, capped at £733,333 for Courier Newspapers (Oxford) Limited and £266,667 for Basingstoke Observer Limited. This arrangement is secured by a fixed and floating charge over the assets of each company.

The overdraft facility provided by Barclays Bank Plc, carried interest at 3% per annum over the bank's base rate. At 30 September 2004 the bank base rate was 4.75% (2003 - 3.5%). The overdraft was secured by a fixed and floating charge over the assets of Oxford Broadcasting Limited and a letter of comfort from Milestone Group PLC. This facility was due for renewal on 18 October 2004 at which time the facility was being reviewed. Subsequent to this date, the facility has not been renewed.

As at 30 September 2004 the group also had available to it a further facility of £50,000 (2003 - £50,000) from HSBC, which at this date had not been utilised. This facility was due for renewal in September 2004 at which time the facility was being reviewed. Subsequent to this date, the facility has not been renewed and any amount owed is to be repaid in March 2005.

The group's financial liabilities falling due after more than one year at 30 September 2004 of £7,901 (2003 - £10,199) comprised a flexible business bank loan, from Barclays Bank Plc. This loan carried interest at 3.5% over Barclays Bank's base rate and is due for repayment by 2009. The bank loan is secured by a floating charge over all the current and future assets of Oxford Broadcasting Limited.

The other loans do not have a fixed repayment date but are expected to be repaid within five years. The fair value at the balance sheet date is not considered to be materially different from the book value.

During the year, as explained above, the group's operations were funded largely by the provision of bank overdraft facilities. The group was subject to interest rate risk to the extent that the overdraft facilities provided bore interest at approximately 3% above the bank base rate. This interest rate was subject to change.

The directors considered the fair value of the group's financial assets and liabilities to be the same as their book values.

18 Financial instruments *(continued)*

Undrawn bank facilities

The group has the following undrawn committed bank borrowing facilities available to it:

	2004 £	2003 £
Expiring within one year	-	62,685

Other facilities available at the year end and subsequent to the year end

At 30 September 2004, Elliott Advisors (UK) Limited had made available to the company a facility of up to £2,000,000. If the facility is drawn upon the company will issue convertible debentures, repayable in full on 31 December 2004 and bearing a coupon of 10% per annum. At 30 September 2004 this facility has not been drawn upon.

Subsequent to the year end, on 7 February 2005, Elliott International L.P. made available to the company up to £500,000 12.5% senior secured notes, to provide necessary working capital for the group's operations. This arrangement will mature at the lesser of one year or the occurrence of any equity placing (or series of equity placings) by the company, which in aggregate exceed £500,000 on a net basis.

The company is required to use 100% of the proceeds of asset disposals, capital events and insurance claims to redeem the notes at 100% of par value plus capitalised interest and any accrued but uncapitalised interest. In addition the company is required to redeem the notes in full upon the occurrence of a change of control at 105% of par value, plus capitalised interest and any accrued but uncapitalised interest.

This arrangement is secured by a fixed and floating charge over the assets of the company and those of The Milestone Radio Company Limited.

19 Provisions for liabilities and charges

Group	Deferred taxation £
At 1 October 2003	15,523
Charged to profit and loss account	(15,523)
At 30 September 2004	-

Deferred taxation	2004 £	2003 £
Accelerated capital allowances	-	15,523

Company

There were no provisions for liabilities and charges in respect of the company as at 30 September 2004.

20 Share capital

	Group and company		Group and company	
	2004	**2004**	**2003**	**2003**
	£	**Number**	**£**	**Number**
Authorised				
Ordinary shares of 10p each	**5,000,000**	**50,000,000**	5,000,000	50,000,000

	Group and company		Group and company	
	2004	**2004**	**2003**	**2003**
	£	**Number**	**£**	**Number**
Allotted, called up and fully paid				
Ordinary shares of 10p each	**2,210,510**	**22,105,095**	2,159,998	21,599,976

On 3 November 2003, 255,119 ordinary shares of 10p each were issued and credited as fully paid as consideration for the purchase by the company of the remaining issued share capital of Oxford Broadcasting Limited not already held by Milestone Group PLC. The difference between the nominal value of the shares issued and the consideration paid of £1 per share has been credited to the merger reserve (see notes 14 and 21).

On 28 June 2004, 250,000 ordinary shares of 10p each were issued and credited as fully paid as consideration for the purchase of transmission equipment and other assets. The difference between the nominal value of the shares issued and the consideration paid of £1 per share has been credited to the share premium account (see note 21).

Share options

At 30 September 2004 there were two share option schemes in place – the "Milestone Group PLC 2003 Unapproved Share Option Scheme" and the "Milestone Group PLC 2003 Approved Share Option Scheme".

At 30 September 2004, the following share options were outstanding under the Milestone Group PLC 2003 Unapproved Share Option Scheme:

Option Holder	Date of Grant	Ordinary Shares	Exercise Price (p)	Exercise Period
A T Craig	25/06/2003	1,404,000	100	26/06/2006 to 24/06/2013
B R Chester	25/06/2003	432,000	100	26/06/2006 to 24/06/2013
D Cass	25/06/2003	216,000	100	26/06/2006 to 24/06/2013

The company also granted Collins Stewart an option over 432,000 ordinary shares. This option is exercisable at any time during a three year period following the group's admission to the Alternative Investment Market.

At 30 September 2004, no share options had been issued under the Milestone Group PLC 2003 Approved Share Option Scheme.

21 Reserves

Group	Share premium account £	Merger reserve £	Profit and loss account £
At 1 October 2003	6,997,235	10,889,978	(3,428,694)
Loss for the year	-	-	(6,806,163)
Premium on shares issued in the year (see note 20)	225,000	229,607	-
At 30 September 2004	**7,222,235**	**11,119,585**	**(10,234,857)**

Company	Share premium account £	Profit and loss account £
At 1 October 2003	6,997,235	(1,761,809)
Loss for the year	-	(3,642,763)
Premium on shares issued in the year (see note 20)	225,000	-
At 30 September 2004	**7,222,235**	**(5,404,572)**

22 Reconciliation of movements in shareholders' funds

	Group 2004 £	Company 2004 £	Group 2003 £	Company 2003 £
Loss for the year	**(6,806,163)**	**(3,642,763)**	(3,635,938)	(1,761,809)
Capital contribution	-	-	207,244	-
Flotation costs	-	-	(1,552,765)	(1,552,765)
Shares issued in the year	**50,512**	**50,512**	2,159,998	2,159,998
Merger reserve	**229,607**	-	10,889,978	-
Premium on shares issued in the year	**225,000**	**225,000**	8,550,000	8,550,000
Net (reduction in)/addition to shareholders' funds	**(6,301,044)**	**(3,367,251)**	16,618,517	7,395,424
Opening shareholders' funds	**16,618,517**	**7,395,424**	-	-
Closing shareholders' funds	**10,317,473**	**4,028,173**	16,618,517	7,395,424

Capital contribution

The capital contribution represented capital provided to the group which is not represented by issued shares. The group has no obligations to transfer economic benefits to the providers of these capital contributions, as defined by Financial Reporting Standard 4 "Capital Instruments".

23 Acquisitions

On 3 November 2003, the group acquired the remaining 9.26% shareholding in Oxford Broadcasting Limited, taking its shareholding in the company to 100%. The net book value of the assets and liabilities acquired (which was equivalent to their fair value) and the purchase consideration were as follows:

	Oxford Broadcasting Limited £
Tangible assets - Fixed assets	1,490
Current assets - Debtors	10,810
Total assets	**12,300**
Current liabilities - Creditors	(55,349)
Net liabilities	**(43,049)**
Consideration:	
Settled by shares at fair value	255,119
Net liabilities acquired	43,049
Goodwill arising on acquisition	298,168

The results of Oxford Broadcasting Limited for the period from 1 October 2003 to 3 November 2003 were as follows:

Profit and loss account	**Oxford Broadcasting Limited £**
Turnover	23,340
Operating loss and loss on ordinary activities before and after taxation	(42,051)
Minority interest	3,578
Loss for the year	(38,473)

The results of Oxford Broadcasting Limited for the year ended 30 September 2003 were as follows:

Profit and loss account	**Oxford Broadcasting Limited £**
Loss on ordinary activities before and after taxation	(639,201)

24 Pensions

The group companies operate defined contribution pension schemes. The assets are held separately from those of the companies in independently administered funds. Pension contributions are also paid into directors' personal pension schemes.

25 Commitments under operating leases

As at 30 September 2004, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2004 £	**Other 2004 £**	**Land and buildings 2003 £**	**Other 2003 £**
Operating leases which expire:				
Within one year	**-**	**12,684**	39,272	12,389
In two to five years	**161,102**	**28,564**	206,315	65,715
After five years	**34,380**	**-**	-	2,433
	195,482	**41,248**	245,587	80,537

26 Related party transactions

Related party transactions as at 30 September 2004 were as follows:

During the year subsidiary undertakings of Milestone Group PLC made purchases amounting to £21,448 from MGH Investments Limited. Amounts owed by these companies to MGH Investments Limited at 30 September 2004 amounted to £5,123. Mr A T Craig is an executive director of the company and MGH Investments Limited is a company in which he has a controlling interest.

As at 30 September 2004 an amount of £8,500 was owed to J Blackwell, a non-executive director of the company.

Mark Levine, a non-executive director of the company, is an employee of Elliott Advisors (UK) Limited. Elliott Advisors (UK) Limited are connected to Elliott International Limited and Elliott Associates L.P. As at 30 September 2004, 4,780,413 and 1,466,285 ordinary shares of 10p each in the company were held by Elliott International Limited and Elliott Associates L.P. respectively. Further details are provided in the Report of the directors.

Details of other material transactions with related parties are disclosed in notes 17 and 18 to these financial statements.

Related party transactions as at 30 September 2003 were as follows:

Amounts owed by subsidiary undertakings of Milestone Group PLC to MGH Investments Limited and A T Craig at the date of flotation of Milestone Group PLC of £115,886 and £91,358 respectively, have been treated as capital contributions in accordance with Financial Reporting Standard 4 "Capital Instruments" and have been included within capital and reserves in these financial statements. Mr A T Craig is an executive director of the company and MGH Investments Limited is a company in which he has a controlling interest.

26 Related party transactions *(continued)*

During the period, J Blackwell, a non-executive director of Milestone Group PLC, acting for Banco Nominees (Guernsey) Limited, converted a shareholder loan of £844,041 into ordinary shares in Aroma Broadcasting Limited as part of a rights issue. Subsequently, Milestone Group PLC acquired the entire share capital from J Blackwell, acting for Banco Nominees (Guernsey) Limited. As at 30 September 2003 an amount of £8,500 was owed to J Blackwell.

Mark Levine, a non-executive director of Milestone Group PLC, is an employee of Elliott Advisors (UK) Limited. Elliott Advisors (UK) Limited are connected to Elliott International L.P. Midland Bank and Trust Corporation (Cayman), Elliott Associates L.P. and Highberry Limited. These companies jointly owned 100% of the preference shares in Milestone Radio Holdings Limited, a subsidiary company prior to the flotation of the group. On flotation, the following transactions occurred with these parties:

- Elliott International L.P. Midland Bank and Trust Corporation (Cayman) received 4,669,314 ordinary shares of 10p each in Milestone Group PLC of which 550,000 were consideration shares issued as part of the placing of the group.
- Elliott Associates L.P. received 1,916,285 ordinary shares of 10p each in Milestone Group PLC of which 450,000 were consideration shares issued as part of the placing of the group.
- Highberry Limited received 661,099 ordinary shares of 10p each in Milestone Group PLC.

As at 30 September 2003 the following entities held ordinary shares of 10p each in the company: Elliott International L.P. Midland Bank and Trust Corporation (Cayman) 4,119,314 shares, Elliott Associates L.P. 1,466,285 shares and Highberry Limited 661,099 shares.

27 Contingent liabilities

Milestone Radio Holdings Limited has a gross group overdraft facility with certain subsidiary undertakings up to a limit of £300,000 (2003 - £150,000). At 30 September 2004 the liabilities covered by this facility totalled £378,432 (2003 - £143,437).

28 Reconciliation of operating loss to net cash outflow from operating activities

	Year ended 30 September 2004 £	**1 July 2003 to 30 September 2003 £**
Operating loss	**(6,329,662)**	(3,584,610)
Amortisation and impairment of intangible fixed assets	**4,464,670**	2,533,078
Loss on disposal of fixed assets	**14,719**	-
Depreciation of tangible fixed assets	**242,376**	88,774
(Increase)/decrease in debtors	**(132,131)**	42,772
Decrease in creditors	**(36,211)**	(116,292)
Net cash outflow from operating activities	**(1,776,239)**	(1,036,278)

29 Reconciliation of net cash outflow to movement in net debt

	Year ended 30 September 2004 £	1 July 2003 to 30 September 2003 £
(Decrease)/increase in cash	**(825,900)**	643,557
Cash outflow from changes in debt and lease financing	**46,337**	(31,186)
Movement in net debt resulting from cashflows	**(779,563)**	612,371
Inception of finance leases	**(39,665)**	-
Movement in net debt	**(819,228)**	612,371
Opening net debt	**612,371**	-
Closing net debt	**(206,857)**	612,371

30 Analysis of net debt

	At 30 September 2003 £	Cash flow £	Other non-cash items £	At 30 September 2004 £
Cash at bank and in hand	894,770	(594,984)	-	**299,786**
Bank overdrafts	(251,213)	(230,916)	-	**(482,129)**
	643,557	(825,900)	-	**(182,343)**
Debt due within one year	-	2,298	(2,298)	**-**
Debt due after one year	(10,199)	-	2,298	**(7,901)**
Finance leases	(20,987)	44,039	(39,665)	**(16,613)**
Total	612,371	(779,563)	(39,665)	**(206,857)**

31 Major non-cash transactions

During the year the group entered into finance lease arrangements for assets with a total capital value at the inception of the leases of £39,665.

32 Post balance sheet events

On 17 February 2005, a placing of 5,500,000 new ordinary shares of 10p each of the company has been made (representing in aggregate approximately 19.92 per cent of the enlarged share capital of the company) at a price of 20p each. The placing has been made to provide the company with additional funds to pursue applications for identified local radio licences and to expand its local media network.

Application is being made to the London Stock Exchange plc for admission of the new ordinary shares to trading on AIM. This is expected to occur on 15 March 2005 (and in any event) no later than 22 March 2005. Following the placing, the enlarged share capital of the company will comprise 27,605,095 ordinary shares.

The 5,500,000 new ordinary shares are being placed for a total of £1.1 million (before expenses) with clients of Arden Partners Limited.