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Directors and Advisers

Directors	Graham Parrott, Non-executive Chairman Richard Wheatly, Chief Executive Sonita Alleyne, Non-executive Director Alistair Mackenzie, Finance Director John Perriss, Non-executive Director Anthony Gumbiner, Non-executive Director Rhys Davies, Non-executive Director
Registered Office	11 Duke Street High Wycombe Buckinghamshire HP13 6EE
Company Number	4931007
Company Secretary	Lynette Wells
Nominated Adviser to the Company	Bridgewell Limited Old Change House 128 Queen Victoria Street London EC4V 4BJ
Broker	Bridgewell Securities Limited Old Change House 128 Queen Victoria Street London EC4V 4BJ
Solicitors	Dorsey and Whitney 21 Wilson Street London EC2M 2TD
Auditors	BDO Stoy Hayward LLP Northside House 69 Tweedy Road Bromley Kent BR1 3WA
Registrars	Capita Registrars The Registry 34 Beckenham Road Beckenham Kent BR3 4TU 0870 1623100 (Shareholder Advice Line)

Chairman's Statement

It has been a challenging year for The Local Radio Company ("TLRC" or the "Company") as the Company has sought to improve the structure and performance of its operations against a severe market backdrop for the UK's commercial radio sector.

During the year under review the commercial radio industry has experienced a 5% fall in overall advertising revenues with five of the last six quarters down year-on-year. Against this backdrop, TLRC's total revenues increased by 2%, with like-for-like revenues down 4%.

In the Company's interim statement we stated that a number of strategic options were being pursued to increase shareholder value.

Since then, two stations - Win and Rocket - that had not responded to management action plans and had shown no clear route through to profitability in a reasonable time frame, have been sold.

As reported in the Trading Statement issued on 4 October, TLRC's Enterprise Division was closed in September and Simon Cooke left the Board on 30 September. The division reported a loss of over £250,000 during the year under review.

These disposals, together with restructuring at Head Office and the benchmarking of costs across all stations has enabled the Company to reduce its overheads by £600,000 on an annualised basis which will benefit the year ahead.

Upward trend in audience figures

Radio audience listening in the UK is measured by Radio Joint Audience Research Limited ("RAJAR") which issues listener numbers on a quarterly basis. It is encouraging to note that the number of TLRC listeners has grown for the last two RAJAR surveys, from 849,000 listeners per week in Q1 2006 to 891,000 listeners per week in Q3 2006, a new record for the Group.

Based on the latest RAJAR survey for Q3 2006, 19 of our 28 radio stations were the No. 1 or No. 2 commercial radio station in their particular geographical survey area.

First Radio Sales

First Radio Sales ("FRS") has had a good first year under its new joint ownership despite operating in a very competitive market place. Trading revenues are up 14% like for like. Whilst trading is challenging, new clients have been won throughout the period. In the year ahead we are confident that FRS will continue to outperform the national market on behalf of its clients. At 30 September 2006 FRS represented 128 stations.

Station Launches

Durham FM was launched in December 2005 and TLRC is pleased with its progress. Brunel FM was launched in September 2006, so is only three months old. These two launches resulted in initial operating losses for these stations of just under £300,000 in the financial year. Durham FM is trading ahead of forecast. The Company will only have one new licence launch, Northallerton, in the forthcoming year. It is a much smaller scale licence and is expected to incur initial operating losses of less than £50,000.

Post Balance Sheet Events

On 29 November 2006, the Company completed a £3 million fundraising which introduced a significant new shareholder, Hallwood Investments, and was well supported by certain existing shareholders who subscribed for approximately £1 million worth of new shares. At this time the Board was strengthened by the appointment of Anthony Gumbiner who has wide international business experience and Rhys Davies who has valuable media investment experience.

Chairman's Statement (continued)

FINANCIAL REVIEW

Group turnover

Total Group turnover increased by £321,000 (2%) to £20.15 million. Excluding the effects of disposals, Group turnover decreased slightly from £18.72 million to £18.69 million, with underlying radio sales down 4% like for like. A more detailed analysis of the effects of discontinued operations on last year's results can be found in Note 2 to the financial statements.

Gross profit

Gross profit for the year of £13.34 million decreased by £1.47 million against gross profit achieved in 2005. The gross profit margin also declined from 75% to 70% due to the significant effects of the Enterprises division which operated on a lower gross margin than the radio business.

Group operating loss

The Group's reported operating loss for 2006 was £21.05 million. However, this loss includes charges of £18.51 million for impairment and amortisation of goodwill and other intangibles. The normalised operating loss which is the operating loss excluding goodwill impairment, amortisation, exceptional costs, and including the share of operating profit in the joint venture, was £2.17 million.

Cash

There was a net decrease in cash of £1.55 million during the year. However, since the year end new finance of £3 million (£2.8 million net of expenses), has been raised through a share placing. For more details see Note 25 'Post Balance Sheet Events'. The Group has substantial cash balances and expects to begin generating cash towards the end of the new financial year.

FUTURE STRATEGY AND OUTLOOK

TLRC's objective is to grow its business by increasing the revenues, profits and audiences from its existing portfolio of stations and by adding further stations to the Group.

The commercial radio market remains difficult and sales for the quarter to December are at levels below last year.

However, due to the management actions taken, TLRC's local sales have increased month on month from September through to November and our bottom line performance in October and November is the best this calendar year.

Although visibility in the market remains limited, the steps that the Company has taken this year have enabled it to improve performance and we are optimistic about continuing that trend into 2007.

Graham Parrott
Chairman

13 December 2006

Directors' Report

for the year ended 30 September 2006

The Directors have pleasure in presenting their Annual Report together with the audited financial statements for the year ended 30 September 2006.

Activities

The principal activity of the Group is the operation of local radio stations, joint ownership of a national radio advertising sales agency and music related activities. The principal function of the Company is that of an investment holding company.

Business review

Full details of the results for the year are set out in the attached financial statements. A review of the year's operations is set out in the Chairman's statement on pages 3 to 4.

Results and dividends

The loss before interest, tax, depreciation, amortisation and exceptional items for the year was £1,831,000 (2005 - profit £22,000).

The loss on ordinary activities before taxation after charging depreciation of £617,000 (2005 - £647,000), amortisation £2,242,000 (2005 - £2,321,000), goodwill impairment £16,270,000 (2005 - nil) and £89,000 (2005 - £494,000) exceptional items was £21,052,000 (2005 - £3,350,000).

The loss after taxation and minority interests was £21,015,000 (2005 - £3,297,000).

The directors do not recommend the payment of a dividend (2005 - nil).

Directors and the Board

At the financial year end the Board of The Local Radio Company comprised 3 independent Non-executive Directors and 2 Executive Directors.

Directors who held office during the year were as follows:

Graham Parrott

Richard Wheatly

Sonita Alleyne

Simon Cooke (resigned 30 September 2006)

Alistair Mackenzie

John Perriss

On 29 November 2006 Mr Anthony Gumbiner and Mr Rhys Davies were appointed as Non-executive Directors.

Biographies of the Directors are set out on page 7. Each Director has extensive and relevant business experience. The Board meets at least 8 times a year.

In accordance with the Company's Articles of Association one third of the Directors are subject to retirement by rotation at the Annual General Meeting.

Directors' Report

for the year ended 30 September 2006 (continued)

Directors and the Board (continued)

The Directors at the end of the year and their interests in the Company's ordinary share capital were as follows:

Director:	Interest at end of year		Interest at beginning of year	
	Ordinary shares	Options	Ordinary shares	Options
Graham Parrott	50,000	-	50,000	-
Richard Wheatly	1,660,525	341,317	1,647,368	1,178,947
Alistair Mackenzie	1,063,158	258,964	1,063,158	884,211
John Perriss	-	-	-	-
Sonita Alleyne	-	-	-	-

Details of Directors' share options are as follows:

	1 October 2005	Cancelled/ Lapsed	30 September 2006	Exercise price	Date from which exercisable	Expiry date
Richard Wheatly						
Unapproved plan	378,947	(378,947)	-	£0.95	21 May 2007	21 May 2014
Unapproved plan	-	-	317,647	£0.395	27 Feb 2009	26 Feb 2016
SAYE	-	-	23,670	£0.395	01 May 2009	31 Oct 2009
LTIS	200,000	(200,000)	-	£1.15	21 May 2008	21 May 2014
LTIS	200,000	(200,000)	-	£1.26	21 May 2009	21 May 2014
LTIS	200,000	(200,000)	-	£1.39	21 May 2010	21 May 2014
LTIS	200,000	(200,000)	-	£1.53	21 May 2011	21 May 2014
Alistair Mackenzie						
Unapproved plan	284,211	(284,211)	-	£0.95	21 May 2007	21 May 2014
Unapproved plan	-	-	235,294	£0.395	27 Feb 2009	26 Feb 2016
SAYE	-	-	23,670	£0.395	01 May 2009	31 Oct 2009
LTIS	150,000	(150,000)	-	£1.15	21 May 2008	21 May 2014
LTIS	150,000	(150,000)	-	£1.26	21 May 2009	21 May 2014
LTIS	150,000	(150,000)	-	£1.39	21 May 2010	21 May 2014
LTIS	150,000	(150,000)	-	£1.53	21 May 2011	21 May 2014
Simon Cooke						
Unapproved plan	284,211	(284,211)	-	£0.95	21 May 2007	21 May 2014
LTIS	150,000	(150,000)	-	£1.15	21 May 2008	21 May 2014
LTIS	150,000	(150,000)	-	£1.26	21 May 2009	21 May 2014
LTIS	150,000	(150,000)	-	£1.39	21 May 2010	21 May 2014
LTIS	150,000	(150,000)	-	£1.53	21 May 2011	21 May 2014

Share options granted under the May 2004 Unapproved Share Option Plan and the Long Term Incentive Scheme were cancelled on 30 September 2006. There is no performance criteria attached to the Unapproved Plan or SAYE Scheme. The market price of the shares at 30 September 2006 was 14p. The highest market price during the year was 70.5p and the lowest was 14p.

Directors' Report

for the year ended 30 September 2006 (continued)

Brief biographical details of the Directors are set out below.

Graham Parrott (age 57) - Non-executive Chairman

Graham was previously the Commercial Director of Granada plc and ITV plc, having joined Granada in 1973. He has significant experience of takeovers and mergers and of dealing with regulatory authorities. Graham is also Chairman of the ITV Pension Scheme with assets of over £2 billion, and was previously a Non-executive Director of GMTV Ltd, ITN Ltd and Elecrent Insurance Ltd.

Richard Wheatly (age 60) - Chief Executive

Richard is Chairman of the City of London Arts Trust and is also Chairman of Info.com, an Internet search engine company. He has recently been appointed as a Non-executive Director of Working Links Limited, a DTI appointment. Richard was Chief Executive of jazz fm plc from 1995 to 2002.

Alistair Mackenzie (age 42) - Finance Director

Alistair was previously Finance Director of jazz fm plc. He stepped down as a Non-executive from the Board of Stonestrow Media Limited on its successful reintroduction to the stock market. Alistair is a member of the public affairs committee of the RadioCentre, the industry trade body and a Director of Commercial Radio Pension Trustees Limited.

John Perriss (age 58) - Non-executive Director

John was formerly Chief Executive of Zenith Optimedia Group, the world's fifth largest advertising media communications agency with 4,000 employees and over \$18bn per annum of media placement on behalf of advertisers through 162 offices in 59 countries.

Sonita Alleyne OBE (age 39) - Non-executive Director

Sonita is a founding partner and Chief Executive of Somethin' Else, a leading UK independent radio and television production company. She was a Non-executive Director of the Board of Management of the Department of Culture Media and Sport from Jan 2001 - Dec 2005. She is currently a member of the Culture and Creativity Advisory Forum for the 2012 Olympics.

Anthony Gumbiner (age 61) - Non-executive Director

Anthony is the Chairman, Chief Executive Officer and majority shareholder of publicly held Dallas-based The Hallwood Group Incorporated. The Hallwood Group was founded in 1981 and has been listed on the American Stock Exchange since May 2000. He also serves as Chairman and CEO of privately owned Hallwood Energy L.P. and as Chairman and Managing Director of Hallwood Investments Limited.

Rhys Davies (age 38) - Non-executive Director

Rhys is Managing Director of Glendower Capital Limited, a London-based investment manager and adviser, which he established in 1998. He also serves as a Non-executive Director of AIM-listed Tinopolis PLC, one of the UK's largest independent TV production and new media producers. From 1994 until 1998 he worked as an analyst and fund manager at Schroder Investment Management Limited.

The Group holds Directors' and Officers' liability insurance.

Directors' Report

for the year ended 30 September 2006 (continued)

Significant shareholders as at 11 December 2006

	Number of Ordinary Shares	Percentage Holding
Hallwood Investments Limited	16,617,805	23.08
Forest Nominees Limited	9,557,301	13.27
HSBC Global Custody Nominee (UK) Limited	4,900,000	6.81
Uberior Investments Plc	3,684,211	5.12
BNY (OCS) Nominees Limited	3,661,064	5.08
The Bank Of New York (Nominees)	3,500,000	4.86
Vidacos Nominees Limited	3,007,516	4.18
BNY SG Nominees Limited	2,986,678	4.15
Chase (GA Group) Nominees Limited	2,949,434	4.10

Supplier payment policy

The Company recognises the importance of establishing effective, long-term relationships with its suppliers. A payment policy is operated to agreed terms and conditions with suppliers. The majority of payments are made by electronic transfer direct to suppliers' bank accounts. The number of average days purchases of the Group represented by trade creditors at 30 September 2006 was 43 (2005 - 45). The number of average days purchases of the Company represented by trade creditors at 30 September 2006 was 122 (2005 - 41).

Post balance sheet events

Details of post balance sheet events are noted in note 25.

Share issues

410,133 shares were issued on 10 February 2006 at 41.5p to settle deferred consideration in respect of the acquisition of Bath FM.

Directors' Report

for the year ended 30 September 2006 (continued)

Risks and uncertainties

This Annual Report contains certain forward looking statements with respect to the principal risks and uncertainties facing the Group. By their very nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. No assurances can be given that the forward looking statements are reasonable as they can be affected by a wide range of variables. The forward looking statements reflect the knowledge and information available at the date of preparation of this Annual Report and will not be updated during the year. Nothing in this Annual Report should be construed as a profit forecast.

Dependence on advertising

The Company is exposed to certain specific risks given its reliance on advertising revenue. Any changes in the levels of trends of advertising spend could have a marked effect on our performance. We have in place robust internal processes for the identification, monitoring and managing of our business risks.

UK economy

The whole of the Group's operations are based in the UK, and as a result our revenues and costs are linked to the strength of the UK economy as a whole and the retail sector in particular.

Recruitment and retention of talent

Employees, including programming, presenters and sales, are our most important assets. An important part of our competitiveness is our ability to attract and retain these key employees and management personnel. We believe that our particular culture and strong training and incentive programmes provide the necessary tools to attract and retain key staff in a highly competitive market place.

Regulatory environment

We operate in a highly regulated industry and changes in regulations, interpretation of existing regulations or failure to obtain required regulatory approvals or licences could restrict the Company's ability to operate. Radio activities in the UK are subject to regulation by the Office of Communications (Ofcom) under the Communications Act 2003. Ofcom is responsible for the regulation of the UK communications industry including issuing radio operating licences, maintaining plurality in the provision of broadcasting, monitoring the quality of services and protecting audiences against offensive or harmful material. We continue to have strong relationships with regulatory bodies and participate in early consultations with industry groups to ensure that we are proactive in responding to changes in regulations. We also monitor compliance with relevant regulations, including compliance with the terms of our radio licences, and have a proven track record of radio licences renewals.

Environmental factors

The Group recognises the importance of environmental responsibility and, where practicable, has an environmental policy in place for the relevant business areas. The nature of its activities means it has a minimal effect on the environment but, where it does, the Group acts responsibly and is aware of its obligations at all times. For example, recycling is carried out for items such as toners and paper and staff are actively encouraged to turn off radios, lights and photocopiers at the end of each day.

Directors' Report

for the year ended 30 September 2006 (continued)

Corporate governance

The Board is committed to governing the Group in accordance with best practice and supports the principles of Good Governance and Code of Best Practice applicable to companies who are listed on the Official List of the UKLA (the "FRC 2003 Combined Code").

The Company aims to comply, as far as is practicable given the size and constitution of the Board, with the FRC 2003 Combined Code. The Directors have adopted the AIM Model Code and have established Audit, Nomination and Remuneration Committees. The three committees consist of the Non-executive Chairman and four other Non-executive Directors.

The Audit Committee meets at least twice each year and is responsible for monitoring the effectiveness of internal controls, ensuring that the financial performance of the Company is properly measured and reported. It is responsible for assessing the independence of the external auditors and will seek reassurance each year that the external auditors are independent. It will meet with the external auditors at least once a year without the presence of the Executive Directors.

The Remuneration Committee meets as and when necessary to review the performance of Executive Directors. It sets the scale and structure of their remuneration with due regard to the interests of the shareholders. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees. No Director is permitted to participate in discussions or decisions concerning his own remuneration.

Remuneration policy for Executive Directors

The Company's policy on Executive Director remuneration is to:

- attract and retain high quality executives by paying competitive remuneration packages relevant to each Director's role, experience and the external market, and
- incentivise Directors to maximise shareholder value.

The remuneration of each of the Directors for the year ended 30 September 2006 and the year ended 30 September 2005 was as follows:

	Year to 30 September 2006				Year to Sept 2005 Total £000	Year to Sept 2006 Pensions £000	Year to Sept 2005 Pensions £000
	Salaries and fees £000	Benefits £000	Contract settlement £000	Total £000			
Executive Directors							
Richard Wheatly	135	14	-	149	139	20	18
Alistair Mackenzie	100	12	-	112	107	15	14
Simon Cooke (resigned 30 Sept 2006)	90	12	59	161	108	14	14
John Sanderson (resigned 9 Sept 2005)	-	-	-	-	261	-	13
Non-executive Directors							
Graham Parrott	50	-	-	50	50	-	-
Sonita Alleyne	20	-	-	20	20	-	-
John Perriss	20	-	-	20	20	-	-
	415	38	59	512	705	49	59

Directors' Report

for the year ended 30 September 2006 (continued)

Donations

The Group, through its stations, supports a number of local and national charities. There were no political donations made in the year.

Disabled persons

The Group gives sympathetic consideration to the employment of disabled people. All employees are given equal opportunities for training and promotion, having regard to their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retain them in order that their employment with the Group may continue.

Employee involvement

The motivation and commitment of our people is key to the Group's performance. The Group's policy is that training, career development and promotion opportunities will be available to all people. Our IT department has developed an Intranet site which gives added value to our communication network.

The Group is committed to being an equal opportunities employer regardless of nationality, race, gender, marital status, disability, age and religious or political belief. Personnel are selected on the basis of merit and capability. The Group operates an employee Sharesave Scheme and Share Option Schemes.

Communication with shareholders

The annual report and accounts and the interim statement at each half year are the primary vehicles for communication with shareholders. Meetings with significant shareholders are arranged through our nominated advisor, these take place after the interim and the final accounts are issued and after other announcements are made to the market. These documents are also distributed to other parties who have expressed an interest in the Group's performance. Company results can be viewed on the website (www.thelocalradiocompany.com). Shareholders who have any queries relating to their shareholdings or to the affairs of the Company generally are invited to contact the Company Secretary at the Company's registered address.

Financial instruments

The Groups use of financial instruments is detailed in note 14.

Auditors

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next Annual General Meeting.

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

Directors' Report

for the year ended 30 September 2006 (continued)

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; subject to any material departures disclosed and explained in the accounts; and
- Prepare the financial statements on a 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 the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors 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.

By order of the Board

L A Wells
Company Secretary

13 December 2006

Report of the Independent Auditors

To the shareholders of The Local Radio Company PLC

We have audited the Group and parent Company financial statements (the "financial statements") of The Local Radio Company PLC for the year ended 30 September 2006 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the Company 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 other transactions is not disclosed.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.

Report of the Independent Auditors (continued)

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's affairs as at 30 September 2006 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 September 2006;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
Bromley

13 December 2006

Consolidated Profit and Loss Account

for the year ended 30 September 2006

	Note	2006		2005	
		Continuing Operations £000	Discontinued Operations £000	Total £000	Total £000
TURNOVER: Group and share of joint ventures	2	18,686	1,461	20,147	19,826
Less: share of joint ventures turnover		(1,044)	-	(1,044)	-
GROUP TURNOVER		17,642	1,461	19,103	19,826
Cost of sales		(4,486)	(1,274)	(5,760)	(5,009)
GROSS PROFIT		13,156	187	13,343	14,817
Administrative expenses excluding amortisation and exceptional items		(14,906)	(885)	(15,791)	(15,442)
Amortisation and exceptional items	4	(17,964)	(637)	(18,601)	(2,815)
Administrative expenses		(32,870)	(1,522)	(34,392)	(18,257)
GROUP OPERATING LOSS		(19,714)	(1,335)	(21,049)	(3,440)
Share of operating profit in Joint Venture				277	-
Loss on sale of subsidiary undertaking				(280)	-
LOSS BEFORE INTEREST				(21,052)	(3,440)
Interest receivable - Group				20	98
- Joint Venture				11	-
Interest payable	3			(31)	(8)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION				(21,052)	(3,350)
Tax on loss on ordinary activities	6			-	40
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION				(21,052)	(3,310)
Equity minority interests				37	13
RETAINED LOSS FOR THE PERIOD	17/18			(21,015)	(3,297)
Loss per share in pence	7			(37.56)p	(5.94)p
Basic and diluted					

All recognised gains and losses in the current and prior years are included in the profit and loss account. The notes on pages 19 to 36 form part of these financial statements.

Consolidated Balance Sheet

as at 30 September 2006

	Note	30 September 2006		30 September 2005	
		£000	£000	£000	£000
FIXED ASSETS					
Intangible assets	8		19,086		38,283
Tangible assets	9		1,817		1,889
Investment in joint venture	10				
- share of gross assets		2,802		2,515	
- share of gross liabilities		(134)		(135)	
Other fixed asset investments	10	2,668		2,380	
		221		98	
Total investments			2,889		2,478
			23,792		42,650
CURRENT ASSETS					
Debtors	11	3,314		3,848	
Cash at bank and in hand		-		1,139	
		3,314		4,987	
CREDITORS					
Amounts falling due within one year	12	(4,189)		(3,596)	
NET CURRENT (LIABILITIES)/ASSETS			(875)		1,391
TOTAL ASSETS LESS CURRENT LIABILITIES			22,917		44,041
CREDITORS					
Amounts falling due after more than one year	13		(30)		(47)
Net assets			22,887		43,994
CAPITAL AND RESERVES					
Called up share capital	16		2,248		2,232
Share premium account	17		45,501		45,501
Other reserves	17		287		133
Profit and loss account	17		(25,173)		(4,158)
Shares to be issued	17		-		225
SHAREHOLDERS' FUNDS	18		22,863		43,933
Minority interests - equity			24		61
			22,887		43,994

These financial statements were approved by the Board of Directors and authorised for issue on 13 December 2006 and signed on its behalf by:

Richard Wheatly
Chief Executive

Alistair Mackenzie
Finance Director

The notes on pages 19 to 36 form part of these financial statements.

Company Balance Sheet

as at 30 September 2006

	Note	30 September 2006		30 September 2005	
		£000	£000	£000	£000
FIXED ASSETS					
Intangible assets	8	-		973	
Tangible assets		3		5	
Investments	10	18,112		40,580	
			18,115		41,558
CURRENT ASSETS					
Debtors	11	5,044		5,514	
Cash at bank and in hand		1		215	
			5,045		5,729
CREDITORS					
Amounts falling due within one year	12	(273)		(219)	
NET CURRENT ASSETS			4,772		5,510
TOTAL ASSETS LESS CURRENT LIABILITIES			22,887		47,068
CAPITAL AND RESERVES					
Called up share capital	16	2,248		2,232	
Share premium account	17	45,501		45,501	
Other reserves	17	287		133	
Profit and loss account	17	(25,149)		(1,023)	
Shares to be issued	17	-		225	
SHAREHOLDERS' FUNDS			22,887		47,068

These financial statements were approved by the Board of Directors and authorised for issue on 13 December 2006 and signed on its behalf by:

Richard Wheatly
Chief Executive

Alistair Mackenzie
Finance Director

The notes on pages 19 to 36 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 September 2006

	Note	Year ended		Year ended	
		30 September 2006		30 September 2005	
		£000	£000	£000	£000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	21		(1,193)		135
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest and other investment income received (Group)		20		98	
Interest paid (Group)		(30)		-	
Interest element of finance lease rentals		(1)		(8)	
NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(11)		90
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		(597)		(647)	
Purchase of unlisted investments		(123)		(98)	
Sale of tangible fixed assets		23		64	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE			(697)		(681)
ACQUISITIONS AND DISPOSALS					
Purchase of subsidiary undertakings		(5)		(2,483)	
Net overdrafts acquired with subsidiary undertakings		-		(25)	
Disposal of subsidiary undertaking	24	400		482	
Net cash disposed of with subsidiary undertaking		-		(270)	
NET CASH INFLOW/(OUTFLOW) FROM ACQUISITIONS AND DISPOSALS			395		(2,296)
CASH OUTFLOW BEFORE FINANCING			(1,506)		(2,752)
FINANCING					
Issue of ordinary share capital		-		-	
Repayment of loans		(43)		(13)	
Capital element of finance lease rentals		-		(5)	
NET CASH INFLOW FROM FINANCING	22		(43)		(18)
DECREASE IN CASH	22/23		(1,549)		(2,770)

The notes on pages 19 to 36 form part of these financial statements.

Notes to the Accounts

for the year ended 30 September 2006

1 Accounting policies

These financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of The Local Radio Company PLC and all of its subsidiary undertakings as at 30 September 2006 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Accounting policies adopted during the year

During the year the Group adopted FRS 21 Events after the balance sheet date, FRS 22 Earnings Per Share, FRS 28 Corresponding amounts and the presentational requirements of FRS 25 Financial instruments (Disclosure and Presentation). None of these standards had any impact on the net assets of the Group or the Company nor on the loss of the Group.

Financial Instruments and share based payments

Financial Instruments are measured initially and subsequently at cost. Short term debtors and creditors have been excluded from the financial instrument disclosures in note 14.

Goodwill

Goodwill arising on acquisitions is written off in equal annual instalments over its estimated useful life. The Directors estimate the useful life to be 20 years. Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition, and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the carrying value of goodwill is calculated by comparing the carrying value of the underlying business with its recoverable amount.

Associated undertakings

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 consolidated 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 the associated undertakings based on audited financial statements and/or management accounts. In the consolidated balance sheet, the investment in associated undertakings is shown as the Group's share of the net assets of the associated undertakings.

Joint ventures

An entity is treated as a joint venture where the Group holds a long-term interest and shares control under a contractual agreement. In the consolidated financial statements, interests in joint ventures are accounted for using the gross equity method of accounting. In the consolidated balance sheet, the Group's share of the identifiable gross assets (including any unamortised premium paid on acquisition) and its share of the gross liabilities attributable to its joint ventures are shown separately.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

1 Accounting policies (continued)

Tangible fixed assets

Depreciation is calculated so as to write off the cost less estimated residual values of tangible fixed assets, except for freehold land, on a straight-line basis over the expected useful lives of the assets concerned and are reviewed annually for any impairment in value. The principal annual rates used for this purpose are:

Freehold buildings	- 2%
Transmitter equipment	- 12.5%
Studio equipment	- 20%
Computer equipment	- 33% - 50%
Leasehold improvements	- Over the period of the lease
Office equipment	- 20%
Motor vehicles	- 25%

Acquired licences

The costs of acquired licenses are amortised over the expected licence period, and are reviewed annually for any impairment in value.

Investments

Investments are valued at cost less provision for any permanent impairment in value.

Turnover

Turnover represents the total invoiced value, excluding value added tax and trade discounts, of services rendered during the period, and is recognised as related advertising is aired. Turnover relates entirely to the principal activities of the Group.

Segmental analysis

Segmental analysis is not considered necessary as all turnover and operations are UK based and there are no significant segments of trade.

Leases

Assets held under finance leases and hire purchase contracts are capitalised at their fair value on the inception of the leases and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease in proportion to the capital amount outstanding.

Rentals under operating leases are charged to the profit and loss account in equal amounts over the periods of the leases.

Deferred taxation

Deferred taxation is provided on all timing differences that have originated but not reversed at the balance sheet date, except that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

1 Accounting policies (continued)

Share based payments

The intrinsic value of options granted, measured on the grant date, are expensed over the vesting period, if any, on a straight-line basis. There is no resulting expense in either the current or previous financial year as the exercise price of all options issued was greater than, or equal to, the market value of the shares on the grant date.

Pensions

Some subsidiary companies participate in a defined contribution pension scheme. Contributions charged to the profit and loss account represent the contributions payable by the Group during the period.

2 Turnover

Turnover arises from the principal activity of the Group, being the operation of local stations, joint ownership of a national radio advertising sales agency and music related activities.

Discontinued operations

An analysis of last year's results on a discontinued basis is as follows:

	2005		Total £000
	Continuing £000	Discontinued £000	
Group turnover	18,720	1,106	19,826
Cost of sales	(4,254)	(755)	(5,009)
Gross profit	14,466	351	14,817
Administrative expenses	(17,415)	(842)	(18,257)
Operating loss	(2,949)	(491)	(3,440)

3 Interest payable

	2006 £000	2005 £000
Bank loans and overdrafts	30	-
Finance lease interest	1	8
	31	8

Notes to the Accounts

for the year ended 30 September 2006 (continued)

4 Loss on ordinary activities before taxation	2006	2005
	£000	£000
Loss on ordinary activities before taxation is after charging:		
Exceptional items		
- acquisition related expenditure	-	89
- restructuring and related costs	89	405
Remuneration paid to the Group's auditors for:		
- audit services - (Company - 2006: £23,000; 2005: £23,000)	105	108
- non-audit services		
- Tax	38	16
- Corporate finance	4	47
- General advice	6	-
Depreciation	617	647
Impairment of intangible assets	16,270	-
Amortisation	2,242	2,321
Rentals under operating leases	1,050	1,113

Restructuring and related costs include redundancy and contractual settlements. Acquisition related expenditure comprises investigating possible acquisitions and post integration acquisition costs.

5 Information regarding directors and employees	2006	2005
	Number	Number
The average number of persons employed by the Group (including executive directors) during the year was as follows:		
Management and administration	69	72
Sales	122	135
Programming	136	144
	327	351

There were no employees paid directly by The Local Radio Company PLC during the years to September 2006 and September 2005.

	£000	£000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	7,163	7,406
Social security costs	763	834
Pension costs (defined contribution)	153	186
	8,079	8,426
Directors' remuneration was as follows:		
Directors' emoluments	415	705
Pension contributions	49	59
	464	764

The Group participates in a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions payable to the fund are noted above and there were contributions of £14,194 payable at 30 September 2006 (2005 - £16,141).

The Executive Directors are in different defined contribution pension schemes. The emoluments of the highest paid Director amounted to £135,000 (2005: £261,000), and Company contributions to the defined contribution pension scheme amounted to £20,000 (2005: £13,000). Further disclosures on the remuneration of each individual director are given in the Directors' report on pages 5 to 12.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

6 Tax on loss on ordinary activities

Analysis of charge in period	2006 £000	2005 £000
Current tax		
UK corporation tax on profits of the period	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	(40)
Tax on loss on ordinary activities	-	(40)
Reconciliation of current tax charge		
Loss on ordinary activities before tax	(21,052)	(3,350)
Loss on ordinary activities multiplied by standard rate of UK corporation tax of 30%	(6,316)	(1,005)
Effects of:		
Expenses not deductible for tax purposes	236	172
Tax losses utilised	-	22
Depreciation for the period in excess of capital allowances	179	183
Short term timing differences	2	5
Losses carried forward	345	-
Goodwill amortisation and impairment	5,554	623
Current tax charge for period	-	-

The Group has significant tax losses carried forward as disclosed in note 15.

7 Loss per share

	2006		Total	2005 Total
	Continuing	Discontinued		
Loss for the year (£000)	(19,718)	(1,334)	(21,052)	(3,310)
Weighted average number of shares	56,052,142	56,052,142	56,052,142	55,758,985
Basic and diluted loss per share	(35.18)p	(2.38)p	(37.56)p	(5.94)p

Basic and diluted loss per share are the same, as the effect of all potential ordinary shares is not dilutive.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

8 Intangible fixed assets

Group	Acquired licences £000	Goodwill £000	Total £000
Cost			
At 1 October 2005	1,217	39,833	41,050
Adjustment following final earnout	-	(50)	(50)
Disposal of subsidiary undertaking	-	(719)	(719)
At 30 September 2006	1,217	39,064	40,281
Amortisation			
At 1 October 2005	244	2,523	2,767
Charge for period	243	1,999	2,242
Impairment	730	15,540	16,270
Disposal of subsidiary undertaking	-	(84)	(84)
At 30 September 2006	1,217	19,978	21,195
Net book value			
At 30 September 2006	-	19,086	19,086
At 30 September 2005	973	37,310	38,283
Company			
			Acquired licences £000
Cost			
At 1 October 2005			1,217
Additions			-
At 30 September 2006			1,217
Amortisation			
At 1 October 2005			244
Charge for period			243
Impairment			730
At 30 September 2006			1,217
Net book value			
At 30 September 2006			-
At 30 September 2005			973

Notes to the Accounts

for the year ended 30 September 2006 (continued)

9 Tangible fixed assets	Improvements to leasehold property £000	Freehold land and buildings £000	Plant and machinery £000	Total £000
Group				
Cost				
At 1 October 2005	1,043	291	6,195	7,529
Additions	55	-	542	597
Disposals	(128)	-	(774)	(902)
Disposal of subsidiary	(33)	-	(142)	(175)
At 30 September 2006	937	291	5,821	7,049
Depreciation				
At 1 October 2005	796	85	4,759	5,640
Charge for the period	101	11	505	617
Disposals	(128)	-	(751)	(879)
Disposal of subsidiary	(29)	-	(117)	(146)
At 30 September 2006	740	96	4,396	5,232
Net book value				
At 30 September 2006	197	195	1,425	1,817
At 30 September 2005	247	206	1,436	1,889

The net book value of amounts included within plant and machinery includes £Nil (2005: £24,000) in respect of assets held under finance leases and hire purchase contracts; the depreciation charge in respect of these assets was £1,495 (2005: £7,000).

Notes to the Accounts

for the year ended 30 September 2006 (continued)

10 Investments

Group	Joint venture £000	Other unlisted investments £000	Total £000
Cost or valuation			
At 1 October 2005	2,380	98	2,478
Additions	288	123	411
At 30 September 2006	2,668	221	2,889

Joint Venture

The principal shareholders of First Radio Sales Limited (FRS) are:

	Holding
The Local Radio Company PLC (TLRC)	50%
Ulster Television plc (UTV)	50%

First Radio Sales Limited is registered in England and Wales (registration number 02795622) and was incorporated on 3 March 1993.

First Radio Sales Limited is a National Advertising Sales Agency with its principal place of business being 18 Hatfields, London. TLRC and UTV share equally in the risks and rewards of the joint venture. All management decisions are made by the board of FRS. TLRC and UTV both appoint two directors to the board, who then appoint a Chairman.

The Group's share of retained profits is as follows:

	Capital and reserves £000	Profit for the year £000
First Radio Sales Limited	353	287

Notes to the Accounts

for the year ended 30 September 2006 (continued)

10 Investments (continued)

Other investments

Additional information regarding principal investments where TLRC owns 10% or more of the nominal value of the issued share capital is as follows:

Name of company	Attributable percentage	Status
Fresh Radio Limited*	12.3	Unlisted
Blackburn Broadcasting Limited*	32.5	Unlisted
Barrow Broadcasting Company Limited	35.0	Unlisted

These companies are registered in England and Wales. The above investments are treated as trade investments and not associated undertakings on the basis that the Company is not able to exert significant influence.

* TLRC's interest in this company is held by Two Boroughs Radio Limited.

* TLRC's interest in this company is held by Radio Investments Limited.

The aggregate amount of capital and reserves for the financial year where the Group's holding is 25% or greater were as follows:

	Capital and reserves £000	Loss for the year £000
Blackburn Broadcasting Limited	153	(232)
Barrow Broadcasting Company Limited	123	(91)

Company	Shares in subsidiary undertakings £000
Cost	
Balance at 1 October 2005	40,580
Additions	268
Impairment	(22,736)
Balance at 30 September 2006	18,112

Notes to the Accounts

for the year ended 30 September 2006 (continued)

10 Investments (continued)	Description of shares held	Proportion of voting rights and ordinary share capital attributable to the Group at 30 September 2006	
Subsidiary undertakings		Group %	Company %
^ Alpha Radio Limited	Ordinary £1	100	
^ Bucks Broadcasting Limited	Ordinary £1	100	
^ Central FM Limited	Ordinary £1	64	
^ Conqueror Broadcasting Limited	Ordinary £1	100	
^ Minster Sound Radio Limited (MSR)	Ordinary £1	100	
+ Bridlington Radio Limited	Ordinary £1	100	
+ Huddersfield FM Limited	Ordinary £1	100	
+ Minster Sound Radio (York) Limited	Ordinary £1	100	
+ Yorkshire Coast Radio Limited	Ordinary £1	100	
^ Mix 107 FM Limited	Ordinary £1	100	
^ Radio Services Limited (RSL)	Ordinary £1 "A" & £1 "B"	100	
Radio Investments Ltd (RIL)	Ordinary 10p	100	100
^ Sovereign Radio Limited	Ordinary 1p	100	
^ Silk FM Limited	Ordinary £1	100	
^ Stray FM Limited	Ordinary 50p	100	
^ Sun FM Limited	Ordinary £1	100	
^ West Country Radio Holdings Limited (WCRH)	Ordinary £1	100	
* Fire Media Limited	Ordinary 10p	80	
* Isle of Wight Radio Limited	Ordinary £1	100	
* Spire FM Limited	Ordinary £1	100	
** Three Towns Radio Limited	Ordinary £1	100	
* The Quay Radio Limited	Ordinary 1p	100	
* Vale FM Limited	Ordinary £1	100	
* Wessex Broadcasting Limited	Ordinary £1	100	
+ Two Boroughs Radio Limited	Ordinary £1	100	
Dune FM Limited	Ordinary £1	100	100
^ Ivel FM Limited	Ordinary £1	100	
# South West Sussex Radio Limited	Ordinary £1	100	
Merseyside's The Rocket Limited	Ordinary £1	100	100
Bath Radio Limited	Ordinary £1 "A" & 10p "B"	100	100
^ Durham FM Limited	Ordinary £1	100	
TLRC Enterprises Limited	Ordinary £1	100	100
Brunel FM Limited	Ordinary £1	100	100
^ Mowbray Radio Limited	Ordinary £1	100	

+ TLRC's interest in these companies is held by MSR.

* TLRC's interest in these companies is held by WCRH.

** TLRC's interest in this company is held by Spire FM Limited.

^ TLRC's interest in these companies is held by RIL

TLRC's interest in the company is held by Wessex Broadcasting Limited

The principal activity of the above companies at the year end is that of operating local radio licences, save that WCRH, RSL, RIL and MSR are radio management and holding companies and TLRC Enterprises Limited developed ancillary revenues including, but not exclusively, web, digital, concert and other entertainment related activity. All of the above subsidiary undertakings are included within the consolidated financial statements.

All the companies are registered in England and Wales, except Central FM Limited, which is registered in Scotland.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

11 Debtors

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Trade debtors	2,389	2,882	8	4
Amounts owed by subsidiary undertakings	-	-	5,026	5,489
Other debtors	17	121	-	17
Prepayments and accrued income	908	845	10	4
	3,314	3,848	5,044	5,514

12 Creditors: amounts falling due within one year

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Bank loans and overdrafts	410	19	-	-
Hire purchase and finance leases	-	7	-	-
Trade creditors	948	730	82	56
Other taxation and social security	705	685	-	-
Other creditors	935	867	99	101
Accruals and deferred income	1,191	1,288	92	62
	4,189	3,596	273	219

13 Creditors: amounts falling due after more than one year

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Bank loans due:				
- In more than one year but not more than two years	9	19	-	-
- In more than two years but not more than five years	19	6	-	-
	28	25	-	-
Hire purchase and finance leases due:				
- In more than one year but not more than five years	2	22	-	-
	30	47	-	-

The bank loans are secured on a freehold property and during the year carried an average interest rate of 7.5%. The loan is due to be fully repaid during the year to Sept 2008. Leases are secured on the assets to which they relate.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

14 Financial instruments

Objectives, policies and strategies

It is, and has been throughout the year under review, the Group's policy not to use or trade in derivative financial instruments.

The Group's financial instruments comprise its borrowings, consisting of finance lease liabilities, cash and short-term deposits, bank loans and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial liabilities is to provide finance for the Group's operations. The main purpose of the financial assets is to provide a store of liquid resources.

The Group has no exposure to foreign currency risk; thus the main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. These policies have remained unchanged throughout the period under review.

Interest rate risk

The Group primarily finances its operations through the raising of equity finance from its shareholders and thus is not generally exposed to interest rate risk on financial liabilities. However, a small amount of financing of fixed assets has been achieved using finance leases. The Group has one commercial mortgage secured on a freehold property in Macclesfield.

The Group's policy is to ensure that to the best of its ability it maximises the interest income on its surplus cash. This involves placing cash in a mix of fixed rate and floating rate short-term deposits. There is no prescribed ratio of fixed to floating rate balances.

Liquidity risk

The Group's policy throughout the period under review has been to ensure the continuity of funding. The Directors consider that they have sufficient funding from the equity placing in November 2006 to provide funds for the Group's operations without having to resort to further financing until appropriate acquisition opportunities arise.

Credit risk

Debtors are granted 30 days credit if the appropriate credit checks allow, or pay on a prepayment basis. Suppliers are paid to terms wherever possible. Currently bad debts are running at less than 1.5% of total revenue.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from the disclosures.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

14 Financial Instruments (continued)

The interest rate profile of the Group's financial assets at 30 September 2006 and 30 September 2005 were:

	2006 £000	2005 £000
Cash and short-term deposits - floating rate	-	12
Short-term deposits - fixed rate	-	1,127
	-	1,139

All of the above amounts are in sterling. The cash and short-term deposits earn interest at 0.5% below the Nat West Bank base rate.

Floating rate liabilities comprise finance leases bearing interest at Nat West Bank base rate plus a margin of 2.85% per annum which are fixed in advance for periods of between one month and six months.

The interest rate profile of the Group's financial liabilities was:

	2006 £000	2005 £000
Loans – floating rate	438	44
Finance lease obligations – floating rate	2	29
	440	73

All of the above amounts are in sterling.

There are no material differences between the fair value and the book value of the Group's financial assets and liabilities as at 30 September 2006.

15 Provisions for liabilities

Group

Deferred taxation	£000
At 1 October 2005	-
Credit to the profit and loss account	-
At 30 September 2006	-

The Group has tax losses carried forward of £8,008,000 (2005: £6,523,000).

No deferred tax asset has been recognised due to the uncertainty of future suitable taxable profits.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

16 Share capital	2006 £000	2005 £000
Authorised:		
100,000,000 Ordinary shares of 4p each	4,000	4,000
Allotted, called up and fully paid:		
56,201,588 (2005 – 55,791,455) ordinary shares of 4p each	2,248	2,232
	Number	£000
At 1 October 2005	55,791,455	2,232
Issue of 4p ordinary shares to settle deferred consideration in respect of the acquisition of Bath FM	410,133	16
At 30 September 2006	56,201,588	2,248

At 30 September 2006, the Company had options outstanding as follows:

Option	Grant Date	Number of Ordinary shares under Option	Exercise Price (£)	Exercisable not earlier than
Unapproved Share Option Plan	21-May-04	80,000	0.95	21-May-07
	07-Apr-05	32,500	0.89	07-Apr-08
	05-Sep-05	25,000	0.705	05-Sep-08
	07-Nov-05	25,000	0.695	07-Nov-08
	27-Feb-06	1,091,794	0.395	27-Feb-09
Sharesave Scheme	01-Sep-04	37,692	0.95	01-Sep-07
	24-Mar-06	321,720	0.395	01-May-09
Approved Share Option Plan	18-Oct-04	487,258	1.105	18-Oct-07
	16-Dec-04	10,000	0.965	16-Dec-07
	01-Jul-05	34,200	0.725	01-Jul-08

Approved and Unapproved Option Plans have an exercise period of seven years and the SAYE scheme has an exercise period of six months. There are no performance criteria attached to the Approved Share Option Plan or Sharesave Scheme. The Unapproved Share Options issued in April, September and November 2005 were granted as a result of successful radio station licence awards.

Notes to the Accounts

for the year ended 30 September 2006 (continued)

17 Statement of movements on reserves

Group	Share premium £000	Other reserves £000	Shares to be issued £000	Profit and loss account £000
Balance at 1 October 2005	45,501	133	225	(4,158)
Reserve arising on issue of ordinary shares	-	154	-	-
Deferred consideration settled by the issue of ordinary shares	-	-	(225)	-
Loss for the period	-	-	-	(21,015)
Balance at 30 September 2006	45,501	287	-	(25,173)

Company	Share premium £000	Other reserves £000	Shares to be issued £000	Profit and loss account £000
Balance at 1 October 2005	45,501	133	225	(1,023)
Reserve arising on issue of ordinary shares	-	154	-	-
Deferred consideration to be settled by the issue of ordinary shares	-	-	(225)	-
Loss for the period	-	-	-	(24,126)
Balance at 30 September 2006	45,501	287	-	(25,149)

The other reserves relate to Section 131 relief in respect of shares issued as part of the consideration for the acquisitions of South West Sussex Radio Limited and Bath Radio Limited.

18 Reconciliation of movements in shareholders' funds

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Loss for the period	(21,015)	(3,297)	(24,126)	(885)
Issues of ordinary shares	16	6	16	6
Reserve arising on issue of ordinary shares	154	133	154	133
Deferred consideration to be settled by the issue of ordinary shares	(225)	225	(225)	225
Net reduction in shareholders' funds	(21,070)	(2,933)	(24,181)	(521)
Opening shareholders' funds	43,933	46,866	47,068	47,589
Closing shareholders' funds	22,863	43,933	22,887	47,068

Notes to the Accounts

for the year ended 30 September 2006 (continued)

19 Profit of The Local Radio Company PLC

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The Group loss for the year includes a loss after tax of £24,126,000 (2005 - £885,000) which is dealt with within the financial statements of the parent company. This loss includes impairment of investment carrying values of £22,736,000

20 Operating lease commitments

At 30 September 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	2006 Land and Buildings £000	2006 Other £000	2005 Land and Buildings £000	2005 Other £000
Leases which expire:				
Within one year	11	64	8	186
Within two to five years	136	94	185	156
After five years	567	76	490	70
	714	234	683	412

21 Reconciliation of Group operating loss to net cash outflow from operating activities

	2006 £000	2005 £000
Operating loss	(21,049)	(3,440)
Depreciation of tangible fixed assets	617	647
Amortisation and impairment of intangible fixed assets	18,512	2,321
Decrease/(Increase) in debtors	517	(715)
Increase in creditors	210	1,322
Net cash (outflow)/inflow from operating activities	(1,193)	135

Notes to the Accounts

for the year ended 30 September 2006 (continued)

22 Reconciliation of net cash flow to movement in net (debt)/funds

	2006 £000	2005 £000
Decrease in cash	(1,549)	(2,770)
Cash outflow from decrease in net funds	43	18
Change in net debt resulting from cash flows	(1,506)	(2,752)
Other non-cash items		
New finance leases	-	(30)
Movement in net debt	(1,506)	(2,782)
Net funds brought forward	1,066	3,848
Net (debt)/funds carried forward	(440)	1,066

23 Analysis of net funds/(debt)

	At 1 October 2005 £000	Cash flow £000	Other movements £000	At 30 September 2006 £000
Cash at bank and in hand/bank overdrafts	1,139	(1,549)	-	(410)
Debt due after one year	(25)	7	9	(9)
Debt due within one year	(19)	9	(9)	(19)
Finance leases	(29)	27	-	(2)
	1,066	(1,506)	-	(440)

Notes to the Accounts

for the year ended 30 September 2006 (continued)

24 Disposals

On 4 September 2006 the Group sold its interest in Winchester Independent Radio Limited. The net assets disposed of and the consideration received are set out below:

	£000
Net assets disposed of:	
Fixed assets	29
Current assets	30
Current liabilities	(19)
Long term liabilities	(43)
	<hr/>
	(3)
	<hr/>
Unamortised goodwill	634
Legal expenses	10
Loan write-off	39
	<hr/>
	680
	<hr/>
Consideration received:	
Cash proceeds	400
	<hr/>
Loss on sale	(280)
	<hr/>

25 Post balance sheet events

On 31 October 2006 the Company sold the entire share capital of Merseyside's The Rocket Limited for £100,000 in cash, £40,000 of which has been deferred. The unamortised goodwill arising on the acquisition of the Company has been written down to its recoverable amount in these financial statements.

On 23 November 2006 The Local Radio Company PLC announced that it had placed 15.8 million new ordinary shares of 4 pence each at a price of 19 pence per share raising £3 million (£2.8 million net of expenses). The conditions for the placing were satisfied on 29 November 2006. 11,322,194 of the new shares have been placed with Hallwood Investments Limited and the balance of 4,677,806 new shares have been placed with existing institutional shareholders of the Company.

In conjunction with the investment by Hallwood Investments two new Non-executive Directors have been appointed, Anthony Gumbiner and Rhys Davies, who joined the Board on 29 November 2006.