

Contents

	Page
Directors and Advisers	2
Chairman's Statement	3
Financial Review	6
Directors' Report	7
Report of the Independent Auditors	15
Consolidated Profit and Loss Account	17
Consolidated statement of total recognised gains and losses	18
Consolidated Balance Sheet	19
Company Balance Sheet	20
Consolidated Cash Flow Statement	21
Notes to the Accounts	22

Directors and Advisers

Directors

Richard Wheatly, Executive Chairman
Sonita Alleyne, Non-executive Director
Rhys Davies, Non-executive Director
Anthony Gumbiner, Non-executive Director
Alistair Mackenzie, Finance Director
John Perriss, 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

Landsbanki Securities (UK) Limited
15 St Botolph Street
LONDON
EC3A 7QR

Broker

Landsbanki Securities (UK) Limited
15 St Botolph Street
LONDON
EC3A 7QR

Solicitors

Dorsey and Whitney
21 Wilson Street
London
EC2M 2TD

Auditors

BDO Stoy Hayward LLP
2nd Floor
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
0870 1623100 (Shareholder Advice Line)

Chairman's Statement

OPERATIONAL AND FINANCIAL REVIEW

This year has marked a significant positive change in performance across the Group as a result of actions taken to underpin our strategy in a changing landscape for radio in the UK:

- Revenues have increased during the year on a like for like (from continuing operations) basis by 2.2% and the business became cash positive for the period May to September.
- Our cost reduction programme reduced overheads by 5% and we have disposed of non core stations.
- Local station radio brands have been extended into a new local website offering which is proving successful with listeners and advertisers.
- The First Radio Sales business has launched a web sales division.
- A successful cash injection of £2.8 million has positioned the Group to benefit from market opportunities
- First Radio Sales generated record commission revenues of over £2 million.
- Audiences continue to grow across the Local Radio Company's stations.

Market improvement

The much noted market decline in advertising revenues that had continued during the first half of the year have relented and revenues for the industry were up by 3% for the second half. Throughout the period the Local Radio Company has outperformed the rest of the radio sector and we believe that the unique appeal of local radio brands, as opposed to our regional and national brand peers, has enabled the Company to track a more robust course in tough markets.

Revenue increase

Revenue at five of our radio stations exceeded £1 million and six others achieved between £750,000 and £1 million. One of our larger stations, Sun FM, achieved its best ever performance with £1.2 million in revenue and one of our newer stations, Durham FM, achieved sales of £628,000 in its first full year. In June 2007 we launched Northallerton FM, a small station which joins our North East and Yorkshire clusters.

Audience growth

The strong run of audience growth continues across our stations and RAJAR results for Quarter 3 2007 confirm that we now reach a total audience of 920,000 weekly listeners who listen for 7.5 million hours across our 27 stations. A year ago the Company had 900,000 weekly listeners listening for 7 million hours.

Cost reduction

We have continued with the programme to reduce our cost base and develop the business for the future. On 31 October 2006 the Company sold the entire share capital of Merseyside's The Rocket Limited for £100,000, £40,000 of which was deferred. We also discontinued our loss making Enterprises operation at the end of the last financial year. Our total overheads, excluding provision for share based payments, fell by £727,000 against the previous year, a reduction of 5%.

New revenue streams

Given the strong loyalty of local radio audiences we are benefiting from technological developments and the many options now available to audiences to listen to our medium. We have made solid progress during the period in leveraging the Company's 920,000 listener base. We have made a significant investment in our online strategy, extending our strong local brands and have started to generate new, non-traditional, revenue streams.

In the second half new websites have been launched across the Group, encouraging interactivity, with online streaming of our radio stations and providing opportunities for our advertisers to market their products or services across both platforms through the Company's Microsite Development Offering for advertisers. This approach marries online and radio advertising and reflects growing listenership via the websites across each of our 27 stations. Many of the Company's advertisers are local enterprises without the scale to develop their own online marketing platform.

Chairman's Statement (continued)

During the period we completed a transaction which has created another exciting new model for the business by linking two dynamic media platforms. At the end of the financial year we entered into a commercial arrangement with Portsmouth Football Club ("PFC"). The Company transferred the entire issued capital of The Quay, Isle of Wight Radio and Spirit FM to a new company, Quadrant Media Limited, and PFC purchased a 26% stake for £1 million. PFC will have the right to increase their shareholding to 50% during the period to 28 September 2008 on the payment of a further cash sum of £950,000.

First Radio Sales

The Company has a 50% shareholding in First Radio Sales Limited which sells airtime for 134 local radio stations across the UK to national media buying agencies and their clients. This is an extremely successful business that has grown since its formation and this year generated record commission revenues of over £2 million. First Radio Sales has launched a new digital sales operation, FRSD, which offers advertisers the opportunity to buy space on many of the websites of the 134 radio stations in its portfolio.

Corporate developments

In November 2006 the Company raised £2.8 million net of expenses and welcomed Hallwood Investments Limited on to the share register and Tony Gumbiner and Rhys Davies onto the Board. I would like to thank Graham Parrott, who stood down from the Board in May, for his support and guidance.

As outlined in a recent EGM circular it is the Board's view that the current market valuation of The Local Radio Company represents a significant discount to the value at which other radio assets have been recently acquired. In October 2007 shareholders authorised the Board to purchase in the market up to 14.99% of the issued Ordinary Shares of the Company. This will have the effect of reducing the Company's equity base thereby increasing cash flow and asset value on a per share basis. The High Court has subsequently authorised the Company to reduce its share premium account, creating distributable reserves that will be used for the share purchase.

Future of Radio

On 22 November 2007, OFCOM published the document: The Future of Radio; the next phase. This statement and consultation had three main themes – localness, ownership rules and digital – and was broadly positive for The Local Radio Company.

We are pleased that OFCOM's statement validates our view of the importance of localness to commercial radio audiences and the acknowledgement by OFCOM that local radio is the default medium for delivering key local information. We also welcome OFCOM's approach on co-location. All of our stations are below the 250,000 adult listener threshold proposed for co-location giving us the opportunity to realise additional operational synergies in future. We also welcome the proposed simplification of ownership rules. However, while simplification will allow further consolidation, we do not expect to see any significant changes in the short term as primary legislation is required to introduce the proposed reforms.

On the third theme of digital, a working group is being set up by OFCOM and the Department of Culture, Media and Sport to assess the conditions needed for digital platforms to become the predominant means of delivering radio in the UK. While we have no sunk investments in digital radio, we intend to play a central role in shaping this process in order to reduce the considerable uncertainty about the timing, technologies and implementation of any future digital switchover.

Market opportunities

There are a number of opportunities in the UK local radio market for consolidation and the Company's resilient performance in the recent challenging market conditions has underlined our ability to integrate stations under the Local Radio Company's umbrella, enabling them to benefit from operating synergies.

In particular, the economies of scale associated with the local radio sector can radically improve efficiencies within many back office functions and we believe that some independent stations would benefit from exploiting these advantages. In addition, their local advertisers could benefit from our integrated marketing approach. The Board is aware of a number of ongoing market developments and is committed to its strategy to grow revenues through acquisitions which demonstrate clear value.

Chairman's Statement (continued)

STRATEGY AND FUTURE OUTLOOK

In addition to pursuing an acquisition strategy in local radio the Board will continue with its successful strategy of developing the business through organic growth, improving our operational performance, optimising our portfolio of radio station assets and developing new revenue streams through the online extension of our local brands. We are pleased that our revenue and bottom line performance for October and November are ahead of last year. Whilst the outlook remains uncertain, we are confident and determined that the improvement in our performance will continue.

Finally, I would like to extend a sincere thank you to all our talented, creative and dedicated staff who have worked hard to enable the Company to make excellent progress.

Richard Wheatly
Executive Chairman

14 December 2007

Financial Review

for the year ended 30 September 2007

FINANCIAL REVIEW

Group turnover

Total Group turnover was £19.13 million for the year, a 5% decrease against 2006. However, discontinued operations attributed £1.46 million to turnover in 2006; when taking this into consideration turnover from continuing operations actually increased by £0.44 million, an increase of 2.2%.

Gross profit

Gross profit for the year increased to £13.59 million, a 2% increase year on year, and the gross profit margin increased to 75%.

Group operating loss

The Group's reported operating loss for 2007 was £10.1 million, after goodwill impairment of £8.5 million (2007: £18.6 million). We have continued to apply strict criteria to our valuations, which are based on discounted future cash flows on a station by station basis rather than being by reference to the market values, which reflect more closely turnover multiples that relate to licence holding. UK GAAP does not reflect the licence values in balance sheets; this is an area that we will review for IFRS adoption purposes.

Our overall performance has improved significantly. The adjusted profit/(loss) before interest, tax, depreciation, amortisation, provision for share based payments and exceptional items for this financial year is a profit of £0.15 million compared to a loss of £1.81 million in the last financial year.

	2007	2006
	£000	(As restated) £000
Group operating loss	(10,101)	(21,084)
Share of operating profit in JV	282	277
Profit/(loss) on sale of sub	795	(280)
Loss before interest	(9,024)	(21,087)
Depreciation	555	617
Amortisation and Impairment	8,524	18,512
Provision for share based payments	98	35
Exceptional items	-	89
Adjusted operating profit/(loss)	153	(1,834)

Cash

There was a net cash increase of £2.89 million during the year. This was as a result of the cash raised through the share placing in November 2006 and also the more recent arrangement with Portsmouth Football Club. The Group has substantial cash balances and expects to generate cash during the new financial year. As outlined in this report the Company is planning to utilise some of this cash to make market purchases of its own shares.

Directors' Report

for the year ended 30 September 2007

The Directors have pleasure in presenting their Annual Report together with the audited financial statements for the year ended 30 September 2007.

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 and financial review on pages 3 to 6.

Results and dividends

The adjusted profit/(loss) before interest, tax, depreciation, amortisation, provision for share based payments and exceptional items for this financial year is a profit of £0.15 million compared to a loss of £1.83 million in the last financial year.

	2007	2006
	£000	(As restated) £000
Group operating loss	(10,101)	(21,084)
Share of operating profit in JV	282	277
Profit/(loss) on sale of sub	795	(280)
Loss before interest	(9,024)	(21,087)
Depreciation	555	617
Amortisation and Impairment	8,524	18,512
Provision for share based payments	98	35
Exceptional items	-	89
Adjusted operating profit/(loss)	153	(1,834)

The loss on ordinary activities before taxation was £8,953,000 (2006 - £21,087,000).

The loss after taxation and minority interests was £8,914,000 (2006 - £21,050,000).

The directors do not recommend the payment of a dividend (2006 – £nil).

Directors' Report

for the year ended 30 September 2007 (continued)

At the financial year end the Board of The Local Radio Company comprised 4 Non-executive directors, 2 of whom are independent, and 2 Executive directors.

Directors who held office during the year were as follows:

Graham Parrott (resigned 21 May 2007)

Richard Wheatly

Sonita Alleyne

Alistair Mackenzie

John Perriss

Anthony Gumbiner (appointed 29 November 2006)

Rhys Davies (appointed 29 November 2006)

Biographies of the directors are set out on page 9. Each director has extensive and relevant business experience.

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. Details of those directors are contained in the Annual General Meeting notice.

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
Richard Wheatly	1,810,300	832,226	1,660,525	341,317
Alistair Mackenzie	1,074,158	622,600	1,063,158	258,964
John Perriss	-	-	-	-
Sonita Alleyne	-	-	-	-
Rhys Davies	-	-	-	-
Anthony Gumbiner (Hallwood Investments Limited)	20,350,434	-	-	-

Details of directors' share options are as follows:

	1 October 2006	Granted	30 September 2007	Exercise price	Date from which exercisable	Expiry date
Richard Wheatly						
Unapproved plan	317,647	-	317,647	£0.395	27 Feb 2009	26 Feb 2016
Unapproved plan	-	490,909	490,909	£0.2625	14 Dec 2009	13 Dec 2016
SAYE	23,670	-	23,670	£0.395	01 May 2009	31 Oct 2009
Alistair Mackenzie						
Unapproved plan	235,294	-	235,294	£0.395	27 Feb 2009	26 Feb 2016
Unapproved plan	-	363,636	363,636	£0.2625	14 Dec 2009	13 Dec 2016
SAYE	23,670	-	23,670	£0.395	01 May 2009	31 Oct 2009

There are no performance criteria attached to the Unapproved Plan or SAYE Scheme. The market price of the shares at 30 September 2007 was 25.5p. The highest market price during the year was 26.75p and the lowest was 18p.

Directors' Report

for the year ended 30 September 2007

Brief biographical details of the directors are set out below.

Richard Wheatly (age 61) – Executive Chairman

Richard is Chairman of Info.com, a US based Internet search engine company and has recently been appointed as a Government director of Working Links Limited, a BERR appointment. Richard was Chief Executive of jazz fm plc from 1995 to 2002.

John Perriss (age 59) – 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.

Alistair Mackenzie (age 43) – 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 as Mama PLC. 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.

Sonita Alleyne OBE (age 40) - 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 62) - 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 39) - 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 Director of Hallwood Investments Limited and 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 2007 (continued)

Significant shareholders as at 30 September 2007

	Number of Ordinary Shares	Percentage Holding
Hallwood Investments Limited	20,350,434	28.26
AIM Realisation Fund Limited	9,557,301	13.27
Goldman Sachs International	8,055,177	11.19
Aviva Plc	7,768,263	10.79
Herald Investment Management	3,661,064	5.08

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 2007 was 35 (2006 – 43). The number of average days purchases of the Company represented by trade creditors at 30 September 2007 was 98 (2006 – 122).

Post balance sheet events

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

Share issues

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 were placed with Hallwood Investments Limited and the balance with existing institutional shareholders of the Company.

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 Board meets eight times a year, although it is likely that meetings will be every two months in the new financial year. The role of Chairman and Chief Executive Officer were combined in June 2007 and filled by Richard Wheatly. The Board believes that this is the most appropriate structure for the Company at its current stage of development and that there is sufficient balance within the Board as a whole to facilitate a sound decision making process and control environment. John Perriss was also appointed as the Senior Independent Director in June 2007.

The Directors have adopted the AIM Model Code and have established Audit, Nomination and Remuneration committees. The three committees consist of the Senior Independent Non-executive Director and two of the 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.

Directors' Report

for the year ended 30 September 2007 (continued)

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 2007 and the year ended 30 September 2006 was as follows:

	Year to 30 September 2007			Year to Sept 2006 Total £000	Year to Sept 2007 Pensions £000	Year to Sept 2006 Pensions £000
	Salaries and fees £000	Benefits £000	Total £000			
Executive Directors						
Richard Wheatly	135	12	147	149	20	20
Alistair Mackenzie	100	12	112	112	15	15
Simon Cooke (resigned 30 Sept 2006)	-	-	-	161	-	14
Non-executive Directors						
Graham Parrott	33	-	33	50	-	-
Sonita Alleyne	20	-	20	20	-	-
John Perriss	20	-	20	20	-	-
Anthony Gumbiner	-	-	-	-	-	-
Rhys Davies	-	-	-	-	-	-
	308	24	332	512	35	49

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

Throughout the year we have undertaken a number of HR initiatives including revision of compensation and benefits packages. Staff engage in annual performance development reviews and we actively talent manage. We have continued to invest in our training and development and are currently implementing e-learning opportunities. We encourage our staff to progress and promote internally wherever possible.

Directors' Report

for the year ended 30 September 2007 (continued)

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.

Social and Community Projects

Through the work of our radio stations the Company actively supports a wide range of social and community projects. A number of our stations organise "Local Hero Awards" to recognise the contribution of local people in the community. Many stations support a local charity of the year and all stations attend and promote a wide range of charity and community events in their broadcast areas.

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.

Key performance indicators

In radio the main key performance indicators (KPI's) are measures of audience, amounts sold and price; many of these are commercially confidential. The following KPI's are in the public domain. The audience figures show our inventory and the increase in hours on fixed prices would lead to an increase in national revenue which is a small proportion of our total revenues. It is also a measure of company performance over time. Our debtor days are good and our commercial market position is encouraging as it shows how important our stations are in their respective commercial radio marketplaces.

	2007	2006
* Total Audience	920,000	900,000
* Total listening hours	7.5 million	7.0 million
* Share of listening in own TSA	8.3%	7.4%
Debtor days	47	46
Stations No.1 in commercial marketplace	12	12
Stations No.2 in commercial marketplace	6	6

* RAJAR quarterly summary of Radio Listening

Environmental Matters

The nature of our business means that we are unlikely to be a major polluter but the Board is mindful of the potential impact on the environment of Group activities. We recognise our responsibility to the environment in areas such as energy management, paper usage, waste reduction and recycling, and communications. We are in the process of undertaking a company wide review of our environmental policy.

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

Directors' Report

for the year ended 30 September 2007 (continued)

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.

As with any business, we face a number of risks in the total environment in which we operate. We have identified the principal areas and taken steps to control them and reduce their likely impact on the Business.

- **Economic and market conditions**

The economy is a major influence on consumer spending which in turn can affect the businesses upon whose advertising we depend. Trends in employment, inflation, taxation, consumer debt levels and interest rates impact on consumer demand and spending. Any changes in the levels of trends of advertising spend could have a marked effect on our performance. Whilst predicting future trends is very difficult, the Board feels that our internal processes are sufficiently robust for the identification, monitoring and managing of our business risks.

- **New Revenues**

We are actively developing new revenue streams to reduce the Company's reliance on traditional advertising revenue. It is therefore important that our online strategy succeeds and we have invested in both the key management of this area of our business and in the training of our staff.

- **Competition**

The consumer has far greater listening choice than ever before whether through a traditional analogue set, digital radio, the internet or satellite. We are conscious of the choices available and already stream our stations via our internet sites. We are aggressively pursuing our strategy of ensuring our stations are the first place to tune to for local news, local events and local stories by investing in our programming and training and ensuring we are constantly engaging with our local communities and businesses.

- **Recruitment and retention of talent**

Our employees, particularly our programmers and our sales executives, are our most important assets. To maintain our competitive advantage, we need to attract and retain these key employees and management personnel. We believe that our culture and strong training, along with our incentive programmes, enable us to attract and retain key staff in a highly competitive market place.

- **Future of Radio**

There is uncertainty about the exact shape that the radio industry will take over the next few years, in terms of operators, platforms, digital take-up and stations, additionally the ratio of local radio as a share of all radio is continuing to fall. Local commercial listening, however, is still over 30% of all listening and as a group we are continuing to maintain our market position with our RAJAR figures increasing over the last year. We believe that local radio has an important role within our local communities going forward and are ensuring that we continue with our strategy of locally focused brands.

- **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.

Financial instruments

The Group's use of financial instruments is detailed in note 14.

Directors' Report

for the year ended 30 September 2007 (continued)

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' 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 year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that 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 accounts; 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 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 Company 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

14 December 2007

Report of the Independent Auditors

To the shareholders of The Local Radio Company PLC

We have audited the consolidated and parent company financial statements (the "financial statements") of The Local Radio Company PLC (the "Group") for the year ended 30 September 2007 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement, and the related notes. These consolidated 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 consolidated 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 2007 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 2007;
- 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
Gatwick

14 December 2007

Consolidated Profit and Loss Account

for the year ended 30 September 2007

	Note	2007			2006 (As restated) (see note 1)		
		Continuing £000	Discontinued £000	Total £000	Continuing £000	Discontinued £000	Total £000
TURNOVER: Group and share of joint venture							
	2	19,108	20	19,128	18,686	1,461	20,147
Less: share of joint venture turnover		(1,062)	-	(1,062)	(1,044)	-	(1,044)
GROUP TURNOVER		18,046	20	18,066	17,642	1,461	19,103
Cost of sales		(4,480)	(1)	(4,481)	(4,486)	(1,274)	(5,760)
GROSS PROFIT		13,566	19	13,585	13,156	187	13,343
Administrative expenses excluding amortisation and exceptional items		(15,150)	(12)	(15,162)	(14,941)	(885)	(15,826)
Amortisation and exceptional items	4	(8,524)	-	(8,524)	(17,964)	(637)	(18,601)
Administrative expenses		(23,674)	(12)	(23,686)	(32,905)	(1,522)	(34,427)
GROUP OPERATING (LOSS)/PROFIT		(10,108)	7	(10,101)	(19,749)	(1,335)	(21,084)
Share of operating profit in Joint Venture				282			277
Profit/(loss) on sale of subsidiary undertaking				795			(280)
LOSS BEFORE INTEREST				(9,024)			(21,087)
Interest receivable - Group				62			20
- Joint Venture				18			11
Interest payable	3			(9)			(31)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4			(8,953)			(21,087)
Tax on loss on ordinary activities	6			-			-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION				(8,953)			(21,087)
Minority interests				39			37
RETAINED LOSS FOR THE PERIOD	17/18			(8,914)			(21,050)
Loss per share in pence	7						
Basic and diluted				(12.85)p			(37.55)p

The notes on pages 22 to 39 form part of these financial statements.

Consolidated Statement of Total Recognised Gains and Losses
for the year ended 30 September 2007

	2007 £000	2006 £000
Loss for the year	(8,914)	(21,050)
Total recognised gains and losses for the year	(8,914)	(21,050)
Prior year adjustment (see note 1)	(65)	(30)
Total gains and losses recognised since last financial statements	(8,979)	(21,080)

The notes on pages 22 to 39 form part of these financial statements.

Consolidated Balance Sheet

as at 30 September 2007

	Note	30 September 2007		30 September 2006	
		£000	£000	£000	As restated (see note 1) £000
FIXED ASSETS					
Intangible assets	8		10,457		19,086
Tangible assets	9		1,713		1,817
Investment in joint venture	10				
- share of gross assets		2,818		2,802	
- share of gross liabilities		(250)		(134)	
Other fixed asset investments	10	2,568		2,668	
		278		221	
Total investments			2846		2889
			15,016		23,792
CURRENT ASSETS					
Debtors	11	3,151		3,314	
Cash at bank and in hand		2,479		-	
		5,630		3,314	
CREDITORS					
Amounts falling due within one year	12	(3,779)		(4,208)	
NET CURRENT ASSETS/(LIABILITIES)			1,851		(894)
TOTAL ASSETS LESS CURRENT LIABILITIES			16,867		22,898
CREDITORS					
Amounts falling due after more than one year	13		-		(11)
NET ASSETS			16,867		22,887
CAPITAL AND RESERVES					
Called up share capital	16		2,880		2,248
Share premium account	17		47,676		45,501
Other reserves	17		450		352
Profit and loss account	17		(34,152)		(25,238)
SHAREHOLDERS' FUNDS	18		16,854		22,863
Minority interests			13		24
			16,867		22,887

These financial statements were approved by the Board of Directors and authorised for issue on 14 December 2007 and signed on its behalf by:

Richard Wheatly
Executive Chairman

Alistair Mackenzie
Finance Director

The notes on pages 22 to 39 form part of these financial statements.

Company Balance Sheet

as at 30 September 2007

	Note	Year ended 30 September 2007		Year ended 30 September 2006 As restated (see note 1)	
		£000	£000	£000	£000
FIXED ASSETS					
Intangible assets	8	-	-	-	-
Tangible assets		1		3	
Investments	10	10,209		18,112	
			10,210		18,115
CURRENT ASSETS					
Debtors	11	5,973		5,044	
Cash at bank and in hand		907		1	
		6,880		5,045	
CREDITORS					
Amounts falling due within one year	12	(223)		(273)	
NET CURRENT ASSETS			6,657		4,772
TOTAL ASSETS LESS CURRENT LIABILITIES			16,867		22,887
CAPITAL AND RESERVES					
Called up share capital	16	2,880		2,248	
Share premium account	17	47,676		45,501	
Other reserves	17	450		352	
Profit and loss account	17	(34,139)		(25,214)	
SHAREHOLDERS' FUNDS			16,867		22,887

These financial statements were approved by the Board of Directors and authorised for issue on 14 December 2007 and signed on its behalf by:

Richard Wheatly
Executive Chairman

Alistair Mackenzie
Finance Director

The notes on pages 22 to 39 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 30 September 2007

	Note	Year ended		Year ended	
		30 September 2007		30 September 2006 (As restated)	
		£000	£000	£000	£000
NET CASH OUTFLOW					
FROM OPERATING ACTIVITIES	21		(882)		(1,193)
RETURNS ON INVESTMENTS					
AND SERVICING OF FINANCE					
Capital redistribution		250		-	
Share of operating profit in joint venture		150		-	
Interest and other investment income received		62		20	
Interest paid		(8)		(30)	
Interest element of finance lease rentals		(1)		(1)	
NET CASH INFLOW/(OUTFLOW) FROM RETURNS			453		(11)
ON INVESTMENTS AND SERVICING OF FINANCE					
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Purchase of tangible fixed assets		(474)		(597)	
Purchase of unlisted investments		(57)		(123)	
Sale of tangible fixed assets		-		23	
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE			(531)		(697)
ACQUISITIONS AND DISPOSALS					
Purchase of subsidiary undertakings		-		(5)	
Disposal of subsidiary undertaking	24	60		400	
Sale of shares in subsidiary undertaking		1,000		-	
NET CASH INFLOW FROM ACQUISITIONS			1,060		395
AND DISPOSALS					
CASH INFLOW/(OUTFLOW) BEFORE FINANCING			100		(1,506)
FINANCING					
Issue of ordinary share capital		3,002		-	
Issue Costs		(195)		-	
Repayment of loans		(18)		(43)	
NET CASH INFLOW/(OUTFLOW) FROM FINANCING			2,789		(43)
INCREASE/(DECREASE) IN CASH	22/23		2,889		(1,549)

The notes on pages 22 to 39 form part of these financial statements.

Notes to the Accounts

for the year ended 30 September 2007

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 2007 using the acquisition method of accounting. The results of subsidiary undertakings are included from the date of acquisition.

Change in accounting policy

During the year the Group adopted FRS 20 - Share based payment leading to prior period charges and charges in the current year as follows:

	2007 £000	2006 £000
Charge for the period	98	35
Prior period adjustment	65	30

Financial Instruments

Financial Instruments are measured initially and subsequently at amortised cost. The Company holds or issues financial instruments to finance its operations. Operations are financed by a mixture of retained profits and bank borrowings. Working capital requirements are met principally out of retained profits. In addition, various financial instruments such as trade debtors and trade creditors arise directly from the Company's operations. The Company does not enter into any hedging arrangements.

The Company is mainly exposed to credit risk from credit sales. It is company policy to assess the credit risk of new customers and to factor the information from these credit ratings into future dealings with the customers. At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

The directors monitor the liquidity and cash flow risk of the Company carefully. Cash flow is monitored by the directors on a regular basis and appropriate action is taken where additional funds are required, for example the arrangement of a new bank loan to purchase a large piece of capital equipment.

Short term debtors and creditors have been excluded from the financial instrument disclosures detailed in note 14.

Goodwill

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.

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 2007 (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 licences 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.

Impairment of assets

The Group assesses at each reporting date whether there is indication that an asset may be impaired. If any such indication exists, or when annual impairment testing of an asset is required, the Group makes an estimate of an asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell or cash-generating unit's value in use and its carrying amount. Where the carrying amount exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These evaluations are corroborated by valuation multiples, quoted share prices if available or other fair value indicators.

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.

Notes to the Accounts

for the year ended 30 September 2007 (continued)

1 Accounting policies (continued)**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.

Share based payments

The fair value of options granted to employees, measured on the grant date, are expensed over the vesting period on a straight-line basis. Market vesting conditions are factored into the fair value of the options granted. A charge is made irrespective of whether market vesting conditions, if any, are satisfied and the cumulative expense is not adjusted for failure to meet these conditions.

Where the terms and conditions of options are modified before they vest any increase in the fair value of the options is expensed over the remaining vesting period.

Share options are valued using the Black-Scholes model.

For details of options present during the year see note 16.

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.

3 Interest payable and interest receivable

	2007	2006
	£000	(As restated) £000
Interest payable		
Bank loans and overdrafts	8	30
Finance lease interest	1	1
	9	31
	2007	2006
	£000	(As restated) £000
Interest receivable		
Group	62	20
Joint venture	18	11
	80	31

Notes to the Accounts

for the year ended 30 September 2007 (continued)

4 Loss on ordinary activities before taxation	2007	2006
	£000	(As restated) £000
Loss on ordinary activities before taxation is after charging:		
Exceptional items		
- restructuring and related costs	-	89
Remuneration paid by the Company for:		
- audit of Group accounts	24	25
- audit of individual accounts of subsidiary undertakings	73	80
- non-audit services		
- Tax	22	38
- Corporate finance	-	4
- General advice	-	6
Depreciation	555	617
Impairment and amortisation of intangible assets	8,524	18,512
Rentals under operating leases	1,021	1,050
Equity settled share based payments	98	35

Restructuring and related costs include redundancy and contractual settlements.

5 Information regarding directors and employees	2007	2006
	Number	(As restated) Number
The average number of persons employed by the Group (including executive directors) during the year was as follows:		
Management and administration	66	69
Sales	121	122
Programming	117	136
	304	327

There were no employees paid directly by The Local Radio Company PLC during the years to September 2007 and September 2006.

	£000	£000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	6,835	7,163
Social security costs	734	763
Pension costs (defined contribution)	139	153
	7,708	8,079
Directors' remuneration was as follows:		
Directors' emoluments	308	415
Pension contributions	35	49
	343	464

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 £12,475 payable at 30 September 2007 (2006 - £14,194).

The executive directors are in different defined contribution pension schemes. The emoluments of the highest paid director amounted to £135,000 (2006: £135,000), and Company contributions to the defined contribution pension scheme amounted to £20,000 (2006: £20,000). Further disclosures on the remuneration of each individual director are given in the Directors' report on pages 7 to 14.

Notes to the Accounts

for the year ended 30 September 2007 (continued)

6 Tax on loss on ordinary activities

	2007	2006
		(As restated)
Analysis of charge in period	£000	£000
Current tax		
UK corporation tax on profits of the period	-	-
Total current tax	-	-
Deferred tax		
Origination and reversal of timing differences	-	-
Tax on loss on ordinary activities	-	-
Reconciliation of current tax charge		
Loss on ordinary activities before tax	(8,953)	(21,087)
Loss on ordinary activities multiplied by standard rate of UK corporation tax of 30%	(2,686)	(6,326)
Effects of:		
Expenses not deductible for tax purposes	-	236
Non taxable profit on disposal of shares	(286)	-
Depreciation for the period in excess of capital allowances	171	179
Short term timing differences	(25)	2
Losses carried forward	269	355
Goodwill amortisation and impairment	2,557	5,554
Current tax charge for period	-	-

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

7 Loss per share

	2007	2006
		(As restated)
	Total	Total
Loss for the year (£000)	(8,914)	(21,050)
Weighted average number of shares (Basic)	69,361,040	56,052,142
Basic loss per share	(12.85)p	(37.55)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 2007 (continued)

8 Intangible fixed assets

Group	Acquired licences £000	Goodwill £000	Total £000
Cost			
At 1 October 2006	1,217	39,064	40,281
Eliminated on sale of shares in subsidiary	-	(1,412)	(1,412)
At 30 September 2007	1,217	37,652	38,869
Amortisation			
At 1 October 2006	1,217	19,978	21,195
Impairment	-	8,524	8,524
Eliminated on sale of shares in subsidiary	-	(1,307)	(1,307)
At 30 September 2007	1,217	27,195	28,412
Net book value			
At 30 September 2007	-	10,457	10,457
At 30 September 2006	-	19,086	19,086

Goodwill acquired through business combinations has been allocated to cash-generating units for impairment testing. Where a business is not cash generating no goodwill has been allocated even if it is anticipated that the business should become cash generating in the future.

The carrying amount of each cash generating unit has been determined on a value in use calculation using discounted cash flow projections based on budgets approved by the directors extrapolated over a four year period. The pre-tax discount rate applied to cashflow projections is 15% (2006 - 15%) and cashflows are extrapolated using a 2.25% constant growth rate (2006 - 2.25%) in line with current growth patterns.

Company	Acquired licences £000
Cost	
At 1 October 2006 and 30 September 2007	1,217
Net book value	
At 1 October 2006 and 30 September 2007	-

Notes to the Accounts

for the year ended 30 September 2007 (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 2006	937	291	5,821	7,049
Additions	21	-	453	474
Disposals	(15)	-	(100)	(115)
Reclassifications	50	(3)	(47)	-
Disposal of subsidiary	-	-	(30)	(30)
At 30 September 2007	993	288	6,097	7,378
Depreciation				
At 1 October 2006	740	96	4,396	5,232
Charge for the period	74	8	473	555
Disposals	(13)	-	(100)	(113)
Reclassifications	27	1	(28)	-
Disposal of subsidiary	-	-	(9)	(9)
At 30 September 2007	828	105	4,732	5,665
Net book value				
At 30 September 2007	165	183	1,365	1,713
At 30 September 2006	197	195	1,425	1,817

The net book value of amounts included within plant and machinery includes £Nil (2006: £Nil) in respect of assets held under finance leases and hire purchase contracts; the depreciation charge in respect of these assets was £Nil (2006: £1,495).

The book cost of freehold land that is not being depreciated is £35,000 (2006 - £35,000).

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 2006	2,668	221	2,889
Additions	-	57	57
Share of JV profits	300	-	300
Distributions	(400)	-	(400)
As at 30 September 2007	2,568	278	2,846

The other unlisted investments addition is additional investment in Barrow Broadcasting Company Limited. TLRC's ownership of Barrow Broadcasting Company Limited remains at 35%.

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 Ltd	253	300

Notes to the Accounts

for the year ended 30 September 2007 (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
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 as it does not have a majority shareholding or a majority on any of the Boards. In addition it has no direct influence over the day to day running of the companies. There are shareholder agreements in place for both Blackburn Broadcasting Limited and Barrow Broadcasting Company Limited which prevent any majority shareholder from exerting influence without the majority agreement of other shareholders. Both Blackburn and Barrow have other major shareholders who hold the same amount of shares as The Local Radio Company and these shareholders have equal representation on the Board, along with representation from independent shareholders.

- TLRC's interest in this company is held by Two Boroughs Radio 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	Loss for the year
	£000	£000
Blackburn Broadcasting Limited	69	(87)
Barrow Broadcasting Company Limited	86	(127)

Company	Shares in subsidiary undertakings
	£000
Cost	
Balance at 1 October 2006	18,112
Impairment	(7,443)
Sale of subsidiary	(460)
Balance at 30 September 2007	10,209

An impairment review of the carrying value of investments is carried out annually to ensure that the book value of the Company's investment in its subsidiaries and joint ventures does not exceed their recoverable amount. In assessing value in use, the estimated future cash-flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The recoverable amount of each investment has been determined on the basis of available cash-flow forecasts. The pre-tax discount rate applied to cash-flow projections is 15% (2006 - 15%) and cash-flows are extrapolated using a 2.25% constant growth rate (2006 - 2.25%) in line with current growth patterns.

Notes to the Accounts

for the year ended 30 September 2007 (continued)

10 Investments (continued)	Description of shares held	Proportion of voting rights and ordinary share capital attributable to the Group at 30 September 2007	
Subsidiary undertakings		Group %	Company %
^ Alpha Radio Limited	Ordinary £1	100	
^ Mix 96 Limited	Ordinary £1	100	
^ Central FM Limited	Ordinary £1	64	
^ Arrow FM 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	74	
* Spire FM Limited	Ordinary £1	100	
** Three Towns Radio Limited	Ordinary £1	100	
# The Quay Radio Limited	Ordinary 1p	74	
* Vale FM Limited	Ordinary £1	100	
* Wessex Broadcasting Limited	Ordinary £1	100	
+ Two Boroughs Radio Ltd	Ordinary £1	100	
Dune FM Limited	Ordinary £1	100	100
^ Ivel FM Limited	Ordinary £1	100	
# Spirit FM Limited	Ordinary £1	74	
Bath Radio Limited	Ordinary £1 "A" & 10p "B"	100	100
^ Durham FM Limited	Ordinary £1	100	
TLRC Enterprises Ltd	Ordinary £1	100	100
Brunel FM Limited	Ordinary £1	100	100
^ Quadrant Media Limited	Ordinary £1	74	
^ Northallerton FM 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 these companies is held by Quadrant Media 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 Ltd 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 2007 (continued)

11 Debtors

	Group 2007	Group 2006 (As restated)	Company 2007	Company 2006
	£000	£000	£000	£000
Trade debtors	2,335	2,389	20	8
Amounts owed by subsidiary undertakings	-	-	5,832	5,026
Other debtors	73	17	51	-
Prepayments and accrued income	743	908	70	10
	3,151	3,314	5,973	5,044

12 Creditors: amounts falling due within one year

	Group 2007	Group 2006 (As restated)	Company 2007	Company 2006
	£000	£000	£000	£000
Bank loans and overdrafts	11	429	-	-
Trade creditors	600	948	122	82
Other taxation and social security	706	705	-	-
Other creditors	1,170	935	82	99
Accruals and deferred income	1,292	1,191	19	92
	3,779	4,208	223	273

13 Creditors: amounts falling due after more than one year

	Group 2007	Group 2006 (As restated)	Company 2007	Company 2006
	£000	£000	£000	£000
Secured bank loans due:				
– In more than one year but not more than two years	-	9	-	-
	-	9	-	-
Hire purchase and finance leases due:				
– In more than one year but not more than five years	-	2	-	-
	-	11	-	-

Leases were secured on the assets to which they related, the net book value of which was £Nil.

Notes to the Accounts

for the year ended 30 September 2007 (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 and a bank loan, cash and short-term deposits 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's bank loan is a commercial mortgage loan facility secured by a first legal charge over the mortgaged property.

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 2007 (continued)

14 Financial Instruments (continued)

The interest rate profile of the Group's financial assets at 30 September 2007 and 30 September 2006 were:

	2007	2006 (As restated)
	£000	£000
Cash and short-term deposits – floating rate	308	-
Short-term deposits – fixed rate	2,171	-
	2,479	-

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:

	2007	2006 (As restated)
	£000	£000
Loans – floating rate	11	438
Finance lease obligations – floating rate	1	2
	12	440

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 2007.

15 Provisions for liabilities**Group**

Deferred taxation	£000
At 1 October 2006	-
Credit to the profit and loss account	-
At 30 September 2007	-

The Group has tax losses carried forward of £6,723,000 (2006: £8,008,000).

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 2007 (continued)

16 Share capital	2007	2006
	£000	(As restated)
		£000
Authorised:		
100,000,000 Ordinary shares of 4p each	4,000	4,000
Allotted, called up and fully paid:		
72,001,588 (2006 – 56,201,588) Ordinary shares of 4p each	2,880	2,248
	Number	£000
At 1 October 2006	56,201,588	2,248
Issue of 4p Ordinary shares (at 19p per share)	15,800,000	632
At 30 September 2007	72,001,588	2,880

At 30 September 2007, the Company had options outstanding as follows:

	2007	2007	2006	2006
	Weighted	Number	Weighted	Number
	average		average	
	exercise price		exercise price	
	(pence)		(pence)	
Outstanding at the beginning of the year	60.92	2,145,164	102.91	1,166,570
Granted during the year	26.25	1,506,161	39.92	1,803,973
Lapsed during the year	64.45	474,492	74.35	825,379
Outstanding at the end of the year	43.96	3,176,833	60.92	2,145,164

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. All options have a vesting period of three years. The Unapproved Share Options issued in April, September and November 2005 were granted as a result of successful radio station licence awards.

Share options are valued using the Black-Scholes model with the charge being expensed over the vesting period.

The following table lists the inputs to the model used for valuing share options:

	2007	2006
Dividend yield (%)	0.00	0.00
Expected volatility (%)	30.00	15.00 – 30.00
Risk-free interest rate (%)	5.02	4.14 – 4.69
Share price (£)	0.25	0.70 – 1.00

The volatility assumption, measured as the standard deviation of the logarithmic share price returns, is based on a statistical analysis of daily share prices over the last 18 months, and was measured separately for each grant date. No options have been exercised in the year (2006 – Nil).

Notes to the Accounts

for the year ended 30 September 2007 (continued)

16 Share capital (continued)

The value on these options as of 30 September 2007 was as follows:

Plan	Grant Date	Number of Ordinary shares under Option	Exercise Price (£)	Exercisable not earlier than	Charge made to P&L (£)	Charge to be made in future periods (£)
Unapproved Plan	21-May-04	80,000	0.95	21-May-07	16,136	-
	07-Apr-05	32,500	0.89	07-Apr-08	4,125	879
	05-Sep-05	25,000	0.705	05-Sep-08	2,892	1,302
	07-Nov-05	25,000	0.695	07-Nov-08	2,580	1,503
	27-Feb-06	973,234	0.395	27-Feb-09	47,711	42,364
	14-Dec-06	854,545	0.2625	14-Dec-09	14,044	38,984
Sharesave Scheme	24-Mar-06	254,498	0.395	01-May-09	6,376	6,204
Approved Plan	18-Oct-04	341,512	1.105	18-Oct-07	58,158	972
	16-Dec-04	10,000	0.965	16-Dec-07	1,286	97
	01-Jul-05	32,200	0.725	01-Jul-08	3,621	1,209
	14-Dec-06	557,889	0.2625	14-Dec-09	473	1,314

Subsequent to the year end on 10 December 2007 the Company granted 980,000 options to its directors, exercisable after 10 December 2010 with an expiry date of 9 December 2017 and with an exercise price of 23p.

17 Statement of movements on reserves

Group	Share premium £000	Other reserves £000	Profit and loss account £000
Balance at 1 October 2006 (as restated)	45,501	352	(25,238)
Reserve arising on issue of ordinary shares	2,175	-	-
Provision for share based payments	-	98	-
Loss for the period	-	-	(8,914)
Balance at 30 September 2007	47,676	450	(34,152)

Company	Share premium £000	Other reserves £000	Profit and loss account £000
Balance at 1 October 2006	45,501	352	(25,214)
Reserve arising on issue of ordinary shares	2,175	-	-
Provision for share based payments	-	98	-
Loss for the period	-	-	(8,925)
Balance at 30 September 2007	47,676	450	(34,139)

Notes to the Accounts

for the year ended 30 September 2007 (continued)

18 Reconciliation of movements in shareholders' funds

	Group 2007	Group 2006 (As restated)	Company 2007	Company 2006
	£000	£000	£000	£000
Loss for the period	(8,914)	(21,050)	(8,925)	(24,161)
Reserve arising on provision for share based payments	98	35	98	35
Issues of ordinary shares	632	16	632	16
Reserve arising on issue of ordinary shares	2,175	154	2,175	154
Deferred consideration settled by the issue of ordinary shares	-	(225)	-	(225)
Net reduction in shareholders' funds	(6,009)	(21,070)	(6,020)	(24,181)
Opening shareholders' funds	22,863	43,933	22,887	47,068
Closing shareholders' funds	16,854	22,863	16,867	22,887

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 £8,925,000 (2006 - £24,126,000) which is dealt with within the financial statements of the parent company.

20 Operating lease commitments

At 30 September 2007 the Group had annual commitments under non-cancellable operating leases as follows:

	2007	2007	2006	2006
	Land and Buildings £000	Other £000	(As restated) Land and Buildings £000	(As restated) Other £000
Leases which expire:				
Within one year	26	90	11	64
Within two to five years	166	78	136	94
After five years	420	120	567	76
	612	288	714	234

Notes to the Accounts

for the year ended 30 September 2007 (continued)

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

	2007	2006
	£000	(As restated) £000
Operating loss	(10,101)	(21,084)
Depreciation of tangible fixed assets	555	617
Amortisation and impairment of intangible fixed assets	8,524	18,477
Provision for share based payments	98	35
Decrease in debtors	77	517
(Decrease)/increase in creditors	(35)	245
Net cash outflow from operating activities	(882)	(1,193)

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

	2007	2006
	£000	(As restated) £000
Increase/(decrease) in cash	2,889	(1,549)
Cash outflow from decrease in net funds	18	43
Change in net debt resulting from cash flows	2,907	(1,506)
Other non-cash items:		
New finance leases	-	-
Movement in net debt	2,907	(1,506)
Net (debt)/funds brought forward	(440)	1,066
Net funds/(debt) carried forward	2,467	(440)

23 Analysis of net (debt)/funds

	At 1 October 2006 (As restated) £000	Cash flow £000	Other movements £000	At 30 September 2007 £000
Cash at bank and in hand/bank overdrafts	(410)	2,889	-	2,479
Debt due after one year	(9)	-	9	-
Debt due within one year	(19)	8	-	(11)
Finance leases	(2)	1	-	(1)
	(440)	2,898	9	2,467

Notes to the Accounts

for the year ended 30 September 2007 (continued)

24 Disposals

On 31 October 2006 the Company sold the entire share capital of Merseyside's The Rocket Limited. An impairment was made in the September 2006 accounts to reflect share of the Group in estimated net assets of the subsidiary. The net assets disposed of and the consideration received are set out below:

	£000
Net assets disposed of:	
Fixed assets	21
Current assets	24
Current liabilities	(23)
	22
Unamortised goodwill	(457)
	(435)
Consideration received:	
Cash proceeds	60
Deferred payment	40
Less: Impairment made in previous year	335
	435
Profit on sale	-

On 28 September 2007 the Company entered into a commercial arrangement with Portsmouth Football Club ('PFC').

TLRC transferred the entire issued share capital of three of its radio stations, Isle of Wight Radio, Spirit FM and The Quay to Quadrant Media Limited ('Quadrant'). Following this transfer TLRC sold 26% of its holding in Quadrant to PFC for £1 million in cash; TLRC retained a 74% share in Quadrant after the transaction. The Company made a profit of £795,000 on the sale of these shares.

PFC has the right to increase their shareholding to 50% during the period to September 2008 on the payment of a further cash sum of £950,000 thus creating a joint venture.

25 Post balance sheet events

On 2 October 2007 the Company held an EGM at which three resolutions were considered and approved. These were:

- to approve the Rule 9 waiver granted by the Panel on Takeovers and Mergers
- to authorise the Company to make market purchases of its own shares and
- to approve the cancellation of the share premium account.

A copy of the circular outlining the details of the EGM is available from the Company Secretary at the registered office or on line at <http://www.thelocalradiocompany.com>

The High Court subsequently approved the cancellation of the share premium account on 24 October 2007. The Board will now consider the acquisition of its own shares as outlined in the shareholder circular up to the maximum aggregate number of Ordinary Shares authorised to be purchased of 10,793,038 (representing approximately 14.99% of the Company's issued share capital).