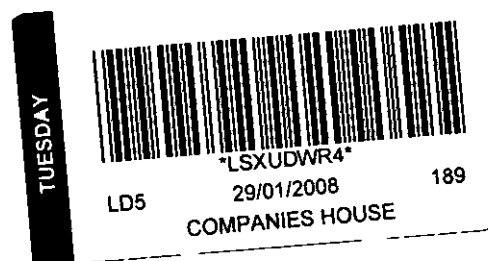


Registered Number: SC168821

XFM Scotland Limited

Directors' Report and Financial Statements

For the year ended 31 March 2007



XFM Scotland Limited

Company information

Directors	W Pallot S Orchard H Murray G Frier (resigned 12/03/2007)
Secretary	R D J Manning
Company number	SC168821
Registered office	The Four Winds Pavilion Pacific Key Glasgow G51 1EB
Auditors	KPMG Audit Plc Chartered Accountants & Registered Auditors 8 Salisbury Square London EC4Y 8BB

XFM Scotland Limited

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XFM Scotland Limited

Directors' Report

For the year ended 31 March 2007

The directors present their report and the audited financial statements for the year ended 31 March 2007

Principal activities and review of business

The principal activity of the company continued to be that of an independent local radio contractor broadcasting XFM in Scotland in accordance with a licence granted by the Radio Authority

Turnover for the year ended 31 March 2007 amounted to £2,114,000 (18 month period ended 31 March 2006 £3,493,000) and the company made a loss for the year before tax of £1,744,000 (18 month period ended 31 March 2006 £598,000)

The overall reduction in turnover is predominantly related to a weak advertising market (industry radio revenues were down 4% during the year to March 2007, source RAB/Ofcom) XFM Scotland Limited experienced a greater fall in turnover due to the weakened market conditions, resulting in a drop in turnover of 9% (when pro rated) as compared with the industry as a whole This was as a result of being unable to recruit and retain strong sales executives in order to generate local airtime revenue The analysis of industry radio revenues provided by RAB/Ofcom are averages reflecting national results XFM Scotland Limited generates most of its turnover from the local market and has been affected by the high staff turnover in the year

The business uses key performance indicators which are monitored on a regular basis which include audience trends such as listening hours, share of the market and demographic mix, as well as financial indicators such as revenue Variance analysis is performed monthly and variances are monitored and discussed within a formal meeting structure

The key risks to the business are that continued advertising slowdown may put pressure on traditional revenues

The risks are monitored and managed through parent and local management The group has an internal risk management function which identifies major business risks and puts policies and procedures in place to manage those risks

Results and dividends

The loss for the year, after taxation, amounted to £1,238,000 (18 month period ended 31 March 2006 £450,000)

The directors do not recommend the payment of a dividend (18 month period ended 31 March 2006 £nil)

Directors

The directors who held office during the year were as follows

H Murray
S Orchard
W Pallot
G Frier (resigned 12/03/2007)

XFM Scotland Limited

Directors' Report

For the year ended 31 March 2007

Political and charitable contributions

The company made no political or charitable donations or incurred any political expenditure during the year

Policy and practice on payment of creditors

The company does not follow a code but operates a payment policy to agreed terms in settling outstanding debts. For certain types of regular contracted services direct debit or standing order arrangements are encouraged. Most other supplies are on an ad hoc basis and the terms of payment are agreed when the order is placed. The majority of payments are made by electronic transfer direct to suppliers' bank accounts. All of the payments are undertaken on the company's behalf by GCap Media Services Limited under an agency agreement.

Provision of information to auditors

So far as each of the directors is aware at the time the report is approved

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

Directors' and officers' insurance

The company maintains cover for all directors and officers against liabilities which may be incurred by them whilst acting as directors or officers

Auditors

The auditors, KPMG Audit plc, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985

This report was approved by the board on

26-01-08

and signed on its behalf



Secretary

XFM Scotland Limited

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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

Independent Auditors' Report to the members of XFM Scotland Limited

We have audited the financial statements of XFM Scotland Limited for the year ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

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. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition, we 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments 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.

Independent Auditors' Report to the members of XFM Scotland Limited

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements that 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



KPMG Audit Plc
Chartered Accountants and Registered Auditors
8 Salisbury Square
London
EC4Y 8BB

25 January 2008

XFM Scotland Limited

Profit and loss account

For the year ended 31 March 2007

	Note	2007 £'000	18 month period ended 31 March 2006 £'000
Turnover	2	2,114	3,493
Operating charges	1 5	(3,621)	(3,858)
Operating loss		(1,507)	(365)
Interest payable	6	(237)	(233)
Loss on ordinary activities before taxation		(1,744)	(598)
Tax credit on loss on ordinary activities	7	506	148
Loss on ordinary activities after taxation		(1,238)	(450)

All amounts relate to continuing operations

The company has not recognised gains or losses other than the results for the year

There is no material difference between the result on a historical cost basis and that described in the profit and loss account

The notes on pages 8 to 15 form part of these financial statements

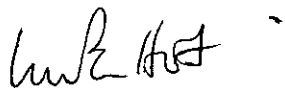
XFM Scotland Limited

Balance sheet

As at 31 March 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible fixed assets	8	528	623
Current liabilities			
Creditors	9	(3,311)	(2,168)
Net liabilities		<u>(2,783)</u>	<u>(1,545)</u>
Capital and reserves			
Called up share capital	10	200	200
Share premium account	11	1,810	1,810
Profit and loss account	11	(4,793)	(3,555)
Shareholders' deficit		<u>(2,783)</u>	<u>(1,545)</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 24/01/08



Director

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

1. Accounting policies

1.1 Basis of preparation of financial statements

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

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

In these financial statements, the following standards have been adopted for the first time

- 1) FRS 20 'Share Based Payment'
- 2) FRS 21 'Events after the balance sheet date'
- 3) FRS 25 'Financial instruments presentation and disclosure', and
- 4) FRS 28 'Corresponding amounts'

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption

FRS 20 'Share Based Payment' has had no effect on the company, as the company does not directly employ any staff

The adoption of the presentation requirements of FRS 21, FRS 25 and FRS 28 has no impact on the financial statements

1.2 Cash flow

The company being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS1

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 derived 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

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

1. Accounting policies (continued)

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at their purchase price less accumulated depreciation

Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Long leasehold premises	4% per annum
Office and studio equipment	10% 20% per annum
Motor vehicles	25 % per annum
Computer equipment	33% per annum

1.5 Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term

1.6 Pensions

The company participates in the GCap Media Group Personal Pension Plan. These are defined contribution arrangements 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.

1.7 Agency agreement

GCap Media Services Limited provided personnel and other services to the company. The amounts included in 'operating charges' contain a charge for these services. For the year ended 31 March 2007 this charge was £1,362,000 (18 month period ended 31 March 2006 £229,000)

1.8 Going concern

In the general interests of the company, it was unanimously agreed that GCap Media plc would provide financial support to XFM Scotland Limited for at least the next 12 months and thereafter for the foreseeable future to enable it to meet its liabilities as they fall due.

2. Turnover

All turnover relates to the company's principal activity namely the operation of an independent local radio station. The origin and destination of the turnover is the United Kingdom.

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

3. Operating loss

The operating loss is stated after charging

	18 month period ended 31 March	
	2007	2006
	£'000	£'000
Depreciation of tangible fixed assets		
Owned by the company	95	181
Amounts paid under operating leases	<u>23</u>	<u>23</u>

4. Disclosure of auditor remuneration

Amounts receivable by the company's auditor in respect of services to the company and its associates, other than the audit of the company's financial statements, have not been disclosed, as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the company's parent, GCap Media plc. The audit fee in respect of the company was £1,000 (2006 £1,000)

5. Staff costs

	18 month period ended 31 March	
	2007	2006
	£'000	£'000
Programming and news		8
Engineering		1
Sales and marketing		1
Administration		2
	<u></u>	<u>12</u>

The aggregate payroll costs of these persons were as follows

	2007	2006
	£'000	£'000
Wages and salaries		304
Social security costs		31
Pension costs		3
	<u></u>	<u>338</u>

The average staff numbers and costs for the year ended 31 March 2007 have reduced as a result of the agency agreement (see note 1.7)

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

6. Directors' remuneration

W Pallot, H Murray and S Orchard were paid by GCap Media Services Limited from the date of their appointment

G Frier received remuneration from GCap Media Services Limited until the date of his resignation

None of the directors received any remuneration from the company in respect of qualifying services to the company

7. Interest payable

		18 month period ended 31 March
	2007	2006
	£'000	£'000
Intercompany loan interest payable	<u>237</u>	<u>233</u>

8. Taxation

		18 month period ended 31 March
	2007	2006
	£'000	£'000
Analysis of tax credit in the year		
Current tax (see note below)		
UK corporation tax credit on loss for the year/period	(504)	(148)
Adjustments in respect of prior year/period	(2)	
Total current tax credit	<u>(506)</u>	<u>(148)</u>

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

8. Taxation (continued)

Factors affecting tax credit for the year/period

The tax assessed for the year is higher (2006 higher) than the standard rate of corporation tax in the UK of 30% (2006 30%) The differences are explained below

	2007 £'000	2006 £'000
Loss on ordinary activities before tax	<u>(1,744)</u>	<u>(598)</u>
Current tax at 30% (2006 30%)	(523)	(179)
Effects of:		
Expenses not deductible for tax purposes	4	3
Adjustments to tax credit in respect of prior year/period	(2)	
Depreciation for year/period in excess of capital allowance	15	28
Current tax credit for the year/period (see note above)	<u>(506)</u>	<u>(148)</u>

Factors that may affect future tax charges

It was announced in the 2007 Budget that the corporation tax rate will be cut from 30% to 28% from April 2008

There is no deferred tax charge in the current or preceding accounting periods No account has been taken of UK tax losses to the extent that they exceed any deferred tax liability as they are not expected to be utilised in the foreseeable future The total amount unprovided in respect of these losses is £409,000 (31 March 2006 £399,000)

XFM Scotland Limited

Notes to the financial statements For the year ended 31 March 2007

9. Tangible fixed assets

	Long leasehold premises £'000	Office and studio & computer equipment £'000	Motor vehicles £'000	Total £'000
Cost				
At 1 April 2006	700	732	17	1,449
Disposals		(121)	(17)	(138)
At 31 March 2007	<u>700</u>	<u>611</u>		<u>1,311</u>
Depreciation				
At 1 April 2006	184	625	17	826
Charge for the year	28	67		95
Disposals		(121)	(17)	(138)
At 31 March 2007	<u>212</u>	<u>571</u>		<u>783</u>
Net book value				
As at 31 March 2007	<u>488</u>	<u>40</u>		<u>528</u>
As at 31 March 2006	<u>516</u>	<u>107</u>		<u>623</u>

10. Creditors: amounts falling due within one year

	2007 £'000	2006 £'000
Amounts owed to group undertakings	<u>3,311</u>	<u>2,168</u>

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

11. Share capital

	2007 £'000	2006 £'000
Authorised, allotted, called up and fully paid		
200,000 Ordinary shares of £1 each	<u>200</u>	<u>200</u>

12. Reserves

	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2006	1,810	(3,555)	(1,745)
Loss for the year		(1,238)	(1,238)
At 31 March 2007	<u>1,810</u>	<u>(4,793)</u>	<u>(2,983)</u>

13. Reconciliation of movement in shareholders' deficit

	2007 £'000	2006 £'000
Opening shareholders' deficit	(1,545)	(1,095)
Loss for the year/period	(1,238)	(450)
Closing shareholders' deficit	<u>(2,783)</u>	<u>(1,545)</u>

14. Contingent liabilities

Contingent liabilities are as follows

- Various inter group cross guarantees are held by Barclays Bank
- The company is a member of a group for VAT purposes, resulting in a joint and several liability for amounts owing by other group companies for unpaid VAT

XFM Scotland Limited

Notes to the financial statements

For the year ended 31 March 2007

15. Operating lease commitments

	Land and buildings	
	2007	2006
	£'000	£'000
Expiry date:		
After more than 5 years	<u>30</u>	<u>23</u>

16. Related party transactions

As the company is a wholly owned subsidiary of GCap Media 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

17. Ultimate parent undertaking and controlling party

The directors regard GCap Media plc, a company incorporated in Great Britain and registered in England and Wales, as the company's ultimate parent undertaking and controlling party. The immediate parent company is GCap Media Services Limited.

Copies of the group accounts of GCap Media plc, which is the parent company of the largest and smallest groups of which the company is a member and for which group accounts are prepared, may be obtained from The Secretary, GCap Media plc, 30 Leicester Square, London, WC2H 7LA.