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Milestone Group PLC

Report and Financial Statements

Year Ended

30 September 2005

BDO

BDO Stoy Hayward
Chartered Accountants

Milestone Group PLC

Annual report and financial statements for the year ended 30 September 2005

Contents

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Directors	John Sanderson Andy Craig Brian Chester Mark Levine
Secretary and registered office	Tim 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

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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 LLP, 190 Strand, London WC2R 1JN

Milestone Group PLC

Chairman's statement and highlights

FINANCIAL HIGHLIGHTS

- Turnover on continuing activities: £4.5 million (2004: £5.9 million)
- Gross Profit: £1.5 million (2004: £2.5 million)
- Loss before tax: £6.5 million, in line with expectations (2004: loss of £6.9 million)

STRATEGIC REVIEW

- 36.8% shareholding in Reading 107 FM sold for cash consideration of £514,000
- Completion of disposal of controlling shareholdings in all remaining non wholly owned radio assets - Kick FM, Kestrel FM and Rugby FM - for a cash consideration of approximately £1.7 million subsequent to year end
- Focus on four wholly-owned media businesses, Courier Newspapers, Basingstoke Observer, Passion Radio and SIX TV

DIVISIONAL PERFORMANCE

- Publishing
    - Sales £2.9 million (2004: £3.8 million)
    - Operating Loss £0.9 million (2004: loss 0.2 million)
    - Comprehensive division review following resignation of Group Publishing Director Tom McGowran
- Radio
    - Sales £1.5 million (2004: £1.8 million)
    - Operating Loss £0.4 million (2004: loss 0.2 million)
- Television
    - Sales £0.2 million (2004: £0.2 million)
    - Operating loss £0.3 million (2004: loss 0.5 million)

CHAIRMAN'S STATEMENT

My first statement as Chairman of Milestone, since appointment in February 2006, comes at a crucial time for the Company.

I agreed to join Milestone because I am convinced there is a role for entrepreneurial media businesses in the future of local content delivery.

Milestone has current operational experience in local print, radio and television in a single geographic locality. With this unique understanding and experience, the Board's task is to position the Group to exploit fully the opportunities presented by multi platform delivery of local news and entertainment content in a digital environment.

It has indisputably been a challenging time for the Group. As independent Chairman, my principal responsibility is to shareholders. I look forward to meeting as many shareholders as possible over the coming months.

John Sanderson

Chairman
30 March 2006

Milestone Group PLC

Chief Executive's review

Overview

Group turnover on operating activities for the year was £4.5 million (2004: £5.9 million) and gross profit was £1.5 million (2004: £2.5 million). Operating losses for the year (excluding goodwill amortisation and impairment) were £2.6 million (2004: £2.4 million), in line with expectations at the time of the group's interim announcement. Losses for the year including goodwill amortisation and impairment were £6.5 million (2004: £6.9 million), resulting in a basic and diluted loss per share of 25.6p: (2004:31.11p).

In June 2005, the Board announced a comprehensive review of strategy, which was quickly followed in August 2005 by the disposal of the group's 36.8% shareholding in Reading 107 FM for a cash consideration, including repayment of Milestone loans and interest, of £571,000. ok Subsequent to the year-end, in February 2006, the group announced the completion of the disposal of its controlling shareholdings and loans in all remaining non-core radio assets: Kick FM, Kestrel FM and Rugby FM, securing a further cash consideration, in aggregate, of approximately £2 million.

Milestone now has four continuing local media businesses all of which are wholly owned: Courier Newspapers; Basingstoke Observer, Passion Radio and SIX TV contributed £3.3 million (75%) of the total turnover of the group in 2004/5.

The Board is continuing to review all opportunities to maximise shareholder value. The Board has two complementary aims: to enhance value for shareholders today and to position the group's brands for long-term growth in years to come. The Board is further exploring opportunities to develop its media presence, particularly in and around Oxfordshire, on both traditional and digital platforms.

Publishing

Sales £2.9 million (2004: £3.7million), operating loss £0.9 million (2004: loss £0.2 million).

The performance of the division's two publishing companies is set out in the table below. These amounts are stated net of any intra group transactions.

Company	Sales 2005	Sales 2004	Operating loss 2005	Operating loss 2004	Audited Distribution Figures
	£	£	£	£	
Courier Newspapers (Oxford) Limited	2,332,000	2,998,000	(762,000)	(147,000)	Courier Journal: 56,276 VFD Jul-Dec 2005 (door-to-door excluding pick-up) Property Weekly: 21,945 VFD Jul- Dec 2005 (South Oxfordshire edition door-to-door excluding pickup)
Basingstoke Observer Limited	600,000	768,000	(152,000)	(103,000)	Basingstoke Observer: 20,585 ABC Jul-Dec 2005 (pick-up only)

Following the resignation of Tom McGowran as Group Publishing Director in May 2005, the Board implemented a comprehensive review of the division, taking the following action over the second half of calendar 2005 to enhance profitability. These measures have been introduced against a deteriorating publishing market.

- The re-launch of the Oxford City Journal as a separate weekly 'pick up' title;
- The expansion of Property Weekly into two separate editions in the north and south of Oxfordshire;
- The initiation of new contracts for national revenue and ongoing action to restore lost leaflet revenue;
- The placement of the monthly Oxfordshire Living under new specialist lifestyle magazine management;
- Production of a 'new media' revenue plan, which will shortly offer, for the first time, the opportunity to book advertisements and submit or amend copy on-line.

Whilst the policy of previous management to rationalise staffing has had a significant impact on short-term revenues, the board believes there are a number of reasons to be cautiously confident about the future potential of the business:

- Long-term contracts remain strong and continue to be renewed;
- Pick-up rates from dispensers are extremely high, reflecting the popularity of the group's publications;
- The group's market-leading property title in Oxfordshire remains highly profitable;
- The group remains the largest distributor of free newspapers in Oxfordshire.

Radio

Sales attributable to the group from the four Milestone-controlled FM stations £1.5 million (2004: £1.8 million), Operating loss £0.4 million (2004: £0.2 million).

The performance of the four licensed radio stations that were majority controlled by the group during the financial year is detailed in the table below. These amounts are stated net of any intra group transactions.

Station	Sales 2005	Sales 2004	Operating profit / (loss) 2005	Operating profit / (loss) 2004	Milestone beneficial ownership	RAJAR weekly adult audience reach (Q4/05)	Consideration achieved for disposal of Milestone shares and loans (Feb 2006) approx.
	£	£	£	£	Per cent		£
Passion 107.9 (Oxford)	178,000	320,000	(284,000)	(156,000)	100	23,000	N.A.
Kick FM (West Berkshire)	343,000	428,000	(119,000)	(94,000)	55	18,000	658,000
Kestrel FM (North Hampshire)	515,000	606,000	(10,000)	81,000	54	32,000	704,000
Rugby FM	466,000	432,000	6,000	(47,000)	52	27,000	645,000

Following the group's restructuring, completed in February 2006. Milestone's senior management expertise and resources are being concentrated on Passion 107.9 in Oxford. In February 2006, following an enhanced transmission agreement with Ofcom, Passion significantly increased the size of its Total Survey Area as measured by RAJAR (now encompassing 236,000 adults), offering enhanced sales and marketing opportunities.

The Board recognises that it is challenging for Passion to operate as a stand-alone unit in an area with well established commercial competition. In March 2006 Ofcom advertised a new FM licence for Oxford/south Oxfordshire. Ofcom currently awards all new FM licences by means of a 'beauty parade'. On this basis, it is the opinion of the Board that the Group possesses the skills, experience and resources to launch a complementary station to Passion in Oxford, whilst achieving substantial cost and sales synergies.

The Board recognises the further challenge and opportunity created by the planned advertisement by Ofcom of a new terrestrial DAB digital radio multiplex for Oxfordshire, potentially within the next 12 months. According to Ofcom's indicative predictions, the adult population within the primary protected area served by this multiplex may be as high as 767,000. The Board intends to further explore appropriate opportunities to be a partner in the new digital radio multiplex for Oxfordshire.

Television

Revenue £0.2 million (2004: £0.2 million), Operating loss £0.3 million (2004: loss £0.5 million).

Losses are continuing to fall following the implementation of a programme of restructuring and cost efficiencies, a focus on "advertisement features", joint sales pitches with Passion and the launch of new "public access" programming initiatives. In the third quarter, the Board expects SIX TV to continue towards a position much closer to break-even.

Local news is the only type of mainstream news delivery in which TV is not currently the predominant platform provider in the UK. Milestone has always recognised that digital technology could change this, and has gained valuable experience developing local services under its "SIX TV" brand broadcasting in Oxford and Southampton.

In January 2006, Ofcom announced that it is extending all analogue terrestrial Local TV licences (such as that operated by SIX TV) until around the time digital "switchover" takes place leading up to 2012. In the meantime, Milestone welcomes Ofcom's commitment to consider further, with Government and stakeholders, appropriate policies that will help ensure a future roll-out for public service orientated Local TV content. Milestone strongly advocates immediate experiments of Local TV using digital terrestrial transmissions.

New Chairman

On 31 January 2006, the Board welcomed John Sanderson as its new Non-Executive Chairman. John's experience of advising entrepreneurial media companies has already proven an asset and he is a welcome addition to the Board. I would like to take this opportunity to thank the former Chairman, Julian Blackwell, for his advice and support since the flotation of the Group in 2003, and to wish him well in the future.

Finance & Dividend Policy

On 17 February 2005, the Company placed 5,500,000 new ordinary shares with directors and institutional investors for a total of £1.1 million.

Post-year-end, on 1 February 2006, the group announced the disposals of its non-wholly-owned radio assets, set out above, and a funding arrangement with Manchester Securities Corporation, a connected company of Elliott International Limited and Elliott Associates L.P., substantial shareholders in the company. The Board appreciates the long-standing support of the Elliott Group for the company.

The proceeds from the asset sales have been used in part to repay the group's debts to Manchester Securities, with the remainder being allocated to reduce the group's reliance on banking facilities and provide ongoing working capital to the group.

Whilst Milestone's major shareholders have consistently demonstrated their commitment to meet the financial requirements of the group, the Board is focused on reducing the level of cash burn.

The Board's intention is for the company to re-invest any net earnings to finance and support its business and accordingly the directors 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.

Staffing

The Board is grateful for the loyalty, dedication and commitment of staff across the group, who ensure Milestone provides a high quality service to its clients.

Extraordinary General Meeting

As a consequence of the Board's prudent impairment of both goodwill and intercompany debts, the aggregate value of the Company's net assets is under fifty per cent of the Company's nominal called up share capital. The Board is calling an extraordinary general meeting, to be held immediately following the Group's annual general meeting on 28 April 2006, in order to enable shareholders to consider this, as required under Section 142 of the Companies Act 1985.

Outlook

In the first five months of the new financial year, the radio and television divisions performed broadly in line with management expectations. The publishing division continued to under-perform, incurring losses greater than anticipated in a commercial advertising market that continues to deteriorate. Since February 2006, the group's senior management team, which formerly operated across multiple sites, has concentrated on its 100% owned businesses in Oxfordshire and Hampshire. The group has established local brands and the Board and management is committed to improving their performance against the back drop of the challenging market place. Whilst focusing on these businesses, the Board will continue to maintain its duty to carefully appraise all strategic options to maximise shareholder value.

Andy Craig
Chief Executive

Date: 30 March 2006

Directors and Board Committees

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

Directors

John Sanderson, Non-Executive Chairman, aged 51 (Appointed 31 January 2006)

John runs media merger and acquisition specialist M+C Ventures Limited as well as consultancy JFWS Limited. In addition he is Chairman of ABN Holdings Limited, Eicom Plc, Music Copyright Solutions Plc and Somethin' Else Sound Directions Limited. He is widely recognised as a leading strategy consultant advising both listed and private media businesses in their development stages, having begun his career as a leisure and media sector analyst.

Andrew Craig, Chief Executive, aged 51

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 54

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. He joined Fusion Group in April 2000.

Mark Levine, Non-Executive Director, aged 28

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 $6 billion. 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.

Milestone Group PLC

Corporate governance statement

There is commitment to high standards of corporate governance throughout the group. The directors acknowledge the importance of the Combined Code (2003) and whilst not required under the AIM listing rules, have complied with the requirements so far as is appropriate to a group of the size and nature of Milestone Group PLC. The two independent non-executive directors are representatives of the Audit Committee and the Remuneration Committee. The appointment of an additional non-executive director is being kept under review. Given the size of the Group, the Board considers that the current arrangements are appropriate.

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 6 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 meets at least twice each year and is 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 meets once a year with the auditors without executive board members present. The audit committee comprises the two non-executive directors John Sanderson and Mark Levine.

Compliance

As well as complying with the provisions of the Combined Code (2003) 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

Although not required under the AIM listing rules, the directors have voluntarily established a remuneration committee. The committee meets 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 John Sanderson 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

Executive directors

Andy Craig and Brian 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 Andy Craig shall receive a basic salary of £120,000 per annum and Brian Chester shall receive a basic salary of £90,000 per annum.

Tom 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 provided that he receive a basic salary of £75,000 per annum. He resigned on 23 May 2005.

Non-executive directors

The services of Julian Blackwell as Non-Executive Director and Chairman and Mark 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 Julian Blackwell or Mark Levine. Julian Blackwell resigned on 31 January 2006.

The services of John Sanderson are provided under the terms of an appointment letter dated 31 January 2006. Annual fees of £21,000 will be payable in 12 equal monthly instalments.

Directors' remuneration

The emoluments of the individual directors were as follows:

	Salary 2005 £	Fees 2005 £	Benefits in kind 2005 £	Total emoluments 2005 £	Total emoluments 2004 £	Pension contributions 2005 £	Pension contributions 2004 £
Executive directors							
Andy Craig	**120,000**	-	**10,800**	**130,800**	130,800	**12,000**	12,000
Brian Chester	**90,000**	-	**10,800**	**100,800**	101,304	**9,000**	9,000
Tom McGowran	**81,000**	-	**1,635**	**82,635**	7,013	-	-
Non-executive directors							
John Sanderson	-	-	-	-	-	-	-
Julian Blackwell	-	-	-	-	-	-	-
Mark Levine	-	-	-	-	-	-	-
Roger Laughton	-	-	-	-	10,657	-	-
	291,000	-	**23,235**	**314,235**	249,774	**21,000**	21,000

Tom McGowran resigned as a director of the company on 23 May 2005.

John Sanderson was appointed as the non-executive chairman of the company on 31 January 2006.

Julian Blackwell resigned as the non-executive chairman of the company on 31 January 2006.

Roger Laughton resigned as 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
Andy Craig	25/06/2003	1,404,000	100	26/06/2006 to 24/06/2013
Brian Chester	25/06/2003	432,000	100	26/06/2006 to 24/06/2013

On behalf of the Board

John Sanderson
Chairman, Remuneration Committee

Date: 30 March 2006

The directors present their report together with the audited financial statements for the year ended 30 September 2005.

Results and dividends

The consolidated results of the group for the year are set out on page 17 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

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.

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 and support 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.

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 41 days average purchases and expenses. For the company, year end creditors represent 90 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 post balance sheet events are provided in note 31 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 17 March 2006, 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	**6,280,413**	22.75%
HSBC Global Custody Nominee (UK) Limited	**5,303,906**	19.21%
Andy Craig	**2,621,838**	9.50%
Julian Blackwell	**1,722,500**	6.24%
Chase Nominees Limited	**1,550,000**	5.61%
Chetwynd Nominees Limited	**1,466,285**	5.31%
Stargas Nominees Limited	**1,150,000**	4.17%
The Bank of New York (Nominees) Limited	**1,050,000**	3.80%
Roy Nominees Limited	**900,000**	3.26%

1,700,000 of the ordinary shares of Julian Blackwell are held by Republic Nominees 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 Julian Blackwell are held by Dunlaw Nominees, an entity of which Mr Blackwell is the beneficial holder.

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

Elliott International L.P. and Elliott Associates L.P., collectively hold 7,746,698 ordinary shares at 17 March 2006, which represents 28.06% of the ordinary share capital. The 6,280,413 ordinary shares of Credit Suisse First Boston Nominees are held by Elliott International L.P., 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 2005**	**At 30 September 2004**
John Sanderson (appointed 31 January 2006)	-	-
Julian Blackwell (resigned 31 January 2006)	**1,722,500**	1,522,500
Andy Craig	**2,621,838**	2,471,838
Brian Chester	**43,503**	18,503
Tom McGowran (resigned 23 May 2005)	-	-
Mark Levine	-	-
Roger Laughton (resigned 31 August 2004)	-	-

Further information on directors' shareholdings at 17 March 2006 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 8. Details of any directors' interests in transactions of the group are given in note 25 to these financial statements.

During the year qualifying third party indemnity provision for the benefit of the directors was in place.

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

Tim Eustace
Secretary

Date: 30 March 2006

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.

The directors are responsible for ensuring that the directors' report and other information included in the annual report is prepared in accordance with Company law in the United Kingdom. They are also responsible for ensuring that the annual report includes information required by the Listing Rules of the Alternative Investment Market.

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 2005 on pages 17 to 46 which have been prepared under the accounting policies set out on pages 22 to 24.

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.

Fundamental uncertainty – Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements as to the ability of the group to achieve its forecasts and thereby enable it to continue as a going concern in the foreseeable future. In view of the significance of this uncertainty we consider that it should be drawn to your attention. Our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the group and company as at 30 September 2005 and of the loss of the group for the year then ended and 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: 30 March 2006

Milestone Group PLC

Consolidated profit and loss account for the year ended 30 September 2005

	Note	2005 £	2004 £
Turnover	2	**4,469,261**	5,852,803
Cost of sales		**2,925,009**	3,351,014
Gross Profit		**1,544,252**	2,501,789
Distribution costs		**118,375**	123,875
Administrative expenses:	3,4		
Impairment of goodwill	6	**3,316,960**	2,884,549
Other administrative expenses		**3,956,054**	5,891,833
		7,273,014	8,776,382
		(5,847,137)	(6,398,468)
Other operating income	5	**13,826**	68,806
Group operating loss	6	**(5,833,311)**	(6,329,662)
Share of operating loss in associated undertakings	14	**171,253**	229,750
Loss on disposal of group operations	7	**365,360**	305,927
Loss on ordinary activities before interest		**(6,369,924)**	(6,865,339)
Interest receivable - group	8	**26,093**	36,766
- associated undertakings	14	**354**	604
Interest payable - group	9	**(102,998)**	(11,735)
- associated undertakings	14	**(23,042)**	(21,341)
Loss on ordinary activities before taxation		**(6,469,517)**	(6,861,045)
Taxation on loss from ordinary activities	10,14	**-**	(29,211)
Loss on ordinary activities after taxation		**(6,469,517)**	(6,831,834)
Minority interest		**49,902**	25,671
Loss for the financial year	21	**(6,419,615)**	(6,806,163)
Basic and diluted loss per share	11	**(25.6)p**	(31.11) p

All amounts relate to continuing activities
All recognised gains and losses are included in the profit and loss account
The notes on pages 22 to 46 form part of these financial statements

Milestone Group PLC

Consolidated balance sheet at 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Intangible assets	12		**4,777,799**		8,686,209
Tangible assets	13		**752,594**		1,011,068
Fixed asset investments	14		**22,529**		1,089,470
			5,552,922		10,786,747
Current assets					
Debtors	15	**1,023,910**		1,392,062	
Cash at bank and in hand		**680,815**		299,786	
		1,704,725		1,691,848	
Creditors: amounts falling due within one year	16	**2,138,448**		1,909,633	
Net current liabilities			**(433,723)**		(217,785)
Total assets less current liabilities			**5,119,199**		10,568,962
Creditors: amounts falling due after more than one year	17		**133,970**		142,095
Provisions for liabilities and charges	19		**22,523**		15,395
			4,962,706		10,411,472

The notes on pages 22 to 46 form part of these financial statements

Milestone Group PLC

Consolidated balance sheet at 30 September 2005 ***(Continued)***

	Note	2005 £	2004 £
Capital and reserves			
Called up share capital	20	**2,760,510**	2,210,510
Share premium account	21	**7,692,985**	7,222,235
Merger reserve	21	**11,119,585**	11,119,585
Profit and loss account	21	**(16,654,472)**	(10,234,857)
Equity shareholders' funds	22	**4,918,608**	10,317,473
Minority interests (equity)		**44,098**	93,999
		4,962,706	10,411,472

The financial statements were approved by the Board on 30 March 2006

Brian Chester
Director

The notes on pages 22 to 46 form part of these financial statements

Milestone Group PLC

Company balance sheet at 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	13		**221,518**		295,204
Investments	14		**18,379**		18,379
			239,897		313,583
Current assets					
Debtors – due within 1 year	15	**1,107,564**		332,951	
Debtors – due after more than 1 year	15	**-**		6,695,745	
		1,107,564		7,028,696	
Cash at bank and in hand		**500,780**		-	
		1,608,344		7,028,696	
Creditors: amounts falling due within one year	16	**285,313**		481,549	
Net current assets			**1,323,031**		6,547,147
Total assets less current liabilities			**1,562,928**		6,860,730
Creditors: amounts falling due after more than one year	17		**3,585,342**		2,832,557
			(2,022,414)		4,028,173
Capital and reserves					
Called up share capital	20		**2,760,510**		2,210,510
Share premium account	21		**7,692,985**		7,222,235
Profit and loss account	21		**(12,475,909)**		(5,404,572)
Equity shareholders' (deficit)/funds	22		**(2,022,414)**		4,028,173

The financial statements were approved by the Board on 30 March 2006

Brian Chester
Director

The notes on pages 22 to 46 form part of these financial statements

Milestone Group PLC

Company balance sheet at 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Fixed assets					
Tangible assets	13		**221,518**		295,204
Investments	14		**18,379**		18,379
			239,897		313,583
Current assets					
Debtors – due within 1 year	15	**1,107,564**		332,951	
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		1,107,564		7,028,696	
Cash at bank and in hand		**500,780**		-	
		1,608,344		7,028,696	
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Net current assets			**1,323,031**		6,547,147
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Creditors: amounts falling due after more than one year	17		**3,585,342**		2,832,557
			(2,022,414)		4,028,173
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Called up share capital	20		**2,760,510**		2,210,510
Share premium account	21		**7,692,985**		7,222,235
Profit and loss account	21		**(12,475,909)**		(5,404,572)
Equity shareholders' (deficit)/funds	22		**(2,022,414)**		4,028,173

The financial statements were approved by the Board on 30 March 2006

Andy Craig
Director

The notes on pages 22 to 46 form part of these financial statements

Milestone Group PLC

Consolidated cash flow statement for the year ended 30 September 2005

	Note	2005 £	2005 £	2004 £	2004 £
Net cash outflow from operating activities	27		**(1,599,691)**		(1,776,239)
Returns on investments and servicing of finance					
Interest received		**26,093**		36,766	
Interest paid		**(102,998)**		(11,735)	
Net cash (outflow)/inflow from returns on investments and servicing of finance			**(76,905)**		25,031
Capital expenditure					
Payments to acquire tangible fixed assets		**(15,166)**		(86,170)	
Receipts from sale of tangible fixed assets		-		20,354	
Net cash outflow from capital expenditure			**(15,166)**		(65,816)
Acquisitions and disposals					
Sale of business operations	7	**514,768**		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 from acquisitions and disposals			**514,768**		1,037,461
Cash outflow before financing			**(1,176,994)**		(779,563)
Financing					
Issue of share capital		**1,100,000**		-	
Cost of issuing share capital		**(79,250)**		-	
Loan repayments		**(2,501)**		(2,298)	
Capital element of finance leases repaid		**(15,815)**		(44,039)	
Advances under invoice discounting agreements		**283,321**		-	
Cash inflow/(outflow) from financing			**1,285,755**		(46,337)
Increase/(decrease) in cash in the year	28,29		**108,761**		(825,900)

The notes on pages 22 to 46 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 2005 is £7,071,337 (2004 - £3,642,763).

The following principal accounting policies have been applied:

Going concern

The directors have produced forecasts that suggest that the group has sufficient funding to enable it to continue its operations in the foreseeable future. The directors have prepared these financial statements on a going concern basis which assumes in particular the maintenance of the forecast levels of revenue. In the longer term the trading subsidiaries will either need to significantly improve their trading performance or the directors will seek funding from other sources or make strategic asset sales to provide the financial support that the group requires.

The financial statements do not include any adjustments that would arise if the going concern basis of preparation became no longer appropriate.

Basis of consolidation

The consolidated financial statements incorporate the results of Milestone Group PLC and all of its subsidiary undertakings as at 30 September 2005 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.

1 Accounting policies *(continued)*

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.

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.

1 Accounting policies *(continued)*

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.

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 2005 £	Pre-tax loss 2005 £	Turnover 2004 £	Pre-tax loss 2004 £
Analysis by class of business:				
Publishing Division - group	**2,855,785**	**(3,705,636)**	3,721,833	(517,283)
Radio Division:				
Group	**1,437,732**	**(1,447,331)**	1,890,203	(3,951,751)
Associated undertakings	**-**	**(193,940)**	-	(236,799)
Television Division - group	**175,744**	**(239,708)**	240,767	(1,113,164)
	4,469,261	**(5,586,615)**	5,852,803	(5,818,997)
Head office costs	**-**	**(882,902)**	-	(1,042,048)
	4,469,261	**(6,469,517)**	5,852,803	(6,861,045)

	Net assets 2005 £	Net assets 2004 £
Net operating assets:		
Publishing Division - group	**2,274,490**	6,137,337
Radio Division:		
Group	**2,211,575**	3,430,653
Associated undertakings	**(22,523)**	1,051,546
Television Division - group	**(82,782)**	(84,879)
	4,380,760	10,534,657
Head office cost assets/(liabilities)	**581,946**	(123,185)
	4,962,706	10,411,472

3 Employees

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

	2005 Number	2004 Number
Sales, operations and administration	**100**	132
Management	**9**	12
	109	144

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

	2005 £	2004 £
Wages and salaries	**2,585,389**	2,769,061
Social security costs	**245,343**	281,872
Pension costs	**23,335**	25,528
	2,854,067	3,076,461

4 Directors' remuneration

	2005 £	2004 £
Directors' emoluments and fees	**314,235**	249,774
Company contributions to money purchase pension schemes	**21,000**	21,000

There were two directors in the company's defined contribution pension scheme during the year (2004 – 2).

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

5 Other operating income

	2005 £	2004 £
Other operating income	**13,056**	15,708
Rental income	**770**	53,098
	13,826	68,806

6 Operating loss

	2005 £	2004 £
This is arrived at after charging:		
Depreciation	**283,933**	242,376
Loss on disposal of fixed assets	**791**	14,719
Amortisation of goodwill arising on consolidation	**591,450**	1,580,121
Hire of plant and machinery - operating leases	**128**	17,138
Hire of other assets - operating leases	**31,034**	85,233
Hire of land and buildings - operating leases	**138,000**	139,500
Auditors' remuneration - audit services (2005: company £74,000) (2004: company £47,000)	**142,000**	127,000
- non-audit services	**49,600**	65,095
Impairment of goodwill	**3,316,960**	2,884,549

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 recoverable amount based on net realisable value.

7 Disposal of group operations

On 24 August 2005, the group disposed of Reading Broadcasting Limited.

The loss on disposal has been calculated as follows:

	Total
	£
Cash proceeds	**514,768**
Net assets disposed of	**(880,128)**
Loss on disposal	**(365,360)**

8 Interest receivable

	2005	2004
	£	£
Bank interest	**5,121**	8,267
Interest from associated undertaking	**20,972**	21,354
Other interest	**-**	7,145
	26,093	36,766

9 Interest payable and similar charges

	2005 £	2004 £
Bank loans and overdrafts	**45,313**	11,694
Finance lease and hire purchase interest	**-**	41
Other loans	**57,685**	-
	102,998	11,735

10 Taxation on loss from ordinary activities

	2005 £	2004 £
UK corporation tax		
Current tax on losses of the year	-	-
Deferred tax		
Origination and reversal of timing differences	-	(15,523)
Other tax		
Share of associated undertaking's tax credit	-	(13,688)
Taxation on loss from ordinary activities	-	(29,211)

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

	2005 £	2004 £
Loss on ordinary activities before tax	**(6,469,517)**	(6,861,045)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 19% (2004 - 19%)	**(1,229,208)**	(1,303,599)
Effects of:		
Expenses not deductible for tax purposes	**789,597**	543,154
Capital allowances for year in excess of depreciation	**41,925**	11,839
Unutilised tax losses	**487,790**	846,110
Income not taxable for tax purposes	**(80,669)**	(75,105)
Utilisation of tax losses	**(6,461)**	(19,517)
Other items	**(2,974)**	(2,882)
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 £1.8 million (group) and £500,000 (company) (2004 - £1.5 million (group) and £155,000 (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 £9.1 million (2004 - £8 million) available for relief against future profits, subject to agreement by H M Revenue & Customs.

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 25,118,794 (2004 - 21,877,541) and the loss was £6,419,615 (2004 - £6,806,163).

12 Intangible assets

Group	**Goodwill on consolidation £**
Cost	
At 1 October 2004 and at 30 September 2005	**14,347,031**
Amortisation and impairment	
At 1 October 2004	5,660,822
Provided for the year	3,908,410
At 30 September 2005	**9,569,232**
Net book value	
At 30 September 2005	**4,777,799**
At 30 September 2004	8,686,209

Included within the amortisation charge for the year is an amount of £3,316,960 (2004 - £2,884,549) 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 2004	395,521	1,108,237	568,395	91,175	2,163,328
Additions	-	26,250	-	-	26,250
Reclassification	(1,318)	1,318	-	-	-
Disposals	-	(2,374)	-	(13,084)	(15,458)
At 30 September 2005	**394,203**	**1,133,431**	**568,395**	**78,091**	**2,174,120**
Depreciation					
At 1 October 2004	183,365	602,120	286,359	80,416	1,152,260
Provided for the year	60,520	147,664	66,773	8,976	283,933
Reclassification	(879)	879	-	-	-
Disposals	-	(1,583)	-	(13,084)	(14,667)
At 30 September 2005	**243,006**	**749,080**	**353,132**	**76,308**	**1,421,526**
Net book value					
At 30 September 2005	**151,197**	**384,351**	**215,263**	**1,783**	**752,594**
At 30 September 2004	212,156	506,117	282,036	10,759	1,011,068

The net book value of tangible fixed assets for the group includes an amount of £27,798 (2004 - £24,345) 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 £7,122 (2004 - £1,678) 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 2004	1,318	275,000	12,759	128,264	417,341
Additions	-	-	-	4,151	4,151
Transfer to subsidiary	(1,318)	-	-	-	(1,318)
At 30 September 2005	**-**	**275,000**	**12,759**	**132,415**	**420,174**
Depreciation					
At 1 October 2004	615	-	7,663	113,859	122,137
Charge for the year	264	64,162	4,174	8,798	77,398
Transfer to subsidiary	(879)	-	-	-	(879)
At 30 September 2005	-	**64,162**	**11,837**	**122,657**	**198,656**
Net book value					
At 30 September 2005	-	**210,838**	**922**	**9,758**	**221,518**
At 30 September 2004	703	275,000	5,096	14,405	295,204

14 Fixed asset investments

Group	Other investment £	Associated undertakings £	Total £
Cost			
At 1 October 2004	22,529	1,358,487	1,381,016
Disposal	-	(1,358,487)	(1,358,487)
At 30 September 2005	**22,529**	-	**22,529**
Share of retained losses			
At 1 October 2004	-	291,546	291,546
Share of losses for the year	-	186,813	186,813
Disposal	-	(478,359)	(478,359)
At 30 September 2005	-	-	-
Net book value			
At 30 September 2005	**22,529**	-	**22,529**
At 30 September 2004	22,529	1,066,941	1,089,470

14 Fixed asset investments *(continued)*

The other investment represents a 13% shareholding of Milestone Radio Holdings Limited in CKFM Kernow Limited. The book value of this investment is not materially different to the market value.

A 37% shareholding of The Milestone Radio Company Limited in Reading Broadcasting Company Limited was disposed of in August 2005.

Included within the carrying value of associated undertakings is goodwill of £Nil (2004 - £1,408,038) and the share of operating losses for the year includes a goodwill amortisation charge of £103,773 (2004 - £110,162).

The group had the following interests in Reading Broadcasting Company Limited, an associated undertaking as at the date of disposal:

	2005 £	2005 £	2004 £	2004 £
Share of turnover		**242,678**		263,923
Share of assets				
Share of fixed assets	**54,675**		68,858	
Share of current assets	**18,067**		76,189	
		72,742		145,047
Share of liabilities				
Due within one year	**(32,521)**		(44,818)	
Due after more than one year	**(464,356)**		(441,325)	
		(496,877)		(486,143)
Share of net liabilities		**(424,135)**		(341,096)

14 Fixed asset investments *(continued)*

Company	Shares in subsidiary undertakings £
Cost	
At 1 October 2004 and at 30 September 2005	**2,645,385**
Provision for diminution in value	
At 1 October 2004 and at 30 September 2005	**2,627,006**
Net book value	
At 30 September 2005	**18,379**
At 30 September 2004	18,379

Subsidiary and associated undertakings

At 30 September 2005, 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
Milestone 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
Milestone Radio Stations Limited (7)	Holding Company	100
Milestone 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

14 Fixed asset investments *(continued)*

Principal associated undertaking and participating interest

Name	Nature of business	Proportion of voting rights and ordinary share capital held
The Burn FM Limited (13)	Radio Broadcasting	44

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 Milestone 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 Milestone Radio Holdings Limited.

15 Debtors

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Trade debtors	**680,881**	**1,560**	978,361	3,212
Amounts due from subsidiary undertakings	**-**	**962,603**	-	6,966,848
Amounts due from associated undertakings	**-**	**-**	29,565	28,390
Other debtors	**120,354**	**114,953**	66,384	9,458
Corporation tax recoverable	**-**	**-**	1,835	-
Prepayments and accrued income	**222,675**	**28,448**	315,917	20,788
	1,023,910	**1,107,564**	1,392,062	7,028,696

With the exception of £Nil included in amounts due from subsidiary undertakings (2004 - £6,695,745 (company)), all amounts fall due for payment within one year.

16 Creditors: amounts falling due within one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank loans and overdrafts (secured)	**754,397**	-	482,129	40,569
Trade creditors	**469,793**	**126,588**	683,834	239,168
Amounts due to subsidiary undertakings	-	-	-	1,312
Other creditors	**96,779**	**4,888**	79,659	6,499
Taxation and social security	**163,341**	**40,965**	326,562	109,932
Directors' loan account	**13,950**	-	13,950	-
Obligations under finance leases and hire purchase contracts	**11,882**	-	10,989	-
Advances under invoice discounting arrangements	**283,321**	-	-	-
Accruals and deferred income	**344,985**	**112,872**	312,510	84,069
	2,138,448	**285,313**	1,909,633	481,549

The bank loans and overdrafts and advances under invoice discounting arrangements are secured by a fixed and 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, Milestone Radio Group Limited, Links Investments Limited, Passion Radio (Oxford) Limited and Milestone Radio Sales Limited (see note 26).

The amount of factored debtors outstanding at 30 September 2005 was £377,761 (2004 - £Nil).

The obligations under finance leases and hire purchase contracts carry interest at an effective rate of 10.2% over the life of the contract. The advances under invoice discounting arrangements carry a discounting charge of 2% above base rate.

17 Creditors: amounts falling due after more than one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank loan	**5,400**	-	7,901	-
Amounts owed to subsidiary undertakings	-	**3,585,342**	-	2,832,557
Obligations under finance leases and hire purchase contracts	-	-	5,624	-
Other loans	**128,570**	-	128,570	-
	133,970	**3,585,342**	142,095	2,832,557

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.

17 Creditors: amounts falling due after more than one year *(continued)*

Group	Bank loans and overdrafts 2005 £	Finance leases and hire purchase contracts 2005 £	Bank loans and overdrafts 2004 £	Finance leases and hire purchase contracts 2004 £
Maturity of debt:				
In one year or less, or on demand	**754,397**	**11,882**	482,129	10,989
In more than one year but not more than two years	**3,118**	-	3,118	5,218
In more than two years but not more than five years	**2,282**	-	4,783	406
	5,400	-	7,901	5,624

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 2005 £	2004 £
Cash at bank and in hand	**680,815**	299,786

As at 30 September 2005, £680,815 (2004 - £299,786) of the group's financial assets was money held in bank current and reserve accounts, which were instant access. 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.

18 Financial instruments *(continued)*

Financial liabilities

The group's financial liabilities were:

As at 30 September 2005	**Floating rate financial liabilities £**	**Interest free financial liabilities £**
Bank loans and overdrafts - due in less than 1 year	**754,397**	-
Amounts due under invoice discounting arrangements - due in less than 1 year	**283,321**	-
Bank loans - due in more than 1 year	**5,400**	-
Other loans - due in more than 1 year	-	**128,570**

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

Financial liabilities

The group's financial liabilities falling due within one year of £1,037,718 at 30 September 2005 (2004 - £482,129) comprised three bank overdrafts and an invoice discounting arrangement. The overdrafts were provided by National Westminster Bank Plc, Barclays Bank Plc and HSBC. At the year end the amounts outstanding in respect of each of these overdrafts was £670,582 (2004 - £384,396), £27,390 (2004 - £94,614) and £53,307 (2004 - £nil) respectively. All of the overdrafts were repayable on demand. At 30 September 2005 the remaining balance of £3,118 (2004 - £3,119) related to a flexible business bank loan, as referred to below. The group also had amounts due under an invoice discounting arrangement at the year end totalling £283,321 (2004 - £nil), comprising of a balance for Courier Newspapers (Oxford) Limited of £242,021 and £41,300 for Basingstoke Observer Limited.

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 2005 the bank rate was 4.5% (2004 - 4.75%). 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 30 November 2005 at which time the facility was extended and remained at £550,000 until February 2006 when it was fully paid down.

During the year the group entered into an invoice discounting arrangement with The Royal Bank of Scotland Commercial Services. 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.

18 Financial instruments *(continued)*

Financial liabilities

The overdraft facility of £50,000 provided by Barclays Bank Plc, carried interest at 3% per annum over the bank's base rate. At 30 September 2005 the bank base rate was 4.5% (2004 – 4.75%). 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 review in November 2005 and although still available to the group has been reduced to £25,000.

As at 30 September 2005 the group also had available to it a further facility of £50,000 (2004 - £50,000) from HSBC. This facility was due for review in January 2006 and although still available to the group has been reduced to £20,000.

The group's financial liabilities falling due after more than one year at 30 September 2005 of £5,400 (2004 - £7,901) 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 and invoice discounting arrangements. 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.

Other facilities available subsequent to the year end

Subsequent to the year end, on 29 November 2005, Elliott International L.P. made available to the company up to £550,000 15% guaranteed senior secured notes, to provide necessary working capital for the group's operations. This arrangement was scheduled to mature at the earlier of 31 March 2006 or the occurrence of any equity placing (or series of equity placing) by the company, or asset disposal which in aggregate exceeds £550,000 on a net basis.

The company was required to use 100% of the proceeds of asset disposals, capital events and insurance claims to redeem the notes at 105% of par value plus capitalised interest and any accrued but uncapitalised interest. In addition, the company was required to redeem the notes in full upon the occurrence of a change of control at 110% of par value, plus capitalised interest and any accrued but uncapitalised interest.

18 Financial instruments *(continued)*

On 31 January 2006, the Company was provided with £200,000 funding by way of an issue of loan notes of the company to Manchester Securities Corporation, a connected company of Elliott International L.P. and Elliott Associates L.P. substantial shareholders in the company. The loan was secured by way of a general debenture and guarantee entered into by the company and two of its subsidiaries, Jazztech Limited and The Milestone Radio Company Limited. The loan notes bore interest at 15 per cent. per annum and were repayable (subject to a repayment fee of 5 per cent. of the value of the notes) out of the proceeds of any asset disposal by the company. In accordance with these terms, on 17 February 2006, £211,400 of the monies received on the disposal of the company's shares in West Berkshire Radio Limited and Kestrel FM Limited were used to discharge this loan. The directors (other than Mark Levine who was deemed to be connected to the loan note holder) considered that these arrangements were made at arms' length and on normal commercial terms and, having consulted with the company's nomad, Arden Partners Limited, considered that the terms of this financing were fair and reasonable.

These arrangements was secured by a fixed and floating charge over the assets of the company and those of The Milestone Radio Company Limited.

On disposal of certain subsidiaries in February 2006 (see note 31) all amounts were settled in respect to these arrangements.

19 Provision for liabilities and charges

Group	**Associated undertakings £**
Cost	
At 1 October 2004 and at 30 September 2005	**7,788**
Share of retained losses	
At 1 October 2004	(23,183)
Share of losses for the year	(7,128)
At 30 September 2005	**(30,311)**
Net book value	
At 30 September 2005	**(22,523)**
At 30 September 2004	(15,395)

The associated undertakings represent a 44% shareholding of Milestone Radio Holdings Limited in The Burn FM Limited.

20 Share capital

	Group and company 2005 £	Group and company 2005 Number	Group and company 2004 £	Group and company 2004 Number
Authorised				
Ordinary shares of 10p each	**5,000,000**	**50,000,000**	5,000,000	50,000,000

	Group and company 2005 £	Group and company 2005 Number	Group and company 2004 £	Group and company 2004 Number
Allotted, called up and fully paid				
Ordinary shares of 10p each	**2,760,510**	**27,605,095**	2,210,510	22,105,095

On 14 March 2005, 5,500,000 ordinary shares of 10p each were issued and credited as fully paid for a consideration of £1,100,000. The difference between the nominal value of the shares issued and the consideration paid of 20p per share has been credited to the share premium account (see note 21).

Share options

At 30 September 2005 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 2005, 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
Andy Craig	25/06/2003	1,404,000	100	26/06/2006 to 24/06/2013
Brian Chester	25/06/2003	432,000	100	26/06/2006 to 24/06/2013
Dan 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 an exercise price of £1.

At 30 September 2005, 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 2004	7,222,235	11,119,585	(10,234,857)
Loss for the year	-	-	(6,419,615)
Premium on shares issued in the year (see note 20)	550,000	-	-
Share issue costs	(79,250)	-	-
At 30 September 2005	**7,692,985**	**11,119,585**	**(16,654,472)**

Company	**Share premium account £**	**Profit and loss account £**
At 1 October 2004	7,222,235	(5,404,572)
Loss for the year	-	(7,071,337)
Premium on shares issued in the year (see note 20)	550,000	-
Share issue costs	(79,250)	-
At 30 September 2005	**7,692,985**	**(12,475,909)**

22 Reconciliation of movements in shareholders' funds

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Loss for the year	**(6,419,615)**	**(7,071,337)**	(6,806,163)	(3,642,763)
Shares issued in the year	**550,000**	**550,000**	50,512	50,512
Merger reserve	**-**	**-**	229,607	-
Premium on shares issued in the year	**550,000**	**550,000**	225,000	225,000
Share issue costs	**(79,250)**	**(79,250)**	-	-
Net reduction in shareholders' funds	**(5,398,865)**	**(6,050,587)**	(6,301,044)	(3,367,251)
Opening shareholders' funds	**10,317,473**	**4,028,173**	16,618,517	7,395,424
Closing shareholders' funds	**4,918,608**	**(2,022,414)**	10,317,473	4,028,173

23 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.

24 Commitments under operating leases

As at 30 September 2005, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2005 £	Other 2005 £	Land and buildings 2004 £	Other 2004 £
Operating leases which expire:				
Within one year	**5,847**	**25,688**	-	12,684
In two to five years	**182,250**	**93,569**	161,102	28,564
After five years	**-**	**-**	34,380	-
	188,097	**119,257**	195,482	41,248

25 Related party transactions

During the year subsidiary undertakings of Milestone Group PLC made purchases amounting to £14,000 (2004 - £21,448) from MGH Investments Limited. Amounts owed by these companies to MGH Investments Limited at 30 September 2005 amounted to £3,440 (2004 - £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 2005 an amount of £8,500 (2004 - £8,500) was owed to J Blackwell, a non-executive director of the company. This was the maximum amount outstanding at any time during the year. No interest is charged in respect of this balance.

As at 30 September 2005 a directors' loan account of £5,450 (2004 - £5,450) existed. This was the maximum amount outstanding at any time during the year. No interest is charged in respect of this balance.

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 L.P. and Elliott Associates L.P. As at 30 September 2005, 6,280,413 and 1,466,285 ordinary shares of 10p each in the company were held by Elliott International L.P. 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.

26 Contingent liabilities

Milestone Radio Holdings Limited has a gross group overdraft facility with certain subsidiary undertakings up to a limit of £350,000 (2004 - £300,000). At 30 September 2005 the liabilities covered by this facility totalled £670,582 (2004 - £378,432).

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

	2005 £	2004 £
Operating loss	**(5,833,311)**	(6,329,662)
Amortisation and impairment of intangible fixed assets	**3,908,410**	4,464,670
Loss on disposal of fixed assets	**791**	14,719
Depreciation of tangible fixed assets	**283,933**	242,376
Decrease/(increase) in debtors	**368,150**	(132,131)
Decrease in creditors	**(327,664)**	(36,211)
Net cash outflow from operating activities	**(1,599,691)**	(1,776,239)

28 Reconciliation of net cash outflow to movement in net debt

	2005 £	2004 £
Increase/(decrease) in cash	**108,761**	(825,900)
Cash (inflow)/outflow from changes in debt, lease financing and advances under invoice discounting agreements	**(265,005)**	46,337
Movement in net debt resulting from cashflows	**(156,244)**	(779,563)
Inception of finance leases	**(11,084)**	(39,665)
Movement in net debt	**(167,328)**	(819,228)
Opening net debt	**(206,857)**	612,371
Closing net debt	**(374,185)**	(206,857)

29 Analysis of net debt

	At 30 September 2004 £	Cash flow £	Other non-cash items £	At 30 September 2005 £
Cash at bank and in hand	299,786	381,029	-	**680,815**
Bank overdrafts	(482,129)	(272,268)	-	**(754,397)**
	(182,343)	108,761	-	**(73,582)**
Debt due after one year	(7,901)	2,501	-	**(5,400)**
Finance leases	(16,613)	15,815	(11,084)	**(11,882)**
Advances under invoice discounting arrangements	-	(283,321)	-	**(283,321)**
Total	(206,857)	(156,244)	(11,084)	**(374,185)**

30 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 £11,084 (2004 - £39,665).

31 Post balance sheet events

On 17 February 2006, the Company completed the sale of its beneficial 54 per cent. shareholding (held through subsidiaries of the Company) in Kestrel FM Limited to Provincial Broadcasting Companies Limited ("Provincial") for a consideration of approximately £594,000. In addition, the Company and related group companies have assigned to Provincial the outstanding loans due to them from Kestrel FM Limited for a consideration of approximately £110,000. The consideration is subject to an adjustment (upwards or downwards) based on the net asset value of Kestrel FM Limited at the time of the Completion.

On 17 February 2006, the Company completed the sale of its beneficial 55 per cent. shareholding (held through subsidiaries of the Company) in West Berkshire Radio Limited trading as Kick FM, to Provincial for a consideration of approximately £490,000. In addition, the Company and related group companies have assigned to Provincial the outstanding loans due to them from West Berkshire Radio Limited for a consideration of approximately £168,000. The consideration is subject to an adjustment (upwards or downwards) based on the net asset value of West Berkshire Radio Limited at the time of the Completion.

On 17 February 2006, the Company and its subsidiaries received £1,302,000 representing the first instalment of the aggregate consideration due from Provincial for the transfer of the shares and loans in Kestrel FM Limited and West Berkshire Radio Limited. The Company and its subsidiaries have agreed to defer in aggregate £60,000 of the consideration due in relation to the sales from Provincial until 30 September 2006.

On 28 February 2006, the Company completed the sale of its beneficial 52 per cent. shareholding (held at that time through the Milestone Radio Company Limited) in Rugby Broadcasting Company Limited trading as Rugby FM, to CN Group Limited. The total consideration of approximately £644,000 was received on 28 February 2006.

As at 30 September 2005 the net asset value and the attributable goodwill in respect to these disposals was:

	Net asset value	**Attributable goodwill**
	£	**£**
Kestrel FM Limited	**26,659**	**567,341**
West Berkshire Radio Limited	**(99,401)**	**589,401**
Rugby Broadcasting Company Limited	**159,504**	**485,457**

No tax arose in respect to these transactions.

As the disposal of these companies took place more than three months after the year end their results have been included in the consolidated profit and loss account and have been classified as continuing operations.