



# Milestone

## Milestone Group PLC

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Placing and Admission to AIM

Nominated Adviser and Broker Collins Stewart Limited

Prospectus



## Warwickshire



107.1 Rugby FM



Spa FM  
(licence campaign)

## Oxfordshire

**Courier**

South Oxfordshire Courier

**Courier**

Oxford Courier



Oxford Journal



Auto Weekly

**PROPERTY WEEKLY**

Property Weekly

**VILLARUM**

Villarum



Banbury Guide



Passion 107.9



Banbury FM  
(licence campaign)



Ridge FM  
(licence campaign)



SIX TV

## Berkshire



Thames Valley Weekly



Kick FM



Reading 107 FM (37%)



SIX TV Reading  
(current application)

## Hampshire



Basingstoke Observer

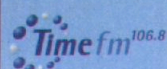


107.6 Kestrel FM

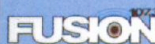


Andover FM  
(licence campaign)

## SE London



Time FM



Fusion 107.3

Milestone Publishing Division

Milestone Radio Division

Milestone Television Division

# Milestone Group PLC

## Current Regional Ownership Clusters



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.

Application has been made for the whole of the ordinary share capital of the Company, issued and to be issued pursuant to the Placing and the Acquisition, to be admitted to trading on the Alternative Investment Market of the London Stock Exchange ("AIM"). AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. The whole text of this document should be read. The attention of investors is drawn in particular to the risk factors set out in Part II of this document.

The Directors of the Company, whose names appear on page 3 of this document, accept responsibility for the information contained in this document including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. In particular, this document is not for distribution in or into the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan. The Ordinary Shares have not been and will not be registered under the United States Securities Act of 1933 (as amended) nor under the securities legislation of any state of the United States of America or any province or territory of Canada, Australia, South Africa, the Republic of Ireland or Japan or in any country, territory or possession where to do so may contravene local securities law or regulations. Accordingly, the Ordinary Shares may not, subject to certain exemptions, be offered or sold directly or indirectly in or into, or to any national, citizen or resident of, the United States of America, Canada, Australia, South Africa, the Republic of Ireland or Japan.

## **Milestone Group PLC**

*(Incorporated in England and Wales under the Companies Act 1985 with registered number 4689130)*

### **Placing of 10,500,000 ordinary shares of 10p each at 100p per share**

and

### **Admission to trading on the Alternative Investment Market**

Nominated Adviser and Broker

**Collins Stewart Limited**

#### **SHARE CAPITAL ON ADMISSION**

<b>Authorised</b>			<b>Issued and fully paid</b>	
<b>Amount</b>	<b>Number</b>		<b>Amount</b>	<b>Number</b>
£5,000,000	50,000,000	ordinary shares of 10p each	£2,159,997.60	21,599,976

The Placing Shares will on Admission rank in full for all dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares which will be in issue on completion of the Placing.

Collins Stewart is regulated by the Financial Services Authority and is acting exclusively for the Company and no-one else in connection with the Placing and Admission. Collins Stewart will not regard any other person as its customer or be responsible to any other person for providing the protections afforded to customers of Collins Stewart nor for providing advice in relation to the transactions and arrangements detailed in this document. Collins Stewart's responsibilities as nominated adviser and broker are owed solely to the London Stock Exchange.

Collins Stewart has been appointed as nominated adviser and broker to the Company. In accordance with the AIM Rules, Collins Stewart has confirmed to the London Stock Exchange that it has satisfied itself that the Directors have received advice and guidance as to the nature of their responsibilities and obligations to ensure compliance by the Company with the AIM Rules and that, in its opinion and to the best of its knowledge and belief, all relevant requirements of the AIM Rules have been complied with. Collins Stewart is not making any representation or warranty, express or implied, as to the contents of this document. No liability whatsoever is accepted by Collins Stewart for the accuracy of any information or opinions contained in this document or for the omission of any material information, for which it is not responsible.

A copy of this document, which comprises an admission document drawn up in accordance with the AIM Rules and the POS Regulations, has been delivered to the Registrar of Companies in England and Wales in accordance with regulation 4(2) of the POS Regulations.

Copies of this document will be available free of charge during normal business hours on any weekday (except Saturdays and public holidays) at the offices of Collins Stewart, 9th Floor, 88 Wood Street, London EC2V 7QR from the date of this document for the period of one month from Admission.

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## **DIRECTORS, SECRETARY AND ADVISERS**

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### **Directors**

Julian Blackwell	Non-Executive Chairman
Andrew Timms Craig	Chief Executive
Brian Robert Chester BSc FCMA	Finance Director
Mark Nathan Levine	Non-Executive Director

all of Manor Lane Studios, Oare, Hermitage, Berkshire RG18 9SE

### **Registered Office**

Manor Lane Studios  
Oare  
Hermitage  
Berkshire RG18 9SE

### **Company Secretary**

Timothy Eustace FCIS  
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Oxfordshire OX14 3YA

### **Nominated Adviser and Broker to the Company**

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9th Floor  
88 Wood Street  
London EC2V 7QR

### **Financial Adviser to the Company**

Ghaliston Limited  
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Pond Street  
London NW3 2NW

### **Solicitors to the Company**

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190 Strand  
London WC2R 1JN

### **Auditors and Reporting Accountants**

BDO Stoy Hayward  
8 Baker Street  
London W1U 3LL

### **Solicitors to the Nominated Adviser and Broker**

Norton Rose  
Kempson House  
Camomile Street  
London E3A 7AN

### **Financial Public Relations**

Buchanan Communications Limited  
107 Cheapside  
London EC2V 6DN

### **Registrars**

Capita IRG plc  
Bourne House  
34 Beckenham Road  
Beckenham  
Kent BR3 4TU



## DEFINITIONS

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The following definitions apply throughout this document, unless the context otherwise requires:

"Acquisitions"	the acquisitions by the Company of Courier, Fusion and the 50 per cent. interest in the share capital of Aroma Broadcasting Limited not already owned by the Group on the terms of the agreements details of which are set out in paragraph 8 of Part VIII of this document
"Act"	the Companies Act 1985 (as amended)
"Admission"	the admission of the existing Ordinary Shares, the Ordinary Shares being issued as consideration under the terms of the Acquisitions and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules
"AIM"	the Alternative Investment Market of the London Stock Exchange
"AIM Rules"	the rules for AIM companies and their nominated advisers issued by the London Stock Exchange in relation to AIM traded securities
"Basingstoke Observer"	Basingstoke Observer Limited, a subsidiary of the Company or, where the context so requires, the newspaper published by the Basingstoke Observer Limited
"Board" or "Directors"	the directors of the Company
"Broadcasting Act"	the Broadcasting Act 1990 (as amended by the Broadcasting Act 1996)
"Collins Stewart"	Collins Stewart Limited
"Combined Code"	the principles of good governance and code of best practice published by the Committee on Corporate Governance, chaired by Sir Ronald Hempel and published in June 1998
"Company" or "Milestone"	Milestone Group PLC
"Consideration Shares"	1,000,000 of the Ordinary Shares to be issued as part of the consideration payable in connection with the acquisition of Fusion which have been conditionally placed by Collins Stewart with the net proceeds of such placing being payable to Elliott International, L.P. and Elliott Associates, L.P.
"Courier Group" or "Courier"	Courier Newspapers (Oxford) Limited, a proposed subsidiary of the Company
"CREST"	the system of paperless settlement of trades and the holding of shares without share certificates administered by CRESTCo Limited
"Elliott"	Elliott International, L.P., Elliott Associates, L.P. and Highberry Limited
"Elliott Placing Agreements"	the conditional agreements dated 26 June 2003 between Collins Stewart and Elliott International, L.P. and Elliott Associates, L.P. relating to the placing of the Consideration Shares
"Fusion"	Fusion Radio Holdings Limited, a proposed subsidiary of the Company



## DEFINITIONS

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"Fusion Group"	Fusion Radio Holdings Limited and/or all or any of its subsidiaries
"ILR station" or "independent local radio station"	an independent local radio station licensed by the Radio Authority
"ITC"	Independent Television Commission, being the licensing and regulatory body for commercial television in the UK
"Kestrel" or "Kestrel FM"	the ILR station for the Basingstoke area operated by Kestrel FM Limited, a proposed subsidiary of the Company, and trading as 107.6 Kestrel FM
"ListenEar"	Listenear Limited, a subsidiary of the Company
"Local Television Licence"	a restricted service licence granted by the ITC permitting television transmissions to a defined location using a spare terrestrial analogue frequency for a period of up to four years
"London Stock Exchange"	London Stock Exchange plc
"Measured Coverage Area"	the coverage area of a given ILR station within which its service is generally capable of being received at a level satisfying technical standards set by the Radio Authority
"MGH Interests"	the 100 per cent. beneficial interest in ListenEar and the Basingstoke Observer and a 50 per cent. beneficial interest in Aroma Broadcasting Limited (the holding company of SIX TV and Reading Television Limited)
"Milestone Group", or "Group"	the Company and all or any of its subsidiaries
"Milestone Pictures"	Milestone Pictures Limited, a proposed subsidiary of the Company
"Milestone Radio Company"	The Milestone Radio Company Limited, a proposed subsidiary of the Company
"Model Code"	the model code on dealing in the Company's securities adopted by the Company
"Ofcom"	the Office of Communications, the proposed successor regulator to, <i>inter alia</i> , the Radio Authority and the ITC
"Official List"	the Official List of the United Kingdom Listing Authority
"Option Schemes"	the two share incentive plans, comprising the Milestone Group PLC approved share option scheme and the Milestone Group PLC unapproved share option scheme, details of which are set out in paragraph 5 of Part VIII of this document
"Ordinary Shares"	ordinary shares of 10p each in the share capital of the Company
"Passion 107.9"	the ILR station for the Oxford area, operated by Passion Radio (Oxford) Limited, a proposed subsidiary of the Company and trading as Passion 107.9
"Placing"	the conditional placing of the Placing Shares pursuant to the Placing Agreement and the Elliott Placing Agreements



## DEFINITIONS

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"Placing Agreement"	the conditional agreement dated 26 June 2003 between Collins Stewart, the Company and the Directors relating to the placing of new Ordinary Shares further details of which are set out in paragraph 8.7 of Part VIII of this document
"Placing Price"	100p per Placing Share
"Placing Shares"	the 9,500,000 new Ordinary Shares and the Consideration Shares which are the subject of the Placing
"POS Regulations"	the Public Offers of Securities Regulations 1995 (as amended)
"Publishing Division"	the business carried on through subsidiaries of Tri Media Publishing Limited, a subsidiary of the Company
"Radio Authority"	the Radio Authority, being the licensing and regulatory body for commercial radio in the UK
"Radio Division"	the business carried on through subsidiaries of Soundview Investments Limited, a subsidiary of the Company
"RAJAR"	Radio Joint Audience Research Limited, the primary audience research body for the UK radio industry
"Regulators"	the Radio Authority and the ITC
"Shareholders"	holders of Ordinary Shares
"SIX TV"	Oxford Broadcasting Limited, trading as SIX TV The Oxford Channel, a proposed subsidiary of the Company or, where the context so requires, the television channel broadcast by Oxford Broadcasting Limited
"subsidiary"	as defined in sections 736 and 736A of the Act
"Television Division"	the business carried on through subsidiaries of Milestone Television Company Limited, a subsidiary of the Company
"TSA"	total survey area, the total adult (aged 15+) population assumed to be able to hear a given radio service within an area surveyed by RAJAR, as agreed between the ILR station and RAJAR
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"VFD"	verified free distribution as surveyed by The Audit Bureau of Circulations
"working list"	a list published periodically by the Radio Authority of areas in respect of which it intends to invite applications for the establishment of new ILR stations (currently suspended pending discussions with Ofcom)

### IMPORTANT NOTICE

**As at the date of publication of this document the Acquisitions will not have been completed, as completion is conditional upon Admission. Notwithstanding the fact that the Acquisitions have not yet completed this document, where the context so requires, has been drafted on the basis that Admission has occurred and the Acquisitions have been completed.**

## **PLACING STATISTICS**

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Placing Price	100p
Number of new Ordinary Shares being placed on behalf of the Company	9,500,000
Consideration Shares being placed on behalf of Elliott	1,000,000
Number of Ordinary Shares in issue immediately following Admission	21,599,976
Estimated net proceeds of the Placing receivable by the Company	£8.0 million
Market capitalisation at the Placing Price	£21.6 million

## **EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

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Admission and dealings commence on AIM	1 July 2003
CREST accounts credited	by 1 July 2003
Despatch of definitive share certificates	by 8 July 2003



## **PART I: INFORMATION ON THE GROUP**

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### **Introduction**

The Milestone Group will exploit the ownership of cross-media assets in local markets to maximise commercial revenues. The Milestone local media portfolio will operate across three complimentary delivery platforms – publishing, radio and television – to drive audience and revenues to each other as part of a powerful cross-media offering.

Milestone Group's delivery platforms will cross-promote each other and work together to achieve incremental revenues and economies of scale. Advertising solutions will be developed for clients seeking to promote themselves across multiple media platforms. Sales executives, often able to offer market-exclusive cross-media products, will encourage clients to maximise their local media spend with Milestone Group.

Milestone Group will use in-house publishing and broadcasting expertise to produce locally-focussed editorial content which seeks to build audience and advertiser loyalty across its brands. The Group's operations cover some of the wealthiest parts of the UK and the Directors believe are accordingly well placed to exploit cross-media convergence to build a cash-generative advertising-based business.

On completion of the Acquisitions, the Group will own the following assets:

- nine free local publications covering areas in Oxfordshire, Berkshire and Hampshire;
- six independent local radio stations of which three are wholly owned and three are majority owned. In addition, the Group will have a 37 per cent. holding in a further ILR station broadcasting to the Reading area; and
- one local television station based in Oxford.

The Board believes that the opportunity exists for a dynamic new cross-media group to exploit the potential for commercial revenues in local market places. The Group's flotation on AIM and the Placing will help fund its formation and its working capital requirements, raise its profile, retain key staff and facilitate opportunities to offer quoted securities for businesses it is interested in acquiring.

### **The Opportunity**

The Milestone Group has based its strategy on the philosophy that "life is local". The Board believes that there is considerable potential to build media platforms that are locally focussed, thereby giving consumers the opportunity to see and hear about events, people and places close to where they live and work. For advertisers, local delivery platforms can provide highly targeted campaigns without the wastage often associated with advertising on media covering larger geographical areas. In the UK, the following statistics demonstrate the importance of the local environment:

- 75 per cent. of the UK's working population work within 10 miles of their homes and 40 per cent. work within 2 miles;
- the average distance travelled to buy groceries is 4 miles; to buy major white goods is 7 miles and to buy a new car is 13.5 miles; and
- the average house move is 13.5 miles.

The Advertising Association predicts that commercial radio revenues will grow 6.5 per cent. and regional newspaper revenues 5.4 per cent. in 2003. Regional press advertising revenues have risen in each of the last two years (2.6 per cent. in 2001 and 1.3 per cent. in 2002) even though, at national level, newspaper advertising revenues have fallen 8.4 per cent. in 2001 and

## PART I: INFORMATION ON THE GROUP

6.4 per cent. in 2002. Across the UK, commercial radio recorded its highest ever first quarter revenue figure for quarter one 2003 at £138.9 million, up to 2.3 per cent. year on year and the fifth successive quarter of growth.

Milestone aims to deliver effective media propositions to advertisers in local markets which, in many instances, the Directors believe are underserved. The opportunity for Milestone to exploit cross-media convergence is shown by the table set out below which demonstrates the overlap of many of the Group's existing local publishing, local radio and local television operations and proposed operations.

### MILESTONE GROUP REGIONAL OWNERSHIP CLUSTERS

Warwickshire	Oxfordshire	Berkshire	Hampshire	SE London
<b>107.1 Rugby FM</b> Rugby Broadcasting Company Ltd (51%)  <b>Spa FM</b> (ongoing licence campaign) Warwick Leamington Kenilworth (WLK) Broadcasting Company Ltd (100%)	<b>South Oxfordshire Courier</b> Courier Group (100%)  <b>Oxford Courier</b> Courier Group (100%)  <b>Oxford Journal</b> Courier Group (100%)  <b>Auto Weekly</b> Courier Group (100%)  <b>Property Weekly</b> Courier Group (100%) <b>Villarum</b> Courier Group (100%) <b>Banbury Guide</b> Courier Group (100%) <b>Passion 107.9 FM</b> Passion Radio Oxford Ltd (100%) <b>Banbury FM</b> (ongoing licence campaign) Banbury FM Ltd (100%) <b>Ridge FM</b> (ongoing licence campaign) Ridge FM Ltd (70%) <b>SIX TV</b> Oxford Broadcasting Ltd (91%)	<b>Thames Valley Weekly</b> Courier Group (100%)  <b>Rock FM</b> West Berkshire Radio Ltd (51%)  <b>Reading 107 FM</b> Reading Broadcasting Company Ltd (52%)  <b>SIX TV Reading</b> (current application) Reading Television Ltd (100%)	<b>Basingstoke Observer</b> Basingstoke Observer Ltd (100%)  <b>107.6 Kestrel FM</b> Kestrel FM Ltd (54%)  <b>Andover FM</b> (ongoing licence campaign) Andover FM Ltd (100%)	<b>Time FM</b> Time FM 106.8 Ltd (100%)  <b>Fusion 107.3</b> Fusion 107.3 FM Ltd (100%)

Milestone Publishing Division

Milestone Radio Division

Milestone Television Division



## PART I: INFORMATION ON THE GROUP

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### Strategy

Milestone is seeking to position itself to become a significant player in local publishing, local radio and local television. The Directors believe that there is an opportunity to exploit the enduring desire of many people to be knowledgeable about local affairs or feel a part of their community.

#### *The Basingstoke model*

The Directors believe that the benefits of the cross-media model have been proven in Basingstoke where the ILR station, Kestrel FM, served as a springboard to launch a new local newspaper, the Basingstoke Observer, in April 2000. The Basingstoke Observer has become an established local newspaper with an annualised turnover in excess of £650,000. The Directors believe the Basingstoke Observer's success would not have been possible, within the budget and timescale achieved, without the relationship with Kestrel FM. Furthermore, the promotional opportunities afforded by the Basingstoke Observer to the radio station have, in the opinion of the Directors, helped Kestrel to increase its RAJAR audience percentage reach. Promotional space for Kestrel in the Basingstoke Observer has generated an average of £4,475 per month additional revenue to the radio station over the 6 months ending 30 April 2003. Milestone will seek to replicate the model of publications working in partnership with other media in new local marketplaces.

#### *The tri-media model*

Milestone intends to develop a tri-media model for Oxford with the local radio station, Passion 107.9, the Courier publications and SIX TV cross-promoting each other. A telesales team, based at the Courier, will be engaged to sell classified advertisements both in Courier publications and on SIX TV's teletext service. Appropriate content sharing opportunities will be explored between the three platforms. Competitions will be devised that require a Courier reader to listen to Passion 107.9 and/or watch SIX TV. Joint sales and programming initiatives will also be explored such as a property programme on SIX TV cross-promoted in the Courier's Property Weekly. The Directors believe economies of scale and incremental revenues can be achieved with three platforms co-operating under common ownership in a single marketplace.

#### *New licences*

Milestone Group will seek to own or establish partnerships with groups aspiring to launch new ILR stations or Local Television Licences in those areas where the Board believe they would be appreciated by advertisers, listeners and/or viewers. In addition, Milestone will lobby the Regulators to make new licences available in areas where the Directors believe that it would be beneficial for the Group to operate new services.

#### *New publications*

Milestone will explore opportunities to roll-out its successful local publishing formats to new geographic areas, particularly where it sees a potential for future cross-media ventures.

#### *Acquisition strategy*

The Directors believe that there is an opportunity for consolidation in the media market. Milestone will explore opportunities to enhance Shareholder value through acquiring further interests in radio, publishing, television or other businesses that are complimentary to the business of the Group with an initial focus primarily on exploring opportunities in the Midlands and the South and West of England.

## **PART I: INFORMATION ON THE GROUP**

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### *Strategic review*

The Board will appraise each of Milestone's assets as part of an ongoing strategic review to ensure Shareholder value is maximised over the long-term. This will include seeking to reach optimum sales yields and cost-efficiencies. The Group may, on occasions, rationalise its assets if, after careful enquiry, the Board believes that it is beneficial to the ongoing development of the Group.

### *Digital*

Milestone has adopted a cautious, but pragmatic, approach to the development of new internet or digital applications, primarily focusing on delivering local content through traditional platforms. The Directors will review the opportunities offered by digital delivery channels on a case-by-case basis investing only where justified by the potential returns available. In particular, in television, where digital penetration is now significant, Milestone will continue to seek assurances from Government that digital platforms will be available for the holders of Local Television Licences, as has been indicated to the Group.

### **History**

The Milestone Group is being formed by the merger of three separate groups; the MGH Interests, the Fusion Group and the Courier Group.

#### *MGH Interests*

Andrew Craig established Milestone Pictures in 1993, with a view to generating revenues from media consultancy and production services. The company went on to develop an ownership base of local media assets with like-minded partners.

As Milestone Pictures grew, new related companies were incorporated and in September 2001 Milestone Pictures and a number of related companies became part of the Fusion Group. As a result of this transaction MGH Investments Limited (formerly Milestone Group Holdings Limited), a company ultimately controlled by Andrew Craig, was contracted to help oversee the strategic development and management of the Fusion Group.

Andrew Craig remained a strong advocate of cross-media co-operation and, through MGH Investments Limited and its related companies, he continued to develop his interests in local publishing and local television. In 2002, MGH Investments Limited and the Fusion Group, having both witnessed the benefits of the cross-media model in Basingstoke, agreed to co-operate towards establishing an enlarged new cross-media entity which led to the incorporation of the Company.

#### *Fusion Group*

The Fusion Group was established in November 2000 with the aim of developing a new radio group focusing primarily on local markets. During its first year the Fusion Group grew rapidly through acquisitions and, in September 2001, as outlined above, Milestone Pictures and the Milestone Radio Company became part of the Fusion Group. In May 2002 Andrew Craig was appointed chief operating officer of the Fusion Group.

#### *Courier Group*

The Courier Group was founded by Robert Urwin and Peter Chatterton in 1984 with the principal activity of publishing and distributing free weekly publications in and around the Oxfordshire area. Courier generates the majority of its income through the insertion of advertisements in its publications.

The Courier Group has been developing its newspaper titles for almost twenty years and is well established in its market.



## PART I: INFORMATION ON THE GROUP

### The Business

The Milestone Group's business will comprise three main operating divisions: a Publishing Division, a Radio Division and a Television Division. The Directors believe benefits will be seen from the divisions working together to produce quality content, to promote each others services and to develop joint revenue opportunities.

### Publishing Division

Milestone Group's Publishing Division brings together two previously independent publishing companies, the Courier Group and the Basingstoke Observer, which between them currently employ some 60 people from premises in Abingdon and Basingstoke (the latter shared with the ILR station, Kestrel FM). The division publishes nine main titles covering significant parts of Oxfordshire, Berkshire and North Hampshire.

Title	Focus	Circulation	Frequency	Estimated average advertisement content	Area	Distribution Channel
Oxford Courier	Local news	24,516*	Weekly	72%	Oxford	Letter box delivery
South Oxfordshire Courier	Local news	24,196*	Weekly	72%	Southern Oxfordshire	Letter box delivery
Journal	Local news	34,432*	Weekly	73%	Oxford	Letter box delivery
Auto Weekly	Motors	83,144	Weekly	96%	Oxfordshire	Delivered as the middle section of the Courier Titles and the Journal since Feb 1999
Property Weekly	Property	58,563*	Weekly with two editions	96%	Oxfordshire	Letter box delivery and at pick-up points at estate agents and sold in newsagents for 25p
Thames Valley Weekly	Classified listings	32,171*	Weekly	94%	Reading and M4 Corridor and Oxfordshire	Letter box delivery in Reading and through various pick up points in the M4 corridor between Newbury and Slough
Villanum	Luxury homes in Oxfordshire	15,000 (print run)	Monthly magazine	70%	Oxfordshire	Letter box delivery and at pick-up points and at estate agents
Banbury Guide	Classified listings	10,000 (print run)	Monthly magazine	88%	Banbury	Pick-up points at specified outlets such as supermarkets and newsagents
Basingstoke Observer	Local news	21,967*	Weekly	78%	Basingstoke	Pick-up points at specified outlets such as supermarkets and newsagents

\* VFD survey period from 1 July 2002 to 29 December 2002.

+ Management information for week commencing 12 May 2003.

Revenue is primarily generated from selling advertising space. The Courier Group's most important sector is property, which accounts for approximately 35 per cent. of revenue, followed by the motor industry at approximately 8 per cent. The Courier's client base comprises a large number of small customers, who can be divided into three main categories:

- contracted customers – approximately 27 per cent. of the Courier's sales are generated from contracts, for a typical period of 12 months. The majority of such customers are estate agents;
- advertising agencies – approximately 15 per cent. of sales come through advertising agencies; and

## PART I: INFORMATION ON THE GROUP

- small and local businesses – accounting for the remaining advertising sales. These customers tend to buy advertising for short term periods of up to 8 weeks and 60 per cent. of such customers buy advertising space on a regular weekly basis.

In January 2003, the Basingstoke Observer moved from a traditional door to door 'letterbox' delivery to becoming a free 'pick up' from supermarkets and other outlets, the larger of which are promoted on Kestrel FM. This move has substantially reduced the distribution costs of the newspaper.

The trading record of the division, which is extracted from the Courier Accountants' Report set out in Part IV of this document, published accounts of Basingstoke Observer and from management information, is summarised below. Investors should read the document as a whole and not rely solely on the key or summarised information in this section.

	<b>Six months* ended 31 March 2003 £000</b>	<b>Years ended 30 September 2002 £000</b>	<b>2001 £000</b>
<b>Turnover</b>			
Courier	1,726	3,353	3,479
Basingstoke Observer	311	681	752
	2,037	4,034	4,231
<b>Gross profit/(loss)</b>			
Courier	541	882	1,014
Basingstoke Observer	(37)	53	32
	504	935	1,046
<b>Operating profit/(loss)</b>			
Courier	228	272**	277
Basingstoke Observer	(111)	(371)	(410)
	117	(99)	(133)

\* *Figures have been extracted by the Directors from the unaudited management accounts for the six months ended 31 March 2003. These figures have not been subjected to any external review or audit and if they were, changes might arise and these changes might be material.*

\*\* *before directors' bonuses and pension scheme contributions of £382,000.*

### Radio Division

The Group's Radio Division comprises the business of the Fusion Group and ListenEar. Fusion Group has locally-based management at each ILR station and dedicated sales staff who are employed to sell advertising, sponsorship and promotional campaigns to local businesses. The division currently has interests in the following seven independent local radio stations:



## PART I: INFORMATION ON THE GROUP

Name of station	Principal coverage area	Current Milestone beneficial interest (percentage)	Current or proposed RAJAR TSA	RAJAR audience published March 2003	Primary target audience	Licence renewal date
Passion 107.9 (formerly Fusion 107.9)	Oxford, Oxfordshire	100	185,000	11,000	15-29	02/2011
Fusion 107.3 (formerly FLR)	Lewisham, SE London	100	308,000	6,000	15-54	02/2007
Time FM (formerly Millennium Radio)	Thamesmead, SE London	100	495,000	17,000	25-54	12/2010
107.6 Kestrel FM	Basingstoke, Hampshire	54	137,000	33,000	25-54	05/2006
107.1 Rugby FM	Rugby, Warwickshire	52	68,000	No data (note)	25-54	08/2010
Kick FM	Newbury, Berkshire	51	99,000	19,000	25-54	05/2008
Reading 107 FM	Reading, Berkshire	37	263,000	No data (note)	25-54	10/2010

Note: first RAJAR report due to be published January 2004

ListenEar is a company that specialises in radio consultancy services. ListenEar is currently working with Fusion and other partners to lobby for new radio licences to be advertised or awarded in six areas. This process typically involves ListenEar operating or supporting trial broadcasts (of up to 28 days duration) under the Radio Authority's restricted service licence scheme to help demonstrate to the Radio Authority the level of demand for a proposed permanent service. Based on their previous experience the Board expects that any new licence applications supported by the Group will be contested by other groups. However the Board believes that, based on the Group's commitment to establishing successful new services that are locally focused, the Radio Division is well placed in pursuing these applications. The Group supports new licence campaigning activity in the following areas:

Name of Station	Trial Broadcast Area	No of ListenEar or Fusion supported trial broadcasts to date	Status	Percentage of current Milestone beneficial interest*
Banbury FM	Banbury, Oxfordshire	2	Area on the working list	100
Ridge FM	Abingdon, Oxfordshire	2	Not on the working list but identified by Radio Authority as future option for Ofcom to consider	70
CKFM	Falmouth/ Camborne, Cornwall	2	Area on the working list	13
Andover FM	Andover, Hampshire	2	Not on the working list but identified by Radio Authority as future option for Ofcom to consider	100
Spa FM	Royal Leamington Spa, Warwickshire	1	ListenEar lobbying to be added to working list	100
The Burn	Blackburn, Lancashire	4	Area on the working list	44

\* Shareholdings may change as the Group has or may make commitments to form partnerships with third parties if it is perceived this is in the best interests of successfully establishing a new station for a given area

## PART I: INFORMATION ON THE GROUP

The trading record of the division which is extracted from the Fusion Accountants' Report set out in Part V of this document, the published statutory accounts of ListenEar and management information, is summarised below. Investors should read the document as a whole and not rely solely on the key or summarised information in this section.

	<b>Six months* ended 31 March 2003 £'000</b>	<b>Years ended 30 September 2002 £'000</b>	<b>11 months ended 30 September 2001 £'000</b>
<b>Turnover</b>			
Fusion	891	1,669	616
ListenEar	34	311	205**
	925	1,980	821
<b>Gross Profit</b>			
Fusion	597	878	130
ListenEar	18	195	113**
	615	1,073	243
<b>Operating loss (before amortisation and write-off of goodwill)</b>			
Fusion	(881)	(3,078)	(2,542)
ListenEar	(42)	(126)	(165)**
	(923)	(3,204)	(2,707)

\* *Figures have been extracted by the Directors from the unaudited management accounts for the six months ended 31 March 2003 and represent an aggregation of the trading entities only. These figures have not been subjected to any external review or audit and if they were, changes may arise and these changes may be material.*

\*\* ListenEar's results are for the year ended 30 September 2001.

Since his appointment as chief operating officer in June 2002 Andrew Craig has implemented a comprehensive review of the operations of the Fusion Group. Key decisions taken include the:

- re-branding of the Oxford station from Fusion 107.9 to Passion 107.9 and the south east London station from Millennium Radio to Time FM;
- closure of Fusion's loss making national radio sales operation;
- appointment of dedicated managing directors at Kick FM and Kestrel FM and new sales executives at several stations;
- re-focusing of programming to enhance the local content of broadcasts;
- renewed focus on selling ahead rather than focusing sales efforts on the current month of broadcasting;
- successful launch of 107.1 Rugby FM, which is trading above management expectations; and
- significant reduction in central office costs.

### Television Division

Milestone's Television Division currently comprises one operating Local Television Licence (SIX TV) and one pending new Local Television Licence application for the Reading area in Berkshire.

## PART I: INFORMATION ON THE GROUP

SIX TV is the local television service for Oxford broadcasting 24 hours a day to a large part of the Oxfordshire area. It operates from studios and offices based on Oxford's Woodstock Road with the majority of programming produced in-house by the channel. SIX TV is the only local television service dedicated to Oxfordshire with programming catering for local interests including local information, lifestyle features, sport and music, providing an outlet to local people and organisations who may previously have found it difficult to gain significant television coverage.

SIX TV was launched as 'Channel 6' in June 1999 and re-branded following Aroma Broadcasting Limited's acquisition of a controlling interest in the channel in June 2000. The Group, through Aroma Broadcasting Limited, now holds 91 per cent. of the issued share capital of SIX TV. On 29 April 2003 the ITC renewed SIX TV's Local Television Licence for a further four years. SIX TV has a potential audience of approaching 390,000 people in Oxfordshire.

SIX TV's revenue is generated primarily from local advertising and programme sponsorship. SIX TV offers teletext capability with SIX TEXT which is able to provide up-to-date listings and other details about advertisers. In addition, revenue is also generated through facilities hire to Endemol UK plc who currently use SIX TV's premises to produce a live quiz show broadcast nationally each weekday on channel five.

In 1997, the ITC announced that a new tier of free-to-air terrestrial analogue television licences would become available. Billed as 'restricted service licences', they offered the prospect of new Local Television Licences utilising spare analogue frequencies that can be received in the same way as BBC and ITV – i.e. without any need for additional cables or decoders. If the frequency remains available, the holder of the relevant Local Television Licence may reapply for a further four-year licence at the end of the initial term. There are currently 33 Local Television Licences issued by the ITC although not all have launched transmissions.

In January 2003, the Group was the only applicant for a Local Television Licence to broadcast a local television service in Reading, Berkshire. Running alongside SIX TV, this would, if granted, enable the Group to have a television presence across much of the Thames Valley, one of the most affluent parts of the UK.

### Financial information

The trading record of the division, which is extracted from the published audited accounts for SIX TV for the periods to 30 September 2002 and from management information, is summarised below. Investors should read the document as a whole and not rely solely on the key or summarised information in this section.

	<b>Six months* ended 31 March 2003 £000</b>	<b>Years ended 30 September 2002 £000</b>	<b>2001 £000</b>	<b>Seven months ended 30 September 2000 £000</b>
Turnover	154	218	180	124
Gross loss	(99)	(142)	(148)	(165)
Operating loss for the period	(310)	(604)	(619)	(612)

\* **Figures have been extracted by the Directors from the unaudited management accounts for the six months ended 31 March 2003. These figures have not been subjected to any external review or audit and if they were, changes may arise and these changes may be material.**

Since Nigel Taylor became managing director of SIX TV in June 2002 he has successfully focussed the sales effort upon increasing sales of spot-airtime (30 second commercials) and, in early 2003, a major part of his strategy came to fruition when the channel was able to attract

## **PART I: INFORMATION ON THE GROUP**

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three sales executives previously employed by a rival local newspaper group in the area. The new recruits have already had a significant impact on revenues and the Directors believe SIX TV is now seen as a mature enough medium to be able to attract high-calibre experienced sales executives who will be able to continue to drive the channel's revenues. An ongoing campaign in several Courier Group publications will be used to help further promote awareness of the channel and its range of programming in and around Oxfordshire.

### **Current trading and prospects**

The Directors are encouraged by the trading for the year to date and believe that the Group is well placed to increase its revenues and to exploit the current market opportunities. The future prospects of the Group are largely dependent on the growth of the market for local advertising on and across its own delivery platforms and consequently the Directors view the Company's future with confidence.

The Directors believe that, by bringing the divisions together, economies of scale will be achieved and other benefits seen from the platforms co-operating to promote each other and developing new joint revenue opportunities. Where the Group holds contiguous assets, opportunities for regional sales will also be explored.

### **Directors and Senior Management**

The Board comprises two executive Directors and two non-executive Directors. The Board intends to appoint an additional non-executive director within the next six months.

#### **Directors**

##### **Julian Blackwell, Non-Executive Chairman, aged 74**

Julian has worked in the Oxford-based Blackwell bookselling and publishing companies in many roles from packer to president. Julian was also the launch Chairman of FOX FM (the original ILR station for Oxfordshire) from 1989 to 1998. He was High Sheriff of Oxfordshire from 1991 to 1992 and is currently a Deputy Lieutenant of Oxfordshire. Julian was the launch Chairman of the Thames Business Advice Centre from 1986 to 1997 and the launch Chairman of the Heart of England Training and Enterprise Council from 1989 to 1994. In 2000 Julian was the joint-founder (with Andrew Craig) of Aroma Broadcasting Limited, formed to invest in the new tier of terrestrial local television. Julian is well-known in and around Oxfordshire and the Thames Valley and will be available to provide ongoing advice and support to the Group post-Admission.

##### **Andrew Craig, Chief Executive, aged 48**

Andrew's career began in the early days of local broadcasting with Radio 210 in Reading and Metro Radio in Newcastle. He has since gained 25 years experience in professional broadcasting, mainly in the field of news and current affairs, hosting both network programmes and live regional programmes for ITV and the BBC. Eight years ago Andrew founded Milestone Pictures with a view to establishing a profitable niche broadcasting company. The company went on to focus on the values of localness which Andrew felt had been lost in the move towards consolidation in UK media. Until now Andrew has been chairman of MGH Investments Limited and, in May 2002, Andrew became chief operating officer of the Fusion Group. Andrew is currently contracted (until 10 November 2003) to provide his services as a newsreader and presenter, on a non-exclusive basis, to Meridian Broadcasting Limited.

##### **Brian Chester, Finance Director, aged 51**

Brian joined Fusion in April 2000. From 1973 he spent 14 years working for Philips Electronics Limited and Polygram BV in various financial roles. In 1987, he was appointed financial controller of Bourne Publicity Limited and, following his promotion to finance director in 1989,

## **PART I: INFORMATION ON THE GROUP**

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was instrumental in its sale to Bemrose Corporation plc where he remained division finance director until January 2000. Brian brings a wealth of both industry and financial expertise to the Group.

### **Mark Levine, Non-Executive Director, aged 26**

Mark Levine is a portfolio manager with Elliott Advisors (UK) Limited, the London arm of Elliott Associates, L.P., a New York based private investment partnership. Elliott Associates, founded in 1977, along with its sister offshore fund, Elliott International L.P., manages partners' capital of approximately \$3.2 billion. The Elliott group has been the primary funding partner of Fusion since its inception in November 2000. Prior to joining Elliott Advisors (UK) Limited in June 2000 Mark was employed as a portfolio analyst at Elliott's New York office. He currently sits on the supervisory board of Hid Radio Rt., a diversified Hungarian media company and has served as an alternate non-executive director of Fusion since November 2000.

### **Senior Management**

#### **Nigel Taylor**

Nigel Taylor joined SIX TV in February 2002 and has a background in media sales and marketing spanning 20 years including: working as the managing director of Vibe FM, the East of England regional radio station, managing director of 107.7 The Wolf in Wolverhampton and sales and marketing director of The Box music television. Nigel will initially be responsible for working with the Board to assist the Radio Division station managers to meet their sales objectives and also for managing the Television Division alongside Passion 107.9 in Oxford.

#### **Daniel Cass**

Daniel Cass has worked on business development and project management for related companies of MGH Investments Limited since 1999 helping oversee radio and television licence application campaigns and other corporate activity including the reversal of Ausped Limited (a software subsidiary of MGH Investments Limited) into Contemporary Enterprises plc in 2002. His experience includes the achievement of an Investors In People champion business award from Essex TEC for an enterprise he managed in 1998. Daniel will initially be responsible for working with the Board to develop the Group's interests and strategy and to oversee the implementation of the Group's locally-focussed editorial philosophy.

#### **Tim Thurston**

Tim joined the Courier Group as the managing director in June 2000. He has over 15 years experience in the publishing industry having been the general manager at ECNG's Norfolk weekly titles and the general advertisement manager at the Eastern Daily Press and Norwich Evening News. Tim will be responsible for the management of the Publishing Division in and around the Thames Valley and Hampshire.

### **The Placing**

The Placing comprises 10,500,000 Placing Shares of which 9,500,000 Placing Shares are being placed on behalf of the Company and 1,000,000 Placing Shares are being placed on behalf of Elliott. The placing of new Ordinary Shares on behalf of the Company will raise £9.5 million (before expenses) of which £8.0 million will be receivable by the Company.

The Placing Shares are being placed by Collins Stewart with institutional and other investors and will represent approximately 48.6 per cent. of the enlarged issued ordinary share capital of the Company following Admission. Upon Admission, the Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares. The Placing Agreement contains provisions



## **PART I: INFORMATION ON THE GROUP**

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entitling Collins Stewart to terminate the Placing Agreement at any time prior to Admission in certain circumstances. If this right is exercised the Placing will lapse. Further details of the Placing Agreement are set out in paragraph 8.7 of Part VIII of this document.

### **Reasons for the Placing and use of proceeds**

The Directors consider that the Company's flotation will be an important step in its development and will enhance its standing within the market place. It will also enable the Company to access equity finance which may be required in order to allow the Company to expand in its chosen markets both organically and through selective acquisitions.

Admission will also provide opportunities for the Group's employees to participate in the future success of the Group and should help attract and retain high calibre staff.

The Group intends to apply the net proceeds of the Placing receivable by the Company (amounting to £8.0 million) as follows:

- to satisfy the cash element of the consideration for the acquisition of Courier – £4.5 million;
- to repay debt to MGH Investments Limited – £1.8 million (of which £0.9 million is ultimately to be repaid to Andrew Craig); and
- the balance to provide general working capital to finance the growth of the Company.

### **Corporate Governance**

The Company intends to comply, where appropriate for a company of its size, with the main provisions of the Combined Code.

The Company will hold at least 10 board meetings throughout the year. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and acquisitions. The Company will adopt the Model Code.

An audit committee has been established. It will meet at least twice each year and be responsible for ensuring that the financial performance of the Group is properly reported on and monitored and for meeting the auditors and reviewing the reports from the auditors relating to accounts and internal control systems. It will meet once a year with the auditors without executive board members present. The audit committee will comprise the Chairman (who will be a non-executive Director), the chief executive and at least one other non-executive Director.

A remuneration committee has been established. It will review the performance of executive Directors and sets the scale and structure of their remuneration and the basis of their remuneration and the terms of their service agreements with due regard to the interests of shareholders. The remuneration committee also determines the allocation of share options to employees under the Option Schemes. No Director shall be permitted to participate in discussions or decisions concerning his own remuneration. The remuneration committee will comprise the Chairman (who will be a non-executive Director), the chief executive and at least one other non-executive Director.

A nominations committee has also been established. It will consist of the non-executive Directors and will make recommendations on the appointment of further directors to the Board and is chaired by a non-executive director.

## **PART I: INFORMATION ON THE GROUP**

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### **Lock-in Arrangements**

Each of the Directors, who hold or who are interested in Ordinary Shares, and certain other Shareholders, have entered into share restriction deeds in respect of all or some of their shareholdings, the terms of which are described more fully in paragraph 8.9 of Part VIII of this document.

Under the terms of the restriction deeds the relevant Directors and other Shareholders have agreed not to sell, transfer or otherwise dispose of any Ordinary Shares held by them, other than in certain specified circumstances, for a period of 12 months following Admission. After the expiry of such period they have agreed that any sale or disposal of Ordinary Shares will be effected through the Company's brokers from time to time.

The lock-in arrangements outlined above will apply in respect of 8,327,790 Ordinary Shares representing 38.6 per cent. of the issued share capital of the Company on Admission.

### **Share Incentive Schemes**

An element of the Company's reward strategy will be the implementation of share incentive plans which align the interests of Shareholders with participants in the plans, as well as encourage employee share ownership and facilitate the retention of key staff.

Options under the Option Schemes have been granted to Directors and employees in respect of 2,160,000 Ordinary Shares (in aggregate) representing up to 10.0 per cent. of the issued share capital on Admission. Future options may also be granted under the Option Schemes, subject to any performance conditions specified by the remuneration committee. However, the Directors currently intend that, excluding the options granted prior to Admission, share capital under option will not exceed more than 10 per cent. of the Company's issued share capital from time to time.

Details of the Option Schemes are summarised in paragraph 5 of Part VIII of this document.

### **Dividend Policy**

The Board's intention is for the Company to re-invest any net earnings to finance the growth and expansion of its business and accordingly they do not intend that the Company shall pay dividends in the foreseeable future. The Board will continue to review the appropriateness of its dividend policy as the business of the Group develops. At that time, the payment of dividends will be subject to the availability of distributable reserves whilst maintaining an appropriate level of dividend cover and having regard to the need to retain sufficient funds to finance further development of the Group's activities.

### **Taxation**

General information relating to UK taxation with regard to Admission and the Placing is summarised in paragraph 9 of Part VIII of this document. A Shareholder who is in any doubt as to his tax position, or is subject to tax in a jurisdiction other than the UK, should consult his or her professional advisers.

### **The Regulatory Framework**

Under the Broadcasting Act independent local radio licences are regulated by the Radio Authority and Local Television Licences are regulated by the ITC. The Regulators license and regulate independent radio and television in accordance with the statutory requirements of the Broadcasting Act.

## **PART I: INFORMATION ON THE GROUP**

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The Radio Authority plans frequencies, awards licences, regulates programming and radio advertising, investigates complaints and supervises the radio ownership system. The Radio Authority has granted to the Group its independent local radio licences, details of which are set out on page 14 of this document.

The ITC sets standards for programme content and advertising, monitors broadcasting output, investigates complaints and supervises the television ownership system. The ITC has granted a Local Television Service licence to SIX TV.

The Group is responsible for ensuring that it complies with the terms of its licences, and relevant legislation, codes of practice, guidance and directions published by the Regulators. The Regulators have wide ranging powers to ensure the Group complies with the terms of its licences and the Broadcasting Act, including the power to revoke, reduce or suspend licences and impose financial penalties.

The Broadcasting Act sets restrictions on ownership of and interests in cross-media interests in publishing, radio and television, and in particular additional restrictions apply where control by the same person of newspapers and radio or television services operates or could be expected to operate against the public interest. The Directors believe that Milestone is able to implement its current cross-media strategy within the existing regulatory environment.

The Communications Bill currently proceeding through Parliament is intended to simplify the restrictions on the accumulation of interests in licensed services and reduce the number of restrictions on cross-media ownership in publishing, radio and television. It is not yet certain that the Communications Bill will be enacted in its current form. If it is not enacted at all then the existing regulatory structure under the Broadcasting Act will remain in place or an interim regime will be put in place. If enacted in its current form the Communications Bill will relax the cross media ownership regime.

Under the Office of Communications Act 2002 the Regulators will be replaced by Ofcom. Ofcom will merge the functions of five existing regulatory bodies: ITC; Radio Authority; Broadcasting Standards Commission; the Office of Telecommunications; and the Radiocommunications Agency. Ofcom is currently scheduled to be operational by the end of 2003 if the Communications Bill is enacted in its present form.

### **Articles of Association**

The independent local radio licences and the Local Television Licence contain conditions allowing the Radio Authority or the ITC (as the case may be) to revoke the licences if, as a result of the ownership of its shares, the Company is in breach of the Broadcasting Act and might cause the Radio Authority or the ITC to revoke, suspend or determine any radio or television licence held by the Group or decline to renew or extend any such licence. Accordingly the Articles of Association of the Company contain provisions both allowing the Directors to refuse to register any transfer of Ordinary Shares where any transferee may place the Company in such breach or requiring any Shareholder whose shareholding places the Company in such breach to dispose of such shareholding. Details of these powers as set out in the summary of the Articles of Association of the Company in paragraph 4 of Part VIII of this document

Before purchasing Ordinary Shares it is the responsibility of investors to ensure that:

- (a) they do not fall within the category of disqualified persons under the Broadcasting Act (contained in Part I of Schedule 2 of the Broadcasting Act); or
- (b) ownership of such Ordinary Shares does not result in the Company breaching any of the restrictions contained in the Broadcasting Act (or any successor legislation).

## **PART I: INFORMATION ON THE GROUP**

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### **Admission, settlement and dealings**

Application has been made to the London Stock Exchange for the issued and to be issued share capital of the Company to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings will commence on 1 July 2003.

The Directors have arranged with CRESTCo Limited for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant shareholders so wish. CREST is a paperless settlement procedure which allows securities to be evidenced without a certificate and transferred otherwise than by written instrument. The Company's Articles of Association permit the holding of Ordinary Shares under the CREST system.

CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

Notwithstanding the election by placees as to the form of delivery of the Placing Shares, no temporary documents of title will be issued. All documents or remittances sent by or to a placee, or as they may direct, will be sent through the post at the placee's risk.

Pending the despatch of definitive share certificates (as applicable), instruments of transfers will be certified against the register of members of the Company. Should Shareholders wish to hold their Ordinary Shares in CREST, they will need to follow the requisite CREST procedures for the dematerialisation of their shareholding.

### **Further information**

Your attention is drawn to the additional information set out in Parts II to VIII of this document.

## **PART II : RISK FACTORS**

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**An investment in the Company is speculative, involves a high degree of risk and may result in the loss of all or part of the investment.**

**In addition to all other information set out in this document, the following specific factors should be considered carefully in evaluating whether to make an investment in the Company. The information set out below does not purport to be an exhaustive summary of the risks affecting the Group and additional risks and uncertainties may also have an effect on the Groups businesses. The investment offered in this document may not be suitable for all of its recipients. If you are in any doubt about the action you should take, you should consult a personal adviser authorised under the Financial Services and Markets Act 2000 who specialises in advising on the acquisition of shares and other securities.**

### **Licences**

The Company holds licences which are granted under the Broadcasting Act and which, in addition to the cross-media ownership restrictions described below, may be subject to variation, revocation or non-renewal in accordance with their terms and/or the Regulators' statutory powers.

### **Independent local radio licence applications**

The Group intends to participate in new local radio licences applications when appropriate opportunities arise. It is not yet known whether such licence applications will be successful or how the future regulatory environment may impact upon the Group's ability to hold licences in certain areas where it may have other broadcasting or media interests.

The Radio Authority recently suspended the advertisement of new licences in areas on its working list pending discussions with Ofcom who it hopes will want to continue to licence new stations in the remaining areas on its working list. It is not yet known whether Ofcom will take over the working list or what its licence application criteria may be if it chooses to adopt the existing working list or create new working lists in the future. In some areas where the Group is lobbying for new licences it is known that frequency availability is highly limited and it is possible no new frequencies may be identified to licence permanent services.

### **Future regulatory changes**

The Secretary of State has power to amend the ownership provisions in Schedule 2 of the Broadcasting Act (and also under the proposed Communications Bill). In addition, it is not yet known what changes Ofcom intends to make to the existing regulatory guidelines and codes of practice of the Radio Authority and the ITC. If different or additional restrictions were imposed in relation to the ownership of licences to provide radio or television services or the regulatory guidelines and/or codes of conduct were amended this may adversely affect the Group's media interests, operations and strategy and/or may require the Group to dispose of certain interests.

### **Change of control**

The licences granted by the Regulators can be revoked as a result of (i) a change affecting the nature of the characteristics of the licensee; or (ii) a change in the persons who have control over, or interests in the licensee; or (iii) any other change giving rise to a failure to comply with any requirements imposed by or under Schedule 2 of the Broadcasting Act where the change is such that they would not have granted the licence in the first place if, at that time, they had been aware of the change. Advance notice has been given to both the Radio Authority and the ITC of the Acquisitions and the consequent change of control in the licence holders. The Radio



## **PART II : RISK FACTORS**

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Authority have provided written confirmation that the change of control relating to the Group's radio licences is not expected to breach any of the requirements of the Broadcasting Act and that therefore no revocation of any of the radio licences should take place. The ITC has responded by noting the content of the advance notice and has not raised any objections or concerns, but has asked to be informed when the change of ownership has taken place. The Directors are of the opinion, particularly given the relevant experience of the management of the Company, that the changes in control arising from the Acquisitions will not result in the Regulators revoking any licences granted.

### **Public interest test**

Paragraphs 9 and 10 of Part IV of Schedule 2 to the Broadcasting Act apply additional restrictions where control of or by a newspaper proprietor of specified radio services may operate against the public interest. As a result of the cross-media holdings of the Group, a public interest determination may be made by either the Radio Authority and/or the ITC. The matters the Regulators shall have regard to in determining the public interest test include:

- the desirability of promoting plurality of ownership in the broadcasting and newspaper industries and diversity in the sources of information available to the public and in the opinions expressed on television or radio or in newspapers;
- any economic benefits; and
- the market effect of the holding of the licence by the Group on the proper operation of the market within the broadcasting and newspaper industries or any section of them.

Any public interest determination would be made by the Regulators following completion of the Acquisitions. It would be open to the Regulators to conclude that the cross-media interests held by the Group are not in the public interest and therefore determine that interests in certain companies holding the licences (radio or television) or the local newspapers companies should be sold. Alternatively, the Regulators may require the Group to give specific assurances or undertakings and as a result conditions may be written into the radio licences and/or the Local Television Licence. The Radio Authority have indicated that they do not initially anticipate undertaking any public interest determination in relation to the Group.

### **Cross-media interests in Oxford and Basingstoke**

The Group holds cross-media interests in Oxford and Basingstoke. As a result of these holdings certain restrictions on cross-media ownership contained in Paragraphs 6 and 7 of Part IV of Schedule 2 of the Broadcasting Act potentially apply depending on the Group's local newspaper market share within the coverage areas of the Oxford ILR station (Passion 107.9 FM) and the Basingstoke ILR station (Kestrel FM) and the Group's other holdings.

*Paragraph 6 – market share in excess of 50 per cent.*

The Company has made its own preliminary calculations of the local newspaper market share of the Courier within the City of Oxford and the Basingstoke Observer in Basingstoke and on the basis of these figures, the Paragraph 6 restrictions do not apply as the local newspaper market share in each case is less than 50 per cent.

Paragraph 6 restricts the holding of a local newspaper market share in excess of 50 per cent. and the holding of local radio licences in the same area unless the radio service in question shares a potential audience with another local radio service run by a third party and none of the coverage areas of the radio licences held by the Group is to any extent the same as the coverage area of the service in question.

## **PART II : RISK FACTORS**

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*Paragraph 7 – market share in excess of 20 per cent.*

Under Paragraph 7 no company may have a local newspaper market share of 20 per cent. or more in each of the coverage areas of three local radio services owned by the company each of which share a potential audience and no company may hold any 2 licences to provide local radio services which share a potential audience unless one of its radio services is AM and the other FM.

In Oxford and Basingstoke the Group's local market share may be between 20 per cent. and 50 per cent. However, the Radio Authority's official coverage maps show none of the Group's independent local radio stations share a potential audience with any of the other local radio licences held by the Group and that accordingly the Paragraph 7 restrictions do not restrict the Group's ownership of these cross-media interests.

The Regulators have the discretion to use their own figures or to substitute other figures for those used by the Company in calculating its local newspaper market share.

In addition, the Regulators are entitled to estimate the numbers of copies of any newspaper sold in any area, during any period in such manner, or by reference to such statistics prepared by any other person as they see fit.

Accordingly the local newspaper market shares calculated by the Regulators may differ from the figures calculated by the Company and any consequential increase in the Company's market share may in circumstances summarised above, lead to the application of the Paragraph 6 or 7 restrictions.

### **Analogue licences**

All licences held by the Group are analogue licences. The licences are of limited duration and may be subject to competitive re-application. Analogue licences may be phased out in favour of digital licences. There is no guarantee that the Group would secure any digital licence agreements to replace the analogue licences which have been phased out or what costs may be involved in moving to digital platforms. In particular, Local Television Licences are currently issued on spare analogue frequency. If this frequency is required for what the Regulators determine is a higher priority use or is no longer available for use the frequency will be withdrawn from the licence holder. In addition, the radio licences can be revoked if the Secretary of State revokes the assignment of the radio frequency. A future Government may choose to introduce a policy of spectrum pricing which may increase the cost of using radio spectrum for broadcast purposes.

### **Limited operating history and operating losses**

The Group has had limited revenues to date and has consolidated accumulated net losses. Since the Group intends to invest in developing its business, further losses and negative cash flows may be incurred. Whilst the Directors have confidence in the future potential of the Group, there is no assurance that the Group will become or remain profitable in the future.

### **Licence coverage areas**

Any figures in this document regarding the coverage area or the potential audience of any Local Television License assume that the potential viewers within the coverage area have the correct aerials (in terms of both bandwidth/group and alignment) for receiving the broadcast service. The figures used in Part I of this document indicate the maximum predicted coverage area or potential audience which may be achieved in theory, however in practice the coverage area and the potential audience will depend on a number of factors. Local Television Licences broadcast at lower power than the public service channels and large buildings and dense vegetation may degrade the television signal in some areas. Accordingly the coverage areas and the potential audiences could be less than as set out in this document. It should be noted that the pending new Local Television Licence application for the Reading area in Berkshire (if awarded) is only expected to cover part of the Reading area.

## **PART II : RISK FACTORS**

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### **Key staff**

The Group is highly dependent upon the industry contacts and expertise of the Company's senior management team and accordingly the loss of the services of any of the senior management team could impede the Company's success. In addition, it is important to attract and retain personnel with the necessary industry experience, expertise and ability.

### **Competition**

Products and services are available that compete with the Company in its markets. Many of the companies that have products and services which compete with the Group are significantly larger than the Company and have greater financial resources.

### **Management of integration and growth**

The Group will come into existence upon Admission. Post Admission the Group will need to integrate the constituent businesses in terms of reporting procedures and infrastructure. In addition, it is anticipated that the Group will undergo a period of expansion in terms of its scope of operations and range of offerings.

This integration process and expansion will place a significant strain on the Group's management and operational resources. The Group's future success is dependent to a certain extent on its ability to manage the integration process and growth.

### **Investment in AIM quoted securities**

Investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List. An investment in the Ordinary Shares may be difficult to realise. Prospective investors should be aware that the value of an investment in the Company may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

### **Share price volatility and liquidity**

The share price of quoted companies can be highly volatile. The price at which the Ordinary Shares are quoted and the price at which investors may realise their Ordinary Shares will be influenced by a large number of factors, some specific to the Company and its operations and some which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political or regulatory conditions. In addition, Ordinary Shares may not be traded in sufficient volumes to give share liquidity to shareholders.

### **Requirement for further funds**

There may be a requirement for the Company to raise further funds in the future in order to fully exploit opportunities available and fund expansion of the Group. Such a funding requirement may be met by way of the issue of further Ordinary Shares on a non pre-emptive basis. There is no commitment in place guaranteeing that any funds required in the future will be available and, if further equity finance is raised, existing shareholdings may be diluted. If the Group is unable to obtain additional financing when required, it may be forced to reduce the scope of its operations or any anticipated expansion.

**Investors should consider carefully whether an investment in the Company is suitable for them in light of the potential risk factors, their personal circumstances and the financial resources available to them.**

## PART III : ACCOUNTANTS' REPORT ON THE COMPANY

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BDO Stoy Hayward  
Chartered Accountants

8 Baker Street  
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The Directors  
Milestone Group PLC  
Manor Lane Studios  
Oare, Hermitage  
Berkshire  
RG18 9SE

26 June 2003

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

### **Milestone Group PLC (or the "Company")**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 26 June 2003 of the Company.

The Company was incorporated as Elegy (No. 9) plc (company number 4689130) on 6 March 2003 and changed its name to Milestone Group PLC on 22 May 2003. Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented. No financial statements have been drawn up.

#### **Basis of preparation**

The financial information set out below is based on the balance sheet of the Company as at 31 March 2003 ("the Balance Sheet") to which no adjustments were considered necessary.

#### **Responsibility**

The Balance Sheet is the responsibility of the Directors and has been approved by them.

The Directors are responsible for the contents of the admission document dated 26 June 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Balance Sheet, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the

## PART III : ACCOUNTANTS' REPORT ON THE COMPANY

preparation of the Balance Sheet underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### Opinion

In our opinion, the financial information gives, for the purposes of the admission document dated 26 June 2003, a true and fair view of the state of affairs of the Company as at 31 March 2003.

### Consent

We consent to the inclusion in the admission document dated 26 June 2003 of this report and accept responsibility for this report for the purposes of paragraphs 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

### Balance sheet as at 31 March 2003

	<b>As at 31 March 2003 £</b>
<b>Current assets</b>	
Debtors – unpaid share capital	2
<b>Net assets</b>	2
<b>Share capital and reserves</b>	
Called up share capital	2
<b>Shareholders' funds – equity</b>	2

### Financial Information

#### Accounting policies

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### Share capital

The Company was incorporated with authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each. On incorporation, two ordinary shares of £1 each were issued, nil paid.

#### Post balance sheet events

The following alterations in the share capital of the Company have taken place since the period end:

- On 2 June 2003, each of the issued and unissued ordinary shares of £1 each in the capital of the Company was subdivided into 10 ordinary shares of 10p each and the authorised share capital of the Company was increased from £100,000 to £5,000,000 by the creation of an additional 49,000,000 ordinary shares of 10p each;



### **PART III : ACCOUNTANTS' REPORT ON THE COMPANY**

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- On 2 June 2003, the 20 ordinary shares arising on the subdivision of the subscriber shares were transferred to A T Craig and B Thompson in consideration of the assumption of the liability to pay the Company the sum of £2;
- On 2 June 2003, 499,980 ordinary shares were issued and, together with the twenty existing ordinary shares were credited as quarter paid, to A T Craig, pursuant to an undertaking given by him;
- On 25 June 2003, the 500,000 issued partly paid up ordinary shares were deemed fully paid up and 898,724 ordinary shares were issued credited as fully paid in exchange for the transfer to the Company of the entire issued share capital of each of Soundview Investments Limited and Milestone Television Company Limited, as detailed below; and
- On 25 June 2003, 901,276 ordinary shares were issued credited as fully paid in consideration for the transfer to the Company of the entire issued share capital of Basingstoke Observer Limited as detailed below.

On 25 June 2003, the Company entered into a series of share exchange agreements and by which it agreed to purchase the entire issued share capital of:

- Soundview Investments Limited and its subsidiaries and Milestone Television Company Limited and its subsidiaries, in a share for share exchange, pursuant to a share exchange agreement;
- Tri Media Publishing Limited for £1 in cash; and
- Basingstoke Observer Limited in a share for share exchange, pursuant to a share purchase agreement.

On the following dates, the Company entered into a series of share exchange agreements which were conditional, inter alia, on admission of the entire issued and to be issued share capital of the Company to the Alternative Investment Market ("Admission") and by which it agreed to buy:

- 26 June 2003, the entire issued share capital of Fusion Radio Holdings Limited and its subsidiaries (the "Fusion Group") for shares, pursuant to a share purchase agreement. 8,299,976 ordinary shares will be issued credited as fully paid as consideration for the transfer to the Company;
- 25 June 2003, the entire issued share capital of Courier Newspapers (Oxford) Limited for cash and shares in Milestone Group PLC pursuant to a share purchase agreement. 500,000 ordinary shares will be issued credited as fully paid as part consideration for the transfer to the Company; and
- 26 June 2003, 50 per cent. of the issued share capital of Aroma Broadcasting Limited for shares, pursuant to a share purchase agreement. 1,500,000 ordinary shares will be issued credited as fully paid as consideration for the transfer to the Company of the remaining issued share capital.

A separate accountants' report on Courier Newspapers (Oxford) Limited is contained in Part IV of the admission document.

A separate accountants' report on the Fusion Group is contained in Part V of the admission document.

Basingstoke Observer Limited, Soundview Investments Limited and its subsidiaries, Milestone Television Company Limited and its subsidiaries and Aroma Broadcasting Limited are included within the accountants' report on the MGH Interests contained in Part VI of the admission document.

### **PART III : ACCOUNTANTS' REPORT ON THE COMPANY**

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A separate accountants' report on Tri Media Publishing Limited is contained in Part VII of the admission document.

On 25 June 2003, the entire issued share capital of Basingstoke Observer Limited was transferred to Tri Media Publishing Limited for cash, the cash sum being left outstanding as an inter-company loan due to the Company from Tri Media Publishing Limited.

Yours faithfully

BDO Stoy Hayward  
*Chartered Accountants*

## PART IV : ACCOUNTANTS' REPORT ON COURIER

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BDO Stoy Hayward  
Chartered Accountants

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Berkshire  
RG18 9SE

26 June 2003

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

### **Courier Newspapers (Oxford) Limited ("Courier" or the "Company")**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 26 June 2003 of Milestone Group PLC.

Courier Newspapers (Oxford) Limited (company number 01831897) was incorporated on 11 July 1984.

#### **Basis of preparation**

The financial information is based on the audited financial statements of the Company for the three years ended 30 September 2002 (the "Relevant Period") to which no adjustments were considered necessary.

Grant Thornton, Chartered Accountants and Registered Auditors, 1 Westminster Way, Oxford, OX2 0PZ, have been auditors to Courier throughout the Relevant Period. Each of the audit reports throughout the Relevant Period was unqualified.

#### **Responsibility**

Such financial statements are the responsibility of the directors of Courier who approved their issue.

The directors of Milestone Group PLC are responsible for the contents of the admission document dated 26 June 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

## **PART IV : ACCOUNTANTS' REPORT ON COURIER**

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### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the admission document dated 26 June 2003, a true and fair view of the state of affairs of Courier as at the dates stated and of its results for the years then ended.

### **Consent**

We consent to the inclusion in the admission document dated 26 June 2003 of this report and accept responsibility for this report for the purposes of paragraphs 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

### **Financial Information**

#### **Accounting policies**

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

#### *Turnover*

Turnover is the total amount receivable by the Company for services provided, excluding VAT and trade discounts.

#### *Tangible fixed assets and depreciation*

Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their expected useful lives as follows:

Motor vehicles	25%
Fixtures and fittings	15%

#### *Investments*

Investments are included at cost less amounts written off. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Contributions to the employee benefit trust are capitalised as current asset investments and taken to the profit and loss account in the year in which they are paid out of the trust.

## **PART IV : ACCOUNTANTS' REPORT ON COURIER**

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### *Deferred taxation*

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or the right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted by the balance sheet date.

### *Defined contribution scheme*

The pension costs charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

### *Leased assets*

Assets held under finance lease and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.



## PART IV : ACCOUNTANTS' REPORT ON COURIER

### Profit and loss accounts

	Notes	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Turnover</b>	1	3,209	3,479	3,353
Cost of sales		(2,154)	(2,465)	(2,471)
<b>Gross profit</b>		1,055	1,014	882
Administrative expenses		(1,038)	(763)	(1,021)
		17	251	(139)
Other operating income		14	26	29
<b>Operating profit/(loss)</b>	2	31	277	(110)
Interest receivable	5	18	28	24
Interest payable and similar charges	6	–	(8)	(3)
<b>Profit/(loss) on ordinary activities before taxation</b>	1	49	297	(89)
Tax on profit/(loss) from ordinary activities	7	(8)	(83)	30
<b>Profit/(loss) on ordinary activities after taxation</b>		41	214	(59)
Dividends (equity)	9	–	(200)	–
<b>Retained profit/(loss)</b>	19	41	14	(59)
<b>Earnings/(loss) per share</b>	10			
Basic		£372.73	£127.27	£(536.36)

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### Balance sheets

	Notes	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Fixed assets</b>				
Tangible assets	11	82	95	141
Investments	12	–	2	–
		82	97	141
<b>Current assets</b>				
Debtors	13	620	738	754
Investments	14	–	–	15
Cash at bank and in hand		410	493	248
		1,030	1,231	1,017
<b>Creditors: amounts falling due within one year</b>	15	(323)	(525)	(404)
<b>Net current assets</b>		707	706	613
<b>Total assets less current liabilities</b>		789	803	754
Provisions for liabilities and charges	17	–	–	(10)
		789	803	744
<b>Capital and reserves</b>				
Called up share capital	18	–	–	–
Profit and loss account	19	789	803	744
<b>Shareholders' funds</b>	20	789	803	744

All shareholders' funds are equity.

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### Cash flow statements

	Notes	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Net cash inflow/(outflow) from operating activities</b>	26	47	321	(120)
<b>Returns on investments and servicing of finance</b>				
Interest received		19	28	23
<b>Net cash inflow from returns on investments and servicing of finance</b>		19	28	23
<b>Taxation</b>				
UK corporation tax		(8)	(6)	(81)
		(8)	(6)	(8)
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(22)	(64)	(72)
Sale of tangible fixed assets		10	6	3
<b>Net cash outflow from capital expenditure and financial investment</b>		(12)	(58)	(69)
<b>Acquisitions and disposals</b>				
Purchase of investments		—	(2)	—
Sale of investments		—	—	2
<b>Net cash (outflow)/inflow from acquisitions and disposals</b>		—	(2)	2
<b>Equity dividends paid</b>		—	(200)	—
<b>Increase/(decrease) in cash</b>	27	46	83	(245)

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### Notes to the financial information

#### 1 Turnover, profit and net assets

Turnover and profit/(loss) before taxation are attributable to the publication of newspapers and is derived from the United Kingdom.

#### 2 Operating profit/(loss)

This is arrived at after charging:

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Depreciation	34	51	27
Hire of plant and machinery – operating leases	77	42	41
Auditors' remuneration			
audit services	7	12	28
non-audit services	2	8	8
Payments to employee benefit trust	–	–	228
Pension payments	–	3	154

#### 3 Employees

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

	Year ended 30 September 2000 Number	Year ended 30 September 2001 Number	Year ended 30 September 2002 Number
Selling and distribution	33	46	41
Administration	13	14	13
	46	60	54

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

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Wages and salaries	1,127	952	1,165
Social security costs	117	88	84
Pension costs	–	3	154
	1,244	1,043	1,403

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 4 Directors

	Basic salary £000	Payments derived from employee benefit trust £000	Benefits in kind £000	Contributions to money purchase pension schemes £000	Total £000
<b>Year ended 30 September 2000</b>					
R Urwin	162	–	10	–	172
S Urwin	73	–	6	–	79
P Chatterton	103	–	7	–	110
S Chatterton	49	–	5	–	54
	387	–	28	–	415
<b>Year ended 30 September 2001</b>					
R Urwin	10	–	5	–	15
S Urwin	8	–	6	–	14
P Chatterton	5	–	11	–	16
S Chatterton	6	–	5	–	11
T Thurston	66	–	–	3	69
	95	–	27	3	125
<b>Year ended 30 September 2002</b>					
R Urwin	15	102	1	90	208
S Urwin	–	35	6	–	41
P Chatterton	15	56	1	60	132
S Chatterton	8	35	–	–	43
T Thurston	70	–	–	4	74
	108	228	8	154	498

Benefits in kind during the Relevant Period include the provision of motor vehicles, fuel and private medical care.

### 5 Interest receivable and similar income

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Interest receivable and similar income	18	28	24
	18	28	24

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 6 Interest payable and similar charges

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Interest charged on unpaid rent	–	8	3

### 7 Taxation on profit from ordinary activities

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
UK corporation tax	9	85	(36)
Adjustment in respect of prior periods	(1)	(2)	(4)
Deferred taxation: accelerated capital allowances	–	–	10
	8	83	(30)

### 8 Tax reconciliation

Factors affecting the tax charge for the year:

The tax assessed during the Relevant Period was lower than the standard rate of corporation tax in the UK of 30% (2001: 30%, 2000: 20%). The differences are reconciled as follows:

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Profit/(loss) on ordinary activities before tax	49	297	(89)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001: 30%; 2000: 20%)	10	89	(27)
Effect of:			
Expenses not deductible for tax purposes	–	8	1
Capital allowances in excess of depreciation charged for the year	–	–	(7)
Marginal relief from standard rate of corporation tax	–	(11)	–
Adjustment in respect of prior years	(1)	(2)	(4)
Other timing differences	(1)	(1)	(3)
Deferred taxation: accelerated capital allowances	–	–	10
	8	83	(30)

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 9 Dividends

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Ordinary dividends			
Interim dividend of £1,818.18 per share	—	200	—

### 10 Earnings per share

The calculation of basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year. Basic earnings per share has been calculated as follows:

	Year ended 30 September 2000 Number	Year ended 30 September 2001 Number	Year ended 30 September 2002 Number
Weighted average number of equity shares	110	110	110
	£000	£000	£000
Earnings/(loss), being profit/(loss) on ordinary activities after tax	41	214	(59)

The Company had no dilutive securities in issue.



## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 11 Tangible assets

	Motor vehicles £000	Fixtures and fittings £000	Total £000
<b>Cost</b>			
<b>As at 1 October 1999</b>	175	197	372
Additions	–	27	27
Disposals	(26)	(13)	(39)
<b>As at 1 October 2000</b>	149	211	360
Additions	15	49	64
Disposals	(88)	–	(88)
<b>As at 1 October 2001</b>	76	260	336
Additions	27	45	72
Disposals	(30)	–	(30)
<b>As at 30 September 2002</b>	73	305	378
<b>Depreciation</b>			
<b>As at 1 October 1999</b>	159	123	282
Provided for the year	12	22	34
Disposals	(24)	(14)	(38)
<b>As at 1 October 2000</b>	147	131	278
Provided for the year	4	47	51
Disposals	(88)	–	(88)
<b>As at 1 October 2001</b>	63	178	241
Provided for the year	9	18	27
Disposals	(31)	–	(31)
<b>As at 30 September 2002</b>	41	196	237
<b>Net book value</b>			
<b>As at 30 September 2000</b>	2	80	82
<b>As at 30 September 2001</b>	13	82	95
<b>As at 30 September 2002</b>	32	109	141

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 12 Fixed asset investments

	Shares in Buckstop Print Services Ltd £000
<b>As at 1 October 2000</b>	–
Additions	2
Write down of own shares	–
<b>As at 1 October 2001</b>	2
Disposal	(2)
<b>As at 30 September 2002</b>	–

At 30 September 2001 the company held 20% or more of the allotted share capital of the following undertaking:

	Country of incorporation /registration	Class of share capital held	Proportion held	Nature of business	Capital and reserves £000	Profit/ (loss) for the financial year £000
Associates						
Buckstop Print Services Limited	England	Ordinary	20%	Typesetting services	(155)	(4)

The Company purchased 20% of the ordinary share capital of Buckstop Print Services on 2 February 2001. Two directors of Courier Newspapers (Oxford) Ltd, R C Urwin and P Chatterton were appointed directors, of the above company on the same date. The Company disposed of its shares in Buckstop Print Services Limited on 12 April 2002 to Messrs Urwin and Chatterton (see note 24).

### 13 Debtors

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Trade debtors	586	609	584
Amounts due from related and associated undertakings	–	105	85
Prepayments and accrued income	34	24	49
Taxation recoverable	–	–	36
	620	738	754

Included in amounts owed by associates is a total of £58,800 (2001: £78,400) which is due after more than one year.

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 14 Current asset investments

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Gilts and cash	–	–	15

During the year ended 30 September 2002 the Company made a contribution of £243,100 to the Courier Employee Benefit Trust (the "Trust") which has been established to provide benefits to directors of the Company. Assets held by the Trust may be distributed to individuals at the unfettered discretion of the trustees from time to time. At the year end the Trust had the assets detailed above.

### 15 Creditors

#### Amounts falling due within one year

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Trade creditors	129	164	156
Other creditors	5	5	21
Tax and social security creditor	120	137	122
Corporation tax	8	85	–
Amounts owed to associated undertaking	–	15	15
Accruals and deferred income	61	119	90
	323	525	404

### 16 Financial instruments

The Company uses financial instruments, other than derivatives, comprising cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company does not enter into derivatives transactions such as interest rate swaps, forward rate agreements or forward foreign currency contracts. The main risk arising from the Company's financial instruments is liquidity risk. The board review and agree policies for managing this risk and they are summarised below. These policies have remained unchanged throughout the Relevant Period. It is and has been throughout the Relevant Period the Company's policy that no trading in financial instruments shall be undertaken.

#### Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 17 Provision for liabilities and charges

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Deferred taxation (see below)	–	–	10

### Deferred taxation

Amounts provided:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Accelerated capital allowances	–	–	10

Deferred taxation movements are:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Opening balance	–	–	–
Movement in year	–	–	10
<b>Closing balance</b>	–	–	10

### 18 Share capital

	As at 30 September 2000 £	As at 30 September 2001 £	As at 30 September 2002 £
<b>Authorised</b>			
Ordinary shares of £1 each	1,000	1,000	1,000
<b>Allotted, called up and fully paid</b>			
Ordinary shares of £1 each	110	110	110

There were no option schemes or long term incentive schemes in place during the Relevant Period.

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 19 Reserves

	Profit and loss account £000
<b>At 1 October 1999</b>	748
Profit for the year	41
<b>As at 1 October 2000</b>	789
Profit for the year	14
<b>As at 1 October 2001</b>	803
Loss for the year	(59)
<b>As at 30 September 2002</b>	744

### 20 Reconciliation of movements in shareholders' funds

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>At the beginning of the year</b>	748	789	803
Profit/(loss) for the year	41	214	(59)
Dividends	–	(200)	–
<b>At the end of the year</b>	789	803	744

### 21 Contingent liabilities

There were no contingent liabilities at 30 September 2000, 30 September 2001 or 30 September 2002.

### 22 Pensions

The Company operates a defined contribution pension scheme for the benefit of the directors. The assets of the scheme are administered by trustees in a fund independent from those of the Company.

### 23 Commitments under operating leases

The following are the annual commitments under non-cancellable operating leases:

	As at 30 September 2000 Land and buildings £000	As at 30 September 2001 Land and buildings £000	As at 30 September 2002 Land and buildings £000
Operating leases which expire:			
Within one year	–	6	–
In two to five years	8	–	31
Over five years	31	31	–
	39	37	31

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 24 Related party transactions

The Company was controlled throughout the Relevant Period by Mr R C Urwin and Mr P Chatterton by virtue of the fact that they owned 100% of the ordinary share capital.

There were no related party transactions in the year ended 30 September 2000.

In 2001 the Company sold two motor vehicles to Mr R C Urwin and Mr P Chatterton at market value for a total of £4,000. The proceeds were credited to the profit and loss account as a profit on disposal of fixed assets.

Mr R C Urwin and Mr P Chatterton were appointed to the board of Buckstop Print Services Limited on 2 February 2001. The Company purchased 20% of the ordinary share capital of that company at par for a consideration of £2,000 on the same date. Mr R C Urwin and Mr P Chatterton purchased the Company's 20% ordinary shareholding in Buckstop Print Services Ltd for a consideration of £2,000 in the year ended 30 September 2002. This amount was both the estimated market value at date of disposal and cost paid by Courier Newspapers (Oxford) Ltd to acquire the shares during 2001.

The Company made a loan of £98,000 on 2 February 2001 to Buckstop Print Services Limited which is repayable in five equal annual instalments commencing on 31 January 2002. Interest is payable at the same time as the repayment instalments at a rate of 10% per annum and the total amount including interest owed on this loan at 30 September 2002 was £84,410 (2001: £105,730). This loan is secured by a fixed and floating charge over the assets of Buckstop Print Services Limited.

During the year end 30 September 2002 the Company paid Buckstop Print Services Limited £315,364 (2001: £294,945) in respect of typesetting services. At the year end date, the Company owed Buckstop Print Services Limited £15,419 (2001: £14,733) for typesetting provided.

### 25 Capital commitments

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Contracted for but not provided	—	—	20

### 26 Reconciliation of operating profit/(loss) to net cash flow from operating activities

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Operating profit/(loss)	31	277	(110)
Profit on sale of tangible fixed assets	(9)	(6)	(4)
Depreciation	34	51	27
Decrease/(increase) in debtors	48	(118)	21
(Increase)/decrease in creditors	(57)	117	(39)
Contribution to Employee Benefit Trust	—	—	(15)
<b>Net cash flow from operating activities</b>	<b>47</b>	<b>321</b>	<b>(120)</b>

## PART IV : ACCOUNTANTS' REPORT ON COURIER

### 27 Reconciliation of net cash flow to movement in net funds

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Increase/(decrease) in cash in the year and movement in net funds in year	46	83	(245)
<b>Net funds at the beginning of the year</b>	364	410	493
<b>Net funds at the end of the year (note 28)</b>	410	493	248

### 28 Analysis of net funds

	At the start of the year £000	Cash flow £000	At the end of the year £000
<b>Year ended 30 September 2000</b>			
Cash in hand, at bank	364	46	410
<b>Year ended 30 September 2001</b>			
Cash in hand, at bank	410	83	493
<b>Year ended 30 September 2002</b>			
Cash in hand, at bank	493	(245)	248

### 29 Post balance sheet events

On 25 June 2003, the shareholders of Courier Newspapers (Oxford) Limited entered into a share sale agreement which was conditional, inter alia, on admission of Milestone Group PLC to the Alternative Investment Market ("Admission") and by which they agreed to sell the entire issued share capital of Courier Newspapers (Oxford) Limited to Milestone Group PLC for cash and shares in Milestone Group PLC.

Yours faithfully

BDO Stoy Hayward  
Chartered Accountants



## PART V : ACCOUNTANTS' REPORT ON FUSION

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BDO Stoy Hayward  
Chartered Accountants

8 Baker Street  
London W1U 3LL

The Directors  
Milestone Group PLC  
Manor Lane Studios  
Oare, Hermitage  
Berkshire  
RG18 9SE

26 June 2003

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

**Fusion Radio Holdings Limited ("Fusion" or the "Company") and its subsidiaries (together, the "Fusion Group")**

### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 26 June 2003 of Milestone Group PLC.

The Company was incorporated as Fusion Radio Holdings Limited (company number 4102043) on 31 October 2000. On 20 November 2000, the Company acquired Fusion 107.3 FM Limited, Passion Radio (Oxford) Limited, Links Investment Limited and its subsidiaries and Fusion Radio Group Limited and its subsidiaries.

Fusion 107.3 FM Limited (company number 3248460) was incorporated as First Love Radio Limited on 11 September 1996 and changed its name to Fusion 107.3 FM Limited on 28 May 2002.

Passion Radio (Oxford) Limited (company number 3191175) was incorporated as Burginhall 893 Limited on 26 April 1996 and changed its name to Oxygen 107.9 FM Limited on 2 May 1996, to Fusion 107.9 FM Limited on 6 February 2002 and subsequently to Passion Radio (Oxford) Limited on 20 November 2002.

Links Investment Limited (company number 4008514) was incorporated as Compfirst Limited on 6 June 2000 and changed its name to Links Investment Limited on 9 August 2000.

Fusion Radio Group Limited (company number 3947860) was incorporated on 14 March 2000.

On 17 September 2001 the Company acquired 100% of Jazztech Limited and its subsidiaries. This gave the Company a majority ownership in Kestrel FM Limited and West Berkshire Radio Limited together with shareholdings in a number of holding companies with interests in local radio.

Jazztech Limited (company number 4265010) was incorporated on 6 August 2001.

## **PART V : ACCOUNTANTS' REPORT ON FUSION**

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### **Basis of preparation**

The financial information is based on the audited consolidated financial statements of Fusion for the period from incorporation to 30 September 2001 and the year ended 30 September 2002 (the "Relevant Period") to which no adjustments were considered necessary.

Hacker Young, Chartered Accountants and Registered Auditors, St Alphage House, 2 Fore Street London EC2Y 5DY, have been auditors to the Fusion Group throughout the Relevant Period. Each of the audit reports throughout the Relevant Period was unqualified.

### **Responsibility**

Such financial statements are the responsibility of the directors of Fusion who approved their issue.

The directors of Milestone Group PLC are responsible for the contents of the admission document dated 26 June 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the admission document dated 26 June 2003, a true and fair view of the state of affairs of the Fusion Group as at the dates stated and of its consolidated losses for the periods then ended.

### **Consent**

We consent to the inclusion in the admission document dated 26 June 2003 of this report and accept responsibility for this report for the purposes of paragraphs 45(7)b of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **PART V : ACCOUNTANTS' REPORT ON FUSION**

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### **Financial Information**

#### **Accounting policies**

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

##### *Turnover*

Turnover comprises amounts receivable for goods and services net of value added tax and trade discounts.

##### *Intangible fixed assets and amortisation*

Goodwill represents the difference between the costs of acquisitions and the fair value of the net tangible assets acquired. In accordance with Financial Reporting Standard 10, goodwill arising on the acquisition of subsidiaries is capitalised as an intangible asset and amortised over the useful economic life, considered by the directors to be the period over which the current radio station licences, issued by the Radio Authority, are valid.

##### *Tangible fixed assets and depreciation*

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

Leasehold improvements	– over the period of the lease
Motor vehicles	– 20% – 25% straight line
Plant, machinery, fixtures & fittings	– 12.5% – 33% straight line

##### *Deferred taxation*

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

##### *Investments*

Investments are stated at cost less provision for impairment in value, where necessary.

##### *Leases and hire purchase commitments*

Assets held under finance leases and hire purchase contracts are capitalised as tangible assets on the inception of the leases and depreciated over the shorter of the lease term and their estimated useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance charges are allocated evenly over the period of the lease.

##### *Pensions*

Payments to the directors' personal contribution pension schemes are charged to the profit and loss account as they become payable.

##### *Research*

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Consolidated profit and loss accounts

	Notes	11 months ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Turnover</b>	1	616	1,669
Continuing operations		250	1,642
Acquisitions		366	27
		616	1,669
Cost of sales		(486)	(791)
<b>Gross profit</b>		130	878
Administrative expenses		(5,157)	(4,939)
		(5,027)	(4,061)
Other operating income		34	1
<b>Operating loss</b>		(4,993)	(4,060)
Continuing operations		—	(3,948)
Acquisitions		(4,993)	(112)
	2	(4,993)	(4,060)
Share of losses from interests in associated undertakings		—	(38)
<b>Loss on ordinary activities before interest</b>		(4,993)	(4,098)
Interest receivable		8	9
Interest payable and similar charges	5	(8)	(28)
<b>Loss on ordinary activities before and after taxation</b>	1,8	(4,993)	(4,117)
Minority interest		—	167
Dividends (including non-equity)	7	(388)	(870)
<b>Retained loss</b>	18	(5,381)	(4,820)
<b>Loss per share</b>	8		
Basic		(323p)	(290p)
Diluted		(323p)	(290p)

All amounts relate to continuing activities except where shown.

There were no recognised gains and losses other than those passing through the profit and loss account.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Consolidated balance sheets

	Notes	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Fixed assets</b>			
Intangible assets	9	6,979	6,066
Tangible assets	10	556	588
Investments	11	48	67
		7,583	6,721
<b>Current assets</b>			
Debtors	12	864	1,038
Cash at bank and in hand		62	1,052
		926	2,090
<b>Creditors: amounts falling due within one year</b>	13	(1,931)	(1,227)
<b>Net current (liabilities)/assets</b>		(1,005)	863
<b>Total assets less current liabilities</b>		6,578	7,584
<b>Creditors: amounts falling due after more than one year</b>	13	(105)	(693)
Provisions for liabilities and charges	15	(30)	(87)
Minority interest	16	(1)	(13)
		6,442	6,791
<b>Capital and reserves</b>			
Called up share capital	17	140	264
Share premium account	18	11,295	15,470
Other reserves	18	388	1,258
Profit and loss account	18	(5,381)	(10,201)
<b>Shareholders' funds (including non-equity interests)</b>	19	6,442	6,791

Included within shareholders' funds is an amount of £7.4 million (2001) and £11.7 million (2002) in respect of non-equity interests.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Consolidated cash flow statements

	Notes	11 months ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Net cash outflow from operating activities</b>	25	(3,985)	(3,663)
<b>Returns on investments and servicing of finance</b>			
Interest received		9	9
Interest paid		(6)	(16)
Hire purchase charges		(2)	—
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		1	(7)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(159)	(233)
Sale of tangible fixed assets		5	9
Purchase of investments		(20)	(31)
<b>Net cash outflow from capital expenditure and financial investment</b>		(174)	(255)
<b>Acquisitions</b>			
Purchase of subsidiary undertakings	20	(4,334)	(199)
(Overdrafts)/cash acquired with subsidiaries	20	(572)	346
Goodwill on purchase of associate		—	(19)
<b>Net cash (outflow)/inflow from acquisitions</b>		(4,906)	128
<b>Cash outflow before financing</b>		(9,064)	(3,797)
<b>Financing</b>			
Issue of ordinary share capital		8,704	4,300
Minority loan		106	623
Hire purchase capital repayments		(7)	(18)
<b>Cash inflow from financing</b>		8,803	4,905
<b>(Decrease)/increase in cash</b>	26	(261)	1,108

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Notes to the consolidated financial information

#### 1 Turnover, profit and net assets

##### Turnover

	<b>11 months ended 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Analysis by class of business:		
On-air broadcastings and promotions	366	1,309
Radio advertising	250	360
	<b>616</b>	<b>1,669</b>

The turnover attributable to the principal activities of the Group all arises from continuing operations and acquisitions and is derived in the United Kingdom.

##### Loss before taxation

	<b>11 months ended 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Analysis by class of business:		
On-air broadcasting and promotions	(948)	(1,221)
Radio advertising	(1,624)	(1,650)
Fusion Radio Holdings Limited (parent company)	(2,421)	(1,246)
	<b>(4,993)</b>	<b>(4,117)</b>

##### Net assets

	<b>11 months ended 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Analysis by class of business:		
On-air broadcasting and promotions	(1,835)	(2,130)
Radio advertising	(2,678)	(4,328)
Fusion Radio Holdings Limited (parent company)	10,955	13,249
	<b>6,442</b>	<b>6,791</b>



## PART V : ACCOUNTANTS' REPORT ON FUSION

### 2 Operating loss

This is arrived at after charging:

	<b>11 months to 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Depreciation	100	183
Loss on disposal of fixed assets	8	8
Amortisation of goodwill	941	945
Operating lease rentals	176	197
Auditors' remuneration – Group audit fees	38	47
Impairment provision against goodwill	1,510	37
Audience research	17	54

### 3 Employees

The average number of employees during the period, including executive directors, was:

	<b>11 months to 30 September 2001 Number</b>	<b>Year ended 30 September 2002 Number</b>
Administration	32	67

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

	<b>11 months to 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Wages and salaries	1,132	1,630
Social security costs	104	147
Pension costs	27	36
	<b>1,263</b>	<b>1,813</b>

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 4 Directors

	Basic salary £000	Performance related bonus £000	Benefits in kind £000	Pension £000	Total £000
<b>11 months ended 30 September 2001</b>					
B R Chester	80	–	9	13	102
N J Reeve	100	15	9	10	134
R M Thomas	92	–	9	–	101
	272	15	27	23	337
<b>Year ended 30 September 2002</b>					
B R Chester	82	–	14	8	104
N J Reeve	110	–	20	10	140
R M Thomas	75	–	10	–	85
	267	–	44	18	329

Benefits in kind include car and fuel benefits only.

The directors were not involved in any long term incentive schemes during the Relevant Period and no share options were granted during the Relevant Period.

N J Reeve received compensation of £45,000 for loss of office in the year ended 30 September 2002.

### 5 Interest payable and similar charges

	11 months to 30 September 2001 £000	Year ended 30 September 2002 £000
On bank loans and overdrafts repayable wholly within five years	8	16
Hire purchase and finance lease charges	2	–
On overdue tax	(2)	–
On shareholders' loans	–	12
	8	28

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 6 Taxation

	11 months to 30 September 2001 £000	Year ended 30 September 2002 £000
Current tax charge	–	–
<b>Factors affecting the tax charge for the period</b>		
Loss on ordinary activities before taxation	(4,993)	(4,117)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2001: 30%)	1,498	1,235
Effects of:		
Non deductible expenses	682	315
Depreciation	61	57
Tax losses unutilised	771	869
Capital allowances	(14)	(5)
Other tax adjustments	(2)	(1)
	1,498	1,235

### 7 Dividends

	11 months to 30 September 2001 £000	Year ended 30 September 2002 £000
Cumulative preference shareholders – parent company	388	870

### 8 Loss per share

Loss per ordinary share has been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue and the loss, being loss after tax, minority interests and preference dividends are as follows:

	11 months to September 2001 Number '000	Year ended 30 September 2002 Number '000
Weighted average number of equity shares	1,665	1,666
	£000	£000
Loss, being loss after tax, minority interests and preference dividends	5,381	4,820

## PART V : ACCOUNTANTS' REPORT ON FUSION

The number of shares used for the diluted loss per share is calculated as follows:

	<b>11 months to September 30 2001 Number '000</b>	<b>Year ended September 2002 Number '000</b>
Basic number of shares	1,665	1,666

The preference shares are anti-dilutive and are therefore not included in the calculation of diluted loss per share.

### 9 Intangible assets

	<b>Goodwill £000</b>
<b>Cost</b>	
Additions	9,428
<b>As at 30 September 2001</b>	9,428
Additions	28
<b>As at 30 September 2002</b>	9,456
<b>Amortisation</b>	
Provided for the period	939
Provided for impairment	1,510
<b>As at 30 September 2001</b>	2,449
Provided for the year	941
Provided for impairment	–
<b>As at 30 September 2002</b>	3,390
<b>Net book value</b>	
<b>As at 30 September 2001</b>	6,979
<b>As at 30 September 2002</b>	6,066

The provision for impairment as at 30 September 2001 mainly relates to the subsidiary, Fusion Radio Sales Limited, which had substantial trading losses as at 30 September 2001.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 10 Tangible assets

	Leasehold property improvements £000	Motor vehicles £000	Fixtures, fittings, plant and machinery £000	Total £000
<b>Cost</b>				
Additions	50	11	98	159
Subsidiary undertaking acquired	75	18	905	998
Surplus on revaluation	–	–	(22)	(22)
<b>As at 30 September 2001</b>	125	29	981	1,135
Additions	16	–	217	233
Disposals	–	–	(169)	(169)
<b>As at 30 September 2002</b>	141	29	1,029	1,199
<b>Depreciation</b>				
As at 1 November 2000	–	–	–	–
Provided for the period	5	1	94	100
Subsidiary undertaking acquired	21	16	451	488
Disposals	–	–	(9)	(9)
<b>As at 30 September 2001</b>	26	17	536	579
Provided for the year	15	7	161	183
Disposals	–	–	(151)	(151)
<b>As at 30 September 2002</b>	41	24	546	611
<b>Net book value</b>				
<b>As at 30 September 2001</b>	99	12	445	556
<b>As at 30 September 2002</b>	100	5	483	588

Commitments for capital expenditure were £nil as at 30 September 2001 and 2002.

All tangible assets are stated at historical cost.

The net book value of tangible assets for the Group includes an amount of 2001: £35,000 and 2002: £nil in respect of assets held under finance lease and hire purchase contracts. The depreciation charge on these assets for the period was 2001: £15,000; 2002: £nil.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 11 Fixed asset investments

	Loans to Associated Undertakings £000	Associated undertakings £000	Other Investments £000	Total £000
<b>Cost</b>				
Additions	–	6	20	26
<b>As at 30 September 2001</b>	–	6	20	26
Additions	28	–	3	31
Reclassification of associated undertaking to subsidiary undertaking	–	(6)	–	(6)
Reclassification of investment to associated undertaking	–	–	(9)	(9)
<b>As at 30 September 2002</b>	28	–	14	42
<b>Goodwill</b>				
On acquisition	–	24	–	24
Amortisation	–	(2)	–	(2)
<b>As at 30 September 2001</b>	–	22	–	22
On acquisition	–	62	–	62
Amortisation	–	(4)	–	(4)
Provision for impairment	–	(37)	–	(37)
<b>As at 30 September 2002</b>	–	43	–	43
<b>Net book value</b>				
<b>As at 30 September 2001</b>	–	28	20	48
<b>As at 30 September 2002</b>	28	25	14	67

The Group did not hold any listed investments as at 30 September 2001 and 2002.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Subsidiary and associated undertakings

The following were subsidiary and associated undertakings as at 30 September 2001 and 2002 and all have been included in the consolidated financial information:

Name	Proportion of voting rights and ordinary share capital held	Nature of business
Passion Radio (Oxford) Limited	100%	Radio Station
Fusion 107.3 FM Limited	100%	Radio Station
Links Investments Limited	100%	Holding Company
Fusion Radio Group Limited	100%	Holding Company
Jazztech Limited	100%	Holding Company
Warwick Leamington Kenilworth (WLK) Broadcasting Company Limited	100%	Dormant
*Fusion Radio Sales Limited	100%	Radio Advertising
*Fusion New Media Sales Limited	100%	Dormant
*Fusion Radio Management Limited	100%	Dormant
*Fusion Media Group Limited	100%	Dormant
*Fusion Radio Stations Limited	100%	Dormant
#Milestone FM Limited	100%	Holding company
#Millennium FM Limited	100%	Radio Station
+The Milestone Radio Company Limited	100%	Development of radio broadcasting investment opportunities
+Milestone Pictures Limited	100%	Development of radio broadcasting investment opportunities
+Newbury Community Radio (Investments) Limited	100%	Dormant
+Ridge FM Limited	70%	Dormant
+Reading Radio Limited	50%	Dormant
+Kestrel FM Limited	52%	Radio Station
+West Berkshire Radio Limited	51%	Radio Station
+Rugby Broadcasting Company Limited <sup>(1)</sup>	52%	Radio Station

\* Fusion Radio Holdings Limited's interest in these companies is held by Fusion Radio Group Limited.

# Fusion Radio Holdings Limited's interest in these companies is held by Links Investments Limited.

+ Fusion Radio Holdings Limited's interest in these companies is held by Jazztech Limited or its subsidiaries.

<sup>(1)</sup> The Group held 36.8% as at 30 September 2001 and 52% as at 30 September 2002.

### Other significant interests at 30 September 2002:

CKFM Kernow Limited	9%	Radio Station
The Burn FM Limited	50%	Development of radio broadcasting
*Reading Broadcasting Limited	35.8%	Radio Station

\* Fusion Radio Holdings Limited's interest in this company is held by The Milestone Radio Company Limited.

All of the companies shown above were incorporated in England and Wales.



## PART V : ACCOUNTANTS' REPORT ON FUSION

The Group's share of net assets of the associated undertakings as at each period end is shown under investments and provisions in the consolidated balance sheet and comprises:

	<b>As at 30 September 2001 £000</b>	<b>As at 30 September 2002 £000</b>
Share of current assets	9	106
Share of liabilities	(33)	(194)
Unamortised goodwill on acquisition	22	26
Share of net assets	(2)	(62)
Disclosed in investment	28	25
Disclosed in provisions (note 15)	(30)	(87)
	(2)	(62)

The form of consideration for subsidiaries acquired is detailed in note 20.

For all undertakings listed above, the country of operation is the same as its country of incorporation or registration.

### 12 Debtors

	<b>As at 30 September 2001 £000</b>	<b>As at 30 September 2002 £000</b>
Trade debtors	395	380
Amounts due from associates – loans	32	304
Prepayments and accrued income	264	258
Other debtors	173	96
	864	1,038

Included in other debtors at 30 September 2001 are payments in advance of £6,000 (30 September 2001: £nil) falling due after more than one year.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 13 Creditors

#### Amounts falling due within one year

	<b>As at 30 September 2001 £000</b>	<b>As at 30 September 2002 £000</b>
Bank overdrafts (secured)	323	205
Trade creditors	866	406
Other creditors	33	25
Other taxes and social security costs	98	86
Obligations under finance leases and hire purchase agreements	18	–
Accruals and deferred income	587	469
Directors' current account	6	–
Minority loans	–	36
	<b>1,931</b>	<b>1,227</b>

The bank overdrafts are unsecured and repayable on demand, with the exception of 2001: £63,873 and 2002: £88,294, which are secured by a debenture over the assets of the subsidiary companies involved in favour of the bank.

#### Amounts falling due after more than one year

	<b>As at 30 September 2001 £000</b>	<b>As at 30 September 2002 £000</b>
Minority loans	105	93
Shareholders' loans	–	600
	<b>105</b>	<b>693</b>

The minority loans at 30 September 2001 and 30 September 2002 represent interest free loans from shareholders of a subsidiary, with no fixed repayment dates. The shareholders' loans accrue interest on a monthly basis at a fixed rate of 7.5% per annum payable on the maturity date.

## PART V : ACCOUNTANTS' REPORT ON FUSION

Financial liabilities are due:

	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Loans and overdraft</b>		
– in one year or less	323	241
– in more than one year but not more than two years	–	600
– in more than two years but not more than five years	–	–
– in more than five years	105	93
	428	934
<b>Finance leases</b>		
– in one year or less	18	–
	18	–

### 14 Financial instruments

#### Interest rate and currency of borrowings

The currency and interest rate exposure of the Group's borrowings is shown below:

Currency	Total £000	Floated borrowings £000	Interest free borrowings £000	Fixed borrowings £000	Weighted average interest rate %
<b>As at 30 September 2001</b>					
Sterling	428	323	105	–	–
<b>As at 30 September 2002</b>					
Sterling	934	205	129	600	7.5

The floating rate borrowings comprise bank borrowings and leases bearing interest rates based upon 3% above the NatWest base rate. The loans from minority shareholders are interest free loans.

The convertible redeemable preference shares of 1p each (detailed in note 18) are not included above since it is not practical to estimate the fair value of these shares.

#### Interest rate and currency of cash balances

Floating rate financial assets of 2001: £62,000 and 2002: £1,052,000 comprise Sterling cash deposits on current accounts. There are no fixed rate financial assets. No interest is received and there is no maturity date on current asset listed investments held by the Group.

#### Currency exposure

The Group's currency exposure, i.e. those exposures arising from transactions, the net currency gains and losses from which will be recognised in the profit and loss account, is shown below.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### Functional currency of Group operations

	Net foreign currency monetary assets/(liabilities)	
	<b>Sterling £000</b>	<b>Total £000</b>
<b>As at 30 September 2001</b>		
Sterling	(261)	(261)
<b>As at 30 September 2002</b>		
Sterling	847	847

### Fair values of financial instruments

Set out below is a year end comparison of current and book values of all the Group's financial instruments by category.

	<b>Cash £000</b>	<b>Short-term debt and current debt portion of long term debt £000</b>	<b>Long-term debt £000</b>
<b>As at 30 September 2001</b>			
Book value	62	323	105
Current value	62	323	105
<b>As at 30 September 2002</b>			
Book value	1,052	241	693
Current value	1,052	241	693

### Undrawn bank facilities

The Group did not have any undrawn committed bank borrowing facilities available to it as at 30 September 2001 and 2002.

### Hedges

The Group does not hedge and has no stated policy.

### 15 Provision for liabilities and charges

	<b>As at 30 September 2001 £000</b>	<b>As at 30 September 2002 £000</b>
Associated undertakings – share of net liabilities	30	87

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 16 Minority interests

	£000
Arising from acquisition of new subsidiary	(1)
<b>As at 30 September 2001</b>	(1)
Share of subsidiaries' losses	166
Preference dividend payable by subsidiary	(12)
Arising from acquisition of new subsidiary (formerly an associated company)	(166)
<b>As at 30 September 2002</b>	(13)

The minority interests include a sum of £102,021 receivable from minority shareholders of the subsidiaries to be offset against their share of future profits of these subsidiaries.

### 17 Share capital

	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Authorised</b>		
9,999,000 ordinary shares of 1p each	100	100
1,000 'A' ordinary shares of 1p each	—	—
40,000,000 (2001: 20,000,000) convertible redeemable preference shares of 1p each	100	400
	200	500
<b>Allotted, called up and fully paid</b>		
3,957,480 ordinary shares of 1p each	40	40
198 (2001: 80) 'A' ordinary shares of 1p each	—	—
22,457,063 (2001: 9,999,920) convertible redeemable preference shares of 1p each	100	224
	140	264

#### Details of authorised and issued share capital

The Company was incorporated on 31 October 2000 with an authorised share capital of 10,000,000 £1 ordinary shares. On the same day, the authorised share capital was reduced to 1 ordinary £1 share and subdivided into 100 ordinary 1p shares and these shares were issued at par. On 17 November 2000, the authorised share capital was increased by creating 9,998,900 ordinary 1p shares, 1,000 'A' ordinary 1p shares and 10,000,000 convertible redeemable preference shares of 1p.

On 20 November 2000, 1,439,294 ordinary 1p shares and 3,799,920 redeemable preference shares of 1p and 80 'A' ordinary 1p share were issued, all at a price of £1 per share. 180,000 of the ordinary 1p shares were in respect of part consideration in the purchase of Passion Radio (Oxford) Limited. Also on that date 230,303 ordinary 1p shares were issued at par.

On 30 January 2001, 1,000,000 convertible redeemable preference shares of 1p were issued at a price of £1 per share.

## **PART V : ACCOUNTANTS' REPORT ON FUSION**

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On 5 June 2001, 2,000,000 convertible redeemable preference shares of 1p were issued at a price of 50 pence per share.

On 22 August 2001, 85,330 ordinary 1p shares were issued at a price of 50 pence per share.

On 17 September 2001, 2,202,453 ordinary 1p shares were issued at a price of £1.1578 per share all of which were in respect of part consideration in the purchase of Jazztech Limited and 3,200,000 convertible redeemable preference shares were issued at a price of 50 pence per share.

On 2 October 2001, the authorised share capital was increased by the creation of 10,000,000 convertible redeemable preference shares of 1p.

On 3 October 2001, 2,857,143 redeemable preference shares of 1p each were issued at a price of 35 pence per share and 82 'A' ordinary 1p shares were issued at a price of £1 per share.

On 22 January 2002, 3,600,000 convertible redeemable preference shares of 1p were issued at a price of 50 pence per share.

On 23 August 2002, the Company's authorised share capital was increased by the creation of 20,000,000 convertible redeemable preference shares of 1p each.

On 13 September 2002, the Company allotted 6,000,000 redeemable preference shares of 1p each at a price of 25 pence per share and 36 'A' ordinary 1p shares at a price of £1 per share.

### **Rights of share classes**

The ordinary shares, 'A' ordinary shares and convertible redeemable preference shares are separate classes of shares but carry the same rights and privileges and rank *pari passu* in all respects, except insofar as detailed below.

The 'A' ordinary shareholders have 10,000 votes for each 'A' ordinary share held. 'A' ordinary shares can only be issued to existing 'A' ordinary shareholders or convertible redeemable preference shareholders (preference shareholders).

The preference shareholders are entitled, in priority to payment of any dividend to any other shareholder, to a fixed cumulative preferential dividend at the rate of 9% per annum accruing on a daily basis on the subscription price for such shares. Such a dividend shall only be payable to the extent permitted by law and with effect from the earlier of (a) the date on which a majority of the preference shareholders require by written notice to the Company that such a dividend be paid; and (b) the date of which the Company goes into liquidation or administration.

The preference shareholders shall have no voting rights other than in respect of matters requiring a class vote.

On a return of capital, each preference shareholder shall be entitled in proportion to the number of preference shares held by it and in priority to any payment, the subscription price for each preference share together with all accrued but unpaid dividends.

A preference shareholder shall be entitled to require the Company to redeem at the subscription price per share, some or all of the preference shares held by it on the date of occurrence of any one or more Redemption Events as set out in the Articles of Association.

A preference shareholder shall be entitled at any time by written notice to the Company to require the Company to exchange any or all of the preference shares held for ordinary shares on a one for one basis.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 18 Reserves

	Share premium account £000	Other reserves £000	Profit and loss account £000	Total £000
Share issues	11,295	–	–	11,295
Arrears of cumulative preference dividend	–	388	–	388
Loss for the period	–	–	(5,381)	(5,381)
<b>As at 30 September 2001</b>	11,295	388	(5,381)	6,302
Share issues	4,175	–	–	4,175
Arrears of cumulative preference dividend	–	870	–	870
Loss for the year	–	–	(4,820)	(4,820)
<b>As at 30 September 2002</b>	15,470	1,258	(10,201)	6,527

### 19 Reconciliation of movements in shareholders' funds

	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>At the beginning of the period</b>	–	6,442
Issue of shares	140	124
Premium on shares allotted	11,295	4,175
Arrears of cumulative preference dividend	388	870
Loss for the year	(5,381)	(4,820)
<b>At the end of the period</b>	6,442	6,791
Equity	(958)	(4,909)
Non-equity	7,400	11,700
	6,442	6,791

### 20 Acquisitions

Acquisitions of subsidiary undertakings during the period ended 30 September 2001 were as follows:

Subsidiary undertaking	Date of acquisition	Country of incorporation	Holding
Fusion 107.3 FM Limited	20 November 2000	England & Wales	100%
Passion Radio (Oxford) Limited	20 November 2000	England & Wales	100%
Links Investments Limited	20 November 2000	England & Wales	100%
Fusion Radio Group Limited	20 November 2000	England & Wales	100%
Jazztech Limited	17 September 2001	England & Wales	100%

## PART V : ACCOUNTANTS' REPORT ON FUSION

The book value of the assets and liabilities of these subsidiaries at the date of acquisition and any adjustments to fair value are set out below:

<b>Book and fair values</b>	<b>Fusion 107.3 FM Limited £000</b>	<b>Links Investments Limited £000</b>	<b>Fusion Radio Group Limited £000</b>	<b>Jazztech Limited £000</b>
Tangible fixed assets	126	65	102	192
Debtors	170	556	153	267
Cash	15	7	–	47
<b>Total assets</b>	<b>311</b>	<b>628</b>	<b>255</b>	<b>506</b>
Creditors	(742)	(450)	(1,310)	(1,422)
<b>Net assets/(liabilities) acquired</b>	<b>(431)</b>	<b>178</b>	<b>(1,055)</b>	<b>(916)</b>
Goodwill	1,953	678	1,458	4,199
<b>Purchase consideration</b>	<b>1,522</b>	<b>856</b>	<b>403</b>	<b>3,283</b>
<b>Satisfied by:</b>				
Issue of shares	–	269	–	2,550
Cash	1,522	587	403	733
	1,522	856	403	3,283

<b>Passion Radio (Oxford) Limited</b>	<b>Book value £000</b>	<b>Fair value £000</b>	<b>Total fair value £000</b>
<b>As at 30 September 2001</b>			
Tangible fixed assets	25	25	509
Debtors	72	72	1,219
Cash at hand and in bank	–	–	69
Creditors	(163)	(238)	(4,162)
Net liabilities	(66)	(141)	(2,365)
Goodwill arising on acquisition		1,140	9,428
Cost of acquisition		999	7,063
<b>Satisfied by:</b>			
Issue of 2,382,453 ordinary shares of 1 pence each		180	2,999
Cash		819	4,064
		999	7,063

The fair value adjustment to creditors above includes expenses incurred in activities relating to the renewal of the Radio Authority licence for *Passion Radio (Oxford) Limited* after the period end. The licence was granted to the Company in June 2002 for a further 8 years.



## PART V : ACCOUNTANTS' REPORT ON FUSION

The financial information relating to the subsidiaries acquired in the 11 months ended 30 September 2001 is set out below:

	<b>Fusion 107.3 FM Limited £000</b>	<b>Passion Radio (Oxford) Limited £000</b>	<b>Links Investments Limited £000</b>	<b>Fusion Radio Group Limited £000</b>
Retained loss from 1 October 2000 (the start of the subsidiaries' financial year) to 20 November 2000 (the date of acquisition)	60	46	63	325
Loss after tax for the previous financial year	352	123	–	1,608

At the date of its acquisition, Jazztech Limited did not have any retained profits or losses.

On 25 January 2002, the Company acquired a 52% holding in Rugby Broadcasting Company Limited, via its 100% investment in Jazztech Limited. Previously, Rugby Broadcasting Company Limited was an associated company as the Group's interest was 36.8%.

<b>Book and fair values of Rugby Broadcasting Company Limited</b>	<b>£000</b>
Debtors	8
Cash at bank and in hand	346
Creditors	(8)
Minority shareholders' interest	(166)
Add: losses already accounted for as an associated company	9
Net assets	189
Goodwill arising on acquisition	27
Cost of acquisition (all cash)	216

The results relating to Rugby Broadcasting Company Limited at the date of acquisition are set out below:

	<b>£000</b>
Retained loss from 1 January 2002 (the start of the subsidiary's financial year) to 25 January 2002 (the date of acquisition)	14
Loss after tax for the previous financial year	40

The Company also acquired a 100% holding in Warwick Leamington Kenilworth (WLK) Broadcasting Company Limited on 11 March 2002 for £250 in cash. This company was incorporated in England & Wales and is currently dormant. Goodwill of £249 arose on the acquisition.

### 21 Pensions

Payments amounting to 2001: £23,000 and 2002: £18,000 were paid into directors' personal pension schemes.

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 22 Commitments under operating leases

The following are the annual commitments under non-cancellable operating leases:

	<b>30 September 2001</b>		<b>30 September 2002</b>	
	<b>Land and buildings £000</b>	<b>Other £000</b>	<b>Land and buildings £000</b>	<b>Other £000</b>
Operating leases which expire:				
Within one year	42	72	42	82
In two to five years	173	158	191	84
Over five years	271	20	240	18
	486	250	473	184

### 23 Contingent liabilities

The Group does not have any contingent liabilities.

### 24 Related party transactions

#### Period ended 30 September 2001:

N J Reeve lent the sum of £5,450 to Fusion Radio Group Limited on its incorporation. This sum was still owed to him by the Group as at 30 September 2001.

#### Year ended 30 September 2002:

During the year, the Group received services from Listenable Limited, a company of which A T Craig is a director. The Group purchased services amounting to £62,150 from this company and the sum of £8,812 was owed to the company as at 30 September 2002.

The Group also purchased services amounting to £60,000 from MGH Investments Limited, a company of which A T Craig is also a director.

### 25 Reconciliation of operating loss to net cash flow from operating activities

	<b>11 month period ended 30 September 2001 £000</b>	<b>Year ended 30 September 2002 £000</b>
Operating loss	(4,993)	(4,060)
Amortisation of goodwill	941	945
Provision for impairment of goodwill	1,510	37
Depreciation	100	183
Loss on disposal of fixed assets	8	8
Decrease/(increase) in debtors	354	(173)
Decrease in creditors	(1,905)	(603)
<b>Net cash flow from operating activities</b>	<b>(3,985)</b>	<b>(3,663)</b>

## PART V : ACCOUNTANTS' REPORT ON FUSION

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

	11 month period ended 30 September 2001 £000	Year ended 30 September 2002 £000
(Decrease)/increase in cash in the year	(261)	1,108
Acquired with subsidiaries	(124)	–
Cash flow from increase in debt	–	(605)
<b>Change in net debt resulting from cash flows</b>	<b>(385)</b>	<b>503</b>
<b>Net debt at the beginning of the period/year</b>	<b>–</b>	<b>(385)</b>
<b>Net (debt)/funds at the end of the period/year (note 27)</b>	<b>(385)</b>	<b>118</b>

### 27 Analysis of net debt

	At start of the period/year £000	Acquired with subsidiaries (exc. cash) £000	Cash flow £000	At the end of the period/ year £000
<b>11 month period ended 30 September 2001</b>				
Cash in hand, at bank	–	–	62	62
Overdrafts	–	–	(323)	(323)
Cash	–	–	(261)	(261)
Minority loans	–	(106)	–	(106)
Hire purchase obligations	–	(18)	–	(18)
Other	–	(124)	–	(124)
<b>Total</b>	<b>–</b>	<b>(124)</b>	<b>(261)</b>	<b>(385)</b>
<b>Year ended 30 September 2002</b>				
Cash in hand, at bank	62	–	990	1,052
Overdrafts	(323)	–	118	(205)
Cash	(261)	–	1,108	847
Minority loans	(106)	–	(23)	(129)
Shareholders' loans	–	–	(600)	(600)
Hire purchase obligations	(18)	–	18	–
Other	(124)	–	(605)	(729)
<b>Total</b>	<b>(385)</b>	<b>–</b>	<b>503</b>	<b>118</b>

## PART V : ACCOUNTANTS' REPORT ON FUSION

### 28 Cash flows relating to acquisitions and disposals

	<b>11 month period ended 30 September 2001 £000 Acquisitions</b>	<b>Year ended 30 September 2002 £000 Acquisitions</b>
Operating cash flows	(3,985)	(3,663)
Returns on investments and servicing of finance	1	(7)
Taxation	—	—
Investing activities	(175)	(273)
Financing	3,898	5,051
Net cash flow	(261)	1,108

### 29 Post balance sheet events

On 19 February 2003, the directors took the decision to terminate the operations of Fusion Radio Sales Limited.

On 26 June 2003, the shareholders of Fusion Radio Holdings Limited entered into a share sale agreement which was conditional, inter alia, on admission of Milestone Group PLC to the Alternative Investment Market ("Admission") and by which they agreed to sell the entire issued share capital of Fusion Radio Holdings Limited to Milestone Group PLC in a share for share exchange.

Yours faithfully

BDO Stoy Hayward  
Chartered Accountants

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

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BDO Stoy Hayward  
Chartered Accountants

8 Baker Street  
London W1U 3LL

The Directors  
Milestone Group PLC  
Manor Lane Studios  
Oare, Hermitage  
Berkshire  
RG18 9SE

26 June 2003

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

**Listenear Limited, Six TV Limited, Basingstoke Observer Limited, Milestone Television Company Limited, Soundview Investments Limited, Aroma Broadcasting Limited, and Oxford Broadcasting Limited (together referred to as the "MGH Interests")**

### Introduction

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 26 June 2003 of Milestone Group PLC.

### Basis of preparation

The financial information is based on an aggregation of the audited financial statements of:

- Listenear Limited, Six TV Limited and Basingstoke Observer Limited for the three years ended 30 September 2002 (the "Relevant Period");
- Milestone Television Company Limited (formerly Themenote Limited) for the period from 20 July 2001 to 30 September 2002;
- Soundview Investments Limited for the period from 10 August 2001 to 30 September 2002;
- Aroma Broadcasting Limited for the period from 6 June 2000 to 30 September 2001 and the year ended 30 September 2002; and
- Oxford Broadcasting Limited for the period ended 30 September 2000 and the two years ended 30 September 2002;

after making such aggregation adjustments as we considered necessary, prepared on the basis described in note 1.

## **PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS**

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James and Cowper, Chartered Accountants and Registered Auditors, Phoenix House, Bartholomew Street, Newbury, Berkshire, RG14 5QA have been auditors to Listeneer Limited, Six TV Limited and Basingstoke Observer Limited throughout the Relevant Period and Milestone Television Company Limited, Soundview Investments Limited and Aroma Broadcasting Limited since incorporation.

Whitley Stimpson, Penrose House, 67 Hightown Road, Banbury, Oxon, OX16 9BE, have been auditors to Oxford Broadcasting Limited throughout the Relevant Period.

Each of the audit reports throughout the Relevant Period was unqualified.

### **Responsibility**

Such financial statements are the responsibility of the directors of the respective companies who approved their issue.

The directors of Milestone Group PLC are responsible for the contents of the admission document dated 26 June 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that recorded by the auditors who audited the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the admission document dated 26 June 2003, a true and fair view of the state of affairs of the MGH Interests as at the dates stated and of its aggregated trading results for the years then ended.

### **Consent**

We consent to the inclusion in the admission document dated 26 June 2003 of this report and accept responsibility for this report for the purposes of paragraphs 45(7)(b) and 45(1)(b)(iii) of Schedule 1 to the Public Offers of Securities Regulations 1995.

## **PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS**

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### **Financial Information**

#### **Accounting policies**

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial information:

#### **Going concern**

The aggregated financial statements have been prepared on the going concern basis on the assumption that the Admission and Placing is successful and the necessary funding will be available to the MGH Interests thereafter.

#### **Turnover**

Turnover represents invoiced sales of goods and services, net of value added tax and trade discounts.

#### **Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Leasehold buildings	– 25% straight line
Production and editing equipment	– 25% straight line
Plant and machinery	– 33% straight line
Fixtures and fittings	– 25% to 33.3% straight line

#### **Leasing**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

#### **Deferred tax**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

#### **Investments**

Investments have been included at cost. The directors consider that the market value of the investments is in excess of cost.

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### Aggregated profit and loss accounts

	Notes	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Turnover</b>		1,155	1,137	1,210
Cost of sales	2	(712)	(1,141)	(1,103)
<b>Gross profit/(loss)</b>		443	(4)	107
Administrative expenses		(876)	(1,221)	(1,250)
		(433)	(1,225)	(1,143)
Other operating income		4	29	34
<b>Operating loss</b>	3	(429)	(1,196)	(1,109)
Write off of shareholder loans	4	–	83	–
<b>Loss on ordinary activities before interest</b>		(429)	(1,113)	(1,109)
Interest receivable		1	–	–
Interest payable and similar charges	7	(7)	(6)	(9)
<b>Loss on ordinary activities before taxation</b>	2	(435)	(1,119)	(1,118)
Taxation		1	–	–
<b>Loss on ordinary activities after taxation</b>		(436)	(1,119)	(1,118)
<b>Retained loss</b>	15	(436)	(1,119)	(1,118)

### Continuing operations

All amounts relate to continuing activities.

### Total recognised gains and losses

All recognised gains and losses are included in the profit and loss account.



## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### Aggregated balance sheets

	Notes	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Fixed assets</b>				
Tangible assets	9	249	155	79
Investments	10	600	1,127	1,546
		849	1,282	1,625
<b>Current assets</b>				
Stock	11	–	3	1
Debtors	12	380	442	343
Cash at bank and in hand		369	16	25
		749	461	369
<b>Creditors: amounts falling due within one year</b>	13	(1,506)	(2,167)	(3,092)
<b>Net current liabilities</b>		(757)	(1,706)	(2,723)
<b>Total assets less current liabilities</b>		92	(424)	(1,098)
<b>Creditors: amounts falling due after more than one year</b>	13	(15)	(15)	(15)
	2	77	(439)	(1,113)
<b>Capital and reserves</b>				
Called up share capital	14	172	677	1,120
Share premium account	15	1,177	1,275	1,276
Other reserves	15	100	100	–
Profit and loss account	15	(1,372)	(2,491)	(3,509)
<b>Shareholders' funds</b>	16	77	(439)	(1,113)

All shareholders' funds are equity.

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### Aggregated cash flow statements

	Notes	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Net cash inflow/(outflow) from operating activities</b>	19	29	(456)	(329)
<b>Returns on investments and servicing of finance</b>				
Interest received		4	–	–
Interest paid		(4)	(6)	(9)
<b>Net cash outflow from returns on investments and servicing of finance</b>		–	(6)	(9)
<b>Taxation</b>				
UK corporation tax		–	(10)	–
<b>Tax paid</b>		–	(10)	–
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets		(33)	–	(22)
Purchase of fixed asset investments		(600)	(527)	(419)
Sale of tangible fixed assets		–	–	1
<b>Net cash outflow from capital expenditure</b>		(633)	(527)	(440)
<b>Cash outflow before financing</b>		(604)	(999)	(778)
<b>Financing</b>				
Issue of ordinary share capital		1	505	443
Repayment of other long term bank loan		(1)	–	(2)
Amount introduced by directors		–	40	264
Amounts introduced by related parties		504	24	31
Capital element of finance lease payments		(34)	(65)	3
Premium on issue of shares		101	98	1
<b>Cash inflow from financing</b>		571	602	738
<b>Decrease in cash for the year</b>	20	(33)	(397)	(40)

## **PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS**

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### **Notes to the aggregated financial information**

#### **1 Basis of preparation**

The financial information set out below is an aggregation of the financial information of Listeneer Limited, Six TV Limited, Basingstoke Observer Limited, Soundview Investments Limited, Milestone Television Company Limited, Aroma Broadcasting Limited and Oxford Broadcasting Limited.

Throughout the Relevant Period the MGH Interests have effectively operated as one business under substantially common share interests and control. It is on this basis that the audited financial statements for each of the entities have been aggregated.

Transactions and intercompany balances between the companies comprising the MGH Interests have been eliminated as adjustments on aggregation.

Listeneer Limited (company number 3206602) was incorporated as Show FM Limited on 3 June 1996 and changed its name to Listeneer Limited on 9 August 2000. Until 3 September 2001 the ultimate holding company was MGH Investments Limited. On 3 September 2001 there was a group reorganisation and the ultimate holding company became Soundview Investments Limited (together with Listeneer Limited hereafter referred to as the subsidiaries of Soundview Investments Limited). Before and after the group reorganisation the ultimate share ownership and control was substantially unchanged.

Six TV Limited (company number 3528895) was incorporated as Show TV Limited on 17 March 1998 and changed its name to Six TV Limited on 22 May 2003.

Basingstoke Observer Limited (company number 3861912) was incorporated as Minicharge Limited on 20 October 1999, and changed its name to Trimedia Publishing Limited on 18 January 2000 and then to Basingstoke Observer Limited on 22 May 2003. Until 3 September 2001 the ultimate holding company of Basingstoke Observer Limited was MGH Investments Limited. On 3 September 2001 there was a group reorganisation and the ultimate parent company became Owlport Limited (company number 4264584). Before and after the group reorganisation the ultimate share ownership and control was substantially unchanged.

Soundview Investments Limited (company number 4268635) was incorporated on 10 August 2001.

Themenote Limited (company number 4256003) was incorporated on 20 January 2001 and on 22 May 2003 changed its name to Milestone Television Company Limited.

Aroma Broadcasting Limited (company number 4008693) was incorporated on 6 June 2000.

Oxford Broadcasting Limited (company number 3426787) was incorporated as Localcool Limited on 1 September 1997 and changed its name to Oxford Broadcasting Limited on 30 September 1997.

Until 3 September 2001 the ultimate holding company of Six TV Limited, Aroma Broadcasting Limited and Oxford Broadcasting Limited was MGH Investments Limited. On 3 September 2001 there was a group reorganisation and the ultimate holding company became Milestone Television Company Limited (together with Six TV Limited, Aroma Broadcasting Limited and Oxford Broadcasting Limited, hereafter referred to as the subsidiaries of Milestone Television Company Limited). Before and after the group reorganisation the ultimate share ownership and control of these companies was substantially unchanged.

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Owlport Limited, MGH Investments Limited and Youth FM Limited (a wholly owned subsidiary of Listenable Limited) will not be part of the Milestone Group going forward and are therefore excluded from this accountants' report.

Reading Television Limited (company number 4570403) was incorporated on 23 October 2002 and the entire issued share capital was allotted to Aroma Broadcasting Limited. Reading Television Limited has not traded since incorporation.

### 2 Turnover, profit and net assets

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Turnover</b>			
Analysis by class of business:			
Radio licences	791	205	311
Newspapers	335	752	681
Television	29	180	218
	1,155	1,137	1,210

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Loss before taxation</b>			
Analysis by class of business:			
Radio licences	—	(165)	(126)
Newspapers	(232)	(329)	(372)
Television	(200)	(623)	(612)
Holding companies (net)	(4)	(2)	(8)
	(436)	(1,119)	(1,118)

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Net assets/(liabilities)</b>			
Analysis by class of business:			
Radio licences	28	(136)	(294)
Newspapers	(130)	(460)	(800)
Television	180	(54)	(182)
Holding companies (net)	(1)	211	163
	77	(439)	(1,113)

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### 3 Operating loss

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>This is arrived at after charging</b>			
Depreciation	29	95	97
Auditors' remuneration	12	15	25

### 4 Exceptional items

The exceptional item in 2001 relates to shareholders' loans that were waived in the year in Basingstoke Observer Limited.

### 5 Employees

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

	Year ended 30 September 2000 Number	Year ended 30 September 2001 Number	Year ended 30 September 2002 Number
Average number of employees	25	33	39

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

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Wages and salaries	392	723	752
Social security costs	22	30	19
	419	753	771

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 6 Directors

	Basic salary £000	Benefits in kind £000	Total £000
<b>Year ended 30 September 2000</b>			
M Atkin	8	–	8
<b>Year ended 30 September 2001</b>			
K Chapman	29	4	33
R Richards	33	–	33
	62	4	66
<b>Year ended 30 September 2002</b>			
K Chapman	5	1	6
D Cass	27	–	27
R Richards	36	–	36
N Taylor	19	–	19
	87	1	88

### 7 Interest payable and similar charges

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Interest on:			
Bank overdrafts	7	6	9

### 8 Taxation on loss from ordinary activities

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
UK corporation tax in respect of year	1	–	–

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 9 Tangible assets

	Land and buildings £000	Plant, machinery and vehicles £000	Fixtures and fittings £000	Total £000
<b>Cost</b>				
As at 1 October 1999	63	297	–	360
Additions	2	7	24	33
<b>As at 30 September 2000</b>	65	304	24	393
Additions	–	–	–	–
<b>As at 30 September 2001</b>	65	304	24	393
Additions	–	22	–	22
Disposals	–	–	(3)	(3)
<b>As at 30 September 2002</b>	65	326	21	412
<b>Depreciation</b>				
As at 1 October 1999	12	103	–	115
Provided for the year	9	16	4	29
<b>As at 30 September 2000</b>	21	119	4	144
Provided for the year	17	70	7	94
<b>As at 30 September 2001</b>	38	189	11	238
Provided for the year	16	75	6	97
Disposals	–	–	(2)	(2)
<b>As at 30 September 2002</b>	54	264	15	333
<b>Net book value</b>				
<b>As at 1 October 1999</b>	51	194	–	245
<b>As at 30 September 2000</b>	44	185	20	249
<b>As at 30 September 2001</b>	27	115	13	155
<b>As at 30 September 2002</b>	11	62	6	79

#### Land and buildings

The net book value of land and buildings may be further analysed as:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Short leasehold	44	27	11

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

The historical cost of land and buildings is:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Cost	65	65	65
Accumulated depreciation based on historical cost	(21)	(38)	(54)
<b>Historical cost net book value</b>	<b>44</b>	<b>27</b>	<b>11</b>

### 10 Fixed asset investments

	Listeneer Limited # £000	Six TV Limited * £000	Aroma Broadcasting Limited ** £000	Oxford Broadcasting Limited ~ £000	Total £000
<b>Cost</b>					
Additions	–	–	–	600	600
<b>As at 30 September 2000</b>	–	–	–	600	600
Additions	100	100	50	277	527
<b>As at 30 September 2001</b>	100	100	50	877	1,127
Additions	–	–	–	419	419
<b>As at 30 September 2002</b>	100	100	50	1,296	1,546

<b>Shareholding (%)</b>	Listeneer Limited #	Six TV Limited *	Aroma Broadcasting Limited **	Oxford Broadcasting Limited ~
<b>As at 30 September 2000</b>	–	–	–	71.9%
<b>As at 30 September 2001</b>	100%	100%	50%	82.0%
<b>As at 30 September 2002</b>	100%	100%	50%	88.8%

# Investment held by Soundview Investments Limited

\* Investment held by Milestone Television Company Limited

\*\* Investment held by Six TV Limited

~ Investment held by Aroma Broadcasting Limited

### 11 Stock

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Work in progress	–	3	1



## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 12 Debtors

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Trade debtors	300	219	279
Amounts due from related companies	40	–	–
Prepayments and accrued income	2	3	2
Other debtors	37	184	61
Corporation tax recoverable	1	1	1
VAT	–	35	–
	380	442	343

All amounts fall due for payment within one year.

### 13 Creditors

Amounts falling due within one year

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Bank overdrafts (secured)	41	85	134
Trade creditors	146	286	273
Other creditors	160	189	66
Tax and social security	57	79	76
Amounts due to related companies	958	1,451	2,164
Directors' current accounts	–	40	304
VAT	–	–	9
Obligations under finance leases and hire purchase agreements	65	–	2
Accruals and deferred income	70	38	64
Corporation tax	9	–	–
	1,506	2,167	3,092

Fixed and floating charges were in place over the Basingstoke Observer Limited and its assets by Fortis Bank as at the year ended 30 September 2001.

A debenture is held by the Bank of Scotland over Listenable Limited and the whole of its assets, dated 30 August 2001 and registered 1 September 2001.

The Bank of Scotland holds a debenture over Six TV Limited in respect of the whole assets of the company, dated 30 August 2001 and registered on 1 September 2001.

The bank loans in Oxford Broadcasting Limited are secured by a standard bank debenture dated 3 June 1999 with Barclays Bank plc. Net obligations under finance and hire purchase contracts are secured by fixed charges on the assets concerned.

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### Amounts falling due after more than one year

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
Obligations under finance leases and hire purchase agreements	–	2	–
Bank loans	15	13	15
	15	15	15

### Financial liabilities are due:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Loans and overdraft</b>			
– in one year or less	41	85	134
– in more than two years but not more than five years	15	15	13
	56	100	147
<b>Finance leases</b>			
– in one year or less	65	–	2

### 14 Share capital

	No	As at 30 September 2000 £000	No	As at 30 September 2001 £000	No	As at 30 September 2002 £000
<b>Authorised</b>						
<i>Ordinary shares of £1 each</i>						
Basingstoke Observer Limited	1,000	1	1,000	1	1,000	1
Listeneer Limited	1,000	1	1,000	1	1,000	1
Six TV Limited	1,000	1	1,000	1	1,000	1
Aroma Broadcasting Limited	50,000	50	100,000	100	400,100	400
Soundview Investments Limited	–	–	100,000	100	100,000	100
Milestone Television Company Limited	–	–	100,000	100	100,000	100
	53,000	53	303,000	303	603,100	603
<i>Ordinary shares of 5p each</i>						
Oxford Broadcasting Limited	24,360,000	1,218	24,360,000	1,218	24,360,000	1,218
		1,621		1,821		1,821
<b>Allotted, issued and partly paid</b>						
<i>Ordinary shares of £1 each</i>						
Basingstoke Observer Limited	850	1	1,000	1	1,000	1
Listeneer Limited	2	–	2	–	2	–
Six TV Limited	2	–	2	–	2	–
Aroma Broadcasting Limited	1	–	100,000	100	100,000	100
Soundview Investments Limited	–	–	100,000	100	100,000	100
Milestone Television Company Limited	–	–	100,000	100	100,000	100
	855	1	301,004	301	301,004	301
<i>Ordinary shares of 5p each</i>						
Oxford Broadcasting Limited	3,417,120	171	7,520,099	376	16,373,942	819
		172		677		1,120

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### *Year ended 30 September 2000*

A potential investor purchased the right, for £100,000 (included within other reserves), to purchase 47,702 ordinary shares of 5p each in Oxford Broadcasting Limited for £1 per share. The right to exercise this option expired on 3 February 2002.

Basingstoke Observer Limited issued 850 £1 ordinary shares for cash during the year at a total premium of £101,150.

### *Year ended 30 September 2001*

During the year the following shares were issued:

150 ordinary £1 shares by Basingstoke Observer Limited at par, nil paid.

99,999 ordinary £1 shares by Aroma Broadcasting Limited for cash at par.

100,000 ordinary £1 shares by Milestone Television Company Limited at par, in exchange for the entire issued share capital of Six TV Limited.

100,000 ordinary £1 shares by Soundview Investments Limited at par, in exchange for the entire issued share capital of Listenear Limited.

4,102,963 ordinary 5p shares by Oxford Broadcasting Limited for cash. A premium on issue of £102,574 arose.

### *Year ending 30 September 2002*

During the year 8,853,843 ordinary 5p shares in Oxford Broadcasting Limited were issued for cash. A premium on issue of £380 arose.

## 15 Reserves

	Share premium account £000	Other Reserves £000	Profit and loss account £000	Total £000
<b>At 1 October 1999</b>	1,076	100	(936)	240
Share issues	101	–	–	101
Loss for the year	–	–	(436)	(436)
<b>As at 30 September 2000</b>	1,177	100	(1,372)	(95)
Share issues	98	–	–	98
Loss for the year	–	–	(1,119)	(1,119)
<b>As at 30 September 2001</b>	1,275	100	(2,491)	(1,116)
Share issues	1	–	–	1
Transfer to profit and loss account	–	(100)	100	–
Loss for the year	–	–	(1,118)	(1,118)
<b>As at 30 September 2002</b>	1,276	–	(3,509)	(2,233)

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 16 Reconciliation of movements in shareholders' funds

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>At the beginning of the year</b>	411	77	(439)
Issue of shares	1	505	443
Premium on shares allotted	101	98	1
Loss for the year	(436)	(1,119)	(1,118)
<b>At the end of the year</b>	77	(439)	(1,113)

### 17 Commitments under operating leases

The following are the annual commitments under non-cancellable operating leases:

	30 September 2000		30 September 2001		30 September 2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Operating leases which expire:						
Within one year	–	3	–	9	–	2
In two to five years	–	14	–	–	–	–
Over five years	22	–	22	–	22	–
	22	17	22	9	22	2

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 18 Related party transactions

During the Relevant Period the following related parties existed:

<b>Related party</b>	<b>Nature of transaction</b>	<b>Nature of relationship with the MGH Interests</b>
Academy Line Limited	Provision of chauffeur driven car services to Basingstoke Observer Limited and Listeneer Limited.	Under common ownership.
Andrew Craig	Provision of funding to Aroma Broadcasting Limited and Basingstoke Observer Limited.	Majority shareholder and director.
Banco Nominees (Guernsey) Limited	Provision of funding to Aroma Broadcasting Limited.	50% shareholder of Aroma Broadcasting Limited.
Blackett Turner & Co Limited	Provision of funding to Basingstoke Observer Limited and services through Newbury Weekly News.	Shareholder of Basingstoke Observer Limited.
Cackler Harding Limited	Contracted to provide services to Oxford Broadcasting Limited for a management fee.	Owned by Debora Cackler and Thomas Harding, previous directors of Oxford Broadcasting Limited.
Deep Water Productions Limited	Provision of consultancy services to Oxford Broadcasting Limited, under normal commercial terms.	Rosemary Richards was a director of both Deep Water Productions Limited and Oxford Broadcasting Limited.
Fusion Radio Holdings Limited	Provision of services by Listeneer Limited.	Andrew Craig a director and shareholder.
Julian Blackwell	Provision of funding to Aroma Broadcasting Limited.	Director of Aroma Broadcasting Limited and Trustee of Banco Nominees (Guernsey) Limited, the 50% shareholder of Aroma Broadcasting Limited.
Kestrel FM Limited	Advertising services provided to and gained from Basingstoke Observer Limited.	Andrew Craig a director.
Local Television Trading Limited	Grant provided to Oxford Broadcasting Limited for staff training.	Debora Cackler and Thomas Harding were directors of both Local Television Trading Limited and Oxford Broadcasting Limited.
MGH Investments Limited	Provision of funding to the MGH Interests.	Under common ownership.
Milestone Pictures Limited	Provision of funding to the MGH Interests.	Under common ownership until 6 September 2001.
Milestone Radio Company Limited	Provision of funding to the MGH Interests.	Under common ownership until 6 September 2001.
Tom, Dick & Debbie Productions Limited	Production of television commercials for customers of Oxford Broadcasting Limited.	Controlled by Debora Cackler and Thomas Harding, previous directors of Oxford Broadcasting Limited.
West Berkshire Radio Limited (trading as Kick FM)	Provision of a radio presenter to Kick FM.	Subsidiary of Fusion Radio Holdings Limited.
Youth FM Limited	Received funding from MGH interests.	Subsidiary of Listeneer Limited.

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

The following transactions took place between the MGH Interests and related party companies during the Relevant Period:

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
<b>Sales to:</b>			
Fusion Radio Holdings Limited	–	–	228
Kestrel FM Limited	36	19	45
Tom, Dick & Debbie Productions Limited	3	–	–
West Berkshire Radio Limited	2	–	–
	41	19	273
<b>Receipt of grant from:</b>			
Local Television Training Limited	44	–	–
<b>Purchases of services from:</b>			
Academy Line Limited	(7)	(40)	(17)
Blackett Turner & Co Limited	(126)	–	–
Deep Water Productions Limited	–	(8)	–
Kestrel FM Limited	(14)	(45)	(50)
MGH Investments Limited	(22)	(26)	–
Tom, Dick & Debbie Productions Limited	(10)	–	–
	(179)	(109)	(67)
<b>Establishment costs recharged by:</b>			
Kestrel FM Limited	(6)	(11)	(11)
<b>Management fees reimbursed by:</b>			
Cackler Harding Limited	27	–	–

In the year ended 30 September 2001, Oxford Broadcasting Limited was contracted to pay management fees of £50,000 per annum to Cackler Harding Limited. Cackler Harding Limited was a wholly owned company of Thomas Harding and Debora Cackler, both retired directors of Oxford Broadcasting Limited. The contract could be terminated by one year's notice by either party. Subsequent to the purchase of a major shareholding in Oxford Broadcasting Limited by Aroma Broadcasting Limited, the contract with Cackler Harding Limited was terminated resulting in a net credit for the period ended 30 September 2000.

Oxford Broadcasting Limited was also contracted by Tom, Dick and Debbie Productions Limited, a company of which Thomas Harding and Debora Cackler jointly owned 57% of the issued share capital. The contract was for a twelve month period ended 6 December 2000 and entitled Tom, Dick & Debbie Productions Limited to produce commercial advertisements for the clients of Oxford Broadcasting Limited.

In the year ended 30 September 2000, sales in Oxford Broadcasting Limited included an amount of £44,000 in respect of a grant from Local Television Training Limited. The grant was in respect of funds towards the training of staff in conjunction with the Oxford College of Further Education. At 30 September 2000 other debtors included £6,000 in respect of amounts due to be invoiced to Local Television Training Limited. At 30 September 2000, accruals included £17,000 relating to part of the grant originally received but which later became repayable.

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The following balances with related parties were outstanding at the Balance Sheet Dates:

	As at 30 September 2000 £000	As at 30 September 2001 £000	As at 30 September 2002 £000
<b>Within trade debtors:</b>			
Fusion Radio Holdings Limited	–	–	91
Kestrel FM Limited	13	51	1
MGH Investments Limited	9	–	–
West Berkshire Radio Limited	1	–	–
	23	51	92
<b>Within other debtors:</b>			
Local Television Training Limited	6	–	–
<b>Within amounts due from related companies:</b>			
Academy Line Limited	5	–	–
MGH Investments Limited	9	–	–
Milestone Radio Company Limited	26	–	–
	40	–	–
<b>Within trade creditors:</b>			
Blackett & Turner Limited	(25)	–	–
Kestrel FM Limited	(2)	(42)	–
MGH Investments Limited	(2)	(11)	(11)
	(29)	(53)	(11)
<b>Within directors' current accounts:</b>			
Andrew Craig	–	(10)	(40)
Julian Blackwell	–	(30)	(264)
	–	(40)	(304)
<b>Within amounts due to related companies:</b>			
Academy Line Limited	–	(30)	(42)
Banco Nominees (Guernsey) Limited	(300)	(324)	(354)
Milestone Pictures Limited	(62)	–	–
MGH Investments Limited	(596)	(1,097)	(1,742)
Youth FM Limited	–	–	(26)
	(958)	(1,451)	(2,164)
<b>Within accruals:</b>			
Local Television Training Limited	(17)	–	–

At 30 September 2000, amounts due to related companies included a loan of £134,400 provided to Basingstoke Observer Limited by MGH Investments Limited.

## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 19 Reconciliation of operating loss to net cash flow from operating activities

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Operating loss	(436)	(1,196)	(1,109)
Movement in related party funding	486	640	687
Depreciation	29	94	97
Decrease/(increase) in stock	20	(3)	2
Increase in debtors	(249)	(6)	(4)
Increase/(decrease) in creditors	179	(68)	(2)
Write-off of shareholder loan	–	83	–
<b>Net cash flow from operating activities</b>	<b>29</b>	<b>(456)</b>	<b>(329)</b>

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

	Year ended 30 September 2000 £000	Year ended 30 September 2001 £000	Year ended 30 September 2002 £000
Decrease in cash in the year	(33)	(397)	(40)
Cash inflow/(outflow) from increase in lease financing	35	64	(2)
<b>Movement in net funds/(debt) in the year</b>	<b>2</b>	<b>(333)</b>	<b>(42)</b>
<b>Net funds/(debt) at the beginning of the year</b>	<b>245</b>	<b>247</b>	<b>(86)</b>
<b>Net funds/(debt) at the end of the year (note 21)</b>	<b>247</b>	<b>(86)</b>	<b>(128)</b>



## PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS

### 21 Analysis of net debt

	At start of the year £000	Cash flow £000	At the end of the year £000
<b>Year ending 30 September 2000</b>			
Cash in hand, at bank	364	5	369
Overdrafts	(3)	(38)	(41)
Cash	361	(33)	328
Debt due after one year	(15)	–	(15)
Debt due within one year	(2)	1	(1)
Finance leases	(99)	34	(65)
Financing (excluding share capital)	(116)	35	(81)
<b>Total</b>	245	2	247
<b>Year ending 30 September 2001</b>			
Cash in hand, at bank	369	(353)	16
Overdrafts	(41)	(44)	(85)
Cash	328	(397)	(69)
Debt due after one year	(15)	–	(15)
Debt due within one year	(1)	(1)	(2)
Finance leases	(65)	65	–
Financing (excluding share capital)	(81)	64	(17)
<b>Total</b>	247	(333)	(86)
<b>Year ending 30 September 2002</b>			
Cash in hand, at bank	16	9	25
Overdrafts	(85)	(49)	(134)
Cash	(69)	(40)	(109)
Debt due after one year	(15)	2	(13)
Debt due within one year	(2)	–	(2)
Finance leases	–	(4)	(4)
Financing (excluding share capital)	(17)	(2)	(19)
<b>Total</b>	(86)	(42)	(128)

## **PART VI : ACCOUNTANTS' REPORT ON THE MGH INTERESTS**

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### **22 Post balance sheet events**

On 25 June 2003, Listenable Limited (a wholly owned subsidiary of Soundview Investments Limited) transferred the entire issued share capital of its subsidiary, Youth FM, to MGH Investments Limited for cash.

On 25 June 2003, Milestone Group PLC entered into a series of share sale agreements by which it agreed to purchase the entire issued share capital of:

- Soundview Investments Limited and its subsidiaries and Milestone Television Company and its subsidiaries, in a share for share exchange, pursuant to a share exchange agreement; and
- Basingstoke Observer Limited in a share for share exchange, pursuant to a share purchase agreement.

On 26 June 2003, Milestone Group PLC acquired, conditional, inter alia, on admission of the entire issued and to be issued share capital of Milestone Group PLC to the Alternative Investment Market ("Admission"), the remaining 50% of Aroma Broadcasting Limited.

Yours faithfully

BDO Stoy Hayward  
*Chartered Accountants*

## **PART VII: ACCOUNTANTS' REPORT ON TRI MEDIA PUBLISHING LIMITED**

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BDO Stoy Hayward  
Chartered Accountants

8 Baker Street  
London W1U 3LL

The Directors  
Milestone Group PLC  
Manor Lane Studios  
Oare, Hermitage  
Berkshire  
RG18 9SE

26 June 2003

The Directors  
Collins Stewart Limited  
9th Floor  
88 Wood Street  
London  
EC2V 7QR

Dear Sirs

### **Tri Media Publishing Limited (or the "Company")**

#### **Introduction**

We report on the financial information set out below. This financial information has been prepared for inclusion in the admission document dated 26 June 2003 of the Company.

The Company was incorporated as Lawgra Limited (No. 1008) on 12 February 2003 (company number 4664200) and changed its name to Tri Media Publishing Limited on 22 May 2003. Since incorporation, the Company has not traded, nor has it received any income, incurred any expenses or paid any dividends. Consequently no profit and loss account is presented. No financial statements have been drawn up.

#### **Basis of preparation**

The financial information set out below is based on the balance sheet of the Company as 31 March 2003 ("the Balance Sheet") to which no adjustments were considered necessary.

#### **Responsibility**

The Balance Sheet is the responsibility of the Directors and has been approved by them.

The Directors are responsible for the contents of the admission document dated 26 June 2003 in which this report is included.

It is our responsibility to compile the financial information set out in our report from the Balance Sheet, to form an opinion on the financial information and to report our opinion to you.

#### **Basis of opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the

## **PART VII: ACCOUNTANTS' REPORT ON TRI MEDIA PUBLISHING LIMITED**

preparation of the Balance Sheet underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the admission document dated 26 June 2003, a true and fair view of the state of affairs of the Company as at 31 March 2003.

### **Consent**

We consent to the inclusion in the admission document dated 26 June 2003 of this report and accept responsibility for this report for the purposes of paragraphs 45(8)(b) of Schedule 1 to the Public Offers of Securities Regulations 1995.

### **Balance sheet as at 31 March 2003**

	<b>As at 31 March 2003 £</b>
<b>Current assets</b>	
Debtors – unpaid share capital	1
<b>Net assets</b>	1
<b>Share capital and reserves</b>	
Called up share capital	1
<b>Shareholders' funds – equity</b>	1

### **Financial Information**

#### **Accounting policies**

The financial information has been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### **Share capital**

The Company was incorporated with authorised share capital of £10,000 divided into 10,000 ordinary shares of £1 each. On incorporation, 1 ordinary share of £1 was issued, nil paid.

On 6 March 2003 each of the ordinary shares of £1 each were subdivided into 100 ordinary shares of 1p each, nil paid.

#### **Post balance sheet events**

On 25 June 2003, the 100 nil paid ordinary shares of 1p each were transferred to Milestone Group PLC in consideration for the assumption of the liability to pay the Company £1. Immediately after such transfer, Milestone Group PLC paid £1 to the Company and the 100 ordinary shares were deemed fully paid.

## **PART VII: ACCOUNTANTS' REPORT ON TRI MEDIA PUBLISHING LIMITED**

On 25 June 2003, the entire issued share capital of Basingstoke Observer Limited, a wholly owned subsidiary of Milestone Group PLC, was transferred to the Company for cash, the cash sum being left outstanding as an inter-company loan due from the Company to Milestone Group PLC.

Yours faithfully

BDO Stoy Hayward  
*Chartered Accountants*

## **PART VIII: ADDITIONAL INFORMATION**

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### **1. Incorporation**

- 1.1 The Company was incorporated and registered in England and Wales under the Act on 12 February 2003 under the name of Elegy (No. 9) PLC with registered number 4689130, as a public company limited by shares under the Act. The Company changed its name to Milestone Group PLC on 22 May 2003. The Company's registered office and principal place of business is Manor Lane Studios, Oare, Hermitage, Berkshire RG18 9SE.
- 1.2 The principal legislation under which the Company operates is the Act. The liability of the Company's members is limited. On 2 June 2003, the Registrar of Companies issued a certificate to the Company under section 117 of the Act entitling it to commence business and to borrow.
- 1.3 The principal activity of the Company is that of a holding Company.

### **2. Share Capital**

- 2.1 The Company was incorporated with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each of which two were issued, nil paid, to the subscribers to the Memorandum of Association. The following alterations, transfers and allotments in the share capital of the Company have taken place since incorporation:
  - 2.1.1 Pursuant to an ordinary resolution of the Company dated 2 June 2003 each of the issued and unissued ordinary shares of £1 each in the capital of the Company was subdivided into 10 Ordinary Shares of 10p each and the authorised share capital of the Company was increased from £100,000 to £5,000,000 by the creation of an additional 49,000,000 Ordinary Shares of 10p each.
  - 2.1.2 The twenty nil paid Ordinary Shares arising on the subdivision of the subscriber shares were transferred to A T Craig and B Thompson on 2 June 2003 in consideration of the assumption of the liability to pay to the Company the sum of £2.
  - 2.1.3 On 2 June 2003, 499,980 Ordinary Shares were issued credited as quarter paid, to A Craig pursuant to an undertaking given by him dated 2 June 2003.
  - 2.1.4 On 25 June 2003, the 500,000 issued and partly paid up Ordinary Shares were deemed fully paid up and a further 398,724 Ordinary Shares were issued credited as fully paid up in exchange for the transfer to the Company of the entire issued share capitals of each of Soundview Investments Limited and Milestone Television Company Limited by A T Craig and B Thompson pursuant to the terms of a share exchange agreement further details of which are set out in paragraph 8.1 below.
  - 2.1.5 On 25 June 2003, 901,276 Ordinary Shares were issued credited as fully paid in consideration for the transfer to the Company of the entire issued share capital of Basingstoke Observer Limited pursuant to a share purchase agreement further details of which are set out in paragraph 8.2 below.
  - 2.1.6 Pursuant to the share purchase agreements relating to each of the Acquisitions further details of which are set out in paragraph 8 below, upon Admission:
    - 2.1.6.1 500,000 Ordinary Shares will be issued credited as fully paid as part consideration for the transfer to the Company of the entire issued share capital of Courier Newspapers (Oxford) Limited;

## PART VIII: ADDITIONAL INFORMATION

2.1.6.2 8,299,976 Ordinary Shares will be issued credited as fully paid as consideration for the transfer to the Company of the entire issued share capital of Fusion Radio Holdings Limited;

2.1.6.3 1,500,000 Ordinary Shares will be issued credited as fully paid as consideration for the transfer to the Company of the remaining issued share capital of Aroma Broadcasting Limited not already held by the Group.

2.2 The authorised and issued share capital of the Company (i) as at the date of this document and (ii) following Admission is set out below:

<b>Authorised</b>		<b>Issued and fully paid</b>	
<b>£</b>	<b>Ordinary Shares</b>	<b>£</b>	<b>Ordinary Shares</b>
(i) 5,000,000	50,000,000	180,000	1,800,000
(ii) 5,000,000	50,000,000	2,159,997.60	21,599,976

2.3 As at the date of this document, the following share options have been issued under the Unapproved Scheme (details of which are set out in paragraph 5.1 below):

<b>Option Holder</b>	<b>Date of Grant</b>	<b>Ordinary shares</b>	<b>Exercise Price (p)</b>	<b>Exercise Period</b>
A Craig	25/06/2003	1,404,000	100	26/06/2006 to 24/06/2013
B Chester	25/06/2003	432,000	100	26/06/2006 to 24/06/2013
D Cass	25/06/2003	216,000	100	26/06/2006 to 24/06/2013
N Taylor	25/06/2003	108,000	100	26/06/2006 to 24/06/2013

2.4 The Company has granted Collins Stewart an option over 432,000 Ordinary Shares the terms of which are set out in paragraph 8.7 below.

2.5 The Company has entered into heads of term with Elliott Advisors (UK) Limited for the provision to the Company of a facility by means of subscription for convertible debentures to be issued by the Company, the terms of which are set out in paragraph 8.10 below. The heads of term also provide for the issue by the Company of warrants over 300,000 Ordinary Shares the terms of which are also set out in paragraph 8.10 below.

2.6 Save as disclosed in this paragraph 2, no capital of the Company is proposed to be issued or is under option or is agreed to be put under option.

2.7 By a special resolution dated 2 June 2003 the Directors were generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities of an aggregate nominal value representing the entire unissued share capital of the Company. The Directors were also empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply for any allotment of equity securities by way of rights in proportion (as nearly as may be) to their existing holdings, and in respect of any other issue up to an aggregate nominal representing the entire unissued share capital of the Company. These authorities will be used to issue the Ordinary Shares to be issued pursuant to the Acquisitions and pursuant to the Placing and were used to grant the options referred to in paragraphs 2.3 and 2.4 above.

## PART VIII: ADDITIONAL INFORMATION

- 2.8 By a special resolution dated 26 June 2003, following Admission the Directors will, in substitution for the authorities detailed in paragraph 2.7 above, be generally and unconditionally authorised for the purposes of section 80 of the Act to allot relevant securities of an aggregate nominal value not exceeding £1,200,000, such authority expiring on 26 June 2008 unless revoked or renewed before that date. The Directors will also be empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash as if section 89(1) of the Act did not apply for (i) the issue of equity securities pursuant to the convertible debentures and warrants that may be issued pursuant to the facility arrangements described in paragraph 8.10 below, (ii) any allotment of equity securities by way of rights in proportion (as nearly as may be) to their existing holdings, and (iii) in respect of any other issue up to an aggregate nominal amount of £216,000 such authority expiring on 26 June 2008 unless revoked or renewed before that date.

### 3. Subsidiaries

- 3.1 The Company is a member of a group of which it is the holding company.
- 3.2 Upon Admission, the Company will be the direct or indirect holding company of the following subsidiary undertakings, all of which are incorporated in England and Wales:

<b>Name</b>	<b>Date of Incorporation</b>	<b>Principal activity</b>	<b>percentage of share capital held</b>
Tri Media Publishing Limited	12/02/03	Holding Company	100
Basingstoke Observer Limited	20/10/99	Newspaper publishing	100
Courier Newspapers (Oxford) Limited	11/07/84	Newspaper publishing	100
Courier Publications (Oxford) Limited	25/11/93	Dormant	100
Milestone Television Company Limited	20/07/01	Holding Company	100
Six TV Limited	17/03/98	Holding Company	100
Aroma Broadcasting Limited	06/06/00	Holding Company	100
Reading Television Limited	23/10/02	Dormant	100
Oxford Broadcasting Limited	01/09/97	Television Broadcasting	91
Soundview Investments Limited	10/08/01	Holding Company	100
Listenear Limited	03/06/96	Media Consultancy	100
Fusion Radio Holdings Limited	31/10/00	Holding Company	100
Cornwall FM Limited	29/05/02	Dormant	100
Fusion Radio Group Limited	14/03/00	Holding Company	100
Fusion 107.3 FM Limited	11/09/96	Radio Broadcasting	100
Links Investments Limited	06/06/00	Holding Company	100
Passion Radio (Oxford) Limited	26/04/96	Radio Broadcasting	100
Jazztech Limited	06/08/01	Holding Company	100
Fusion New Media Sales Limited	06/03/00	Dormant	100
Fusion Radio Stations Limited	06/03/00	Holding Company	100
Fusion Radio Management Limited	06/03/00	Dormant	100
Fusion Radio Sales Limited	29/10/99	Dormant	100
Fusion Media Group Limited	06/03/00	Dormant	100



## PART VIII: ADDITIONAL INFORMATION

<b>Name</b>	<b>Date of Incorporation</b>	<b>Principal activity</b>	<b>percentage of share capital held</b>
Banbury FM Limited	25/06/01	Dormant	100
Banbury Radio Limited	24/04/02	Dormant	100
Andover FM Limited	01/11/01	Dormant	100
Cross FM Limited	23/05/02	Dormant	100
Reading Radio Limited	07/05/99	Dormant	100
Warwick Leamington Kenilworth (WLK) Broadcasting Company Limited	11/03/02	Dormant	100
Milestone FM Limited	15/12/99	Holding Company	100
Time FM 106.8 Limited	26/01/89	Radio Broadcasting	100
The Milestone Radio Company Limited	19/08/98	Holding Company	100
Milestone Pictures Limited	04/05/93	Holding Company	100
Newbury Community Radio (Investments) Limited	19/07/96	Holding Company	100
Ridge FM Limited	08/05/00	Dormant	70
Rugby Broadcasting Company Limited	30/08/96	Radio Broadcasting	52
West Berkshire Radio Limited	29/01/74	Radio Broadcasting	51
Kick FM (West Berkshire) Limited	08/06/98	Dormant	51
Kestrel FM Limited	28/02/97	Radio Broadcasting	54

- 3.3 In addition, following Admission, the Company will have indirect interests in the following undertakings:-

<b>Name</b>	<b>Date of Incorporation</b>	<b>Principal activity</b>	<b>percentage of share capital held</b>
The Burn FM Limited	23/08/01	Radio Broadcasting	44
CKFM Kernow Limited	04/01/01	Radio Broadcasting	13
Reading Broadcasting Company Limited	07/05/99	Radio Broadcasting	37

### 4. Memorandum and Articles of Association

The principal objects of the Company, which are set out in clause 4 of its Memorandum of Association, are to carry on the business of a general commercial company.

The Articles of Association of the Company contain, *inter alia*, provisions to the following effect:

#### 4.1 Voting rights

Subject to paragraph 4.6 below, and to any special rights or restrictions as to voting upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by its duly appointed representative shall have one vote and on a poll every member present in person or by representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

## **PART VIII: ADDITIONAL INFORMATION**

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### **4.2 Variation of rights**

Whenever the share capital of the Company is divided into different classes of shares the special rights attached to any class may be varied or abrogated either with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate general meeting of the holders of the shares of that class and may be so varied and abrogated whilst the Company is a group concern or during or in contemplation of a winding up. To every such separate general meeting (except an adjourned meeting), the quorum shall be two persons at least holding or representing by proxy one-third in nominal value of the issued shares of that class.

### **4.3 Alteration of capital**

The Company may by ordinary resolution increase its capital, consolidate and divide all or any of its share capital into shares of a larger nominal value, sub-divide all or any of its shares into shares of a smaller nominal value, cancel any shares not taken, or agreed to be taken, by any person and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, subject to any conditions, authorities and consents required by law, by special resolution reduce or cancel its share capital or any capital redemption reserve or share premium account.

Subject to and in accordance with the provisions of the Act, the Company may purchase its own shares (including any redeemable shares) with and subject to all prior authorities of the Company in general meeting as specified under the Act provided that the Company may not purchase any of its shares if as a result of the purchase of the shares there would no longer be any member holding shares in the Company other than redeemable shares.

### **4.4 Transfer of shares**

A member may transfer all or any of his shares (1) in the case of certificated shares by transfer in writing in any usual or common form or in any other form acceptable to the Directors and may be under hand only and (2) in the case of uncertificated shares, in the manner provided for in the rules and procedures of the operator of the relevant system and in accordance with and subject to the Uncertificated Securities Regulations 2001 (the "Uncertificated Securities Regulations"). The instrument of transfer of a certificated share shall be signed by or on behalf of the transferor and, if the share is not fully paid, by or behalf of the transferee. Subject to paragraph 4.7 below, the articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the articles relating to the deposit of instruments for transfer have been complied with save that the Directors may refuse to register a transfer of shares (whether fully paid or not and whether held in certificated form or not) to a transferee who, if registered as a member, the Directors consider that such member (and/or any person who would have an interest in such shares held by such member), might cause the Radio Authority or the ITC to revoke, suspend or determine any radio or television licence held by the Group or decline to renew or extend any such licence.

The Company will not close the register of members in respect of a share, class of share, renounceable right of allotment of a share or other security (title to units of which is permitted to be transferred by computer-based systems and procedures in accordance with the Uncertificated Securities Regulations) without the consent of the operator of the computer-based system and/or procedure. The registration of transfers may be

## PART VIII: ADDITIONAL INFORMATION

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suspended at such times and for such periods as the Directors may determine either generally or in respect of any class of shares. The register of members shall not be closed for more than thirty days a year.

Subject to the requirements of the UK Listing Authority and the London Stock Exchange, the Company shall register a transfer of title to any uncertificated share or any renounceable right to allotment of a share held in uncertificated form in accordance with the Uncertificated Securities Regulations but so that the Directors may refuse to register such transfer in any circumstance permitted or required by the Uncertificated Securities Regulations.

### 4.5 Dividends

4.5.1 Subject to the Act or any other statutes in force, the Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits available for the purpose and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time declare and pay interim dividends on shares of any class of such amounts and on such dates in respect of such periods as appear to the Directors to be justified.

4.5.2 Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph 4.6 below, all dividends shall be apportioned and paid *pro rata* according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

4.5.3 All dividends unclaimed for a period of 12 years from the date on which such dividend was declared or became due for payment shall be forfeited and shall revert to the Company.

4.5.4 There is no fixed date on which an entitlement to dividend arises.

### 4.6 Suspension of rights

If a member or any other person appearing to be interested in shares of the Company fails after the date of service of a notice to comply with the statutory disclosure requirements then:

4.6.1 if the shares are held in certificated form from the time of such failure until not more than 7 days after the earlier of (a) receipt by the Company of notice that there has been a transfer of the shares by an arms length sale and (b) due compliance, to the satisfaction of the Company, with the statutory disclosure requirements (if the Directors so resolve) such member shall not be entitled to vote or to exercise any right conferred by membership at meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent of the issued shares of that class, the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

4.6.2 if the shares are held in uncertificated form, the Directors may serve upon the registered holder of such shares a notice requiring the holder to convert his holding of uncertificated shares into certificated form within such period as is specified in the notice and require the holder to continue to hold such shares in certificated form for so long as such failure continues. If the holder shall fail to convert his holding within the specified time, the Directors are empowered to authorise some person to take all such steps and issue such instructions as may

## PART VIII: ADDITIONAL INFORMATION

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be necessary in the name of the holder of such shares to effect the conversion of such shares to certificated form. Such steps shall be as effective as if they had been taken by the registered holder of the relevant uncertificated shares. Once such conversion to certificated form has been effected, the above rules in relation to shares in certificated form shall apply.

### 4.7 Compulsory transfers

The Directors may serve notice on any member requiring him to provide such information and evidence as the Board may consider necessary for the purposes of determining whether any member and/or any other person who has an interest in any shares held by such member has an interest in shares of the Company which might cause the Radio Authority or the ITC to revoke, suspend or determine any licence held by the Group or decline to renew or extend any such licence.

If the Board considers, whether pursuant to information provided or on any other basis, that a licence may be adversely affected as aforesaid, the Board may serve a transfer notice on a member requiring him to sell all or part of the shares held by him and requesting such transfer be completed within 30 days of the transfer notice. If the member shall fail to do so the Directors are deemed to have power to dispose of the shares specified in the transfer notice and the Board shall, so far as it is reasonably able to, complete the compulsory transfer at a price which it determines to be the best price reasonably obtainable in the circumstances.

Any member who has failed to provide any information required by the Directors shall not be entitled until such evidence is provided to receive notice of or to attend or vote at any general meeting of the Company and any member who has been served with a transfer notice shall not, in respect of the number of shares specified in the transfer notice, be entitled to receive notice of, or attend or vote at any general meeting of the Company.

### 4.8 Return of capital

Subject to any preferred, deferred or other special rights, or subject to such conditions or restrictions to which any shares in the capital of the Company may be issued, on a winding-up or other return of capital, the holders of Ordinary Shares are entitled to share in any surplus assets *pro rata* to the amount paid up on their Ordinary Shares. A liquidator may, with the sanction of an extraordinary resolution of the Company and any other sanction required by the Act, divide amongst the members *in specie* or in kind the whole or any part of the assets of the Company (whether or not the assets shall consist of property of one kind or shall consist of property of different kinds), those assets to be set at such value as he deems fair. A liquidator may also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members as the liquidator shall think fit.

### 4.9 Pre-emption rights

There are no rights of pre-emption under the Articles of Association of the Company in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's Shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment to existing Shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

## PART VIII: ADDITIONAL INFORMATION

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### 4.10 Borrowing powers

Subject to the Act and any other statute, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital and, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate amount at any one time owing by the Company and all its subsidiaries in respect of monies borrowed by them or any of them (exclusive of monies borrowed by the Company or any of its subsidiaries from such companies) shall not at any time without the previous sanction of Shareholders in general meeting exceed £10,000,000 if the Company has not yet had published audited accounts, or if the Company has published audited accounts to a sum equal to the greater of £10,000,000 or a sum equivalent to twice the aggregate of the nominal capital of the Company for the time being issued and paid up and the amounts standing to the credit of the share premium account, capital redemption reserve and profit and loss account of the Company and each of its subsidiary companies.

### 5. Share Options

The Company has adopted two share option schemes, the principal provisions of which are summarised below.

#### 5.1 *Milestone Group PLC 2003 Unapproved Share Option Scheme ("the Unapproved Scheme")*

##### Unapproved Scheme

- (a) Options to subscribe for Ordinary Shares may be granted (at the discretion of the Board or the remuneration committee of the Board) to selected employees or directors of the Group. Options may not be granted to anyone who is within 6 months of his or her normal retirement date.
- (b) Options may normally only be granted within 42 days of the adoption of the Unapproved Scheme, within 42 days after the announcement of the Group's preliminary or interim results or to an individual within 14 days of that individual becoming an employee or director of the Group. However options may be granted outside this period if the Board considers that the circumstances are exceptional.
- (c) Options must be granted at a subscription price per Ordinary Share which is at least the greater of:-
  - (i) the market value of an Ordinary Share on the date of grant as determined by the Board; and
  - (ii) the nominal value of an Ordinary Share (currently 10p).
- (d) No payment is required for the grant of an option. Options are not transferable or assignable.
- (e) Within any ten year period, the number of Ordinary Shares which may be utilised under all employee share schemes established by the Company (including savings related share option schemes and profit sharing schemes) shall not exceed 10 per cent of the issued Ordinary Share capital of the Company from time to time. However, this limit does not include any options which are granted prior to Admission (as set out in paragraph 2.3 above).
- (f) The number of Ordinary Shares over which options may be granted to any individual option holder is normally limited so that the aggregate subscription price paid or payable on exercise of his options, when added to the cost of subscribing

## **PART VIII: ADDITIONAL INFORMATION**

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for shares under all share schemes (other than savings related schemes) in the last 12 months, does not exceed the employee's annual remuneration, or, if higher, his remuneration over the previous 12 months. However, this limit does not include any options which are granted prior to Admission (as set out in paragraph 2.3 above).

- (g) An option is exercisable (in whole or in part) normally between the third and the tenth anniversaries of the date of grant. In certain circumstances an option may be exercised earlier (for example on death, retirement, injury, disability or redundancy or where the participant otherwise involuntarily ceases to be employed by the Group, or on a take-over, reconstruction or voluntary winding-up of the Company). An option will lapse if the holder voluntarily resigns or is dismissed for cause as an employee of the Group unless otherwise agreed by the Board or the remuneration committee.
- (h) The exercise of an option may be made subject to the achievement of specific performance conditions to be determined by the Board or the remuneration committee.
- (i) In the event of a general offer to acquire the whole of the issued share capital of the Company as a result of which the offeror obtains control of the Company, an option holder may, with the consent of the acquiring company, release each subsisting and unexercised option for a new right which is equivalent to his option but relates to shares in a different company (generally, the offeror). If another company obtains control of the Company then options which are not exercised within a restricted period thereafter will lapse.
- (j) The number and/or class of shares and the subscription price of shares subject to an option may be varied by the Board in the event of a reorganisation of capital (such as a capitalisation or rights issue) subject to an opinion of the auditors of the Company that the variations are fair and reasonable.
- (k) The Unapproved Scheme will be administered by the Board or the remuneration committee of the Board. The Board has the power to amend the Unapproved Scheme, but (i) no amendment may be made which would materially affect the existing rights of an option holder unless it has been approved by a majority of option holders and (ii) no amendment may be made to the matters referred to in this summary which is to the advantage of existing or future option holders (other than minor amendments to benefit the administration of the Unapproved Scheme, to take account of changes in legislation or to maintain favourable tax or regulatory treatment for participants or for the Company) except with the consent of the Company in general meeting.
- (l) The Board may terminate the Unapproved Scheme at any time with the effect that no further options may thereafter be granted although in all other respects the Unapproved Scheme will remain in force.
- (m) No Options may be granted under the Unapproved Scheme after the tenth anniversary of its adoption.
- (n) Awards under the Unapproved Scheme will not be pensionable emoluments.

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### 5.2 Milestone Group PLC 2003 Approved Share Option Scheme ("the Approved Scheme") Approved Scheme

The provisions of the Approved Scheme are subject to any amendments required by the Inland Revenue. The Approved Scheme contains provisions which are similar to those in the Unapproved Scheme save in respect of the following paragraphs (using the paragraph letters above):

- (a) Options to subscribe for Ordinary Shares may be granted (at the discretion of the Board or the remuneration committee of the Board) to selected employees of the Group (whether full-time or part-time) or to selected full-time Directors (i.e. those Directors required to devote 25 hours or more per week to their employment by the Group, excluding meal breaks). Options may not be granted to anyone who is within 6 months of his or her normal retirement date or to any person who has (or has had within the preceding 12 months) a material interest in a close company.
- (c) Options must be granted at a subscription price per Ordinary Share which is at least the greater of:-
  - (i) the market value of an Ordinary Share on the date of grant as determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992 and agreed with the Board of Inland Revenue or the Inland Revenue Shares Valuation Division; and
  - (ii) the nominal value of an Ordinary Share (currently 10p).
- (f) The number of Ordinary Shares over which options may be granted to any individual option holder must be limited so that the aggregate subscription price payable on the exercise of all outstanding options granted to him or her under the Approved Scheme and any other Inland Revenue approved share scheme operated by the Company or an associated company (other than a savings related scheme) shall not exceed £30,000. Surrendered or lapsed options are not included in calculating each individual's participation.

### 6. Directors' and other interests

6.1 The interests of the Directors (including the interests of their spouses and infant children and the interests of any persons connected with them within the meaning of Section 346 of the Act), all of which are beneficial, in the issued share capital of the Company which have been notified to the Company pursuant to Sections 324 to 328 of the Act, as at the date of publication of this document and as they are expected to be immediately following Admission are as follows:

	<b>Current Ordinary Shares</b>	<b>%</b>	<b>Following Admission Ordinary Shares</b>	<b>%</b>
J Blackwell	–	–	1,500,000 <sup>(1)</sup>	6.9
A T Craig	1,755,063 <sup>(2)</sup>	97.5	2,459,338 <sup>(3)</sup>	11.4
B R Chester	–	–	18,503	0.09
M N Levine	–	–	–	–

(1) These Ordinary Shares are held by Banco Nominees (Guernsey) Limited to the order of the trustee of The Julian Blackwell Trust in which Mr Blackwell's family are potential beneficiaries.

(2) 901,276 of these Ordinary Shares are held by MGH Investments Limited, a company ultimately controlled by Mr. Craig.

(3) Included in this figure are 970,583 Ordinary Shares which will be held by MGH Investments Limited, a company ultimately controlled by Mr Craig but excluding 473,000 Ordinary Shares which, effective as of Admission, Andrew Craig has agreed to transfer to third parties.

## PART VIII: ADDITIONAL INFORMATION

- 6.2 The following Directors are also interested in unissued Ordinary Shares granted to them by the Company under share options held by them pursuant to the Unapproval Scheme (details of which are set out in paragraph 5.1 above):

	<b>Exercise Price (p)</b>	<b>Ordinary Shares</b>	<b>Latest exercise date</b>
A T Craig	100	1,404,000	24/06/2013
B R Chester	100	432,000	24/06/2013

- 6.3 Save as disclosed in paragraphs 6.1 and 6.2 above, none of the Directors has any interests in the share capital or loan capital of the Company nor does any person connected with the Directors (within the meaning of Section 346 of the Act) have any such interests, whether beneficial or non-beneficial.
- 6.4 In addition to their directorships in the Company, the Directors have held the following directorships and/or been a partner in the following partnerships within the five years prior to the date of this document:

<b>Name</b>	<b>Current</b>	<b>Past</b>
J Blackwell	Aroma Broadcasting Limited The Blackwell Group Limited BH Blackwell Limited Field Farm Fresh Limited MBC (Estates) Limited Oxford Broadcasting Limited Reading Television Limited Ridge FM Limited U.P. Jenkins Limited	Abafarm Limited Balabeam Limited Blackwell (Holdings) Limited Blackwell Information Technology Limited Blackwell Library Systems Inc. Blackwell Limited Blackwell Publishing Limited Cottontail Limited Energiser Limited First Oxfordshire Radio Company Limited Industrial Finance Group Limited Laser Quest (Oxford) Limited Swets Blackwell Limited Thamesquote Limited Ximed Group PLC



## PART VIII: ADDITIONAL INFORMATION

<b>Name</b>	<b>Current</b>	<b>Past</b>
A T Craig	Andover FM Limited Aroma Broadcasting Limited Banbury FM Limited Banbury Radio Limited Basingstoke Observer Limited CKFM Kernow Limited Contemporary Enterprises PLC Cross FM Limited Fusion Radio Holdings Limited Independent Local Media Limited Kestrel FM Limited Listenable Limited Little Tinker Limited MGH Investments Limited Milestone Pictures Limited Milestone Television Company Limited Orbi-Tel Limited Oxford Broadcasting Limited Owlport Limited Passion Radio (Oxford) Limited Reading Broadcasting Company Limited Reading Television Limited Ridge FM Limited Rugby Broadcasting Company Limited Six TV Limited Soundview Investments Limited The Burn FM Limited The Milestone Radio Company Limited Time FM 106.8 Limited Tri Media Publishing Limited Warwick Lemington Kenilworth (WLK) Broadcasting Limited West Berkshire Radio Limited Youth FM Limited	Academy Line Limited Ausped Limited Dicemove Limited Jazztech Limited Milestone FM Limited. Milestone M.D. Limited North East Broadcasting Company PLC Oak FM Limited Reading Radio Limited Sail In Limited The Quay Radio Limited

## PART VIII: ADDITIONAL INFORMATION

Name	Current	Past
B R Chester	Andover FM Limited Banbury FM Limited Chesterbrown Consultants Limited CKFM Kernow Limited Cornwall FM Limited Fusion 107.3 FM Limited Fusion Media Group Limited Fusion New Media Sales Limited Fusion Radio Group Limited Fusion Radio Holdings Limited Fusion Radio Management Limited Fusion Radio Sales Limited Fusion Radio Stations Limited Jazztech Limited Kestrel FM Limited Links Investments Limited Milestone FM Limited Milestone Pictures Limited The Milestone Radio Company Limited Newbury Community Radio (Investments) Limited Passion Radio (Oxford) Limited Reading Broadcasting Company Limited Reading Radio Limited Rugby Broadcasting Company Limited The Burn FM Limited Time FM 106.8 Limited West Berkshire Radio Limited	Bourne Printing Limited Bourne Publicity Limited
M N Levine	Hid Radio Rt	Golden Parachute Inc

6.5 Save as disclosed above, no Director:

- 6.5.1 has any unspent convictions in relation to indictable offences; or
- 6.5.2 has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any asset of such director; or
- 6.5.3 has been a director of any company which, while he was a director or within 12 months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- 6.5.4 has been a partner of any partnership which, while he was a partner or within 12 months after he ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset; or
- 6.5.5 has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or
- 6.5.6 has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

## PART VIII: ADDITIONAL INFORMATION

- 6.6 Save as disclosed in paragraph 6.1 above, and as set out below, the Directors are not aware of any person, directly or indirectly, jointly or severally, who exercises or could exercise control over the Company or who is interested in 3 per cent. or more of the issued share capital of the Company as at the date of the publication of this document and immediately following Admission:

Name	Ordinary Shares as at the date of this document	%	Ordinary Shares following Admission	%
Elliott International L.P. Banco Nominees (Guernsey) Limited	–	–	4,119,314	19.1
Elliott Associates L.P.	–	–	1,500,000	6.9
Highberry Limited	–	–	1,466,285	6.8
	–	–	661,099	3.1

- 6.7 No loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director are outstanding.
- 6.8 Save as set out in this document, no Director is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries and remains in any respect outstanding or unperformed.

### 7. Directors' service agreements

- 7.1 Andrew Craig and Brian Chester have entered into service agreements with the Company dated 26 June 2003. Each agreement is terminable on 12 months' notice by either party, save for certain circumstances where they are terminable without notice. The remuneration provisions under each of the agreements provide that Andrew Craig shall receive a basic salary of £120,000 per annum and Brian Chester shall receive a basic salary of £90,000 per annum.
- 7.2 The services of Julian Blackwell as Non-Executive Director and Chairman and Mark Levine as Non-Executive Directors are provided under the terms of appointment letters dated 25 June 2003. The appointments are for an initial period of 12 months continuing thereafter subject to termination on 3 months' written notice by either party, save for certain circumstances where they are terminable without notice. No fees (other than expenses) are payable to Julian Blackwell or Mark Levine.
- 7.3 Save as set out in paragraphs 7.1, and 7.2 above, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.
- 7.4 The estimated aggregate remuneration payable and benefits in kind to be granted to the Directors for the current financial period ending 30 September 2003 under the arrangements in force at the date of this document is £64,000.

### 8. Material contracts

In addition to the radio and television licences and prospective applications detailed in Part I of this document, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material:

- 8.1 a share exchange agreement dated 25 June 2003 between the Company (1) and A T Craig and B Thompson (2) pursuant to which the Company acquired the entire issued share capitals of Soundview Investments Limited and Milestone Television Company Limited in consideration for the issue of 898,724 Ordinary Shares. Certain warranties and

## PART VIII: ADDITIONAL INFORMATION

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indemnities have been given by A T Craig and B Thompson to the Company in relation to the companies acquired. Liability in relation to all warranties and indemnities provided pursuant to the agreement has been limited to the higher of £375,000 or the shares in the Company being allotted as consideration and claims must be brought for any breach of warranty prior to the date three months after publication of the audited accounts of the companies acquired for the period ending 30 September 2005.

- 8.2 a share purchase agreement dated 25 June 2003 between the Company (1) and MGH Investments Limited (2) pursuant to which the Company acquired the entire issued share capital of Basingstoke Observer Limited in consideration for the issue of 901,276 Ordinary Shares. Certain warranties and indemnities have been given by MGH Investments Limited to the Company in relation to Basingstoke Observer. Liability in relation to all warranties and indemnities provided pursuant to the agreement has been limited to the higher of £375,000 or the shares in the Company being allotted as consideration and claims must be brought for any breach of warranty prior to the date three months after publication of the audited accounts of Basingstoke Observer for the period ending 30 September 2005.
- 8.3 a share purchase agreement dated 25 June 2003 between the Company (1), RC Urwin & others (the "Courier Vendors") (2) and P Chatteron (3) pursuant to which the Company has agreed to acquire the entire issued share capital of Courier Newspapers (Oxford) Limited for a consideration of £5 million to be satisfied as to £4.5 million in cash and as to £500,000 by the issue, credited as fully paid, of 500,000 Ordinary Shares. The agreement is conditional upon Admission and contains warranties and indemnities given by the Courier Vendors and P Chatteron to the Company in relation to the Courier Group together with certain restrictive covenants from each of R Urwin and P Chatteron in favour of the Company. Liability in relation to all warranties provided pursuant to the agreement has been limited to a maximum aggregate amount of £4.5 million and the value of the Ordinary Shares being issued as consideration and claims must be brought for any breach of warranty prior to the date one month after publication of the audited accounts of Courier Newspapers for the year ending 31 September 2004.
- 8.4 a share purchase agreement dated 26 June 2003 between the Company (1), Banco Nominees (Guernsey) Limited ("Banco Nominees") (2) and Six TV Limited (3) pursuant to which the Company has agreed to acquire the fifty per cent. of the issued share capital of Aroma Broadcasting Limited from Banco Nominees. The agreement is conditional upon Admission and provides for the capitalisation of all loans due from Banco Nominees and Six TV immediately prior to completion of the acquisition. The agreement contains a tax covenant.
- 8.5 a share purchase agreement dated 26 June 2003 between the Company (1) and Elliott & others (2) pursuant to which the Company has agreed to acquire 100 per cent. of the issued share capital of Fusion from Elliott and certain other shareholders (the "Fusion Vendors"). The Fusion Vendors have agreed to implement the drag along rights pursuant to the articles of association of Fusion and to procure the transfer to the Company of the entire issued share capital of Fusion. The consideration payable for entire issued share capital of Fusion is £8.3 million to be satisfied by the issue credited as fully paid, of 8,299,976 Ordinary Shares. The acquisition is conditional *inter alia* upon Admission and the Placing Agreement becoming unconditional in all respects (other than as to Admission and any condition relating to the agreement). The agreement provides for the capitalisation, immediately prior to completion of the acquisition, of all outstanding loans from Elliott into additional share capital of Fusion (which shall also be acquired pursuant to the terms of the agreement). In addition whilst the Elliott Sellers (together with any entity from time to time under their control) own in aggregate Ordinary Shares

## PART VIII: ADDITIONAL INFORMATION

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representing in excess of 15 per cent. of the issued Ordinary Share capital of the Company they shall be entitled to appoint a director to the Board. Certain warranties and indemnities have been given by the Fusion Vendors to the Company in relation to the Fusion Group. Liability in relation to all warranties and indemnities provided pursuant to the agreement has been limited to a maximum aggregate amount of £1 million and the realisable value of the Ordinary Shares being issued to the Fusion Vendors and claims must be brought for any breach of warranty prior to 31 December 2004.

- 8.6 a nominated adviser and broker agreement dated 26 June 2003 between the Company (1) and Collins Stewart (2) and the Directors (3) pursuant to which the Company has appointed Collins Stewart to act as nominated adviser and broker to the Company for the purposes of AIM. The Company has agreed to pay to Collins Stewart a fee of £40,000 per annum in respect of its services. The agreement may be terminated by either the Company or Collins Stewart giving the other three months notice or earlier in the event of certain specified events or circumstances occurring.
- 8.7 a Placing Agreement dated 26 June 2003 between the Company (1), the Directors (2) and Collins Stewart (3) pursuant to which Collins Stewart has agreed to use its reasonable endeavours to arrange for placees to subscribe for 9,500,000 Placing Shares at the Placing Price or itself to subscribe for such Placing Shares at the Placing Price. The agreement is conditional, *inter alia*, upon Admission taking place on or before 1 July 2003 or such later date as Collins Stewart and the Company may agree but in any event not later than 11 July 2003. The Company will pay, subject to Admission, to Collins Stewart a fee of £250,000 and a commission of 4 per cent. on the aggregate value of the Placing Shares (other than the Consideration Shares) at the Placing Price, together with all costs and expenses and VAT thereon where appropriate. The Company has also granted Collins Stewart an option (pursuant to a stand alone option agreement dated 26 June 2003) exercisable at any time after Admission until 5.00 p.m. on the date falling three years following Admission to subscribe for 432,000 Ordinary Shares at the Placing Price. The agreement provides for the Company to pay all expenses of and incidental to the Placing and the application for Admission, including the fees and costs of other professional advisers, all costs relating to the Placing (including printing, advertising and distribution charges), the fees of the Registrars and the fees payable to the London Stock Exchange.

The agreement contains, *inter alia*, undertakings and warranties given by the Company and the Directors in favour of Collins Stewart as to the accuracy of information contained in this document and other matters relating to the Group and its business and an indemnity from the Company and the executive Directors in favour of Collins Stewart.

Collins Stewart may terminate the Placing Agreement in specified circumstances prior to Admission, principally in the event of a material breach of the Placing Agreement or of any of the warranties contained in it or where any event of omission relating to the Group is, or will be in the opinion of Collins Stewart, materially prejudicial to the successful outcome of the Placing, or where any change on national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of Collins Stewart materially prejudicial to the Company or the successful outcome of the Placing.

- 8.8 deeds of restriction dated 26 June 2003 between the Company, Collins Stewart and each of the executive Directors, the vendors of Courier, Banco Nominees (Guernsey) Limited, MGH Investments and Elliott (the "Covenantors") pursuant to which each of the Covenantors covenants to the Company and Collins Stewart that, subject to certain exceptions, during the period until the first anniversary of Admission they will not directly or indirectly transfer, sell or otherwise dispose of the legal or beneficial ownership of any Ordinary Shares to which the deeds relate. These arrangements apply to, in aggregate,

## PART VIII: ADDITIONAL INFORMATION

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8,327,790 Ordinary Shares. Each of the Covenantors has further agreed that they will subsequently only affect any disposal of such shares through the Company's nominated broker from time to time.

- 8.9 heads of terms dated 25 June 2003 have been entered into between the Company (1) and Elliott Advisors (UK) Limited (the UK investment adviser of Elliott) (2) pursuant to which Elliott Advisors (UK) Limited ("Elliott Advisors") has agreed, subject to the satisfaction of preconditions to include receipt of any necessary consents and the entering into of binding legal documentation, to (either from itself or from Elliott) make available to the Company a facility of up to £2,000,000 by means of subscription for convertible debentures to be issued by the Company (the "Debentures") repayable in full on 31 December 2004. The Debentures will be transferable and have a coupon of 10 per cent. per annum, which will capitalise on a quarterly basis and will be secured by a first fixed and floating charge over the assets of the Group. The Debentures will be convertible at the option of Elliott into Ordinary Shares at a price of 120p per share subject to adjustment, at the option of Elliott, to the then prevailing market price in certain circumstances. The Debentures may also be redeemed by the Company in certain circumstances. In connection with the facility, the Company shall issue to Elliott warrants to subscribe for 300,000 Ordinary Shares exercisable at 120p per share at any time over a period of five years from the date of grant.

### 9. Taxation

**This paragraph is intended to be a general guide to current UK tax law and practice in the areas referred to below. It applies to persons who are resident or ordinarily resident in the UK for tax purposes and who beneficially own shares as investments. Any person who is not resident in the UK or who is in doubt as to his tax position or requires further information should consult an appropriate independent financial adviser.**

#### 9.1 UK taxation of dividends

- 9.1.1 Under current UK tax law, no tax will be withheld by the Company when it pays dividends.
- 9.1.2 Individual shareholders resident for tax purposes in the UK should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the net dividend. Such an individual shareholder's liability to UK income tax is calculated on the sum of the dividend and the tax credit (the "gross dividend") which, with certain other investment income, will be regarded as the top ^ slice of the individual's income. The tax credit therefore equals 10 per cent. of the gross dividend. The tax credit will be available to set against such shareholder's liability (if any) to income tax on the gross dividend.
- 9.1.3 Individual shareholders liable to tax on income at the starting or basic rate will be liable to tax on dividend income received at the rate of 10 per cent. of the gross dividend. This means that the tax credit will satisfy the income tax liability of such a shareholder.
- 9.1.4 The rate of income tax applied to dividend income received by UK resident individuals liable to income tax at the higher rate will be 32.5 per cent. (2003/2004 tax year). After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

## **PART VIII: ADDITIONAL INFORMATION**

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- 9.1.5 Individual shareholders who are resident in the UK and who are not liable to income tax cannot claim repayment of the tax credit from the Inland Revenue. In relation to shares held in an individual savings account ("ISA"), the tax credit on dividends paid can be reclaimed in respect of dividends paid prior to 5 April 2004.
- 9.1.6 A corporate shareholder resident for tax purposes in the UK will not normally be liable to corporation tax on any dividend received but cannot reclaim from the Inland Revenue the tax credits attaching to the dividend received.
- 9.1.7 Individual shareholders who are resident for tax purposes in countries other than the UK but who are Commonwealth citizens, nationals of states which are part of the European Economic Area, residents of the Isle of Man or the Channel Islands are entitled to a tax credit as if they were resident for tax purposes in the UK which they may set against their total UK income tax liability. Such shareholders will generally not be able to claim repayment of the tax credit from the Inland Revenue.
- 9.1.8 Other shareholders and shareholders who are not resident in the UK should consult their own independent professional advisers concerning their tax position on dividends received.

### **9.2 Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

- 9.2.1 The allotment and issue of new Ordinary Shares by the Company will not be subject to stamp duty or SDRT.
- 9.2.2 Any subsequent conveyance or transfer on sale of the Ordinary Shares will usually be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. (rounded up to the nearest £5) of the amount or value of the consideration. A charge to SDRT at the rate of 0.5 per cent. will arise in relation to an unconditional agreement to transfer such ordinary shares. However, if within six years of the date of the agreement an instrument of transfer is executed pursuant to the agreement and stamp duty is paid on that instrument, any liability to SDRT will be cancelled or repaid.
- 9.2.3 A transfer of Ordinary Shares effected on a paperless basis through CREST (where there is a change in the beneficial ownership of shares) will generally be subject to SDRT at the rate of 0.5 per cent. of the value of the consideration given. The duty will be payable by the new beneficial owner.

### **9.3 Capital Gains Tax ("CGT")**

- 9.3.1 An individual shareholder who is resident or ordinarily resident for tax purposes in the UK and who sells or otherwise disposes of his shares may, depending on his personal circumstances, incur a liability to UK tax on any capital gain, or deemed capital gain realised.
- 9.3.2 For a shareholder who is not within the charge to corporation tax (such as an individual, trustee or personal representative), taper relief, which reduces a chargeable gain depending on the length of time for which an asset is held, may be available to reduce the amount of chargeable gain realised on a subsequent disposal.
- 9.3.3 UK resident corporate holders of shares will, depending on their individual circumstances, be liable to UK tax on any disposal or deemed disposal of such shares, subject to the availability of indexation allowance.

## PART VIII: ADDITIONAL INFORMATION

### 10. Working capital

The Directors, having made due and careful enquiries, are of the opinion that following Admission and after taking into account the financial facilities available and the net proceeds of the Placing receivable by the Company, the Group has sufficient working capital for its present requirements, that is, for at least the period of twelve months from Admission.

### 11. Litigation

No legal or arbitration proceedings are active, pending or threatened against, or being brought by, any member of the Group which are having or may have a significant effect on the Company's or the Group's financial position.

### 12. General

12.1 There are no patents or other intellectual property rights, licences (save for the licences granted by the ITC and the Radio Authority detailed in Part 1 of this document) or particular contracts which are of fundamental importance to the Company's business. Save as disclosed in Part I, there are no exceptional factors which have influenced the Group's activities and there are no significant investments in progress.

12.2 The total costs and expenses relating to the Placing (including those fees and commissions referred to in paragraph 12.4 below) payable by the Company are estimated to amount to approximately £1.5 million (including VAT). The net proceeds of the Placing receivable by the Company will be £8.0 million.

12.3 The minimum amount which, in the opinion of the Directors, must be raised under the Placing to provide the sums required in respect of the matters specified in Schedule 1 of the POS Regulations is £9.5 million, divided as follows:

12.3.1 the purchase price of any property: £nil

12.3.2 preliminary expenses and expenses of the Placing: £1.5 million

12.3.3 repayment of money borrowed in respect of 12.3.1 and 12.3.2 above: £nil

12.3.4 working capital including monies payable pursuant to the Acquisitions, repayment of loans detailed in Part I of this document and ongoing working capital: £8.0 million

12.4 Under the terms of the agreements, details of which are set out in paragraphs 8.1 and 8.2 above, the parties listed below received Ordinary Shares which at the Placing Price have an aggregate value in excess of £10,000:

Name	Ordinary Shares
Andrew Craig	853,787
Brian Thompson	44,937
MGH Investments Limited	901,276

Save as set out above and except for fees payable to the professional advisers whose names are set out on page 3 above and payments to trade suppliers, no person has received any fees, securities in the Company or other benefits to a value of £10,000 or more, whether directly preceding the application for Admission, or has entered into any contracted arrangement to receive from the Company, directly or indirectly, any such fees, securities or other benefit on or after Admission.

12.5 The financial information set out in this document does not constitute statutory accounts within the meaning of section 240 of the Act. Statutory accounts have been delivered to the Registrar of Companies for all the relevant periods as disclosed in Parts III to VII of this document. Auditors' reports in respect of each statutory accounts have been made under section 235 of the Act and each such report was an unqualified report and did not contain any statement under section 237(2) or (3) of the Act.



## **PART VIII: ADDITIONAL INFORMATION**

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- 12.6 BDO Stoy Hayward have given and have not withdrawn their written consent to the inclusion in this document of their Accountants' Reports in Parts III to VII above and the references to such reports and to their name in the form and context in which they appear.
- 12.7 Collins Stewart has given and not withdrawn its written consent to the issue of this document and the references to them in the form and context in which such references are included.
- 12.8 The arrangements for paying for the Placing Shares are set out in the specimen placing letter annexed to the Placing Agreement.
- 12.9 Share certificates representing the Placing Shares and Ordinary Shares to be received as consideration under the terms of the Acquisitions (which are not Placing Shares) are expected to be despatched to holders who do not wish to receive their Ordinary Shares in uncertificated form, by post and at their own risk within 5 business days of Admission.
- 12.10 Temporary documents of title will not be issued in connection with the Placing. Pending the despatch of definitive share certificates (as applicable), instruments of transfers will be certified against the register of members of the Company.
- 12.11 The Directors have applied for the Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, it is expected that the Ordinary Shares will be enabled for settlement in CREST following Admission. Placees who are CREST system members may elect to have the Placing Shares allocated to them in uncertificated form through CREST.

### **13. Documents available for inspection**

- 13.1 Copies of the following documents may be inspected at the offices of Lawrence Graham, 190 Strand, London WC2R 1JN during usual business hours on any weekday (Saturdays and public holidays excepted) until the date falling one month after the date of Admission:
- 13.1.1 the Memorandum and Articles of Association of the Company;
  - 13.1.2 the Accountants' Reports set out in Parts III to VII of this document;
  - 13.1.3 the material contracts referred to in paragraph 8 above;
  - 13.1.4 the service agreements and Non-Executive Directors' letters of appointment referred to in paragraph 7 above;
  - 13.1.5 the rules of the Option Schemes as set out in paragraph 5 above;
  - 13.1.6 the consent letters referred to in paragraph 12 above; and
  - 13.1.7 this document.

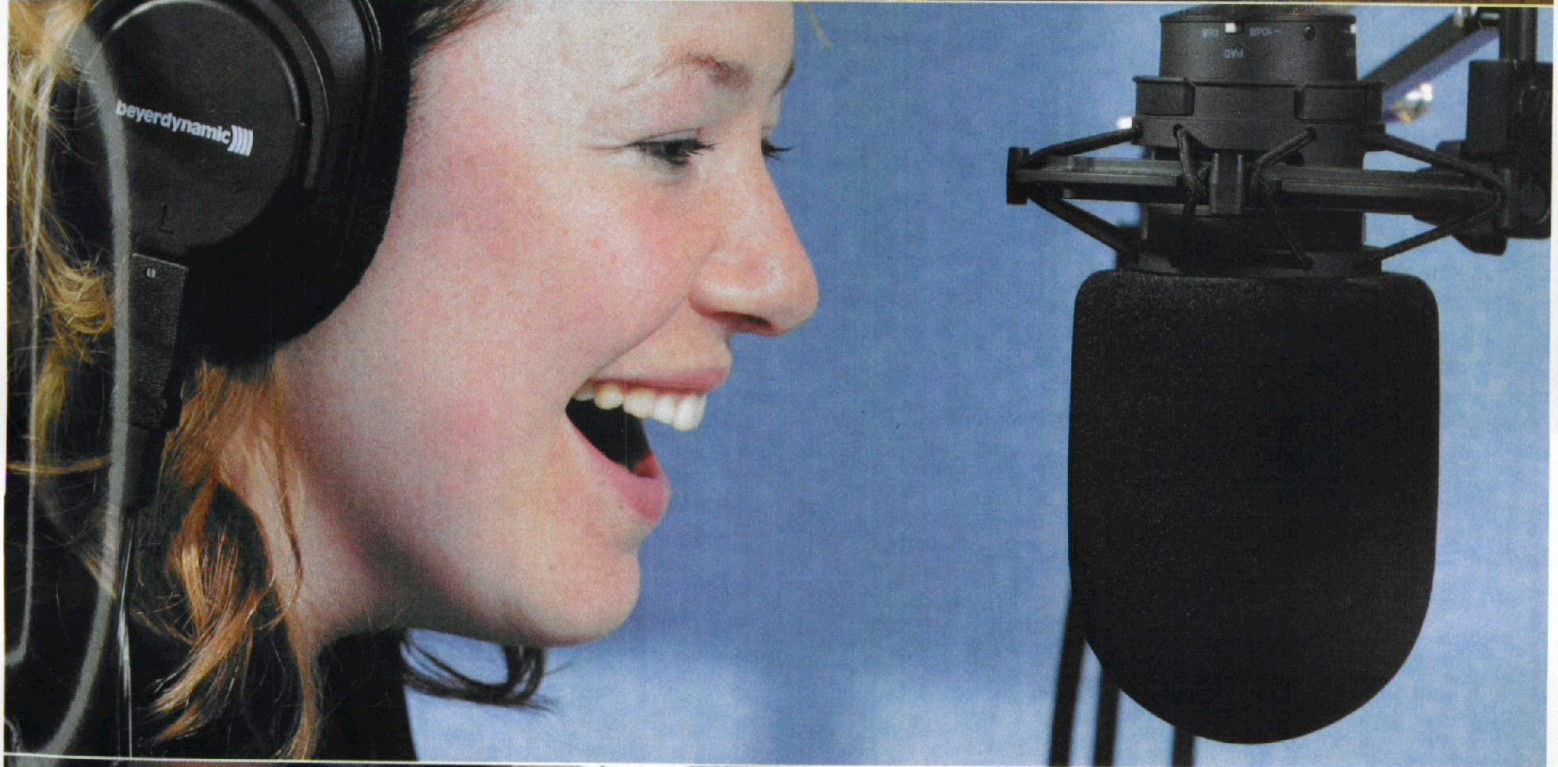
### **14. Availability of documents**

Copies of this document will be available free of charge to the public at the registered office of the Company and at the offices of Collins Stewart, 9th Floor, 8 Wood Street, London EC2V 7QR, during normal business hours on any weekday (Saturdays and public holidays excepted) until the date falling one month after the date of Admission.

Dated: 26 June 2003









# Milestone Group PLC

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