



**APACEMEDIA**

**Annual Report  
For the year ended 31 December 2006**

Company number: 03848181

## **Chairman's statement and operating & financial review**

### **Overview**

I am pleased to be able to report on a very successful year, a period that saw great strategic and financial progress. The Company is now established as a major broadcasting force in the fast-growing economies of Eastern Europe and a rapidly growing UK and international content producer. A transformational development was the joint venture Balkan Media Group Limited (BMGL) announced early in 2007 with Modern Times Group (MTG), the international media company. This creates one of the strongest broadcasting partnerships in the Balkan region and paves the way for the new company to become the leading media business in the area. Alongside the JV, Apace continues to develop its own stand-alone Eastern European media activities; for example the recent acquisition of mobile and web rights to English Premier League Football across the region.

Apace's holding in BMGL and the continuing successful acquisition of additional media assets are evidence of the commercial strategy of Apace: acquiring media or related assets in fast-growing emerging economies and identifying under-valued assets and restructuring situations in more mature markets. An example of this was the investment in March in 2% of Catalyst Media Group PLC, a UK-based AIM media company, which owns 20% of SIS, the betting industry and race course television business. Our investment focus shall be media but, where the Board deems it sensible, those investment criteria will stretch to other undervalued assets.

For comparative purposes, in this statement we are using unaudited proforma results for the year ended 31st December 2005 in this statement. This assumes that the currently owned businesses were part of the Group throughout that period and ignores discontinued operations. Fair value adjustments on the acquisition of Diema Vision have been written off in the 2005 pro forma results where appropriate and the 2005 figures also exclude the one-off catalogue restructuring gain. During 2006 turnover grew 98% to £10.6 million (2005: £5.3million), generating EBITDA of £418,000 (2005: £321,000) and making a pre tax loss of £116,000 (2005: profit of £25,000).

We believe this was a strong performance given the large amount of business development investment during the period. This included the hiring of high quality creative staff and management in Eastern Europe and the UK as well as start-up costs for new channels in Bulgaria. Across the Group we also strengthened the business structure to manage future growth, investing in additional administration resources. Content Creation year-on-year grew 139%, contributing 65% of turnover and Eastern European Broadcasting grew 49%, representing 35% of turnover. Our balance sheet remains strong with net assets of £15.3 million, of which £1.5 million is in cash.

### **Fund raising**

In December 2006 we concluded a successful £3 million fundraising through a placing of 20,000,000 new Ordinary Shares at 15 pence per share. The funds, which were raised from existing and new shareholders, have been used to develop the Company's Eastern European media activities and drive further organic growth of the Content Creation business.

### **Acquisitions**

In January 2006 we completed the acquisition of 50% of Diema Vision, the Bulgarian channel operator. In March we acquired a further 16%. In November 2006 we announced the acquisition of a 66% interest in TV Era, which is the leading Albanian language channel in Macedonia. Following the acquisitions, Apace controlled and distributed eight channels in Eastern Europe - seven cable and satellite channels in Bulgaria and a terrestrial channel in neighbouring Macedonia.

### **Balkan Media Group Joint Venture**

As noted above, in early 2007 we concluded the negotiation of a strategic partnership in the Balkans with MTG Broadcasting AB (MTG), the international entertainment broadcasting group. This strategic alliance, creating a new 50/50 joint venture company, Balkan Media Group Limited (BMGL), has the potential to become the leading broadcaster in the Balkans and holds all of Apace's Eastern European channel assets. MTG paid an initial consideration to Apace of €8,574,100 for its 50% holding in BMGL.

## **Chairman's statement and operating & financial review**

Apace and MTG have each paid €3,075,000 into BMGL to allow it to acquire the remaining minority holdings in Diema. This transaction values the former Apace Balkan assets at approximately €17m (£11.5 m) and marks a shift in the Company's channel operating business, significantly de-risking the Eastern European activities. Apace will benefit from the greatly strengthened channel business in the Balkans but avoid bearing the full development costs and operational risk. Early initiatives include the restructuring of the pay channels in Bulgaria, by changing Diema+ into a free-to-air channel capable of attracting far larger audiences. The move has been made in order to capitalise on the rapidly growing television advertising market. This strategic switch mirrors a successful initiative introduced by MTG in Hungary with Viasat 3, which resulted in a significant increase in audience. Driving this free-to-air development will require additional programme spend, which will have a negative impact on short term profitability. We have also secured exclusive Bulgarian broadcast rights for English Premier League Football until 2010 as well as the 2008 UEFA European Championships. This gives our Bulgarian channels access now to top football from England, France and Spain – by far the strongest sports offering in the region.

### **Board, management and staff**

At the beginning of 2006, we welcomed William Vanderfelt, an experienced investor and 7% shareholder in Apace, onto the Board as a non-executive director. In January 2007, Chris Rowlands, Deputy Chairman and Chief Operating Officer, stepped down from the Board and resigned from the Company to pursue other interests. I would like to thank all the staff for their contribution to the year's strong performance. Throughout a period of great activity, Apace's staff have shown flexibility and commitment.

### **Dividend**

As we focus on developing the business over the next few years we shall be investing in people, rights and marketing. Consequently we do not intend to propose a dividend for 2006. We will keep this policy under regular review.

### **Current trading and prospects**

Based on current trading the directors believe that revenue in the current financial year will be in line with market expectations. However our significant step-up in programming investment for Diema+ and Diema Family will result in lower short and medium term profitability for the businesses. The directors believe that this programming investment will benefit the Group greatly in the following years.

The Company's prospects are excellent with the BMGL partnership a well resourced, strong regional broadcasting operation that will capitalise on the Balkan states' fast-growing economies. The sale of 50% of our broadcasting assets to this new joint venture means the Company has significant cash resources. These funds are being used to accumulate undervalued media assets, other strategic non-media investments and to continue driving the UK-based Content Creation activities. We are constantly looking for strategic partners, mergers and acquisitions for these activities to accelerate their growth.

We look forward to the future with confidence. All our operations are performing well and our strategy of becoming a major investor in media and other assets is on course and bearing fruit.

## Chairman's statement and operating & financial review

### Operational Review

#### Content Creation

Apac Music, Steadfast Television and Pro-Active Productions, our content creation and IP activities, have generated EBITDA, (normalised excluding discontinued activities) of £0.5 million on a turnover of £6.9 million. This is despite substantial, sustained investment in people and IP development effort during the period.

The full year saw Steadfast Television, the Group's factual and entertainment programme specialist, establish itself as a major independent producer with some 30 hours now confirmed from leading UK and international broadcasters. Steadfast was a start-up in July 2005 and only fully commenced operations in early 2006.

The key to this initial success has been the quantity and quality of programming ideas and formats originating from our highly-focused creative team, combined with their reputations to deliver successful high-rating programming.

Highlights of the period include:

- *Fans United*, a 13-part series of advertiser funded programme, which screened on ITV in the UK and over 30 countries internationally.
- *Sky Cops*, for BBC One. A 5-part primetime popular factual series which secured an average 21% share of the audience, one of the largest audiences of the year in the prime 8.00pm time slot. *Sky Cops* has been recommissioned and a further four hours is in production.
- *Last Chance Driving School*, for ITV1. A peaktime factual entertainment format which has been commissioned by ITV as a 90-minute special for transmission during 2007.
- *IdentityTheft: They Stole My Life* for BBC One. Another ratings success which has been re-commissioned.
- *My Famous Cousin*, for ITV2. An unusual factual entertainment format about ordinary British people who have famous American cousins they don't know about. Commissioned as a pilot.
- *Car Crime in the 21<sup>st</sup> Century*, a three-part peaktime series for BBC One, currently in production.
- *Road Rage*, one hour special about the fight for road space in the UK.
- *Earth Shocks*, four-part CGI popular science factual series for National Geographic US Channel and UKtv about events which changed our lives forever.
- *Salvage Code Red*, a four-part action adventure co-production with Discovery Canada and National Geographic International.
- *The Science of Manipulation*, for Discovery Canada. A two-hour pilot special, to be made in Canada and then rolled out internationally, about the way in which people are manipulated into buying things they don't want.
- *The Day the Music Died*. A six-part popular music series for the new Smithsonian Network in the USA about American music icons who die young.

The commissioning of *The Science of Manipulation* and *The Day The Music Died* are a key part of our stated strategy of developing ideas and projects which have the potential of becoming long running

## Chairman's statement and operating & financial review

international formats. *My Famous Cousin* and *Last Chance Driving School* also fall into that category. Steadfast expects to announce further important commissions from domestic and international broadcasters within the coming weeks.

To increase further the value of our television content creation activities, we set up Steadfast International nine months ago. Already, we have seen this fledgling distribution business begin to give us an increased return from the programming and formats made and developed by the production division last year. A small team of international sales specialists now handle the global exploitation of Steadfast product and they have already sold programming to over 100 different territories.

Our sports specialist production company, Pro-Active, has expanded its activities during the period - confirming its position as one of the leading sports producers in Europe. Pro-Active generated 250 hours of original programming reaching audiences in a potential estimated 300 million households in 80 countries. The greatest growth was in the area of rugby, where we were appointed international broadcast managers for the International Rugby Board (IRB). The appointment gives Pro-Active a pivotal position in the IRB's key tournaments (excluding the Rugby World Cup) including the highly popular IRB Sevens World Series and the IRB Under 19 and Under 21 World Championships. Other Pro-Active highlights included:

- squash coverage, where we delivered over 20 hours of live broadcasting including coverage for Sky and BBC 1 of the English Open.
- as part of developing a new production relationship with the British Ice Skating Federation, Pro-Active has been called upon to give more coverage to two key events in the governing body's calendar.
- in water sports, we continue to be a major international producer with highlights including supplying global broadcast coverage of the IWSF water-ski tour and over 100 hours of magazine and event programming to the Sailing Channel.
- Sky Sports renewed Pro-Active's block supply deal of 175 hours per annum for a further three years, and ESPN Star renewed their contract for 100 hours per annum for another two years. New clients secured during the year for bulk programme arrangements included Setanta.

The year saw another very strong performance by Apace Music, our compilation CD company, operating in the mid-price sector.

- During the period we grew market share significantly selling 1.1 million units – an 83% increase on the previous year.
- We released 80 albums, as against 60 titles in 2005.
- We successfully expanded the number of major retail clients both in the UK and abroad.

In the UK, new accounts were opened with Tesco, Boots, Woolworths and Impulse. Ongoing relationships with ASDA, HMV, Borders, Fopp, Sainsbury's and WH Smiths were also strengthened during the year. Internationally, Apace Music's distribution also grew with campaigns in the major music chains in Germany, Holland, Italy, Spain and South Africa.

In the UK a key factor in the sales growth has been the success of our relationship with Sony/BMG. This has enabled us to release quality albums under license for such artists as Bill Withers, Isley Brothers, The O'Jays and Earth Wind and Fire. The compilation content has also strengthened with titles released including such genres as 90's Hits, 80's Hits, Swing, Jazz, R&B, Disco, Jazz Funk and Love. One of this business's valuable assets is Apace Music's recording and publishing catalogue, which now stands at 5,000 tracks. 1,000 of these are owned outright with no royalty payments due to any third parties.

## Chairman's statement and operating & financial review

### Eastern European broadcasting

Our Eastern European media activities generated EBITDA of £0.7 million on a turnover of £3.6 million. This strong performance was achieved even though we increased costs by 63% on the previous year to expand our activities. By the end of the year we controlled and distributed eight television channels in Eastern Europe after the acquisition in November of 66% of TV Era, a Macedonian terrestrial television channel. In June 2006 we had added a new channel in Bulgaria, Diema Family, to cater for children's and family viewing.

Advertising revenues at Diema grew by 140% year-on-year. Bulgaria is an extremely buoyant advertising market as more international brands enter the market following EU membership. Coca Cola, Nestle, Johnson & Johnson, Proctor & Gamble are just some of the dozens of international brands now advertising on our channels. With the further liberalisation of the market, advertising prospects are excellent and the Apace team has worked hard to take advantage of these opportunities. Another driver of this revenue growth was our increasing of cable carriage rates, a tactic we are able to employ because of the high quality programming that we now offer.

During the period we extended our exclusive rights for the English Premier League, Spanish and French top flight football. We also broke the Bulgarian state broadcaster's monopoly of World and European football championship coverage by acquiring rights to the UEFA European 2008 Championships. As holder of the rights for these other major sports events, including international tennis and basketball tournaments (extremely popular in Bulgaria), Apace positioned itself as the major sports broadcaster in Bulgaria. As part of our broadcasting development strategy, Diema also acquired extensive rights to a large number of new top flight movies including rights to their cinema and home entertainment release.

2006 was a year when we also introduced greater streamlining and efficiencies between our various channels. All eight channels are now being distributed through Diema. We also combined our marketing, PR and advertising sales activities to offer a greatly enhanced cross-channel proposition to advertisers. However, while we were able to introduce greater economies of scale we also increased staff numbers year-on-year, with employees in our Eastern European operations growing by 20% to 159. This investment in staff also included the establishment of a new highly experienced management team.

Following negotiations in 2006 and early 2007, we announced a strategic partnership with Modern Times Group (MTG), the international entertainment group, creating a new 50/50 joint venture company, Balkan Media Group Limited. The joint venture holds all of Apace's Eastern European broadcasting assets including 100% of Diema after the minority shareholder was bought out. We believe that this partnership will significantly enhance the value for Apace shareholders of our Balkan investments.

Didier Stoessel  
Chairman and Chief Executive  
12 June 2007

## **Report of the directors for the year ended 31 December 2006**

The directors present their report and the audited financial statements of Apace Media plc for the year ended 31 December 2006.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group as at the year end and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

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

In determining how amounts are presented within items in the profit and loss account and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group, and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

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

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

### **Principal activities, review of the business and future developments**

The principal activity of the Company was that of a holding company for subsidiaries involved in the creation, acquisition, broadcasting, distribution and exploitation of intellectual properties in the television, sports and entertainment sectors.

During the year to 31 December 2006, the Company acquired further majority shareholdings in the following subsidiaries in Eastern Europe, such that by 31 December 2006 the Company held sole or majority shareholdings in the following companies in UK, Bulgaria and Macedonia:-

## **Report of the directors for the year ended 31 December 2006 (continued)**

### *UK subsidiaries*

Apac Music Limited – a record label, record distribution & music publishing;  
Steadfast Television Limited – factual, documentary and other television programme production;  
Pro-Active Projects Limited – sports television programming production;  
Steadfast International Limited (formerly Apac Branded Content Limited) – the distribution of Steadfast Television’s television programming and advertiser-funded and other television programming;  
Apac Sports Limited – previously sports sponsorship consultancy, now dormant;  
Apac Brands in Games Limited – dormant;  
Steadfast Rights Limited – dormant.

### *Bulgarian subsidiaries*

Televizia MM OOD – satellite/cable television broadcaster;  
Diema Vision AD – satellite/cable television broadcaster;  
Apac Internet Balkans EAD – internet services;  
Apac Media Bulgaria EOOD – management services.

### *Macedonian subsidiary*

TV Era DOOEL Skopje

A detailed review of the Group’s financial position at 31 December 2006 and proposed future developments and strategies and a description of the principal risks and uncertainties facing it including an analysis of the development and performance of the Company during the year and the position of the Company at the year end are reported in the Chairman’s statement and operating and financial review on pages 1 to 5.

## **Financial risk management**

The Group’s operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk, currency risk and interest rate risk. The Group manages risks in a way that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of directors are implemented by the Group’s finance department.

### *Credit risk*

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. Where debt finance is utilised, that is subject to pre-approval by the Board of directors and such approval is limited to financial institutions with an AA rating or better.

### *Liquidity risk*

The Group actively maintains a mixture of cash and short-term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions.



## **Report of the directors for the year ended 31 December 2006 (continued)**

### *Interest rate cash flow risk*

The Group has both interest-bearing assets and interest-bearing liabilities. Interest-bearing assets include only cash balances, all of which earn interest at a variable rate. The directors will reconsider the appropriateness of this policy should the Group's operations change in size or nature.

### *Currency risk*

The Group manages trading risks by the natural hedging of sales revenues in a foreign currency with acquisition costs for various rights. TV productions sold in foreign currency are, where possible, hedged by production costs being incurred in the same currency. Other specific material risks are hedged by forward contracts.

Asset risks relating to overseas subsidiaries are hedged to the extent possible by local bank financing in local currency.

### **Post balance sheet event**

Since the year-end, the Company has incorporated a new UK subsidiary, Balkan Media Group Limited ("BMGL"), transferred all of its shareholdings in its Bulgarian and Macedonian Subsidiaries to BMGL and sold 50% of its shares in BMGL to the Swedish broadcasting conglomerate MTG Broadcasting AB (MTG), operators of the Viasat channels, as part of a joint venture with MTG.

### **Results and dividends**

The results of the Group for the year are set out on page 16 and show a loss for the year of £337,000 (18 months to end 2005: loss of £559,000). The directors do not recommend the payment of a dividend (2005 - £nil).

### **Directors**

The directors who served on the Board of the Company during the year to 31 December 2006 were:

- (1) Didier Stoessel (Chairman & Chief Executive)
- (2) Martin Johnston (Finance Director)
- (3) Charles Thompson
- (4) Tony Vickers (non-executive)
- (5) Michael Morris (non-executive)
- (6) William Vanderfelt (non-executive) – appointed 29<sup>th</sup> March 2006;
- (7) Christopher Rowlands (appointed 31 January 2006 and resigned on 16 January 2007);

Further details on the directors can be found on page 13.

**Report of the directors  
for the year ended 31 December 2006 (continued)**

**Directors' interests**

The interests, all of which were beneficial, of the directors in the shares of the Company were as follows:-

	<b>At 31 December 2006</b>	<b>At 31 December 2005</b>
	<b>No. of 5p ordinary shares</b>	<b>No. of 5p ordinary shares</b>
Didier Stoessel	23,033,333	20,766,666
Martin Johnston	500,341	167,008
Charles Thompson	266,666	233,333
Tony Vickers	127,438	126,208
Michael Morris	66,666	-
William Vanderfelt	6,326,967	-
Christopher Rowlands (resigned 16.01.07)	2,550,000	2,550,000

**Creditor payment policy**

The Group agrees payment terms with suppliers when it enters into purchase contracts. The Group seeks to abide by the payment terms agreed with the supplier whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard or code that deals specifically with the payment of suppliers.

**Charitable and political donations**

No charitable or political donations were made during either period.

**Substantial interests**

The directors have been notified that, as at 4 June 2007, the following shareholders held disclosable interests of 3% or more of the issued share capital of the Company:

<b>Beneficial owner</b>	<b>No. of 5p ordinary shares</b>	<b>% held</b>
Didier Stoessel	23,033,333	25.86%
RAB Capital Funds	7,950,000	8.93%
New Star Asset Management	6,676,114	7.50%
Banque Paribas Suisse	6,432,430	7.22%
William Vanderfelt	6,326,967	7.10%
Invesco Perpetual AIM VCT plc	5,000,000	5.61%
Herald Investment Trust	3,333,333	3.74%

**Employees**

The Group places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. As the number of employees is small, this is achieved effectively through informal meetings.

## **Report of the directors for the year ended 31 December 2006 (continued)**

### **Disabled employees**

Applications for employment by disabled persons will always be fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort would be made to ensure that their employment within the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **Treasury activities and financial instruments**

The Group's financial instruments comprise cash, bank borrowings and other items such as debtors and creditors.

It is the Group's policy to keep surplus funds on deposit to earn the prevailing market rate of interest. At 31 December 2006, the Group had positive U.K. cash balances of £1,525,000 (2005 - £3,683,000).

It is the Group's policy, where possible, to provide funding to overseas subsidiaries by local bank borrowing in local currency. By this means the Group's asset exposure to foreign currencies is partly hedged. Such borrowing amounted to £342,000 at the year end.

The Group does not speculate in derivative financial instruments in either sterling or foreign currencies.

### **Going concern**

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

### **Adequacy of information supplied to auditors**

At the time this report was approved, each individual director was not aware of any relevant audit information of which the auditors were unaware and that each individual director has taken steps to ascertain relevant audit information and to establish whether the auditors are aware of it.

### **Corporate governance**

The Company is listed on the Alternative Investment Market (AIM) and is therefore not required to comply with the provisions of the Combined Code. Nevertheless, the Company seeks, within the practical confines of being a small company, to act in compliance with the principles of good governance and the code of best practice. Given the small number of employees, internal control is exercised by the close involvement of directors in the day to day management of the Company's affairs.

Directors meet regularly and retain full and effective control over the Company. The Company has an Executive Chairman, two further executive directors and three non-executive directors. The non-executive directors are independent of the management.

### **Transition to International Financial Reporting Standards**

For the financial year to 31 December 2007, the Group will be required to adopt International Financial Reporting Standards. The Group will restate the comparatives for the year ended 31 December 2006 in the 2007 accounts to reflect the changes arising from changes in the accounting treatment for certain items.

## Report of the directors for the year ended 31 December 2006 (continued)

### Directors' remuneration

The Board decides the remuneration policy that applies to executive directors. In determining that policy, it gives full consideration to Section B of the combined code appended to the Listing Rules of the London Stock Exchange and the Directors' Remuneration Report Regulations 2002.

### Share options

The Company has two option schemes for employees, the "Apace Media plc Employee Share Option Scheme" and the "Apace Media plc Unapproved Share Option Scheme". Both share option schemes run for a period of ten years. All employees are eligible to participate in the schemes. No options under the Company schemes had been issued prior to 1 January 2006.

During the year to 31 December 2006, options have been granted:-

- (1) under the Apace Media plc Employee Share Option Scheme to 35 employees in respect of 4,135,100 ordinary 5 pence shares, of which 360,000 relating to 3 former employees have since lapsed; and
- (2) under the Apace Media plc Unapproved Share Option Scheme to 6 employees in respect of 897,760 ordinary 5 pence shares.

### Pensions

The Group has not made any pension contributions during the year.

### Contracts of service

The executive directors are employed under service agreements with 6 month rolling notice periods.

The current non-executive directors were employed under 12 month rolling contracts with remuneration of £1,000 per annum. Their remuneration was increased with effect from 1 January 2007 to £15,000 per annum. No director was materially interested in any contract of significance to the Company's business, other than his service contract.

### Directors' emoluments - audited information

Details of directors' emoluments for the year 2006 are set out below:

	Basic remuneration and fees 2006 £	Bonus payments 2006 £	Total remuneration 2006 £	Total remuneration (18 months) 2005 £
<b>D G P Stoessel *</b>	150,000	20,000	170,000	100,000
<b>M J H Johnston</b>	80,000	25,000	105,000	116,461
<b>C V Thompson</b>	100,000	25,000	125,000	22,267
<b>C J Rowlands</b>	75,000	-	75,000	19,167
<b>A C Vickers</b>	1,000	-	1,000	31,500
<b>M G Morris</b>	1,000	-	1,000	1,000
<b>W W Vanderfelt</b>	1,000	-	1,000	-
<b>A J A B Gunning</b>	-	-	-	16,000
	408,000	70,000	478,000	306,395

\* - such payments were made to DIDIES EOOD, a Bulgarian company controlled by Mr Stoessel, for strategic consultancy services in the Balkans.

No pension contributions were made in the year.

**Report of the directors  
for the year ended 31 December 2006 (continued)**

**Directors' interests in share options - audited information**

Under the Apace Media plc Employee Share Option Scheme, the following share options have been granted to directors in the year:

<b>Option holder</b>	<b>Date of grant</b>	<b>Maximum number of shares that can be acquired under the option</b>	<b>Class and nominal value of shares</b>	<b>Exercise price</b>
<b>D G P Stoessel</b>	8 June 2006	372,760	5p Ordinary	£0.20p
<b>M J H Johnston</b>	8 June 2006	175,000	5p Ordinary	£0.20p
<b>C V Thompson</b>	8 June 2006	250,000	5p Ordinary	£0.20p
<b>C J Rowlands</b>	8 June 2006	175,000	5p Ordinary	£0.20p

The options granted to C J Rowlands lapsed on the date of his resignation from the Company on 16 January 2007.

**Auditors**

A resolution to confirm the reappointment of Rawlinson & Hunter as auditors will be proposed at the next annual general meeting.

By order of the Board

Robert Carter  
Secretary  
12 June 2007

## **Directors' information**

### **Didier Stoessel**, Chairman and Chief Executive (43)

Didier Stoessel spent over 10 years in investment banking, starting his career with Merrill Lynch International in London. Didier joined HSBC Investment Bank in 1997 and became its Chief Executive – Corporate Finance in 1999. He left in 2002 to found the Apace Group.

Since the foundation of the Apace Group, Didier has instigated and overseen the overall strategy of the Group's acquisitions and investments, including the Group's broadcasting interests in Bulgaria, and continues to devise and implement this strategy both in the UK and internationally.

### **Martin Johnston**, Finance Director (55)

Martin Johnston is a chartered accountant who qualified with Deloitte Haskins & Sells. He worked in industrial companies for over twenty years and was first appointed to a board position in 1983, as finance director of Landis & Gyr Limited.

In 1993, he joined Flight Refuelling Limited, the main operating company of Cobham Plc, as finance director and in the following year joined Servomex plc ("Servomex") as group finance director and company secretary. Servomex was an industrial instrumentation group with a full listing on the London Stock Exchange. Martin left Servomex after five years, when it was acquired by a larger UK group, and joined the Company (then known as "FTV Group plc") in August 2000 as Finance Director.

### **Charles Thompson**, Executive Director (61)

Charles Thompson has been an independent television producer for more than 20 years, having previously worked for the BBC and Thames Television. Before joining the Company, Charles had been the Managing Director of Mentorn, makers of *Question Time* and *Robot Wars*, with an annual turnover of around £30 million. At Mentorn, Charles oversaw the company's expansion into drama, factual entertainment and popular science, which produced hits like *The Hamburg Cell*, *Britain's Worst Driver* and *Ideas That Changed The World*. Charles is Chief Executive of Steadfast Television Ltd, the Group's factual television production company.

### **Michael Morris**, Non-executive (35)

Michael Morris is a consultant to the Strategic group of companies, advising on M&A projects. He has served as a director of American Building Control (Nasdaq: ABCX), formally Ultrak Inc (Nasdaq: ULTK) and has also served as a director of Naty AB (Sweden), a consumer products manufacturer and distributor.

### **William Vanderfelt**, Non-executive (64)

Mr Vanderfelt is a highly experienced institutional investor with over 30 years experience as Managing Partner of Petercam SA, the leading independent Benelux investment bank, where he was in charge of Institutional Research and Sales. Mr Vanderfelt acts as a board director of several listed funds. His current directorships include Petercam S.A. Luxemburg, Compagnie Immobiliere de Belgique, US Special Opportunities and Vietnam Opportunity Fund.

### **Anthony Vickers**, Non-executive (63)

Tony Vickers's career in the media sector spans 40 years. Tony Vickers was appointed as the first sales director of Capital Radio Limited, the London entertainment radio station, and in 1976 he was appointed to the board of that company. In 1983, Tony joined TVam Limited, where he was sales and marketing director. He was also involved in the refinancing and flotation of that company. Tony subsequently became group sales and marketing director of BSkyB and was appointed Chairman of FTV Group plc on the Company's admission to AIM in September 2000.

## **Independent auditors' report to the shareholders of Apace Media plc**

We have audited the financial statements of Apace Media Plc for the year ended 31st December 2006 which comprise the consolidated profit and loss account, consolidated and Company balance sheet, consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the auditable part of the Directors' Report on Directors Remuneration.

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

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

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

Our responsibility is to audit the financial statements and the auditable part of the Directors' Report on Directors' Remuneration in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether the auditable part of the Directors' Report on Directors' Remuneration is properly prepared in accordance with the applicable requirements in the United Kingdom, and whether in our opinion the information given in the Directors Report is consistent with the accounts.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the accounts. The other information comprises only the Chairman's Statement and the Operating and Financial Review, and the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the Directors' Report on the Directors' Remuneration. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

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

**Independent auditors' report  
to the shareholders of Apace Media plc (continued)**

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Company and the Group as at 31st December 2006 and the loss and cash flows of the Group for the year then ended;
- the financial statements and the auditable part of the Directors' Report on the Directors' Remuneration have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the Financial Statements.

Rawlinson & Hunter  
Registered Auditors and Chartered Accountants  
Eagle House  
110 Jermyn Street  
London  
SW1Y 6RH

21 June 2007



**Consolidated profit and loss account  
For the year ended 31 December 2006**

		Year ended 31 December 2006				Period ended 31 December 2005 (18 months)	
	Notes	Discontinued operations £'000	Acquisitions £'000	Other continuing operations £'000	Total £'000	2005 discontinued operations (18 months) £'000	2005 discontinued operations (18 months) £'000
<b>Turnover</b>	1	3	3,197	7,388	<b>10,588</b>	1,986	126
Cost of sales		(4)	(1,758)	(4,549)	<b>(6,311)</b>	(1,112)	(23)
<b>Gross profit / (loss)</b>		(1)	1,439	2,839	<b>4,277</b>	874	103
Other income	2	-	-	-	-	59	36
Administrative expenses							
Exceptional	5	(78)	-	-	<b>(78)</b>	(135)	-
Normal		(56)	(987)	(3,445)	<b>(4,488)</b>	(1,338)	(101)
<b>Operating loss and loss on ordinary activities before interest</b>		(135)	452	(606)	<b>(289)</b>	(540)	38
Interest payable	3				<b>(21)</b>	(16)	
Interest receivable	3				<b>63</b>	60	
<b>Loss on ordinary activities before taxation</b>	4				<b>(247)</b>	(496)	
Tax on loss on ordinary activities	9				<b>(23)</b>	(11)	
<b>Loss on ordinary activities after taxation</b>					<b>(270)</b>	(507)	
Minority interests					<b>(67)</b>	(52)	
<b>Loss for the period</b>	22				<b>(337)</b>	(559)	
<b>Loss per share - basic and diluted (pence)</b>	8				<b>(0.48)</b>	(3.37)	

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

The notes on pages 19 to 35 form part of these financial statements.

**Balance sheet**  
**31 December 2006**

	Notes	Group		Company	
		31 December 2006 £'000	31 December 2005 £'000	31 December 2006 £'000	31 December 2005 £'000
<b>Fixed assets</b>					
Intangible assets	11	1,343	221	-	-
Goodwill	12	8,732	3,943	-	-
Tangible assets	10	1,570	581	116	82
Investments in subsidiary undertakings	13	-	-	10,260	4,940
Investments	14	435	383	435	383
		<u>12,080</u>	<u>5,128</u>	<u>10,811</u>	<u>5,405</u>
<b>Current assets</b>					
Stocks	15	849	292	-	-
Debtors	16	4,795	4,716	4,102	4,719
Cash at bank and in hand		1,525	3,683	1,200	3,501
		<u>7,169</u>	<u>8,691</u>	<u>5,302</u>	<u>8,220</u>
<b>Creditors: amounts falling due</b>					
<b>Within one year</b>	17	(3,404)	(1,277)	(542)	(1,013)
<b>Net current assets</b>		<u>3,765</u>	<u>7,414</u>	<u>4,760</u>	<u>7,207</u>
<b>Total assets less current liabilities</b>		15,845	12,542	15,571	12,612
<b>Creditors: amounts falling due after</b>					
<b>more than one year</b>	18	(477)	(1)	(18)	-
<b>Provisions for liabilities and charges</b>	19	(51)	(45)	-	-
<b>Net assets</b>		<u>15,317</u>	<u>12,496</u>	<u>15,553</u>	<u>12,612</u>
<b>Capital and reserves</b>					
Called up share capital	20	7,797	6,792	7,797	6,792
Share premium	22	6,840	4,990	6,840	4,990
Other reserve	22	1,375	1,375	1,375	1,375
Profit and loss account	22	(1,011)	(674)	(459)	(545)
<b>Equity shareholders' funds</b>	23	<u>15,001</u>	<u>12,483</u>	<u>15,553</u>	<u>12,612</u>
<b>Minority interests</b>		316	13	-	-
<b>Capital employed</b>		<u>15,317</u>	<u>12,496</u>	<u>15,553</u>	<u>12,612</u>

The financial statements were approved by the Board on 12 June 2007.

M J H Johnston  
Director

The notes on pages 19 to 35 form part of these financial statements.

**Cash flow statement**  
**For the year ended 31 December 2006**

		Year ended 31 December 2006 £'000	18 months to 31 December 2005 £'000
<b>Reconciliation of operating result to net cash flow from operating activities</b>			
Operating loss		(289)	(540)
Charges in respect of shares issued in compensation		19	-
Amortisation of intangible fixed assets	11	213	60
Depreciation of tangible fixed assets	10	367	51
Profit on disposal of investments		-	(59)
(Loss) / profit on disposal of tangible fixed assets		3	(40)
Increase in stocks		(520)	(153)
Decrease / (increase) in debtors		1,203	(3,605)
(Decrease) / increase in creditors		(933)	146
<b>Net cash inflow / (outflow) from operating activities</b>		<u>63</u>	<u>(4,140)</u>
<b>Cash flow statement</b>			
<b>Net cash inflow / (outflow) from operating activities</b>		63	(4,140)
<b>Returns on investments and servicing of finance</b>			
Interest received		63	59
Interest paid		(21)	(16)
Dividends paid – minority interest		(65)	(85)
<b>Net cash outflow</b>		<u>(23)</u>	<u>(42)</u>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets	10	(342)	(166)
Disposal of tangible fixed assets		7	62
Purchase of intangible fixed assets	11	(949)	(189)
Purchase of investments		-	(143)
Disposal of investments		-	350
Investment project work in progress	14	(52)	(383)
<b>Net cash outflow</b>		<u>(1,336)</u>	<u>(469)</u>
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(4,535)	(665)
Cash acquired with acquisition of subsidiary undertakings		403	225
<b>Net cash outflow</b>		<u>(4,132)</u>	<u>(440)</u>
<b>Financing</b>			
Proceeds from issue of ordinary shares	20	3,000	9,000
Related expenses		(164)	(607)
Debt due beyond a year - Bank borrowing		342	-
Proceeds from issue of shares in subsidiaries to minority interests		92	-
<b>Net cash inflow</b>		<u>3,270</u>	<u>8,393</u>
<b>(Decrease)/increase in cash in the period</b>	24, 25	<u><b>(2,158)</b></u>	<u>3,302</u>

The notes on pages 19 to 35 form part of these financial statements.

## **Statement of accounting policies for the year ended 31 December 2006**

The principal accounting policies are summarised below. They have all been applied consistently throughout the period.

### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and are in accordance with applicable accounting standards.

### **Going concern**

The going concern basis has been used to prepare the financial statements of the Company and the Group for the year ended 31 December 2006.

The Group had net assets of £15,317,000 as at 31 December 2006 (2005: £12,496,000). The directors consider that the going concern basis is appropriate on the grounds that there is sufficient cash to meet the Company's liabilities as they fall due over the twelve months from the date of approval of these statements.

### **Basis of consolidation**

The financial statements of the Group include the results of the Company and all of its subsidiary undertakings. The results of subsidiary undertakings are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent and using consistent accounting policies.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into sterling at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated into sterling at average annual exchange rates. Foreign exchange differences arising on retranslation are recognised directly in a separate translation reserve within equity.

No profit and loss account is prepared for the Company, as permitted by Section 230 of the Companies Act 1985. The Company made a profit for the year of £86,000 (2005: loss of £430,000).

Minority interests represent the portions of profit or loss and net assets of subsidiaries that are not held by the Group and are presented separately within equity in the consolidated accounts.

### **Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date with any exchange differences arising on retranslation being recognised in the profit and loss account. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

## **Statement of accounting policies for the year ended 31 December 2006**

### **Business combinations and goodwill**

All business combinations are accounted for by applying the acquisition method. Goodwill represents the excess of the fair value of the purchase consideration for the interests in subsidiary undertakings over the fair value to the Group of the net assets and any contingent liabilities acquired.

Goodwill arising on acquisitions is stated at cost less any accumulated impairment losses. Goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination. It is not amortised but is reviewed annually for impairment. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. This estimate of recoverable amount is performed at each balance sheet date. The estimate of recoverable amount requires significant judgement, and is based on a number of factors such as the near-term business outlook for the cash generating unit, including both its operating profit and operating cash flow performance. Where the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

### **Intangible fixed assets**

Intangible fixed assets are stated at cost less accumulated amortisation and impairment losses. Amortisation of intangible assets is charged to administrative expenses in the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Music rights: 3 years or, if less, the life of the rights  
Film and sports rights: over the life of the rights

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

### **Tangible fixed assets**

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairments in value.

Depreciation is provided on a straight-line or reducing balance basis to write off the cost, less their estimated residual value over their estimated useful lives. Estimated useful lives are as follows:

Leasehold improvements:	15% p.a. or the length of the lease if shorter
Office equipment:	between 5 and 8 years
Computer equipment:	3 years
Motor vehicles:	5 years

### **Investments**

Investments held as fixed assets are stated at cost less provision for impairment in value, if any.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash equivalents for the purposes of the cash flow statement.

## **Statement of accounting policies for the year ended 31 December 2006**

### **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at an amount equal to the best estimate of the expenditure required to settle the Group's liability.

### **Stock**

Stock and work in progress are carried at the lower of cost and net realisable value. Cost represents direct costs incurred and, where appropriate, a proportion of attributable overheads. Stock is accounted for on a first-in, first-out basis. Provision is made for slow moving and obsolete items based on an assessment of technological and market developments and on an analysis of historic and projected usage.

### **Taxation**

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

### **Turnover**

Turnover represents amounts receivable for services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

### **Share based payments**

The Group issues equity settled share-based awards to certain employees. A fair value for the equity settled share award is measured at the date of grant. The Group measures the fair value using the valuation technique most appropriate to value each class of award.

The fair value of the award is recognised as an expense over the vesting period on a straight-line basis, after allowing for an estimate of the share award that will eventually vest. The level of vesting is reviewed annually; and the charge is adjusted to reflect actual or estimated levels of vesting with the corresponding entry to equity.

### **Financial instruments**

In relation to the disclosures made in note 26:

- Short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures; and
- The Company does not hold or issue derivative financial instruments for trading purposes.

**Notes to the accounts**  
**For the year ended 31 December 2006**

**1. Turnover**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>(18 months)</b>
		<b>£'000</b>
A geographical analysis of turnover is as follows:		
UK & Ireland	4,031	940
Rest of Europe	4,967	529
Rest of the world	1,590	517
	<b>10,588</b>	<b>1,986</b>

**2. Other income**

Other income comprises the net revenue from disposal of investments in quoted securities.

**3. Interest receivable and interest payable**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>(18 months)</b>
		<b>£'000</b>
<b>Interest receivable</b>		
Bank interest receivable	<b>63</b>	60
<b>Interest payable</b>		
Other interest payable	-	15
Bank interest payable	<b>21</b>	1
	<b>21</b>	16

**4. Loss on ordinary activities before taxation**

Loss on ordinary activities before taxation is stated after charging / (crediting):

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>(18 months)</b>
		<b>£'000</b>
Depreciation and amounts written off fixed assets		
- tangible	<b>367</b>	51
- intangible	<b>213</b>	60
Operating lease rentals and hire of plant and machinery		
- land & buildings	<b>217</b>	33
- equipment hire	<b>34</b>	41
Auditors' remuneration for audit services	<b>55</b>	59
Auditors' remuneration for non-audit services	<b>35</b>	13
Foreign exchange differences	<b>29</b>	(7)

**Notes to the accounts**  
**For the year ended 31 December 2006**

**5. Exceptional administrative expenses**

The charge for the year relates to the severance costs on closure of the Group's sports sponsorship business. For the period to 31 December 2005, it related to the due diligence costs for aborted acquisition projects in Eastern Europe.

**6. Staff costs**

The average monthly number of sales and administrative staff (including executive directors) during the year ended 31 December 2006 was 191 (2005: 15). Their aggregate remuneration comprised:

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>(18 months)</b>
		<b>£'000</b>
Wages and salaries	2,057	604
Severance/termination payments	78	15
Social security costs	264	73
Other pension costs	-	-
	<u>2,399</u>	<u>692</u>

**7. Directors' remuneration**

Details of directors' remuneration are shown on page 11.

**8. Loss per ordinary share**

The calculations of loss per share are based on the following losses and numbers of shares:

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>Loss</b>	<b>per</b>	<b>Loss</b>	<b>per</b>
		<b>share</b>	<b>(18 months)</b>	<b>share</b>
	<b>£'000</b>	<b>p</b>	<b>£'000</b>	<b>p</b>
<b>Loss</b>				
Loss after taxation	<u>(337)</u>	<u>(0.48)</u>	<u>(559)</u>	<u>(3.37)</u>
<b>Shares</b>	<b>Number</b>		<b>Number</b>	
Weighted average number of shares				
Basic and diluted	<u>69,973,966</u>		<u>16,594,675</u>	

The weighted average number of shares in issue in 2005 has been adjusted to allow for the share consolidation carried out on 7 November 2005.



**Notes to the accounts**  
**For the year ended 31 December 2006**

**9. Taxation on loss on ordinary activities**

The Company's accounting policy for taxation is set out on page 21.

**Analysis of charge in the period**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>(18 months)</b>
		<b>£'000</b>
UK corporation tax on loss of the period	-	-
Bulgarian corporation tax	17	-
Deferred tax	6	11
	<u>23</u>	<u>11</u>

**Factors affecting the charge for the period:**

The tax assessed for the period is at the standard rate of corporation tax in the UK (30%). The differences are explained below:

<b>Loss on ordinary activities before taxation</b>	<u>(247)</u>	<u>(496)</u>
Tax at 30% (2005 - 30%) on loss on ordinary activities	(74)	(149)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	11	-
Timing differences	-	37
Utilisation of tax losses	(3)	-
Tax losses carried forward	156	112
Foreign tax consolidation adjustments	<u>(73)</u>	<u>-</u>
<b>Tax charge for period</b>	<u>17</u>	<u>-</u>

No deferred tax asset as a result of the tax losses available for offset against future taxable profit is recognized in these financial statements.

Notes to the accounts  
For the year ended 31 December 2006

10. Tangible fixed assets

Group	Leasehold improvements	Fixtures, fittings & equipment	Motor vehicles	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2006	46	1,221	27	1,294
Acquisitions	408	976	113	1,497
Additions	62	266	14	342
Transfers	-	(24)	-	(24)
Disposals	(7)	(76)	-	(83)
<b>At 31 December 2006</b>	<b>509</b>	<b>2,363</b>	<b>154</b>	<b>3,026</b>
<b>Depreciation</b>				
At 1 January 2006	-	(689)	(24)	(713)
Acquisitions	(29)	(403)	(40)	(472)
Charge for the period	(74)	(275)	(18)	(367)
Transfers	-	24	-	24
Eliminated on disposal	-	72	-	72
<b>At 31 December 2006</b>	<b>(103)</b>	<b>(1,271)</b>	<b>(82)</b>	<b>(1,456)</b>
<b>Net book value</b>				
<b>31 December 2006</b>	<b>406</b>	<b>1,092</b>	<b>72</b>	<b>1,570</b>
31 December 2005	46	532	3	581
<b>Company</b>				
	Leasehold improvements	Fixtures, fittings & equipment	Total	
	£'000	£'000	£'000	
<b>Cost</b>				
At 1 January 2006	46	36	82	
Additions	27	31	58	
Transfer	-	6	6	
Disposals	-	-	-	
<b>At 31 December 2006</b>	<b>73</b>	<b>73</b>	<b>146</b>	
<b>Depreciation</b>				
At 1 January 2006	-	-	-	
Charge for the period	(13)	(17)	(30)	
Eliminated on disposal	-	-	-	
<b>At 31 December 2006</b>	<b>(13)</b>	<b>(17)</b>	<b>(30)</b>	
<b>Net book value</b>				
<b>31 December 2006</b>	<b>60</b>	<b>56</b>	<b>116</b>	
31 December 2005	46	36	82	

Notes to the accounts  
For the year ended 31 December 2006

11. Intangible fixed assets

Group	Music rights	Film rights	Other intangible assets	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1 January 2006	318	-	25	343
Opening balance adjustment	(31)	-	1	(30)
Acquisitions	-	398	11	409
Additions	187	745	17	949
<b>At 31 December 2006</b>	<b>474</b>	<b>1,143</b>	<b>54</b>	<b>1,671</b>
<b>Depreciation</b>				
At 1 January 2006	(97)	-	(25)	(122)
Opening balance adjustment	31	-	(1)	30
Acquisitions	-	(16)	(7)	(23)
Charge for the period	(135)	(75)	(3)	(213)
<b>At 31 December 2006</b>	<b>(201)</b>	<b>(91)</b>	<b>(36)</b>	<b>(328)</b>
<b>Net book value</b>				
<b>31 December 2006</b>	<b>273</b>	<b>1,052</b>	<b>18</b>	<b>1,343</b>
31 December 2005	221	-	-	221

12. Goodwill

Group	Goodwill
	£'000
<b>Cost</b>	
At 1 January 2006	3,943
Additions	4,789
<b>At 31 December 2006</b>	<b>8,732</b>
<b>Amortisation</b>	
At 1 January 2006	-
Charge for the period	-
<b>At 31 December 2006</b>	<b>-</b>
<b>Net book value</b>	
<b>31 December 2006</b>	<b>8,732</b>
31 December 2005	3,943

**Notes to the accounts**  
**For the year ended 31 December 2006**

**12. Goodwill (continued)**

Purchased goodwill arising on the acquisition of subsidiary undertakings is capitalised and accounted for in accordance with the accounting policy for business combinations and goodwill on page 20.

Goodwill comprises:	<b>£'000</b>
At 1 January 2006	3,943
Additions in the year:	
- arising from the acquisition of Televizia MM OOD	171
- arising from the acquisition of Diema Vision AD	4,191
- arising from the acquisition of TV ERA EOOD	397
- arising from the acquisition of the minority shares in Steadfast International Ltd.	30
Net book value at 31 December 2006	<u><u>8,732</u></u>

The directors have reviewed goodwill and do not consider an impairment charge to be necessary.

**13. Investments in subsidiary undertakings**

	Company	
	2006 £'000	2005 £'000
At 1 January 2006	4,940	-
Acquisitions:		
Apace Sports Limited	-	4,211
Televizia MM OOD	286	578
Steadfast Television Limited	-	151
Transfer of Apace Sports Limited subsidiaries	-	560
less: impairment of Apace Sports Limited	-	(560)
Diema Vision AD	4,531	-
Apace Media Bulgaria EOOD	37	-
TV ERA EOOD	466	-
	<u><u>10,260</u></u>	<u><u>4,940</u></u>

At 31 December 2006, the Company owned the following subsidiary undertakings:

Subsidiary undertaking	Principal activity	Country of incorporation	% of equity and votes held
Apace Sports Limited	Dormant	England	100%
Pro-Active Projects Limited	Television production	England	90%
Apace Music Limited	Record label and music publishing	England	100%
Steadfast Television Limited	Television production	England	75%
Steadfast International Limited (formerly Apace Branded Content Limited)	Television programme distribution	England	100%
Apace Media Bulgaria EOOD	Management services	Bulgaria	100%
Television MM OOD	Television broadcasting	Bulgaria	66%
Diema Vision AD	Television broadcasting	Bulgaria	66%
TV ERA EOOD	Television broadcasting	Macedonia	66%

**Notes to the accounts**  
**For the year ended 31 December 2006**

**13. Investments in subsidiary undertakings (continued)**

On 4 January 2006 the Company acquired 50% of the issued share capital of Diema Vision AD. On 31 March 2006 the Company acquired a further 16%. The operating assets and liabilities of Diema Vision AD on 4 January 2006 were as follows:

	<b>Book value</b> <b>£'000</b>	<b>Adjustments</b> <b>£'000</b>	<b>Fair value</b> <b>£'000</b>
Fixed assets	1,268	-	1,268
Stock	35	-	35
Debtors	1,367	(97)	1,270
Cash	402	-	402
Creditors	(1,584)	(586)	(2,170)
Provision for liabilities & charges	(974)	-	(974)
Minority interests	(175)	232	57
Minority interest adjustment	110	-	110
	<u>449</u>	<u>(451)</u>	<u>(2)</u>
Consideration			3,664
Related expenses			525
Goodwill			<u>(4,191)</u>
Fair value of net liabilities acquired			<u>(2)</u>

On 23 October 2006 the Company completed the acquisition of 66% of the issued share capital of TV ERA DOOEL (ERA). The operating assets and liabilities of ERA on 23 October 2006 were as follows:

	<b>Book value</b> <b>£'000</b>	<b>Adjustments</b> <b>£'000</b>	<b>Fair value</b> <b>£'000</b>
Fixed assets	145	-	145
Stock	2	-	2
Debtors	12	-	12
Cash	1	-	1
Creditors	(56)	-	(56)
Minority interests	(35)	-	(35)
	<u>69</u>	<u>-</u>	<u>69</u>
Consideration			203
Related expenses			263
Goodwill			<u>(397)</u>
Fair value of net assets acquired			<u>69</u>

**Notes to the accounts**  
**For the year ended 31 December 2006**

**13. Investments in subsidiary undertakings (continued)**

The adjustments shown above in respect of ERA are provisional and will be reviewed based on additional information up to 31 December 2007. The directors do not anticipate that any net adjustments resulting from such review would be material to the Group.

**Financial information regarding acquired businesses**

The following table summarises the relevant financial information for the accounting period prior to acquisition by the Company

	<b>Year ended 31 December 2005</b>	
	<b>Diema</b>	<b>ERA</b>
	<b>£'000</b>	<b>£'000</b>
Turnover	2,252	141
Operating profit / (loss)	465	60
Profit / (loss) before tax	449	56
Taxation	(82)	-
Profit / (loss) after tax	366	56

**14. Investments**

Investments comprise expenditure to date on various potential acquisitions.

**15. Stocks**

	<b>Group</b>		<b>Company</b>	
	<b>2006 £'000</b>	<b>2005 £'000</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
Work in progress	350	48	-	-
Finished goods and goods for resale	499	244	-	-
	<b>849</b>	<b>292</b>	<b>-</b>	<b>-</b>

**16. Debtors**

	<b>Group</b>		<b>Company</b>	
	<b>2006 £'000</b>	<b>2005 £'000</b>	<b>2006 £'000</b>	<b>2005 £'000</b>
Trade debtors	1,969	455	-	-
Inter-company	-	-	2,870	777
Prepayments & accrued income	1,542	277	38	19
Other debtors	179	164	89	103
Loan	-	1,050	-	1,050
Placing debtors	1,105	2,770	1,105	2,770
	<b>4,795</b>	<b>4,716</b>	<b>4,102</b>	<b>4,719</b>

£446,000 of prepayments (2005: £90,000) is recoverable in more than 12 months.

**Notes to the accounts**  
**For the year ended 31 December 2006**

**17. Creditors: amounts falling due within one year**

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans and overdrafts	12	-	-	-
Trade creditors	2,102	830	173	364
Inter-company	-	-	100	413
Other taxation and social security	310	100	102	27
Accruals & deferred income	788	286	75	209
Other creditors	192	61	92	-
	<b>3,404</b>	<b>1,277</b>	<b>542</b>	<b>1,013</b>

**18. Creditors: amounts falling due after more than one year**

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Bank loans and overdrafts	342	-	-	-
Liability for share-based payment	18	-	18	-
Other creditors	117	1	-	-
	<b>477</b>	<b>1</b>	<b>18</b>	<b>-</b>

The bank loan represents the outstanding balance under a facility of up to Euro 2 million between Diema Vision AD and Societe Generale Expressbank in Sofia. Interest is payable at 3 month EURIBOR + 3% and the facility is guaranteed by Apace Media plc. The bank holds a pledge over two-thirds of the shares of Diema Vision AD as collateral.

**19. Provision for liabilities and charges**

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Deferred taxation				
1 January 2006	45	-		
Increase in provision	6	45		
31 December 2006	<b>51</b>	<b>45</b>	<b>-</b>	<b>-</b>

Deferred taxation is provided in respect of accelerated capital allowances.

**Notes to the accounts  
For the year ended 31 December 2006**

**20. Share capital**

Ordinary shares	2006			2005		
	Number	Par value	£'000	Number	Par value	£'000
<b>Authorised</b>						
1 January 2006	138,500,000	5.0p	6,925	80,000,000	0.5p	400
Capital increase	-	-	-	1,670,000,000	0.5p	8,350
				1,750,000,000	0.5p	8,750
Share consolidation	-	-	-	(1,706,250,000)		-
				43,750,000	20.0p	8,750
Sub-division of issued shares	-	-	-	-		(3,344)
Sub-division of unissued shares	-	-	-	64,370,768		-
				108,120,768	5.0p	5,406
Capital increase	-	-	-	30,379,232	5.0p	1,519
31 December 2006	<b>138,500,000</b>	<b>5.0p</b>	<b>6,925</b>	<b>138,500,000</b>	<b>5.0p</b>	<b>6,925</b>
<b>Issued, called up and fully paid</b>						
1 January 2006	68,959,742	5.0p	3,448	55,056,390	0.5p	275
Consideration shares & share placing	-	-	-	816,666,666	0.5p	4,083
				871,723,056	0.5p	4,358
Consideration shares	-	-	-	20,000,000	0.5p	100
				891,723,056	0.5p	4,458
Share consolidation	-	-	-	(869,429,980)		-
				22,293,076	20.0p	4,458
Sub-division & creation of deferred shares	-	-	-	-		(3,344)
				22,293,076	5.0p	1,114
Shares as compensation for loss of office	109,589	5.0p	5	-	-	-
Share placing	20,000,000	5.0p	1,000	46,666,666	5.0p	2,333
31 December 2006	<b>89,069,331</b>	<b>5.0p</b>	<b>4,453</b>	<b>68,959,742</b>	<b>5.0p</b>	<b>3,448</b>
<b>Deferred shares</b>						
<b>Authorised, issued, called up and fully paid</b>						
1 January 2006	22,293,076	15p	3,344	-		-
Creation of deferred shares	-	-	-	22,293,076	15p	3,344
31 December 2006	<b>22,293,076</b>	<b>15p</b>	<b>3,344</b>	<b>22,293,076</b>	<b>15p</b>	<b>3,344</b>
<b>Total shares</b>			<b>7,797</b>			<b>6,792</b>

On 12 December 2006, 20,000,000 new ordinary shares were placed at a price per share of 15p and admitted to trading on AIM.

The rights attaching to deferred shares, which have not been admitted to trading on AIM or any other recognised investment exchange, renders them effectively valueless. No share certificates have been issued in respect of deferred shares. It is intended that the deferred shares will be repurchased by the Company for a nominal amount in due course. The deferred shares will have no rights to vote or to participate in dividends and will carry limited deferred rights on any return on capital (whether on a liquidation or otherwise).



**Notes to the accounts**  
**For the year ended 31 December 2006**

**21. Share options**

The Company has two option schemes for employees, the "Apace Media plc Employee Share Option Scheme" and the "Apace Media plc Unapproved Share Option Scheme". All employees are eligible to participate in the schemes. The details of the arrangements are described in the following table:

Nature of the arrangement	Approved			Unapproved
	Share options	Share options	Share options	Share options
Date of grant	15 May 2006	8 June 2006	13 October 2006	8 June 2006
Number or instruments granted	476,190	2,726,410	932,500	897,760
Less: lapsed in the period	-	360,000	-	-
Number or instruments valued	476,190	2,366,410	932,500	897,760
Exercise price (pence)	20	20	20	20
Share price at grant (pence)	18	18	18	18
Vesting period (years)	3	3	3	3
Vesting conditions	None	None	None	None
Option Life (years)	10	10	10	10
Expected volatility	20.00%	20.00%	20.00%	20.00%
Risk free rate	4.75%	4.75%	4.75%	4.75%
Number of employees	1	29	5	6
Settlement	Shares	Shares	Shares	Shares
% expected to vest (based upon leavers)	90.00%	90.00%	90.00%	90.00%
Number expected to vest	428,571	2,129,769	839,250	807,984
Fair value per granted instrument (pence)	2.29	2.29	2.29	2.29
Charge for year ending 31 December 2006 (£)	1,834	9,115	3,592	3,459

In accordance with the Group's accounting policy for share based payment, share options have been valued using an appropriate option pricing model. The total fair value of options in issue at the date of grant was £107,000, of which £18,000 has been charged to the profit and loss account for the year.

**22. Reserves**

	Group			Company		
	Share premium account	Other reserve	Profit & loss account	Share premium account	Other reserve	Profit & loss account
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2006	4,990	1,375	(674)	4,990	1,375	(545)
Shares as compensation for loss of office	14	-	-	14	-	-
Issue of placing shares - 14 December 2006	2,000	-	-	2,000	-	-
Placing expenses	(164)	-	-	(164)	-	-
(Loss) / profit for the year	-	-	(337)	-	-	86
At 31 December 2006	<u>6,840</u>	<u>1,375</u>	<u>(1,011)</u>	<u>6,840</u>	<u>1,375</u>	<u>(459)</u>

Other reserve represents the premium on allocation of shares by the Company in pursuance of the arrangement in consideration for the acquisition of 100% of the shares in Apace Sports Ltd (previously called Apace Group Ltd) on 25 April 2005, as permitted by section 131 of the Companies Act. This reserve is not currently distributable.

**Notes to the accounts**  
**For the year ended 31 December 2006**

**23. Reconciliation of movements in equity shareholders' funds**

	Group		Company	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
(Loss) / profit for the year	(337)	(559)	86	(430)
Issue of new share capital	3,019	13,275	3,019	13,275
Related expenses	(164)	(606)	(164)	(606)
Net increase in equity shareholders' funds	<b>2,518</b>	12,110	<b>2,941</b>	12,239
Opening equity shareholders' funds	<b>12,483</b>	373	<b>12,612</b>	373
Closing equity shareholders' funds	<b>15,001</b>	12,483	<b>15,553</b>	12,612

**24. Analysis of changes in net funds**

	31 December 2005 £'000	Cash flow £'000	31 December 2006 £'000
	Cash at bank and in hand		3,683
Debt due after one year	-	(342)	(342)
<b>Net funds</b>	<b>3,683</b>	<b>(2,500)</b>	<b>1,183</b>

**25. Reconciliation of net cash flow to movement in net funds**

	Year to 31 December 2006 £'000	18 months to 31 December 2005 £'000
(Decrease)/increase in cash in the period	(2,158)	3,302
Cash inflow from increase in debt	(342)	-
Movement in net (debt)/funds in the period	(2,500)	3,302
Net funds at 1 January 2006	3,683	381
Net funds at 31 December 2006	<b>1,183</b>	<b>3,683</b>

## **26. Financial instruments**

The directors' report on pages 6 to 12 includes an explanation of the role that financial instruments have played during the year in creating or changing the risks the Company faces in its activities. The explanation summarises the objectives and policies for holding or issuing financial instruments and similar contracts and the strategies for achieving those objectives that have been followed during the period.

The numerical disclosures in this note deal with financial assets and financial liabilities as defined in Financial Reporting Standard 13 "Derivatives and other financial instruments: Disclosures" ("FRS 13"). Certain financial assets such as investments in subsidiary undertakings are excluded from the scope of these disclosures.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

### **Interest rate profile**

The Group has no financial assets other than cash balances of £1,525,000 (2005: £3,683,000), which are part of the financing arrangements of the Company. The sterling cash balances comprise bank current accounts and deposits placed at investment rates of interest, which ranged between 4.81% p.a. and 5.22% p.a. in the period (2005: ranged between 4.51% p.a. and 4.81% p.a.). Maturity periods ranged between immediate access and 32 days.

### **Currency hedging**

During the year, the Group did not engage in any form of currency hedging transaction (2005: none).

### **Financial liabilities**

The Company has established a bank borrowing facility, which is available to all UK members of the Group. Under the facility:

- A Group net overdraft of up to £500,000 is available;
- £1,000,000 is available for the funding of TV productions;
- Interest is calculated daily on the Group's net borrowings at 1.5% over base rate;
- Interest is credited daily on the Group's net credit balance at a variable rate in excess of base rate;
- Each UK group company guarantees the bank's exposure to each other group company;

In addition, Diema Vision AD has a loan facility of up to Euro 2million with Societe Generale Expressbank in Sofia. Interest is payable at 3 month EURIBOR + 3% and the facility is guaranteed by Apace Media plc. The bank holds a pledge over two-thirds of the shares of Diema Vision AD as collateral.

### **Fair values**

The fair values of the financial assets and liabilities at 31 December 2006 are not materially different from their book values.

**Notes to the accounts**  
**For the year ended 31 December 2006**

**27. Commitments under operating leases**

As at 31 December 2006 the Group was committed to make the following payments in 2007 in respect of operating leases:

	2006		2005	
	Land & buildings £'000	Other £'000	Land & buildings £'000	Other £'000
for leases expiring within a year:	17	19	-	-
for leases expiring in more than a year but less than five years:	109	54	98	4
for leases expiring in more than five years:	120	-	-	-

**28. Contingent liability**

Apace Music Limited is defending a claim brought against it late in 2006 by a French company, Georges V Records S.A.R.L, in the High Court, Chancery Division, for alleged infringement of various registered trade marks and "passing-off", arising from the use of the word "Buddha" in the titles of its "lounge" or "chill-out" compilation CDs which are sold under Apace Music Limited's own registered European Community trade marks. The trial will take place in 2008 on a date to be set. Apace Music Limited has been advised by specialist Intellectual Property leading and junior counsel. Acting on that advice it will be defending the claims and has also brought a counterclaim to revoke the trademark registrations on which the claim is based. Apace Music Limited has also voluntarily intervened in similar proceedings brought against its distributor, Socadisc, by Georges V Records S.A.R.L in France. The Board of the Company intends to defend these proceedings vigorously.

**29. Post balance sheet event**

On 7 February 2007, the Company incorporated and subscribed to 100% of the shares of Balkan Media Group Limited (BMGL). On 16 February 2007, the Company executed an agreement with MTG Broadcasting AB (MTG) to sell 50% of the shares of BMGL to MTG, subject to, amongst other things:

- the transfer by the Company to BMGL of its shares in its non-UK subsidiaries;
- the acquisition by BMGL of the minority interest in Diema Vision AD

This transaction was completed on 20 March 2007.

The initial consideration paid by MTG for 50% of BMGL was €8,574,100, of which €650,000 is retained in escrow pending agreement of completion accounts. The Company paid €3,075,000 into BMGL to finance its portion of the cost of acquiring the Diema minority interest.

## **Directors and advisers**

### **Directors**

D G P Stoessel (executive chairman & chief executive)  
M J H Johnston (finance director)  
C V Thompson  
M G Morris (non-executive)  
A C Vickers (non-executive)  
W W Vanderfelt (non-executive)

### **Secretary**

R B Carter

### **Registered office**

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### **Registered company number**

03848181

### **Auditors**

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### **Nominated adviser and broker**

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