

## **XFM Limited**

### **Directors' Report and Financial Statements**

Year ended 30 September 2004

Registered Number: 2672315



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## **Company Information**

### **Directors**

PR Davies  
PJ Harris  
GD Bryce

### **Secretary**

N Schwarz (resigned 10 August 2004)  
C Fluet (appointed 10 August 2004)

### **Registered Office**

30 Leicester Square  
LONDON  
WC2H 7LA

### **Bankers**

Bank of Scotland  
38 Threadneedle Street  
LONDON  
EC2P 2EH

### **Auditors**

KPMG Audit Plc  
8 Salisbury Square  
LONDON  
EC4Y 8BB

## Directors' Report

The Directors present their report, together with the audited financial statements of the company for the year ended 30 September 2004.

### Business Review

The principal activity of the company is that of an independent local radio contractor broadcasting to Greater London in accordance with a licence granted by the Radio Authority.

### Results

The company's loss for the year was £1,449,000 (2003: £1,711,000). Details are set out in the profit and loss account on page 6. A letter of support has been obtained from the parent company.

### Dividends

The Directors are unable to recommend payment of a dividend (2003: £nil).

### Directors

The directors who held office during the year are listed on page 1. Details of any interests in shares and share options of the ultimate parent company are shown below. None of the directors had any interest in shares of the company. The interests of PR Davies and PJ Harris in shares of the ultimate parent company, Capital Radio plc, are shown in that company's financial statements.

	Ordinary Shares of 2.5p each 30 September 2004		Ordinary Shares of 2.5p each 30 September 2003		
GD Bryce	7,259		6,258		
In addition the directors have the following share options:					
	Number of shares At 30 September 2004	Number of shares At 1 October 2003	Exercise price	Date exercisable	Expiry date
GD Bryce	3,837	3,837	£4.28	February 2008	July 2008
	10,550	10,550	£5.40	December 1999	December 2006
	11,525	11,525	£6.33	March 2001	March 2008
	6,748	6,748	£5.41	November 2001	November 2008
	2,981	2,981	£12.245	November 2002	November 2009
	11,945	11,945	£11.725	November 2003	November 2010
	12,577	12,577	£8.15	November 2004	November 2011
	7,752	7,752	£6.45	June 2005	June 2012
	4,228	4,228	£5.025	November 2005	November 2012
	4,634	4,634	£4.585	November 2006	November 2013

No options were exercised during the year.

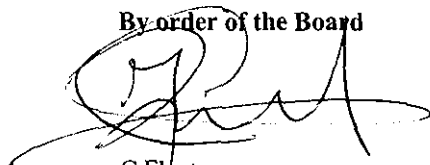
None of the directors are required to retire by rotation.

## Directors' Report (continued)

### Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



C Flnet  
Company Secretary

Date

6/5/05

## **Statement of directors' responsibilities**

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 of the profit or loss for that period. 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 company will continue in business.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

## **Report of the Independent Auditors' to the Members of XFM Limited**

We have audited the financial statements on pages 6 to 17.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

*The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.*

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

Date 6 May 2005

**Profit and Loss Account**  
Year ended 30 September 2004

	Notes	2004 £000	2003 £000
<b>Turnover</b>	2	5,059	4,503
Staff costs	3	(1,112)	(1,003)
Depreciation	5	(116)	(115)
Other operating charges		(5,889)	(5,889)
		<hr/>	<hr/>
<b>Loss on ordinary activities before taxation</b>	3-5	(2,058)	(2,504)
Taxation on loss on ordinary activities	6	609	793
		<hr/>	<hr/>
<b>Retained loss for the year</b>	11	(1,449)	(1,711)
		<hr/>	<hr/>

The company has no recognised gains or losses other than those disclosed above. There is no difference in the profit on the historical cost basis and that disclosed in the profit and loss account.

All disclosures relate only to continuing operations.

Movements in reserves are set out in note 11.

The notes on pages 8 to 17 form part of the accounts.



## Balance Sheet

As at 30 September 2004

	Notes	2004 £000	2004 £000	2003 £000	2003 £000
<b>Fixed assets</b>					
Tangible assets	7		73		181
<b>Current assets</b>					
Debtors	8	911		503	
Cash at bank and in hand		3		3	
		<u>914</u>		<u>506</u>	
<b>Creditors : amounts falling due within one year</b>	9	(10,612)		(8,863)	
		<u></u>		<u></u>	
<b>Net current liabilities</b>			(9,698)		(8,357)
			<u></u>		<u></u>
<b>Net liabilities</b>			(9,625)		(8,176)
			<u></u>		<u></u>
<b>Capital and reserves</b>					
Called up share capital	10		300		300
Share premium account	11		1,227		1,227
Profit and loss account	11		(11,152)		(9,703)
			<u></u>		<u></u>
<b>Equity shareholders' deficit</b>	12		(9,625)		(8,176)
			<u></u>		<u></u>

These financial statements were approved by the Board of directors on 6/5/05 and were signed on its behalf by:



P J Harris

Director

## Notes to the Financial Statements

### 1 Accounting Policies

The following accounting policies have been consistently applied in dealing with items which are considered material in relation to the company's financial statements:

#### 1.1 Basis of Preparation

The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards. In the general interests of the company, it was unanimously agreed that Capital Radio plc should continue to provide financial and other support to XFM Limited at least for the next twelve months and thereafter for the foreseeable future to enable it to meet its liabilities as they fall due.

#### 1.2 Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Fixtures, Fittings and equipment	10% - 20% per annum
Motor vehicles	25% per annum

#### 1.3 Turnover

Turnover comprises income from the sale of advertising airtime, sponsorship and promotions (net of agency commissions) and income from advertising on the internet. Turnover is stated excluding VAT, trade discounts, and intra group transactions and derives from goods and services provided in the normal course of business.

Airtime revenue is recognised on the date of broadcast. Sponsorship revenue and internet advertising revenue are recognised over the life of the contract.

#### 1.4 Deferred Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Except where otherwise required by FRS 19, deferred tax is recognised without discounting, in respect of all timing differences which have arisen but not reversed by the balance sheet date.

#### 1.5 Operating Leases

Rentals payable under operating lease agreements are charged to the profit and loss account on a straight line basis.

**Notes (continued)**

**1.6 Cash Flow**

In accordance with Financial Reporting Standard 1 (revised), the company does not prepare a cash flow statement as it is a wholly owned subsidiary undertaking of a UK parent company. Cash flows of the company are shown in the published consolidated financial statements of the ultimate parent company, Capital Radio plc.

**1.7 Financial Reporting Standard 8 (FRS 8)**

As the company is a wholly owned subsidiary of Capital Radio plc, the company has taken advantage of the exemption contained in FRS 8 and has, therefore, not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Capital Radio plc, within which this company is included, may be obtained from 30 Leicester Square, London, WC2H 7LA.

**1.8 Pensions**

The company participates in the Capital Radio Group Personal Pension Plan. This is a contributory *defined contribution arrangement to which the company makes age-related contributions*. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

**2 Turnover**

*The company's turnover arises from its principal business activities within the United Kingdom.*

## Notes (continued)

### 3 Staff Costs

The average number of persons employed by the company (including executive directors) during the year was as follows:

	<b>2004</b>	2003
	<b>No.</b>	No.
Programming and news	17	17
General management	3	3
Sales and marketing	4	4
	<hr/>	<hr/>
Total employees	24	24
	<hr/>	<hr/>

	<b>2004</b>	2003
	<b>£000</b>	£000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	955	874
Social security costs	120	103
Pension costs (see note 16)	31	26
Redundancy Costs	6	-
	<hr/>	<hr/>
	1,112	1,003
	<hr/>	<hr/>

### 4 Remuneration of Directors

	<b>2004</b>	2003
	<b>£000</b>	£000
Directors' emoluments	157	114
Company contributions to money purchase pension schemes	11	10
	<hr/>	<hr/>
	168	124
	<hr/>	<hr/>

PR Davies and PJ Harris are employed and paid by Capital Radio plc and received no remuneration for services in respect of the company.

**Notes (continued)**

**5 Loss on Ordinary Activities Before Taxation**

Loss on ordinary activities before taxation is stated after charging the following:

	<b>2004</b>	2003
	<b>£000</b>	£000
Depreciation on tangible fixed assets – owned	116	115
Payments under operating leases:- hire of plant & machinery	15	15
	<hr/>	<hr/>

In the years to 30 September 2004 and 2003 the auditors' remuneration was paid by the ultimate parent company, Capital Radio plc.

## Notes (continued)

### 6 Taxation

Analysis of credit in the year:

	2004	2004	2003	2003
	£000	£000	£000	£000
Corporation tax at 30%	(593)		(796)	
Adjustment relating to prior years	<u>-</u>		<u>34</u>	
Total current tax		(593)		(762)
Deferred tax (see note 8)				
Origination/reversal of timing differences	(16)		35	
Adjustment in respect of previous years	<u>-</u>		<u>(66)</u>	
		<u>(16)</u>		<u>(31)</u>
Tax on loss on ordinary activities		<u>(609)</u>		<u>(793)</u>

*Factors affecting the tax credit for the year:*

The current tax credit for the year is lower (2003: higher) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004	2003
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	(2,058)	(2,504)
Current tax credit at 30% (2003: 30%)	<u>(617)</u>	<u>(751)</u>
Effects of:		
Expenses not deductible for tax purposes	8	9
Other short term timing differences	-	(65)
Depreciation for period in excess of capital allowances	16	11
Adjustments to tax charge in respect of prior periods	-	34
Total current tax credit (see above)	<u>(593)</u>	<u>(762)</u>

**Notes (continued)**

**7 Tangible Fixed Assets**

	<b>Fixtures, Fittings &amp; Equipment</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost:</b>			
At 1 October 2003	893	38	931
Additions	8	-	8
	<hr/>	<hr/>	<hr/>
At 30 September 2004	901	38	939
	<hr/>	<hr/>	<hr/>
<b>Depreciation:</b>			
At 1 October 2003	712	38	750
Charged in the year	116	-	116
	<hr/>	<hr/>	<hr/>
At 30 September 2004	828	38	866
	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>			
At 30 September 2004	73	-	73
	<hr/>	<hr/>	<hr/>
At 30 September 2003	181	-	181
	<hr/>	<hr/>	<hr/>

**Notes (continued)**

**8 Debtors**

	<b>2004</b>	2003
	<b>£000</b>	£000
Amounts falling due within one year:		
Amounts owed by group undertakings	764	207
Deferred tax (see below)	78	62
Prepayments and accrued income	69	234
	<hr/>	<hr/>
	911	503
	<hr/>	<hr/>

Deferred tax

	£000
At 1 October 2003	62
Credit to the profit and loss account for the year	16
	<hr/>
At 30 September 2004	78
	<hr/>

The elements of deferred taxation are as follows:

	<b>2004</b>	2003
	<b>£000</b>	£000
Deferred capital allowances	78	62
	<hr/>	<hr/>
Deferred tax asset	78	62
	<hr/>	<hr/>

No account has been taken of UK tax losses which are not expected to be utilised in the foreseeable future. The total amount unprovided in respect of these losses is £900,108 (2003: £900,108).



**Notes (continued)**

**9 Creditors: Amounts falling due within one year**

	<b>2004</b>	2003
	<b>£000</b>	£000
Amounts owed to group undertakings	10,253	8,572
Other creditors	69	58
Accruals and deferred income	290	233
	<hr/> 10,612	<hr/> 8,863
	<hr/>	<hr/>

The amounts owed to group undertakings are repayable on demand. No interest is charged on the balance.

**10 Called Up Share Capital**

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>Equity share capital</b>		
Authorised: 500,000 voting ordinary shares of £1 each	500	500
	<hr/>	<hr/>
Allotted, called up and fully paid : 300,000 voting ordinary shares of £1 each	300	300
	<hr/>	<hr/>

**Notes (continued)**

**11 Share Premium and Reserves**

	Share premium account £000	Profit and loss account £000
At 1 October 2003	1,227	(9,703)
Retained loss for the year	-	(1,449)
	<hr/>	<hr/>
At 30 September 2004	1,227	(11,152)
	<hr/>	<hr/>

**12 Reconciliation of Movements in Shareholders' Deficit**

	2004 £000	2003 £000
Opening shareholders' deficit	(8,176)	(6,465)
Retained loss for the year	(1,449)	(1,711)
	<hr/>	<hr/>
Closing shareholders' deficit	(9,625)	(8,176)
	<hr/>	<hr/>

**13 Commitments**

The company has £nil contractual capital commitments for which no provision has been made (2003: £nil).

The annual commitments under non-cancellable operating leases are as follows:

	2004 Property £000	2004 Other £000	2003 Property £000	2003 Other £000
On leases expiring:				
Within two to five years	-	9	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	-	9	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

**14 Contingent Liabilities**

The company has given its bankers a cross guarantee to secure the bank borrowings of the other group undertakings. This guarantee is unsecured.

## Notes (continued)

### 15 Ultimate Parent Company

The company's ultimate parent company is Capital Radio plc, which is incorporated in Great Britain and registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Capital Radio plc. The consolidated financial statements of Capital Radio plc are available to the public and may be obtained from 30 Leicester Square, London, WC2H 7LA.

### 16 Pension Funds

The company participates in the Capital Radio Group Personal Pension Plan. The scheme is a contributory defined contribution arrangement and the company makes age-related contributions to the scheme for participating staff. The pension cost charge to the company for the year was £31,000 (2003: £26,000). There are nil contributions outstanding at 30 September 2004 (2003: £nil).

### 17 Related Parties

The company has trading relationships with Independent Radio News Limited ("IRN") and the Radio Advertising Bureau Limited ("RAB").

IRN supplies the UK radio industry with a news service in return for airtime adjacent to news bulletins. This airtime is sold as the "Newslink" national advertising product by Capital Advertising, as agent for IRN. An element of the profits of IRN are repaid to participating stations as a payment for airtime given. During the year the company received £16,000 (2003: £27,000) of income from IRN, representing airtime rebate. At 30 September 2004 there was an outstanding debtor from IRN of £9,000 (2003: £7,000).

The RAB is a trade body promoting commercial radio with advertisers. The RAB is funded by levies paid by the commercial radio industry in the UK based on volumes of advertising. During the year the company paid £36,000 (2003: £29,000) in levies to the RAB and at 30 September 2004 there was an outstanding creditor of £1,000 (2003: £1,000).