

Sport Media Group plc
Annual report and financial statements
for the period ended 31 December 2009

Registered number: 3769328

Sport Media Group plc

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Sport Media Group plc

Officers & Advisors

Directors

David Bailey	Non-executive Chairman
Martin Robinson	Non-executive Deputy Chairman
John Maddock	Non-executive Director
Andrew Fickling	Chief Executive Officer
Neil Robertson	Group Finance Director
Rob Johnson	Executive Director

Secretary

Neil Robertson

Registered office

19 Great Ancoats Street, Manchester, M60 4BT

Company number

3769328

Nominated advisor and broker

Daniel Stewart & Company plc, Becket House, 36 Old Jewry, London EC2R 8DD

Solicitors

Finers Stephens Innocent LLP, 179 Great Portland Street, London W1W 5LS

Joint Auditors to the Company

Horwath Clark Whitehill LLP, Hatherton House, Hatherton Street, Walsall, WS1 1YB

Edwards Chartered Accountants, Harmony House, 34 High Street, Aldridge, Walsall, WS9 8LZ

Registrar

Capita Registrars, 34 Beckenham Road, Beckenham, BR3 4TU

Bankers

National Westminster Bank plc, 300 Romford Road, London E7 9SH

Sport Media Group plc

Chairman's Statement

The period being reported upon covers the 17 month period between 1 August 2008 and 31 December 2009. It was a dramatic period for Sport Media Group ("Group"), and also encompasses much of the recent crisis period for the British economy. The Group has had a turbulent experience, but has survived and is now profitable on a monthly basis at the operating profit level. There is still a significant level of debt within the Group and debt-servicing costs are a major cost but I am delighted to report that our debt holders have agreed to extend their facilities until 31 March 2013, which provides an important cornerstone to the ongoing development of the business. We have cut our expenses significantly and continue to seek efficiencies in the Group, and we are working hard to increase revenues, which is the key to our future success. We have a stable platform from which to build a strong position in our market place and are optimistic that, through supportive debt holders, dedicated staff and interested shareholders, we can look forward to a positive future.

In the extended reporting period to 31 December 2009, the Group generated revenue of £30.9m (12 months to 31 July 2008: £29.4m) and a loss before tax after exceptional items of £29.2m (12 months to 31 July 2008: loss £18.2m). The underlying loss before tax (excluding non-recurring items, share option cost, bad debts, amortisation and impairment) was £0.4m (12 months to 31 July 2008: profit £6.4m). The 5 month period to December 2009 showed a rather better performance at the underlying profit level, producing an EBITDA of £551k.

Total net debt at the period end stood at £11.9m (31 July 2008: £10.4m). Debt provided by The Royal Bank of Scotland plc ("RBS") comprised a revolving credit facility of £3.9m, a loan of £2.5m (further details below) and an invoice discounting facility standing at £1.3m at the period end together with a further £0.1m of net borrowings. This totalled £7.8m. Gold Group International ("GGI") and Roldvale Limited, a company controlled by David Sullivan, provided loans of £1.6m during the period to provide critical finance to the Group, and we are grateful to them for their support. Without this finance it is unlikely that the Group would have been able to continue to trade.

Deferred consideration with regard to the acquisition of Sport Newspapers, at the date of acquisition and in favour of GGI, amounted to £5.0m. £2.5m is by way of an outstanding liability to GGI, which together with the £1.6m owed to GGI and Roldvale Limited and the £7.8m owed to RBS accounts for the Group's net debt position of £11.9m. The remaining £2.5m of deferred consideration was settled via the term loan from RBS for the same value. For the Group to secure this loan GGI was required to maintain a charge of deposit for the same value and this will remain in place for the duration of the term loan. The Group is paying interest to RBS for the loan of £2.5m and interest to GGI for the charge of deposit it is maintaining.

The Group has two main operating divisions, Print and Digital; Print being the larger and incorporating Sport Newspapers Limited, publisher of the Daily and Sunday Sport newspapers. Print revenues, including advertising, for the period were £25.5m (12 months to 31 July 2008: £20.1m) and generated an underlying operating profit of £0.3m (12 months to 31 July 2008: £2.4m).

In August 2008, at the beginning of the reporting period, we were achieving circulation figures of an average of 79,500 per day for the Daily, 51,000 for the Saturday and 77,500 for the Sunday. In the period January to Easter 2010 circulation has averaged around 73,700 for the Daily, 49,000 for the Saturday and 66,400 for the Sunday. It has been widely reported that this has been a torrid time for most national newspapers, with falls in circulation and falls in advertising revenues. Our advertising revenues have been arguably less impacted than most newspapers, as we have little advertising targeted at the residential, automotive or employment markets. Nonetheless, advertising revenues in the period January to Easter 2010 are approximately 14% lower than in the same period in 2009. Our production costs have been reduced and the paper is produced by far fewer staff. This business is now stable and profitable. However, with unemployment likely to rise further, and few signs of recovery in the sectors that employ our readers, the outlook remains difficult. We believe that our newspaper product is much improved, with more news items, better quality pictures and that it represents good value to our readers. However, the price war between the larger "red-tops" remains a constraint on our revenue opportunities. We will continue to seek efficiencies, as well as selective marketing opportunities to increase circulation.

The other division of the Group, the Digital Division, should help us increase circulation, as their expertise in the digital space, including mobile phones and the internet, can be used to alert potential readers to news items and to develop web products that can be monetised to increase revenues. We are the only National newspaper in the UK to make revenues by giving away DVDs in our Sunday newspaper, thanks to our "lock 'n' pay" technology, and we are experimenting with developing this technology in new ways. Equally, the logic of combining the Digital Division with the newspaper that it uses to generate customers remains persuasive. However, for the period under review, this business suffered a very significant fall in revenues. Revenues in the entire adult industry have fallen dramatically in the last two years, as a consequence of "free" adult internet content supported by advertising. Our digital division, which markets its products across various platforms, including mobile and internet, and delivers products sold over the internet by traditional post, lost customers and margin, as well as some key support contracts as the market declined. In the period the Digital Division achieved revenues of £5.4m (12 months to 31 July 2008: £9.3m). This division employs

Sport Media Group plc

Chairman's Statement

19 people, but costs have been reduced and the division is seeking further efficiencies. It has also been developing new products and initiatives. In particular the formation of Telecom2, a tier-2 level telecoms business, which now provides routing, aggregation and internet hosting services to the rest of the Group, as well as developing a customer base of its own, further enhances the Group's ability to leverage content.

The Group is not in a position to resume paying dividends as yet, and we expect to use our net cash flow to reduce debt as we believe that will deliver the greatest benefit to our shareholders.

The new financial year has carried on much as we finished 2009, albeit the bad winter weather impacted both newspaper distribution and readers working in the building sector. However, we are optimistic that we can trade the business profitably and progressively reduce our debt to deliver enhanced value to our shareholders. We will continue to explore all opportunities to achieve this.

David Bailey
Chairman
23 April 2010

Sport Media Group plc

Chief Executive's Statement

The results are presented for the 17 month period to 31 December 2009. In August 2009, Telecom2 was formed following the acquisition of assets from a business in liquidation and results for the subsequent five months of trading are included.

Trading

In the 17 months ended 31 December 2009 Group revenues were £30.9m (12 months to 31 July 2008: £29.4m).

The Group recorded a loss before tax for the period of £29.2m (12 months to 31 July 2008: loss £18.2m). The underlying loss for the period excluding non-recurring items, share option cost, amortisation and impairment was £0.4m (12 months to 31 July 2008: profit £6.4m).

Total net debt at the period end stood at £11.9m (31 July 2008: £10.4m). Debt provided by The Royal Bank of Scotland plc ("RBS") comprised a revolving credit facility of £3.9m, a loan of £2.5m (further details below) and an invoice discounting facility standing at £1.3m at the period end together with a further £0.1m of net borrowings. This totalled £7.8m. Gold Group International ("GGI") and Roldvale Limited, a company controlled by David Sullivan, provided loans of £1.6m during the period to provide critical finance to the Group. Deferred consideration with regard to the acquisition of Sport Newspapers, at the date of acquisition and in favour of GGI, amounted to £5.0m. £2.5m is by way of an outstanding liability to GGI which together with the £1.6m owed to GGI and Roldvale Limited and the £7.8m owed to RBS accounts for the Group's net debt position of £11.9m. The remaining £2.5m of deferred consideration was settled via the term loan from RBS for the same value. For the Group to secure this loan GGI was required to maintain a charge of deposit for the same value and this will remain in place for the duration of the term loan. The Group is paying interest to RBS for the loan of £2.5m and interest to GGI for the charge of deposit it is maintaining.

Interest charges remain a significant burden on the business and opportunities to improve the position through profitable trading and debt repayment remain a priority for the directors. Interest charges in the period were £1.4m, (12 months to 31 July 2008: £0.3m).

Working capital

Cash generated from operations during the period was £1.3m with a further £1.5m inflow from net financing activities. The Group ended the year with a cash position of £0.3m.

Balance sheet

The carrying value of the Group's goodwill and intangible assets relate predominantly to the balances arising on the acquisition of Sport Newspapers Limited and Flip Media and encompass: newspaper mastheads, publishing rights & imprints, trade marks & names, and customer relationships & contracts. The principal assets of Flip Media were disposed of during the period and consequently the carrying values of goodwill and intangible assets were fully impaired with a charge of £1m in the period. The directors assessed the carrying values of goodwill and intangible assets of Sport Newspaper Limited through value in use calculations as detailed in note 16. This assessment resulted in a full impairment of goodwill from its carrying value of £18.0m and an impairment charge of £0.5m against intangible assets. Amortisation and impairment charges for the period amounted to £23.8m.

As a consequence of the impairment charges the Group has a negative net assets balance of £0.2m.

As detailed in the Chairman's Statement, RBS, GGI and Roldvale Limited agreed to extend the terms of their existing facilities until 31 March 2013. At 31 December 2009 these facilities were all reported as current liabilities as they were due for repayment in November 2010. The extract of the balance sheet below shows the reported position and a pro forma presentation for the movement between current and non-current liabilities had the agreed extension been in place at 31 December 2009 which has the effect of reducing net current liabilities from £12.4m to £2.5m.

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Chief Executive's Statement

Extract from the Consolidated Balance Sheet as at 31 December 2009

	Pro forma 2009 £'000	Actual 2009 £'000
Current assets	3,709	3,709
Total assets	19,767	19,767
Current liabilities		
Trade and other payables	4,190	4,190
Short term borrowings	2,045	11,957
Current tax liabilities		
	6,235	16,147
<i>Net current liabilities</i>	<i>(2,526)</i>	<i>(12,438)</i>
Non-current liabilities		
Long term borrowings	9,912	-
Deferred tax liabilities	3,835	3,835
	13,747	3,835
Total liabilities	19,982	19,982
Net liabilities	(215)	(215)

Business review

2008/09 has seen a significant transformation of Sport Media Group, as it tackled falling revenues across all divisions, question marks over its banking facilities and a comprehensive restructuring of facilities and operations, against the backdrop of a depressed economic climate.

It has been a period of consolidation within the business, with the priority being to minimise management distractions wherever possible to allow operational focus on the core publishing and digital businesses.

The restructuring that took place to secure the renewal of banking facilities for the Group in April 2009 again saw comprehensive cost savings and efficiencies achieved, albeit with significant exceptional costs incurred.

Print Division

At the start of the period, the Print Division consisted of Sport Newspapers Limited, publisher of the Daily and Sunday Sport, Moresport Limited publisher of magazine titles and Flip Media Limited, publisher of Front magazine (which was acquired in June 2008).

As a result of the operational restructuring, the assets of Flip Media Limited were disposed of in July 2009, to allow management to focus on the operational changes required at the core newspaper business.

The newspaper suffered significant falls in both sales and advertising revenues in November 2008, which worsened over the Christmas 2008 period, and its loss-making position resulted in the Group breaching one of its banking covenants in January 2009.

During Q1 2009, the business undertook a complete operational review and was able to present and deliver the strategic and tactical changes necessary to return it to profitability by July 2009. This involved the provision of loans to the company of £1.6m from Roldvale Limited and GGI in return for the issue of 9.68m options over ordinary shares at 3.5p per share to David Sullivan and the appointment of David Sullivan as Honorary Publisher of the Group.

Headcount

The annual headcount cost removed from the business as a result of the restructuring amounted to £614k per annum, and these efficiencies were gained across the whole business.

At period end the Group had 97 staff in employment, from a high of 138 in October 2008 (31 July 2008: 118).

Sport Media Group plc

Chief Executive's Statement

Editorial

Monthly content costs now average £130k, a reduction of 35% on pre-restructuring levels, and average monthly casual staffing costs are now immaterial, compared to c. £11k in 2009.

Whilst circulation peaked in August 2009 the averages achieved in January to Easter 2010 of 73,700 for the Daily, 49,000 for the Saturday and 66,400 for the Sunday are in line with budget.

We are currently assessing the establishment of dedicated studio facilities to further reduce content costs in this area. More importantly, this will allow us to significantly increase the volume of wholly owned content within the Group and take greater advantage of opportunities for new revenue streams driven by this content across all platforms.

Supply chain

Despite lower overall sales volumes the number of retailers selling the paper remains at c. 40,000 per day. Following the business failure of Dawson News in August 2009 the wholesale market is now serviced by Smiths News and Menzies and is more streamlined as a consequence. The Dawson News administration has exposed the business to £200k of bad debt and whilst this has been fully provided for, it remains unclear whether there will be a return of funds against this from the administrator.

Cost savings within the distribution side of the business have been achieved through improved distribution contracts and renegotiated retail and wholesale terms.

As a result of the current sales levels, waste levels are currently at 52% (Daily), 58% (Saturday) and 55% (Sunday), and are in line with our budget.

Advertising

Advertising revenues for the period were £10.7m (12 months to 31 July 2008: £9.1m) and currently remain stable and in line with budget.

Online

We now provide a full subscription-based electronic version of the newspaper online, and although revenues are small in this area they are growing, and providing us with useful data to tailor the future development of both our online and printed offerings.

The introduction of our own studio facilities will significantly improve the opportunity to provide exclusive video and still content online, to complement the printed products.

Digital Division

The Digital Division's revenues are derived primarily from the sale of adult content over a number of different platforms. However the rapid increase in usage of the adult 'tube' internet sites, offering free content in an advertising funded environment, along with lower average newspaper sales volumes, has had an adverse impact on revenues across this division.

A reflection of the changing environment, Locked DVD revenues overtook mobile content revenues for the first time in October 2009, and, although the DVDs are profitable, they provide a smaller margin revenue stream than mobile content.

The changes to the content stream being put into place in the Print Division will feed an improved supply of wholly-owned content to the Digital Division to help reinvigorate the mobile side of the business.

In reaction to this changing landscape, the Group formed a new company, Telecom2 out of the liquidation of an unconnected communications company, which has given the Group a carrier-level (tier 2 grade) telecoms provider and internet service provider (ISP) for a small capital outlay.

Telecom2 was formed in August 2009, and provides call termination, routing and billing facilities to the Group and third party customers (previously, all of the Group's telecoms termination and aggregation had to be done through third parties). Its services include voice over internet protocol (VoIP) and switchboard services, discount national and international call routing, non-geographical (0844), follow-me (070) and other number services, as well as ISP-grade hosting. Telecom2 employs two people and is an extremely low overhead business.

Utilising the services of Telecom2 across the Group has generated advantages and these will continue to be sought as the business develops. A new billing engine has now been rolled out, a key milestone in allowing Telecom2 to compete for business in this market.

In its first five months, Telecom2 contributed £340k to revenues and recovered its setup costs.

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Chief Executive's Statement

Cost control remains a priority across the Digital Division, and savings achieved in January 2010 of c. £20k per month are helping to ensure this side of the business remains profitable and cash generative. The Digital Division now employs a total of 19 staff across its four companies (2008: 22).

Board changes

Following the restructuring activity in the early part of the period, and the improvements in reporting and structure instigated by the current Chairman, David Bailey announced his intentions to step down to make way for a new Chairman to build on the solid foundation created and drive the Group forward.

As previously announced, Martin Robinson joined the Board in January 2010 as non-executive Deputy Chairman, the intention being for Martin to take up the Chairmanship following the Group's next annual general meeting. David will continue as a non-executive director and I'd like to take this opportunity on behalf of the board to thank David for his efforts and I look forward to his ongoing contribution to the business.

At the same time, Rob Johnson, Managing Director of the Group's Digital Division was appointed to the board as an Executive Director.

Andrew Fletcher, CFO, left the business in July 2009, and Neil Robertson, finance director of Sport Newspapers Limited, was appointed to the Board as Group Finance Director in October 2009.

I now believe both the board and the business are well placed to take advantage of the opportunities available to us in the coming year.

During what has been a challenging period I would like to take the opportunity to thank our staff for their ongoing commitment and effort.

Outlook

Securing a consistent, high quality stream of low-cost content for the business is now a priority, as a means to leverage our various technology platforms in the most advantageous way. The development of a studio to deliver a content archive as a core asset of the business opens up a wealth of new revenue possibilities: from merchandising to syndication, web streaming to high quality video. It also paves the way for the development of in-house girl management facilities to help us find, promote and more importantly monetise the stars of the future. Whilst the outlook for advertising revenues, circulations and consumers' response to services remains poor, access to exclusive content that allows us to innovate quickly and efficiently on current and future technology platforms will help to secure our future in an uncertain climate.

Andrew Fickling

Chief Executive Officer

23 April 2010

Sport Media Group plc

Directors' Report

The directors present their annual report on the affairs of the Group and the parent company, together with the financial statements and joint auditors' report, for the 17 month period ended 31 December 2009.

Principal activities

Sport Media Group plc is the holding company of an integrated multi-media group which publishes the Sunday and Daily Sport newspapers and digital content for internet and mobile phone channels.

The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 5 to the parent company financial statements.

Business review

The Company is required by the Companies Act to set out in this report a fair review of the business of the Group during the financial period ended 31 December 2009 and of the position of the Group at the end of the year and a description of the principal risks and uncertainties facing the Group. The information that fulfils these requirements can be found within the Chief Executive's Statement and the Directors' Report. Included in the Chief Executive's Statement and the Directors' Report are details of expected future developments in the business of the Group and details of the key performance indicators that management use to monitor and assess the performance of the business.

Details of significant events since the balance sheet date are contained in note 26 to the financial statements.

Key performance indicators

During the period under review the Group has focused its attention on financial and print metrics. Information on the financial metrics of: revenue, gross margin, underlying operating profit and EBITDA, trade receivables, trade payables and cash/debt is contained within the notes to the financial statements. Circulation and waste volumes are discussed in the Chief Executive's Statement.

Principal risks and uncertainties

There are a number of potential risks and uncertainties, which could have a material impact on the Group's long-term performance and could cause actual results to differ materially from expected and historical results.

Regulatory

The majority of content distributed and promoted by the Group is subject to various regulations in particular PayPhonePlus' Code of Practice in respect of all premium rate charged telecommunications services, and legislation regarding the distribution of sexually explicit material such as the Obscene Publications Acts 1956 and 1964. For the Group to offer its current content it has to have approval from PayPhonePlus in respect of adult online services, reverse billed SMS services and other premium rate telephony services. Whilst the Group currently has approval from PayPhonePlus, if any material breaches occur this approval may be withdrawn which would prevent the Group from operating.

PayPhonePlus is an industry-funded regulatory body and therefore self-interested. There is therefore a risk that the Government may legislate to remove self-regulation and impose a statutory regime if self regulation is deemed ineffective. Changes to the current regulatory regime may be detrimental to the Enlarged Group.

Complaints may be brought to The Press Complaints Commission ("PCC") (concerning the editorial content of the Enlarged Group's newspapers) or to the Advertising Standards Authority ("ASA") (concerning advertising for or in the Enlarged Group's publications). Neither the PCC nor the ASA have the power to impose fines but their findings may be published. Non compliance can lead to a referral to the Office of Fair Trading, who has the power to seek court orders (of their own volition or as a result of a complaint) against businesses who breach certain consumer protection laws.

The newspaper is also exposed to issues relating to libel, and employs a legal team to proof-read all published content specifically to protect against this risk.

Sport Media Group plc

Directors' Report

Competitor risk

In its digital media content business the Group operates in a competitive market with significant product innovations. We are subject to the threat of our competitors launching new products in our markets (including the updating of their existing product lines) before we make corresponding updates and developments to our own range. This could render our products and services out-of-date and could result in loss of market share. To reduce this risk, we undertake market research to ensure that our own products and services continue to meet the needs of our customers and we invest in new product development and securing new supplier relationships to ensure that we have products at various stages of the product life cycle.

In the newspaper business competitor risk also manifests itself in price pressures which are usually experienced in the more developed markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. Our sales teams therefore monitor market prices on an ongoing basis.

Commercial relationships

The Group benefits from close commercial relationships with a number of key customers and suppliers. Damage to or loss of any of these relationships could have a direct and detrimental effect on the Group's results and, as some of these relationships span several markets, the impact of losing one relationship can be material to the Group as a whole. To manage this risk the Group continually monitors supplier and customer views to ensure that we continue to meet their respective needs and members of the board meet with individual management from our strategic partners on at least an annual basis.

Financing risk

The Group is heavily reliant on external providers of debt and the ongoing costs to service the debt are significant. Agreements have been reached to extend the existing facilities through to 31 March 2013. In the event Group trading deteriorates significantly from that planned cash flows may not be sufficient to meet the debt servicing costs and the Group will be at risk of breaching the covenants associated with the funding facilities. The directors monitor the trading, cash and covenant measures on a monthly basis.

Credit risk

The Group extends credit to wholesale distributor and corporate advertising customers but not consumer customers. Credit is extended for various durations depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer or customers prove unable to meet payments when they fall due we will suffer adverse consequences. To manage this risk the Group continually monitors credit terms and worthiness.

Dividends

No dividends were paid during the period (2008 £3,480,000). The directors recommend that no dividend is paid in respect of the financial period ended 31 December 2009.

Going concern

Having considered the Financial Reporting Council (FRC) guidance on going concern, the directors have made the following assessment in the preparation of the annual report and financial statements. The Group's business activities, the financial position of the Group, its cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 5 to 8 and the Directors Report on pages 9 to 13. The Group has a significant level of debt and in the medium term is reliant on the debt facilities remaining in place. On 9 April 2010 RBS confirmed its agreement to extend its committed term loan borrowing of £6.4m through to 31 March 2013. In conjunction with this GGI and Roldvale Limited agreed to extend their funding of £4.1m to the Group through to 31 March 2013. Amendments to the existing agreements to reflect the extension date are currently being prepared and will be signed in due course. In support of the application to RBS for the term loan extension the directors prepared monthly trading and cash flow statements for the Group, reviewed the underlying assumptions in detail and subjected them to sensitivity analysis. Consequently, the directors have an expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Sport Media Group plc

Directors' Report

Directors and their interests

Directors who served during the period, and subsequently, are as follows:

David Bailey, Non Executive Chairman
Martin Robinson, Non Executive Deputy Chairman (appointed 28 January 2010)
Andrew Fickling, Chief Executive
John Maddock, Non Executive Director
Neil Robertson, Group Finance Director (appointed 26 October 2009)
Rob Johnson, Executive Director (appointed 28 January 2010)

Nigel Blythe-Tinker, Non Executive Director (resigned 10 November 2008)
Simon Hume-Kendall, Non Executive Director (resigned 6 January 2009)
Andrew Fletcher, Chief Financial Officer (resigned 10 July 2009)

The directors who held office at the end of the financial period have the following interests in shares of the Company:

Name of director	Role	Ordinary Shares of 0.25p	
		31 December 2009	31 July 2008
David Bailey	Non-Executive Chairman	810,000	810,000
Andrew Fickling	Chief Executive Officer	63,500	63,500
John Maddock	Non-Executive Director	46,000	-
Neil Robertson	Group Finance Director	-	-

Directors' contracts

The Chief Executive has a rolling service contract with the Company which may be terminated by either party with not less than 12 months' notice. Executive Director Rob Johnson has a rolling service contract with Netcollex Limited, a Group company, which may be terminated by either party with not less than 24 months' notice. The Group Finance Director has a service contract with Sport Newspapers Limited which may be terminated by either party with not less than 6 months' notice. Non-executive directors have letters of appointments, not service contracts, which are terminable with 3 months' notice.

Directors' remuneration

Remuneration packages are prudently designed to attract, motivate and retain directors of the high calibre needed to maintain the Group's position and to reward them for enhancing value to shareholders. The performance measurement of the executive directors and key members of senior management and the determination of their annual remuneration package are undertaken by the Remuneration Committee, details of which are set out in the Corporate Governance Statement.

The Company's policy is that a proportion of the remuneration of the executive directors should be performance-related. As described below, executive directors may earn annual incentive payments of up to 100% of their basic salary together with the benefits of participation in share option schemes.

The total amounts for directors' remuneration were as follows:

	2009 £'000	2008 £'000
Emoluments	354	455
Short term money purchase pension contributions	40	42
	<u>394</u>	<u>497</u>

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Directors' Report

The following table provides details of the remuneration including pension contributions but excluding share options of all the directors holding office at 31 December 2009:

	17 month period to 31 December 2009					Year to 31 July 2008				
	Salary/ Fees	Benefits	Bonus	Pension	Total	Salary /Fees	Benefits	Bonus	Pension	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors										
A Fickling	160	16		36	212	178	-	-	24	202
N Robertson	95	2	3	4	104	58	2	3	-	63
Sub-total	255	18	3	40	316	236	2	3	24	265
Non-Executive Directors										
D Bailey	57	-	-	-	57	10	-	-	-	10
J Maddock	21	-	-	-	21	8	-	-	-	8
Sub-total	78	-	-	-	78	18	-	-	-	18
Total	333	18	3	40	394	254	2	3	24	283

Directors' share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the directors.

Sport Media Group plc operates approved and unapproved discretionary share option schemes for staff of the Group. The Remuneration Committee decides which individuals should participate and the extent of their participation. Options granted under the approved schemes are normally exercisable no earlier than three and no later than ten years from the date of grant. Options granted under the unapproved schemes are normally exercisable no earlier than one and no later than ten years from the date of grant. Share options are awarded within the scheme rules subject to HM Revenue & Customs rules.

Both executive and non-executive directors can be granted options under the unapproved scheme. All options are issued with an exercise price equivalent to the share price on the day of issue. No options are issued at a discount. The exercise of options is not dependent on performance criteria.

All share options held by directors who served during the course of the period belonged to the directors who resigned during the period. As a consequence of the terms of the option agreements a total of 822,218 options lapsed during the period and there are no share options held by directors at 31 December 2009.

Directors' share bonus plans

The Company has in place the following share schemes:

- the Executive Share Bonus Plan ('ESBP')
- the Executive Incentive Plan ('EIP')
- the Non-Executive Share Bonus Plan ('NESBP')
- the Non-Executive Incentive Plan ('NEIP')

The terms of the ESBP, EIP, NESBP and NEIP were set out in the Company's AIM admission document dated 8 August 2007.

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Directors' Report

As at 31 December 2009 directors retained the following rights to acquire shares:

Director	Rights over shares		Total
	ESBP	EIP	
Andrew Fickling	484,257	1,210,644	1,694,901
Rob Johnson	484,257	1,210,644	1,694,901
Total	968,514	2,421,288	3,389,802

Shares awarded under the EIP and the NEIP are subject to continuous employment with the Group and performance conditions which must be satisfied over a three year period from the date of grant of rights. Performance conditions are based on a target share price on a sliding scale between £1.20 and £1.60 with 2.5 per cent vesting for each penny increase in the share price. Subject to satisfaction of the defined performance criteria and to continuous employment awards will vest in equal instalments on the first, second and third anniversaries of the award.

The market price of the ordinary shares at 31 December 2009 was 5.50p and the range during the year was 1.6p – 22.9p.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Supplier payment policy

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Group at 31 December 2009 were equivalent to 43 (2008 – 57) days' purchases, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

During the year the Group made no charitable or political contributions.

Provision of Information to Joint Auditors

Each of the persons who is a director at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company and the Group's joint auditors are unaware; and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company and the Group's joint auditors in connection with preparing their report and to establish that the company and the Group's joint auditors are aware of that information.

Joint Auditors

The joint auditors, Horwath Clark Whitehill LLP and Edwards, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

By order of the Board,

Andrew Fickling

Chief Executive Officer

23 April 2010

Sport Media Group plc

Corporate Governance Statement

The Board is accountable to the Company's shareholders for good governance and this statement describes how the relevant principles of governance are applied to the Group. As an AIM listed company Sport Media Group plc is not required to comply with the provisions of the 2008 Combined Code on Corporate Governance ("the Combined Code") and the current size of the Group means that full compliance with the provisions of the Combined Code is not practicable. Nevertheless, the directors believe that good corporate governance is essential and, having considered the provisions of the Code, set out below those principles which the Group has adopted since incorporation and the way they have been applied.

The Board

The Board is responsible to the shareholders for the proper management of the Group. There is a formal schedule of matters reserved for decision by the Board including overall strategy, business planning, acquisitions and the approval of major items of capital expenditure, divestments, reviewing trading performance during the year, reviewing the Group's system of internal controls and risk management, approving the terms of reference of Board committees, approving appointments to the Board and appointment of the Company Secretary and approving directors' remuneration and the remuneration policy of the Company. This ensures that it maintains full and effective control over appropriate strategic, financial, organisational and compliance issues.

All directors are given full and free access to all relevant information and are able to take independent legal and other professional advice, if required, at the Company's expense.

At the period end the Board comprised two executive directors and two non-executive directors including the Chairman of the Board. The names of these directors are set out in the Directors Report on page 11. The non-executive directors bring a wide range of business and sector experience to the Board's discussions and decision making and are considered by the Board to be independent of management and free from any business or other relationship that could materially interfere with the exercise of independent judgment.

Any director appointed since the last AGM is required to stand for election at the next AGM following their appointment. In addition, each year one third of the directors holding office since the last AGM are required to seek re-election at the next AGM.

Board Committees

The Board delegates certain specific responsibilities to Committees which have been formally constituted and have clearly defined terms of reference. During the period the Board had two sub-committees, a Remuneration Committee and an Audit Committee both of which consist of the three non-executive directors.

The Committees' members as at the date of this report are David Bailey (Chairman), Martin Robinson and John Maddock.

The Remuneration Committee is responsible for:

- Ensuring the maintenance of a company wide remuneration system
- Reviewing and recommending to the Board any changes in directors' remuneration and conditions of service
- Authorising changes in remuneration or the terms and conditions of employment of senior staff; and
- Recommending to the Board proposals for new bonus schemes

Sport Media Group plc

Corporate Governance Statement

The Audit Committee is responsible for:

- Reviewing the annual report and accounts and interim statement before they are presented to the Board
- Monitoring the Group's internal financial controls, accounting policies and financial reporting,
- Reviewing the appointment and remuneration of the external joint auditors, their cost effectiveness, independence and objectives; and
- Deciding the scope of the non audit services provided by the external joint auditors.

The Audit committee has recommended to the Board that Horwath Clark Whitehill LLP and Edwards be reappointed as joint auditors at the next AGM.

Appointments to the Board

Appointment of executive and non executive directors is undertaken by the Board as a whole as the Board believes that the Company's size does not merit the creation of a separate Nominations Committee.

Internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

The role of management is to implement Board policies on risk and control. The key elements of the Group's internal control are:

- a clearly defined management structure and delegation of authority to committees of the Board, heads of department and individual business divisions;
- regular and comprehensive information provided to management, covering financial performance and key performance, including non-financial measures;
- a detailed budgeting process which is approved by the Board;
- procedures for the approval of capital expenditure and business acquisitions; and
- monthly monitoring and re-forecasting of results versus budget, with analysis, investigation and action taken in relation to variances.

Relations with shareholders

The Company endeavours to maintain regular communications with shareholders through RNS announcements, via the Group's website and by direct contact with its major shareholders. The Board values the views of shareholders and maintains a regular dialogue with investment fund managers, other investors and equity analysts to ensure that the investing community receives a consistent view of the Group's performance.

The Company's website includes an investor relations section and copies of company announcements, Annual Reports and Interim Statements are available from the website. The Board uses the AGM to communicate with all shareholders and they are given the opportunity to question the Chairman.

Sport Media Group plc

Statement of Directors' Responsibilities

Group

The directors are responsible for preparing the Annual Report and the financial statements. Company law requires the directors to prepare such financial statements and the directors are required by the Rules of AIM to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS).

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

After making enquiries, the directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the financial statements.

Parent Company

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

Company law requires the directors to prepare financial statements for each financial year. Under that law 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.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Sport Media Group plc

Independent Joint Auditors' Report to the Shareholders of Sport Media Group plc

We have audited the financial statements of Sport Media Group plc for the period ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes numbered 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 joint auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion, the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2009 and of its loss for the period then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's ability to continue as a going concern and we consider this should be drawn to your attention.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Sport Media Group plc

Independent Joint Auditors' Report to the Shareholders of Sport Media Group plc

Other matter

We have reported separately on the parent company financial statements of Sport Media Group plc for the period ended 31 December 2009.

Richard Baker
Senior Statutory Auditor
For and on behalf of
Horwath Clark Whitehill LLP
Statutory Auditor
Walsall

Adrian Stevens
Senior Statutory Auditor
For and on behalf of
Edwards
Statutory Auditor
Aldridge

23 April 2010

Sport Media Group plc

Consolidated Income Statement - Period ended 31 December 2009

	Note	17 month period ended 31 December 2009 £'000	Year to 31 July 2008 £'000
Revenue	4	30,937	29,394
Cost of sales		(25,627)	(16,095)
Gross profit		5,310	13,299
Administrative costs		(5,750)	(6,865)
Underlying operating (loss)/profit*		(440)	6,434
Depreciation		(208)	(225)
Finance income	7	38	103
Finance costs	8	(1,638)	(309)
Underlying (loss)/profit before tax**		(2,248)	6,003
Share based payment charges	24	(1,613)	(1,026)
Reorganisation and re-launch charges	9	-	(1,489)
Negative goodwill on acquisitions	9	-	279
Amortisation of intangibles	16	(2,000)	(1,316)
Impairment of goodwill and other intangibles	16	(21,827)	(20,676)
Non-recurring operating expenses	9	(1,476)	-
Loss before tax	10	(29,164)	(18,225)
Taxation credit	11	2,508	191
Loss for the period from continuing operations		(26,656)	(18,034)
Loss/(Profit) attributable to minority interests		13	(65)
Loss for the period attributable to equity holders of the parent		(26,643)	(18,099)
Earnings per share:			
Basic loss per share	13	(27.38)p	(19.87)p
<i>Adjusted (loss)/earnings per share</i>	<i>13</i>	<i>(2.29)p</i>	<i>5.72p</i>
Diluted loss per share	13	(27.38)p	(19.87)p

* Operating (loss)/profit before non-recurring items, amortisation and impairment of intangibles, share based payment charges, interest and taxation

** (Loss)/Profit before tax and non-recurring items, amortisation and impairment of intangibles and share based payment charges

Sport Media Group plc

Consolidated Statement of Changes in Equity - Period ended 31 December 2009

	Note	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 31 July 2007		96	1,187	100	3,401	4,784
Loss for the year		-	-	-	(18,099)	(18,099)
Share-based payments	24	-	-	-	1,026	1,026
Total recognised income and expense		-	-	-	(17,073)	(17,073)
Dividends	12	-	-	-	(3,480)	(3,480)
Issue of share capital	23	146	43,554	-	-	43,700
Cost of shares issued	23	-	(3,204)	-	-	(3,204)
Balance at 31 July 2008		242	41,537	100	(17,152)	24,727
Net loss for the period		-	-	-	(26,643)	(26,643)
Share-based payments	24	-	-	-	1,613	1,613
Total recognised income and expense					(25,030)	(25,030)
Issue of share capital	23	5	-	-	-	5
Balance at 31 December 2009		247	41,537	100	(42,182)	(298)

There are no items of recognised income and expense other than the loss for the period.

Sport Media Group plc

Consolidated Balance Sheet - as at 31 December 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Property, plant and equipment	15	163	286
Indefinite lived assets	16	10,517	11,452
Customer relationships and contracts	16	1,774	3,102
Goodwill	16	200	18,194
Other intangible assets	16	1,617	3,390
Investments		-	3
Deferred tax asset	21a	1,787	430
		16,058	36,857
Current assets			
Inventories	18	89	102
Trade and other receivables	19	3,352	6,812
Cash and cash equivalents	19	268	534
		3,709	7,448
Total assets		19,767	44,305
Current liabilities			
Trade and other payables	20	4,190	4,066
Short term borrowings	20	11,957	10,430
Current tax liabilities		-	-
		16,147	14,496
<i>Net current liabilities</i>		<i>(12,438)</i>	<i>(7,048)</i>
Non-current liabilities			
Deferred tax liabilities	21b	3,835	4,986
		3,835	4,986
Total liabilities		19,982	19,482
Net (liabilities)/assets		(215)	24,823
Equity			
Share capital	23	247	242
Share premium account		41,537	41,537
Other reserves		100	100
Share option reserve	24	2,707	1,094
Retained earnings		(44,889)	(18,246)
Equity shareholders' (deficit)/funds		(298)	24,727
Minority interests		83	96
Total equity		(215)	24,823

The financial statements were approved by the board of directors and authorised for issue on 23 April 2010. They were signed on its behalf by:

Andrew Fickling
Chief Executive Officer

Sport Media Group plc

Consolidated Cash Flow Statement - Period ended 31 December 2009

	17 month period ended 31 December 2009	Year to 31 July 2008
	£'000	£'000
Cash flows from operating activities		
Underlying operating (loss)/profit	(440)	6,434
Adjustments for:		
Decrease in trade and other receivables	3,094	2,484
Decrease/(increase) in inventories	13	(62)
Increase/(decrease) in trade & other payables	123	(1,806)
Profit on disposal of investment	-	(106)
	<hr/>	<hr/>
Cash generated from operations before non-recurring costs	2,790	6,944
Reorganisation and re-launch costs	-	(1,489)
Non-recurring items	(1,476)	-
	<hr/>	<hr/>
Cash generated from operations	1,314	5,455
Interest received	38	103
Interest paid	(1,373)	(309)
Other finance charges	(265)	-
Income taxes received/(paid)	372	(1,015)
	<hr/>	<hr/>
Net cash generated from operating activities	86	4,234
Cash flows from investing activities		
Acquisitions of subsidiaries net of cash acquired	-	(47,256)
Purchase of property, plant and equipment	(106)	(83)
Proceeds from disposal of property, plant and equipment	17	-
Purchase of intangible assets	(1,797)	(2,063)
Capitalised development expenditure	-	(1,304)
Sale/(purchase) of trade investment	-	356
	<hr/>	<hr/>
Net cash used in investing activities	(1,886)	(50,350)
Cash flows from financing activities		
Cash proceeds from issue of share capital	5	41,100
Share issue costs settled in cash	-	(604)
Proceeds from new borrowings	1,959	8,500
Repayment of borrowings	(430)	(570)
Payment of equity dividends	-	(3,480)
	<hr/>	<hr/>
Net cash from financing activities	1,534	44,946
Net decrease in cash and cash equivalents	(266)	(1,170)
Cash and cash equivalents at beginning of period	534	1,704
Cash and cash equivalents at end of period	268	534
	<hr/> <hr/>	<hr/> <hr/>

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

1. General information

Sport Media Group plc ("SMG") is the integrated multi-media group which publishes the Sunday and Daily Sport newspapers and digital content for internet and mobile phone channels.

The Group was established in 1999 and on 5 September 2007 the Group completed the acquisition of Sport Newspapers Limited for £50m.

Sport Media Group plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of Sport Media Group plc's registered office is 19 Great Ancoats Street, Manchester, M60 4BT which is also the Group's principal place of business together with 26 Thames Road, Barking, Essex IG11 0JA. Sport Media Group plc's shares are listed on the AIM of the London Stock Exchange.

The consolidated financial statements of SMG are presented in thousands of pounds sterling, which is also the functional currency of the Group.

These financial statements were authorised for issue by the board of directors on 23 April 2010.

2. Basis of accounting and significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted for use in the European Union, and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements for the year to 31 July 2008 were prepared in accordance with IFRSs for the first time with a transition date of 1 August 2006. The parent company financial statements on pages 52 to 61 have been prepared separately because they are prepared under UK GAAP.

The consolidated financial statements have been prepared under the historical cost convention except that they have been modified to include the presentation of certain non-current assets/ financial assets and liabilities at fair value.

The Company extended its accounting period end date to 31 December to report on a calendar year basis. The consolidated financial statements have been prepared for the 17 month period to 31 December 2009. The comparative results are the consolidated results for the 12 month period to 31 July 2008 and not entirely comparable.

The measurement bases and principal accounting policies of the Group are set out below.

Going Concern

Having considered the Financial Reporting Council (FRC) guidance on going concern, the directors have made the following assessment in the preparation of the annual report and financial statements. The Group's business activities, the financial position of the Group, its cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 5 to 8 and the Directors Report on pages 9 to 13. The Group has a significant level of debt and in the medium term is reliant on the debt facilities remaining in place. On 9 April 2010 RBS confirmed its agreement to extend its committed term loan borrowing of £6.4m through to 31 March 2013. In conjunction with this GGI and Roldvale Limited agreed to extend their funding of £4.1m to the Group through to 31 March 2013. Amendments to the existing agreements to reflect the extension date are currently being prepared and will be signed in due course. In support of the application to RBS for the term loan extension the directors prepared monthly trading and cash flow statements for the Group, reviewed the underlying assumptions in detail and subjected them to sensitivity analysis. Consequently, the directors have an expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

At the date of issue of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations will not have a material impact on the Group's financial statements other than for changes to presentation of the financial statements when IAS 1 comes into effect. The directors anticipate that the Group will adopt these Standards and Interpretations on their effective date.

Title	Effective Date
IFRIC 16 Hedges of a Net Investment in a Foreign Operation	Accounting periods beginning 01/10/2008 on or after
Reclassification of Financial Assets (Amendments to IAS 39 Financial instruments : Recognition and Measurement and IFRS 7 Financial Instruments : Disclosures)	Accounting periods beginning 01/07/2008 on or after
IAS 1 Presentation of Financial Statements (revised 2007)	Accounting periods beginning 01/01/2009 on or after
IAS 32 Financial Instruments – Presentation (Amendments) and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	Accounting periods beginning 01/01/2009 on or after
Amendment to IFRS 2: Share-based Payment - Vesting conditions and cancellations	Accounting periods beginning 01/01/2009 on or after
IAS 23 Borrowing Costs (revised)	Accounting periods beginning 01/01/2009 on or after
IFRS Improvements re IFRS 5 (see detail below)	Accounting periods beginning 01/07/2009 on or after
IAS 27 Consolidated and Separate Financial Statements	Accounting periods beginning 01/07/2009 on or after
IFRS 3 Business Combinations	Acquisitions in Accounting periods beginning 01/07/2009 on or after
IFRIC 15 Agreements for the Construction of Real Estate	Accounting periods beginning 01/01/2009 on or after
IAS 39 Financial Instruments: Recognition and Measurement (Amendment) – Eligible Hedged Items	Accounting periods beginning 01/07/2009 on or after
IFRIC 17 Distributions of Non-cash Assets to Owners	Accounting periods beginning 01/07/2009 on or after
IFRS 1 First- time Adoption of International Financial Reporting Standards (revised)	Accounting periods beginning 01/07/2009 on or after
IFRS 7 Improving Disclosures about Financial Instruments Amendments to IFRS 7 Financial Instruments: Disclosures	Accounting periods beginning 01/01/2009 on or after
IFRIC 18 Transfers of Assets from Customers	Accounting periods beginning 01/07/2009 on or after
Amendment to IAS 32 Classification of Rights Issues	Accounting periods beginning 01/02/2010 on or after

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

IFRS Standards and Interpretations issued by IASB but not yet EU approved

IFRS 2008 Improvements (All except IFRS 5) (see detail below)	Accounting periods beginning on or after	01/01/2009
IFRS 2 Amendment - Group Cash-settled Share-based Payment Transactions	Accounting periods beginning on or after	01/01/2010
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions	Accounting periods beginning on or after	01/01/2010
Amendments to IFRS 1 Additional Exemptions for First-time Adopters	Accounting periods beginning on or after	01/01/2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	Accounting periods beginning on or after	01/07/2010
IFRS 1 Amendment – Limited exemption from IFRS 7 Disclosures for first time adopters	Accounting periods beginning on or after	01/07/2010
IFRIC 14 (Amendment) Prepayments of a minimum funding requirement	Accounting periods beginning on or after	01/01/2011
Revised IAS 24 Related Party Disclosures (Issued 4 November 2009)	Accounting periods beginning on or after	01/01/2011
IFRS 9 Financial Instruments	Accounting periods beginning on or after	01/01/2013

The principal accounting policies adopted are set out below.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 31 December 2009. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition.

On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets (including intangibles) of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to the date of transition 1 August 2006.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

recognised under IFRS. They are measured using their UK GAAP carrying amounts immediately post-acquisition as deemed cost under IFRS. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions. The transitional provisions used for past business combinations apply equally to all past acquisitions.

Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment (see policy on Impairment testing below). Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to the date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to the transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

Intangible assets

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

The acquisitions of Strictly Broadband, Sport Newspapers and Flip resulted in the following categories of intangible assets being identified:

- newspaper mastheads, publishing rights and imprints
- trade names and marks
- customer relationships and contracts

The Group has developed a number of software applications to facilitate the delivery of content/services to mobile phones - to deliver content to end consumers mobile phones, bill the SIM on the phone for the transaction via the mobile operator, produce usage statistics for clients, facilitate the selection and presentation of content to mobile phone WAP browsers and enable clients to create tailored mobile phone content portals. Development costs which meet the recognition criteria set out in IAS 38 are capitalised in the balance sheet.

In addition, the Group owns certain licensing rights and related customer databases. These assets are recognised in the balance sheet at cost less accumulated amortisation.

The estimated useful lives of intangibles assets are as follows:

Newspaper mastheads, publishing rights and imprints and trade names and marks	-	indefinite lives
Customer relationships and contracts	-	5 to 7 years
Photographic and other content rights	-	10 years
Licensing rights and related customer databases	-	Licence term
Software development costs	-	5 years
Website development costs	-	4 years

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold property is included in property, plant and equipment only where it is held under a finance lease.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

revaluation of held for sale assets is included in "other income" or "other expense" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the profit and loss reserve.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land, by equal annual instalments reflecting the basis of consumption of the assets over their estimated useful economic lives. The rates generally applicable are:

Web based file servers	33 1/3 %
Plant and machinery	20%
Fixtures and fittings	20 %

Impairment testing of goodwill, other intangible assets and property, plant and equipment

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date any goodwill acquired is allocated to each of the cash generating units expected to benefit from the business combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

Intangible assets and property plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. In addition, the carrying value of capitalised development expenditure and any other indefinite lived intangible assets are reviewed for impairment annually. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of intangible assets and property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the cash-generating unit to which the asset belongs.

Non-current assets classified as held for sale

Assets held for sale include assets that the Group intends and expects to sell within one year from the date of classification as held for sale. Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortisation.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risks and rewards of ownership to the customer, where the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group has three principal revenue streams as detailed below:

- Mobile telephony (premium phone lines and SMS marketing), dialler revenues, internet and website hosting revenues
- Newspaper wholesale revenues
- Newspaper advertising revenues

Revenue from the sale of digital content, chat and internet based video on demand access is recognised generally in the month in which the customer accesses the content via a premium phone line or online. Revenue from the sale of

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content via premium phone lines is recognised generally in the month in which the customer accesses the content via a premium phone line. Revenue from the provision of website hosting and from SMS marketing services is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the services, which is generally on delivery of the hosting or SMS marketing services according to contractually agreed delivery schedules.

Revenues from the sale of Sport Newspaper titles through wholesalers are invoiced in arrears based on daily deliveries of the relevant titles less returns and recognised in the period to which the sales relate.

Revenues from classified advertising are generally recognised when the advertisement is placed, with payment having been received in advance. Revenues from display advertising are generally recognised and invoiced in arrears following the publication of the advertisement.

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula.

Taxation

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Financial liabilities

The objectives of the Group's treasury activities are to manage financial risk, secure cost-effective funding where necessary and minimise adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on cash flows of the Group.

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The Group's principal financial instruments used for fundraising are bank loans, loan notes and invoice discounting facilities. The Group has various other financial instruments such as cash, trade receivables and trade payables that arise directly from its operations.

Financial liabilities categorised at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability ceases to be recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Bank and other loans

Bank and other loans are interest bearing borrowings which are initially recorded at fair value less attributable transaction costs. They are subsequently measured at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings on an effective interest basis.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the finance cost line in the income statement.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group currently does not use derivative financial instruments to manage or hedge financial exposures or liabilities.

Dividends

Dividend distributions payable to equity shareholders are accounted for only when the dividends are approved at the annual general meeting prior to the balance sheet date.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" represents the reserve created at the time of a share buyback in 2005.
- "Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Profit and loss reserve" represents retained profits.

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Employee benefits

The Group operates defined contribution schemes in respect of certain employees. The pension costs charged against operating profit are the contributions payable to the scheme in respect of the accounting period. The assets of the schemes are held separately from those of the Group.

Share-based payments

The Company's employee share schemes allow the employees of the Group to acquire shares in the Company. The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

The expense that is recognised in the income statement is based on the Group's estimate of shares that will eventually vest and that has been adjusted for the effect of non-market based vesting conditions. The achievement of market based vesting conditions is assessed at the date of grant and not subsequently revised at each reporting date.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated based on prior experience and assessment of the current economic environment.

3. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies, described above, management has made the following judgements that have the most significant effect on the amounts recognized in the financial statements:

Acquisitions: Judgements have been made in respect of the identification of intangible assets based on pre-acquisition forecasts, analysis and negotiations. The initial valuations of acquired intangible assets will be reviewed for impairment on an annual basis and more often if necessary.

Impairment of goodwill and other intangible assets: Determining whether intangible publishing rights and titles in respect of print publishing activities, and intellectual property in respect of online activities, are impaired requires an estimation of the value in use of the cash generating units to which these intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value. The initial valuations of acquired

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intangible assets which have indefinite useful lives will be reviewed for impairment on an annual basis and more often if necessary.

4. Revenue

An analysis of the Group's revenue is as follows:

	2009	2008
	£'000	£'000
Digital content delivery - mobile telephony	3,885	6,882
Digital content delivery - internet	1,556	2,416
Newspapers – wholesale revenues	14,796	10,950
Newspapers – advertising revenues	10,700	9,146
Total revenue	30,937	29,394

5. Business segments

Following the acquisition of Sport Newspapers the Group is organised into two operating divisions for management purposes – digital content delivery and publishing newspapers and magazines.

Digital content delivery

For internal reporting purposes the Group records and monitors digital content revenues and cost of sales according to the delivery platform to which content is delivered and through which services are provided, differentiating its key business segments between mobile telephony and internet. Administrative expenses of the digital content delivery business are shared overheads of that business and cannot meaningfully be allocated by revenue stream. The principal tangible fixed assets utilised in the digital content delivery business consist of computer equipment and servers, which are utilised in the delivery of content and services through both platforms. All of the Group's digital content delivery activities are currently carried out in the United Kingdom.

Newspapers and magazines

For internal reporting purposes the Group records and monitors revenues of the newspapers and magazines division according to the nature of the revenues – from the wholesale distribution of newspaper and magazine titles and from advertising, differentiating its advertising revenues between classified and display. The Group does not differentiate cost of sales in the newspaper and magazine division between wholesale and advertising revenue streams as the overwhelming majority of such costs represent shared costs of producing, printing and distributing its newspaper and magazine titles. Similarly, administrative expenses of the newspapers and magazines business are shared overheads of that business and cannot meaningfully be allocated by revenue stream. Excluding goodwill and other intangible assets arising on consolidation, the principal tangible fixed assets utilised in the newspaper and magazines business consist of computer equipment and fixtures and fittings, which are utilised in the production of the titles. All of the Group's newspaper and magazine publishing activities are currently carried out in the United Kingdom and Republic of Ireland. For internal reporting purposes management information in relation to publishing activities in the Republic of Ireland is treated as combined with information on newspaper and magazine sales in the UK and separate geographical segment information has not therefore been presented.

Group overheads

Group overheads consist of the costs of retaining the Company's Stock Exchange listing, investor relations activities and some central functions which are not recharged to the operating divisions.

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Segment information about these businesses is presented below.

2009	Digital content delivery £'000	Wholesale newspaper & magazine distribution £'000	Newspaper & magazine advertising £'000	Group & eliminations £'000	Consolidated £'000
Gross revenues	5,772	14,786	11,020	(641)	30,937
Intra-segment sales	(331)	10	(320)	641	-
Net revenues	<u>5,441</u>	<u>14,796</u>	<u>10,700</u>	<u>-</u>	<u>30,937</u>
Underlying operating (loss)/profit	(67)		262	(635)	(440)
Depreciation	(166)		(40)	(2)	(208)
Impairment and amortisation of intangibles	(2,754)		(21,073)	-	(23,827)
Share based payment charges				(1,613)	(1,613)
Non-recurring expenditure	(133)		(519)	(824)	(1,476)
Loss before interest and tax	<u>(3,120)</u>		<u>(21,370)</u>	<u>(3,074)</u>	<u>(27,564)</u>
Finance costs – net					(1,600)
Loss before tax					<u>(29,164)</u>
Taxation credit					2,508
Loss for the year					<u>(26,656)</u>
	Digital content delivery £'000	Wholesale newspaper & magazine distribution £'000	Newspaper & magazine advertising £'000	Group & eliminations £'000	Consolidated £'000
Balance sheet					
Assets	<u>943</u>		<u>16,997</u>	<u>40</u>	<u>17,980</u>
Liabilities	<u>1,190</u>		<u>2,018</u>	<u>982</u>	<u>4,190</u>
Capital expenditure					
Property, plant and equipment		20	86		

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Segment assets and liabilities are reconciled to Group assets and liabilities as follows:

	Assets £'000	Liabilities £'000
Segment assets / liabilities	17,980	4,190
Borrowings	-	11,957
Corporation tax repayable	-	-
Deferred tax	1,787	3,835
Total	19,767	19,982

2008	Digital content delivery £'000	Wholesale newspaper & magazine distribution £'000	Newspaper & magazine advertising £'000	Group & eliminations £'000	Consolidated £'000
Gross revenues	9,298	10,950	9,377	(231)	29,394
Intra-segment sales	-	-	(231)	231	-
Net revenues	9,298	10,950	9,146	-	29,394
Underlying operating profit	4,279	2,444	2,444	(289)	6,434
Depreciation	(69)		(156)	-	(225)
Impairment and amortisation of intangibles	(2,735)		(19,257)	-	(21,992)
Share based payment charges	-		-	(1,026)	(1,026)
Re-organisation and re- launch charges	-		(1,489)	-	(1,489)
Negative goodwill on acquisitions	-		279	-	279
Profit/(loss) before interest and tax	1,475	(18,179)	(18,179)	(1,315)	(18,019)
Finance costs – net					(206)
Loss before tax					(18,225)
Taxation credit					191
Loss for the year					(18,034)

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	Digital content delivery £'000	Wholesale newspaper & magazine distribution £'000	Newspaper & magazine advertising £'000	Group & eliminations £'000	Consolidated £'000
Balance sheet					
Assets	7,645		44,318	(8,171)	43,792
Liabilities	8,418		4,099	(8,451)	4,066
Capital expenditure					
Property, plant and equipment	28		55	-	83
Goodwill – business combinations	-		36,073	-	36,073

Segment assets and liabilities are reconciled to Group assets and liabilities as follows:

	Assets £'000	Liabilities £'000
Segment assets / liabilities	43,792	4,066
Borrowings	-	10,430
Corporation tax repayable	83	-
Deferred tax	430	4,986
Total	44,305	19,482

6 Staff costs

	2009	2008
The average monthly number of employees (including executive directors) was:		
Sales	21	18
Office and Administration	29	32
Production	69	69
	119	119

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	£'000	£'000
Their aggregate remuneration comprised:		
Wages and salaries	6,456	4,041
Social security costs	736	434
Other pension costs (see note 25)	73	48
	<u>7,265</u>	<u>4,523</u>

Directors remuneration in the period was £394,000 (2008: £497,000). Details of directors' remuneration is set out in the Directors' Report.

7 Finance income

	2009	2008
	£'000	£'000
Interest on bank and other deposits	38	103
	<u>38</u>	<u>103</u>

8 Finance costs

	2009	2008
	£'000	£'000
Interest on bank overdrafts and loans	1,161	197
Interest on other loans	212	92
Other finance charges	265	20
	<u>1,638</u>	<u>309</u>

9. Non- recurring items

During 2007 the Group acquired the Sport Newspapers group of companies and implemented a reorganisation of that business which resulted in non-recurring expenses in the period to 31 July 2008. In October 2009 the Group renegotiated its banking facilities and secured additional external financing. In conjunction with this the Group further restructured the business resulting in a number of non-recurring expenses as set out below.

	2009	2008
	£'000	£'000
General restructuring costs	458	1,107
Redundancy costs	383	382
Bad debts	445	-
Other non-recurring items	190	-
	<u>1,476</u>	<u>1,489</u>

A negative goodwill credit of £279,000 arose in 2008 on the acquisition of Flip Media Limited. Further details are set out in note 14 b).

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10 Loss before taxation

Loss before taxation for the year has been arrived at after charging:

	2009	2008
	£'000	£'000
Depreciation of property, plant and equipment	208	225
Amortisation of intangible assets	2,000	1,316
Research and development expenditure	65	38
Impairment of goodwill and other intangible assets	21,827	20,676
Staff costs (see note 6)	7,265	4,523
Auditors' remuneration (see below)	212	280
	<u>212</u>	<u>280</u>

The analysis of auditors' remuneration is as follows:

	2009	2008
	£'000	£'000
Fees payable to the Company's joint auditors for the audit of the Group's financial statements	25	-
Fees payable to the Company's previous auditors for the audit of the Group's financial statements	39	47
Fees payable to the Company's joint auditors and their associates for other services to the Group		
-The audit of the Company's subsidiaries pursuant to legislation	50	-
Fees payable to the Company's previous auditors and their associates for other services to the Group		
-The audit of the Company's subsidiaries pursuant to legislation	56	63
-Other services relating to taxation	-	-
-Other services relating to interim reporting	42	-
	<u>212</u>	<u>110</u>
Total audit fees	<u>212</u>	<u>110</u>
- Corporate finance services	-	155
- Other services	-	15
	<u>-</u>	<u>170</u>
Total non-audit fees	<u>-</u>	<u>170</u>

Non-audit costs incurred in 2008 relate to the Company's previous auditors.

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11 Taxation

	2009	2008
	£'000	£'000
Current year tax charge	-	(109)
Prior period tax credit	-	50
Deferred tax (note 21)		
Origination and reversal of temporary differences	1,357	305
Other deferred tax provisions	1,151	(55)
	<u>2,508</u>	<u>191</u>
Tax credit	<u>2,508</u>	<u>191</u>

Corporation tax is calculated at 28% (2008: 29.3%) of the estimated assessable profit for the year. The tax on the Group's profit before tax differs from the theoretical amount that would arise using the 28% tax rate as follows:

	2009	2008
	£'000	£'000
Loss before tax	(29,164)	(18,225)
Tax at the UK corporation tax rate of 28% (2008: 29.3%)	8,166	5,340
Tax effect of impairment of goodwill charge not included in taxable loss	(5,038)	(5,379)
Tax effect of negative goodwill credit not included in taxable loss	-	82
Tax effect of depreciation that is not deductible in determining taxable loss	23	(66)
Tax effect of expenses that are not deductible in determining taxable loss	(515)	(7)
Tax effect of depreciation in excess of capital allowances	-	73
Other timing differences	(128)	148
	<u>2,508</u>	<u>191</u>
Tax credit	<u>2,508</u>	<u>191</u>

12 Dividends paid

	Period to	Year to
	31 December	31 July
	2009	2008
	£'000s	£'000s
2007 final dividend – 4.00 pence per share	-	1,544
2008 interim dividend – 2.00 pence per share	-	1,936
	<u>-</u>	<u>3,480</u>

The directors do not recommend the payment of a final dividend in relation to the period ended 31 December 2009.

13 Earnings per share

The calculation of the 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. The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares. As the potential ordinary shares are anti-dilutive, these have not been taken into account in the calculation of diluted loss per share.

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Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

Period to 31 December 2009

	Earnings £'000s	Weighted average number of shares	Per share amount Pence
Continuing and total operations			
Loss after tax	(26,643)		
Earnings attributable to ordinary shareholders	<u>(26,643)</u>		
Weighted average number of shares (used for basic earnings per share)		97,305,935	
Dilutive effect of options		5,061,971	
Dilutive effect of share bonus schemes		<u>3,274,227</u>	
Diluted weighted average number of shares (used for diluted earnings per share)	(26,643)	105,642,133	
Basic loss per share			<u>(27.38)p</u>
Diluted loss per share			<u>(27.38)p</u>

Year to 31 July 2008

	Earnings £'000s	Weighted average number of shares	Per share amount Pence
Continuing and total operations			
Loss after tax	(18,099)		
Earnings attributable to ordinary shareholders	<u>(18,099)</u>		
Weighted average number of shares (used for basic earnings per share)		91,104,234	
Dilutive effect of options		3,754,802	
Dilutive effect of share bonus schemes		<u>6,779,604</u>	
Diluted weighted average number of shares (used for diluted earnings per share)	(18,099)	101,638,640	
Basic loss per share			<u>(19.87)p</u>
Diluted loss per share			<u>(19.87)p</u>

Adjusted basic and diluted earnings per share

In order to understand the underlying trading performance, the directors consider it appropriate to disclose earnings per share before amortisation and impairment of acquired intangible assets, reorganisation and re-launch costs and the costs of share based payments.

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The calculation of adjusted earnings per share is set out below:

	Period to 31 December 2009	Year to 31 July 2008
Loss attributable to ordinary shareholders (£'000)	(26,643)	(18,099)
Post-tax amortisation and impairment of acquired intangible assets (£'000)	22,194	21,333
Post tax costs of non-recurring expenditure (£'000)	1,063	1,072
Post-tax cost of share based payments (£'000)	1,161	902
Adjusted (loss)/profit on ordinary activities after taxation (£'000)	(2,225)	5,208
Weighted average number of shares in issue		
- basic	97,305,935	91,104,234
- diluted	105,642,133	101,638,640
Basic loss per share (pence)	(27.38)	(19.87)
Amortisation and impairment of acquired intangible assets (pence)	22.81	23.42
Costs of non-recurring expenditure (pence)	1.09	1.18
Cost of share based payments (pence)	1.19	0.99
Adjusted (loss)/earnings per share (pence)		
- basic	(2.29)	5.72
- diluted	(2.11)	5.12

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14 Business combinations

Fair value adjustments have been made to the book value of the assets and liabilities in acquired companies to adjust, where applicable, the carrying value of certain assets and liabilities.

a) Sport Newspapers Limited (“Sport Newspapers”)

On 5 September 2007 the Group completed the acquisition of Sport Newspapers. The acquired assets and liabilities of Sport Newspapers were:

	Book Value £'000	Fair value adjustments £'000	Fair value £'000
Newspaper mastheads, publishing rights and imprints	-	10,911	10,911
Content library	-	1,561	1,561
Websites	-	448	448
Customer relationships and contracts	-	3,338	3,338
Property, plant and equipment	302	-	302
Investments	450	(200)	250
Inventories	5	-	5
Trade and other receivables	4,641	-	4,641
Deferred tax assets	125	-	125
Cash at bank	1,959	-	1,959
Trade and other payables	(3,748)	-	(3,748)
Deferred tax liabilities	-	(4,552)	(4,552)
Net assets acquired	3,734	11,506	15,240
Goodwill			36,352
Consideration			51,592
<i>Satisfied by:</i>			
Cash			40,000
Deferred consideration			5,000
Loan notes			5,000
Acquisition costs			1,592
			51,592

Sport Newspapers is the publisher of the Daily and Sunday Sport newspapers and ancillary magazine titles. 100% of the equity of the business was acquired on 5 September 2007. Profits of £386,000 are included in the consolidated results of the Group for the year ended 31 July 2008.

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The material fair value adjustments to the net assets of Sport Newspapers were calculated as follows:

- i. Intangible assets in the form of the newspaper mastheads, publishing rights and imprints, trade name and marks of Sport Newspapers as well as certain existing customer relationships and contracts, website development costs and content rights are recognised based on the Directors' assessment of their value taking into consideration the future cash flows that are expected to be derived from them plus the related provision for deferred tax on all separately identified intangible assets.
- ii. Adjustments to bring into line with Group accounting policies.

b) Flip Media Limited ("Flip")

On 1 June 2008 the Group completed the acquisition of Flip. The acquired assets and liabilities of Flip were:

	Book Value £'000	Fair value adjustments £'000	Fair value £'000
Newspaper mastheads, publishing rights and imprints	-	541	541
Content library	-	284	284
Customer relationships and contracts	-	286	286
Trade and other receivables	180	-	180
Cash at bank	15	-	15
Trade and other payables	(580)	-	(580)
Deferred taxation	-	(311)	(311)
Net (liabilities)/assets acquired	(385)	800	415
Negative goodwill taken to income statement			(279)
Consideration			136
<i>Satisfied by:</i>			
Cash			125
Acquisition costs			11
			136

Flip is the publisher of the Front and DVD World magazine titles. 100% of the equity of the business was acquired on 1 June 2008. Losses of £32,000 are included in the consolidated results of the Group for the year ended 31 July 2008. In July 2009 Flip disposed of the assets and rights attributable to Front magazine for sale proceeds of £87,500. At the date of disposal there had been no discernable reduction in the circulation volume of Front magazine. All fair value adjustments recorded at the date of acquisition were attributable to Front magazine. Consequently the Group fully impaired the carrying value of the fair value assets.

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

15 Property, plant and equipment

	Leasehold improvements £'000	Motor vehicles £'000	Web based servers £'000	Equipment fixtures & fittings £'000	Total £'000
Cost or valuation					
At 1 August 2007	-	-	343	165	508
Acquisition of subsidiaries	127	40	-	468	635
Additions	20	-	-	63	83
At 31 July 2008	<u>147</u>	<u>40</u>	<u>343</u>	<u>696</u>	<u>1,226</u>
Additions	12	-	14	80	106
Disposals	-	(40)	-	(3)	(43)
Movement between categories	-	-	(34)	34	-
At 31 December 2009	<u>159</u>	<u>-</u>	<u>323</u>	<u>807</u>	<u>1,289</u>
Accumulated depreciation					
At 1 August 2007	-	-	261	121	382
Acquisition of subsidiaries	67	10	-	256	333
Charge for the year	22	10	48	145	225
At 31 July 2008	<u>89</u>	<u>20</u>	<u>309</u>	<u>522</u>	<u>940</u>
Charge for the year	39	1	12	156	208
Disposals	-	(21)	-	(1)	(22)
Movement between categories	-	-	(18)	18	-
At 31 December 2009	<u>128</u>	<u>-</u>	<u>303</u>	<u>695</u>	<u>1,126</u>
Carrying amount					
At 31 December 2009	<u>31</u>	<u>-</u>	<u>20</u>	<u>112</u>	<u>163</u>
At 31 July 2008	<u>58</u>	<u>20</u>	<u>34</u>	<u>174</u>	<u>286</u>

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

16 Goodwill and other intangible assets

	Indefinite lived assets	Customer relationships	Goodwill	Other intangible assets
	£'000	£'000	£'000	£'000
Cost				
At 1 August 2007	-	150	200	1,076
Recognised on acquisition of subsidiaries	11,452	3,624	36,352	2,293
Other additions	-	-	-	3,367
At 31 July 2008	11,452	3,774	36,552	6,736
Additions	-	-	-	1,797
At 31 December 2009	11,452	3,774	36,552	8,533
Accumulated amortisation and impairment				
At 1 August 2007	-	20	-	364
Amortisation for the year	-	652	-	664
Impairment write down in the year	-	-	18,358	2,318
At 31 July 2008	-	672	18,358	3,346
Amortisation for the year	-	1,045	-	955
Impairment write down in the year	935	283	17,994	2,615
At 31 December 2009	935	2,000	36,352	6,916
Carrying amount				
At 31 December 2009	10,517	1,774	200	1,617
At 31 July 2008	11,452	3,102	18,194	3,390

Goodwill and intangible assets acquired in a business combination are allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination as follows:

	2009 £'000	2008 £'000
Strictly Broadband	200	200
Sport Newspapers	-	17,994
	200	18,194

The Group tests goodwill and intangible assets annually for impairment, or more frequently if there are indications that they might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs and the rate used was 12%. The growth rates are based on the directors' growth forecasts and the rates used were 1% per annum for fifteen years

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

followed by a decline of 5% in perpetuity thereafter. The directors believe that the rate of 1% is justified based on past performance and the Group's positioning in the market.

The amortisation periods used for customer relationships and contracts were between 5 and 7 years and for photographic and other content rights is 10 years. Software development costs are amortised over 5 years and website development costs over 4 years.

The directors have considered the level of intangible assets carried in the Group's balance sheet at 31 December 2009 and carried out a impairment review process. As a result, the directors have decided to fully impair the carrying value of £18.0m of goodwill related to the acquisition of Sport Newspapers.

Assuming that the decline in cash flows of 5% per annum from year 15 is fixed, a 1% decrease in annual cash flow growth to zero growth would reduce discounted cash flows by £887k and increase the impairment charge by the same amount.

Assuming growth is as stated previously, a 1% increase in the discount rate to 13% would reduce discounted cash flows by £817k and increase the impairment charge by the same amount.

The directors have also carried out a thorough review of the Group's other acquired intangible assets, principally software and database licences and rights, photographic and film content rights and marketing access rights, and concluded that certain of those intangible assets had become impaired. As a result the Group incurred a write down of £3.8m.

Total charges in relation to the impairment of goodwill and other intangible assets are £21.8m.

17 Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 5 to the Company's separate financial statements.

18 Inventories

	2009	2008
	£'000	£'000
Inventories held for resale	89	102
	<u>89</u>	<u>102</u>

The amount of inventories recognised as an expense and included in cost of sales amounted to £1,065,000 (2008: £2,681,000).

19 Other financial assets

Trade and other receivables

	2009	2008
	£'000	£'000
Amount receivable for the sale of goods & services	2,243	6,258
Other receivables	-	32
Corporation tax receivable	-	83
Prepayments	1,109	439
	<u>3,352</u>	<u>6,812</u>

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The average credit period taken on sales of goods is 60 days (2008: 78 days). An allowance has been made for estimated irrecoverable amounts from the sale of goods & services. This allowance has been determined by reference to past default experience.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The ageing of the trade receivables as at 31 December 2009 is detailed below:

	2009	2009	2008	2008
	£'000	£'000	£'000	£'000
	Gross	Allowance	Gross	Allowance
0 to 30 days	622	-	2,450	-
30 to 60 days	1,243	-	1,797	-
60 to 90 days	378	-	1,271	42
Over 90 days	245	245	933	151
	<u>2,488</u>	<u>245</u>	<u>6,451</u>	<u>193</u>

Included within trade receivables were amounts of £622,000 (2008: £3,349,000) which were not yet due and £1,866,000 (2008: £3,102,000) which were past due. The movement in allowance for doubtful debts in respect of trade receivable is detailed below:

	2009	2008
	£'000	£'000
Opening balance	193	-
Acquisition of subsidiaries	-	25
Additional provisions	445	168
Utilised in period	(393)	-
Closing balance	<u>245</u>	<u>193</u>

All credit and recovery risk associated with trade receivables has been provided for in the balance sheet.

Cash and cash equivalents

	2009	2008
	£'000	£'000
Cash and cash equivalents	<u>268</u>	<u>534</u>

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. There is no legal right of set-off against financial liabilities, however where equipment is sold the Group has retention of title rights until the goods are paid for.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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Notes to the Consolidated Financial Statements - Period ended 31 December 2009

20 Other financial liabilities

Trade and other payables

	2009	2008
	£'000	£'000
Trade payables and accruals	3,771	2,854
Other taxation & social security	419	420
Other payables	-	792
	<u>4,190</u>	<u>4,066</u>

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 43 days (2008: 57 days).

The directors consider that the carrying amount of trade payables approximates to their fair value.

Bank overdrafts and loans and other borrowings

	2009	2008
	£'000	£'000
Bank invoice finance	1,310	1,430
Bank loans and financing	6,563	6,500
Other creditor (in relation to the Sport Newspapers acquisition)	4,084	2,500
	<u>11,957</u>	<u>10,430</u>
The borrowings are repayable as follows:		
On demand or within one year	11,957	10,430
In the second year	-	-
In the third to fifth years inclusive	-	-
	<u>11,957</u>	<u>10,430</u>
	2009	2008
	%	%
The weighted average interest rates paid were as follows:		
Bank invoice finance	3.46	7.14
Bank loans	3.63	7.40
Other loans	7.38	-

At the balance sheet date the Group had two loans from RBS both expiring in November 2010 – a revolving advance facility of £4m and a term loan facility of £2.5m. The advance facility of £4m attracts interest at 4.5% over LIBOR and is repayable at £50,000 per month commencing 1 November 2009. As at the balance sheet date £3.9m of the facility had been advanced. The term loan facility of £2.5m attracts interest at 2% over LIBOR with no ongoing repayment of the principal and was utilised in full at the balance sheet date. The facilities are secured by debentures over the assets of the Group. For the Group to secure this loan GGI was required to maintain a charge of deposit for the same value and this will remain in place for the duration of the term loan. Interest is charged by GGI to the Group for the funds on deposit at a rate of 10% less interest received.

The Group has an invoice discounting facility with RBS Invoice Finance Limited which provides finance for working capital purposes. As at the balance sheet date £1.3m had been drawn against the facility. The facility is secured against the Group's trade receivables.

At the balance sheet date the Group had an outstanding liability of £4.1m to the vendors of Sport Newspapers Limited. £2.5m relates to deferred consideration and attracts interest at RBS base rate plus 4% and is repayable in

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

November 2010. A further £1.6m relates to funds advanced in November 2008 and May 2009 and is due for repayment in November 2010. These funds accrue interest at a rate of 6.5% per annum.

The bank invoice finance facility and the bank loans are arranged at floating rates, thus exposing the Group to cash flow interest rate risk. The other loans are at fixed rates exposing the Group to fair value risk.

The directors estimate that the fair value of the Group's borrowings was the same as their book value.

On 9 April 2010 RBS confirmed its agreement to extend its committed term loan borrowing of £6.4m through to 31 March 2013. In conjunction with this GGI and Roldvale Limited agreed to extend their funding of £4.1m to the Group through to 31 March 2013. Amendments to the existing agreements to reflect the extension date are currently being prepared and will be signed in due course.

Interest rate risk

Although speculation, including the use of complex financial derivative products, is not part of the Group's trading, the Group is exposed to interest rate risk. If interest rates had been 1% points higher or lower in the year and all other variables were held constant, the impact on the Group's results for the year would have been to increase or decrease the reported loss before tax by approximately £200,000.

Liquidity risk

Prior to the acquisition of Sport Newspapers the Group had no bank or similar third part debt and liquidity risk was restricted to the maintenance of liquid cash balances by way of active treasury management.

The acquisition of Sport Newspapers and the subsequent restructuring necessitated incurring external debt finance of approximately £12m in the form, initially of deferred consideration liabilities and loan notes. These were subsequently partially repaid and partially replaced by bank loans and bank invoice finance as set out above.

The Group has followed a policy of managing liquidity risk by continuing to actively manage its treasury resources whilst negotiating debt and working capital facilities on a renewal basis sufficient to provide liquidity.

21 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

a) Assets:

	Accelerated tax depreciation £'000	Tax losses £'000	Amortisation of intangibles £'000	Share based payment £'000	Other £'000	Total £'000
At 1 August 2007	-	-	-	-	-	-
(Charge)/credit to income	19	162	-	124	-	305
Acquisition of subsidiaries	125	-	-	-	-	125
As 31 July 2008	144	162	-	124	-	430
(Charge)/credit to income	-	1,481	-	(124)	-	1,357
As 31 December 2009	144	1,643	-	-	-	1,787

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Notes to the Consolidated Financial Statements - Period ended 31 December 2009

b) Liabilities:

	Accelerated tax depreciation £'000	Tax losses £'000	Amortisation of intangibles £'000	Share based payment £'000	Other £'000	Total £'000
At 1 August 2007	-	-	47	21	-	68
Acquisition of subsidiaries	-	-	-	-	4,863	4,863
(Credit) to income	-	-	-	-	(354)	(354)
Charge to income	-	-	-	-	409	409
As 31 July 2008	-	-	47	21	4,918	4,986
(Credit) to income	-	-	-	(21)	(1,326)	(1,347)
Charge to income	-	-	-	-	196	196
As 31 December 2009	-	-	47	-	3,788	3,835

22 Operating lease arrangements

The Group as lessee

	2009 £'000	2008 £'000
Minimum lease payments under operating leases recognised as an expense in the year	220	214

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 £'000	2008 £'000
Within one year	215	214
In the second to fifth years inclusive	35	561
After five years	-	216
	250	991

Operating lease payments represent rentals payable by the Group for certain of its office premises and sundry office equipment. Equipment leases are for an average term of 2 years.

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

23 Share capital

	Number of shares	Placing Price	£'000
Authorised as at 31 July 2008 and 31 December 2009: 200 million ordinary shares of 0.25p each			500
Issued and fully paid ordinary shares of 0.25p each:			
1 August 2006	38,450,438		96
Issue of shares to fund acquisitions	134,442		-
1 August 2007	38,584,880		96
Placing – September 2007	58,266,667	75p	146
31 July 2008	96,851,547		242
Shares issued on exercise of options – September 2009	1,990,836		5
31 December 2009	98,842,383		247

The Company has one class of ordinary shares which carry no right to fixed income. In 2008 certain ordinary shares were designated 'A' ordinary shares and 58,266,667 'A' ordinary shares were issued in a share placement arrangement. The 'A' ordinary shares rank pari passu in all respects with the ordinary shares except in that they did not carry an entitlement to participate in dividend payments in respect of the year ended 31 July 2007.

Transaction costs of £3,204,000 were incurred on the issue of shares in 2008, of which £2,600,000 was satisfied by the issue of shares and the remainder settled in cash, and these costs were deducted from the share premium account.

24 Share options and share based payments

The charge for the period was £1,613,000 (2008: £1,026,000).

Share options held by directors, employees and third parties are as follows:

Outstanding 01.08.08	Granted during period	Exercised during period	Lapsed during period	Outstanding 31.12.09	Exercise price	Date of grant	First date of exercise	Final date of exercise
463,972	-	-	-	463,972	73p	08.05.06	08.05.07	08.05.10
1,345,765	-	-	-	1,345,765	73p	08.05.06	08.05.06	08.05.11
1,237,699	-	-	667,543	570,156	73p	08.05.06	08.05.07	08.05.16
707,366	-	-	241,182	466,184	79.25p	01.11.06	01.11.09	01.11.16
-	9,684,800	-	-	9,684,800	3.5p	08.05.09	30.11.09	30.04.14
<u>3,754,802</u>	<u>9,684,800</u>	<u>-</u>	<u>908,725</u>	<u>12,530,877</u>				

A modified Black-Scholes model has been used to determine the fair value of the share options on the date of grant. The fair value is expensed to the income statement on a straight line basis over the vesting period, which is determined annually. The model assesses a number of factors in calculating the fair value. These include the market price on the date of grant, the exercise price of the share options, the expected share price volatility of the market sector in which the Group operates, the expected life of the options, the risk free rate of interest and the expected level of dividends in future periods.

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Notes to the Consolidated Financial Statements - Period ended 31 December 2009

The inputs into the model were as follows:

Granted	Unapproved 2009	Unapproved 2006	Other 2006	Other 2006	EMI 2007
Weighted average share price	6.73p	73.00p	73.00p	73.00p	79.50p
Weighted average exercise price	3.5p	73.00p	73.00p	73.00p	79.50p
Expected volatility	111%	25%	25%	25%	46%
Expected life	5 years	2 years	5 years	10 years	10 years
Risk-free rate	2.79%	4%	4%	4%	4%
Expected dividend yield	0%	6%	6%	6%	6%

Expected volatility was determined at the date of grant of the earlier options based on the directors' estimates of volatility of similar quoted stocks. In respect of later grants the directors estimated the actual volatility at the date of grant by reference to the company's share price since admission to AIM.

Directors' share bonus plans

The Company has in place the following share schemes:

- the Executive Share Bonus Plan ('ESBP')
- the Executive Incentive Plan ('EIP')
- the Non-Executive Share Bonus Plan ('NESBP')
- the Non-Executive Incentive Plan ('NEIP')

As at 31 December 2009 directors and executives of the business retained the following rights to acquire shares:

Scheme	Rights over shares
ESBP	1,218,514
EIP	2,421,288
NESBP	-
NEIP	-
Total	3,639,802

The terms of the ESBP, EIP, NESBP and NEIP were set out in the Company's AIM admission document dated 8 August 2007.

Shares awarded under the ESBP and the NESBP will be forfeited if the recipients cease continuous employment with the Group in the eighteen month period following grant of rights.

Shares awarded under the EIP and the NEIP are subject to continuous employment with the Group and performance conditions which must be satisfied over a three year period from the date of grant of rights. Performance conditions are based on a target share price on a sliding scale between £1.20 and £1.60 with 2.5% vesting for each penny increase in the share price. Subject to satisfaction of the defined performance criteria and to continuous employment awards will vest in equal instalments on the first, second and third anniversaries of the award.

The fair value of the share awards on the date of grant has been determined by reference to the market value of shares at that date and the application of an appropriate discount factor to take into account the probability of the performance conditions being met. The fair value is expensed to the income statement on a straight line basis over the vesting period, which is determined annually.

Sport Media Group plc

Notes to the Consolidated Financial Statements - Period ended 31 December 2009

The inputs into the model were as follows:

Granted	ESBP	EIP	NESBP	NEIP
Weighted average share price	75.00p	75.00p	75.00p	75.00p
Weighted average exercise price	Nil	Nil	Nil	Nil
Discount rate applied to performance conditions	25%	75%	25%	75%
Expected life	18 months	3 years	18 months	3 years

25 Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £73,000 (2008: £90,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

26 Events after the balance sheet date

On 9 April 2010 RBS confirmed its agreement to extend its committed term loan borrowing of £6.4m through to 31 March 2013. In conjunction with this GGI and Roldvale Limited agreed to extend their funding of £4.1m to the Group through to 31 March 2013. Amendments to the existing agreements to reflect the extension date are currently being prepared will be signed in due course.

27 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

28 Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Group, is set out in the Directors' Report on pages 9 to 13.

Sport Media Group plc

Independent Joint Auditors' Report to the Shareholders of Sport Media Group plc

We have audited the financial statements of Sport Media Group plc for the period ended 31 December 2009 which comprise the Parent Company Balance Sheet and the related notes numbered 1 to 12.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 joint auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of Matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern and we consider this should be drawn to your attention.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Sport Media Group plc

Independent Joint Auditors' Report to the Shareholders of Sport Media Group plc

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Sport Media Group plc for the year ended 31 December 2009.

Richard Baker
Senior Statutory Auditor
For and on behalf of
Horwath Clark Whitehill LLP
Statutory Auditor
Walsall

Adrian Stevens
Senior Statutory Auditor
For and on behalf of
Edwards
Statutory Auditor
Aldridge

23 April 2010

Sport Media Group plc

Parent Company Balance Sheet 31 December 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Intangible assets	3	37	40
Tangible assets	4	18	20
Fixed asset investments	5	14,900	35,906
		<u>14,955</u>	<u>35,966</u>
Current assets			
Debtors	6	387	249
Deferred tax asset	7	-	126
Cash at bank and in hand		2	47
		<u>389</u>	<u>422</u>
Total assets		<u>15,344</u>	<u>36,388</u>
Creditors: Amounts falling due within one year	8	17,378	15,051
		<u>17,378</u>	<u>15,051</u>
Total liabilities		<u>17,378</u>	<u>15,051</u>
Net (liabilities)/assets		<u>(2,034)</u>	<u>21,337</u>
Equity			
Share capital	9	247	242
Share premium account	10	41,537	41,537
Merger reserve		1,000	1,000
Profit and loss account	11	(44,818)	(21,442)
Equity shareholders' (deficit)/funds	12	<u>(2,034)</u>	<u>21,337</u>

The financial statements were approved by the board of directors and authorised for issue on 23 April 2010. They were signed on its behalf by:

Andrew Fickling

Chief Executive Officer

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

1 Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historic cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment. Cost is the fair value of the consideration given plus the acquisition costs associated with the investment.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted; and
- Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

The expense that is recognised in the income statement is based on the Company's estimate of shares that will eventually vest and that has been adjusted for the effect of non-market based vesting conditions. The achievement of market based vesting conditions is assessed at the date of grant and not subsequently revised at each reporting date.

At each balance sheet date before vesting, the aggregate cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the aggregate cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Information on share options and share based payments is set out in note 24 to the consolidated financial information for the Group.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

Going Concern

Having considered the Financial Reporting Council (FRC) guidance on going concern, the directors have made the following assessment in the preparation of the annual report and financial statements. The Group's business activities, the financial position of the Group, its cash flows, liquidity position and borrowing facilities together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Statement on pages 5 to 8 and the Directors Report on pages 9 to 13. The Group has a significant level of debt and in the medium term is reliant on the debt facilities remaining in place. On 9 April 2010 RBS confirmed its agreement to extend its committed term loan borrowing of £6.4m through to 31 March 2013. In conjunction with this GGI and Roldvale Limited agreed to extend their funding of £4.1m to the Group through to 31 March 2013. Amendments to the existing agreements to reflect the extension date are currently being prepared and will be signed in due course. In support of the application to RBS for the term loan extension the directors prepared monthly trading and cash flow statements for the Group, reviewed the underlying assumptions in detail and subjected them to sensitivity analysis. Consequently, the directors have an expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year. Sport Media Group plc, reported a loss for the financial period ended 31 December 2009 of £24,989,000 (2008: £19,053,000)

Directors' remuneration of £394,000 (2008: £497,000) was charged during the period. Details of directors' remuneration and other benefits is included in the Directors' report on pages 9 to 13 of this annual report.

3 Intangible fixed assets

	Other intangible assets £'000
Cost	
At 1 August 2007	500
Additions	7
	<hr/>
At 31 July 2008	507
Additions	-
	<hr/>
At 31 December 2009	507
	<hr/> <hr/>
Accumulated depreciation	
At 1 August 2007	33
Charge for the year	33
Charge for impairment in the year	401
	<hr/>
At 31 July 2008	467
Charge for the year	3
Charge for impairment in the year	-
	<hr/>
At 31 December 2009	470
	<hr/> <hr/>
Carrying amount	
At 31 December 2009	37
	<hr/> <hr/>
At 31 July 2008	40
	<hr/> <hr/>

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

4 Tangible fixed assets

	Equipment fixtures & fittings £'000
Cost	
At 1 August 2007	17
Additions	5
	<hr/>
At 31 July 2008	22
Additions	-
	<hr/>
At 31 December 2009	22
	<hr/>
Accumulated depreciation	
At 1 August 2007	1
Charge for the year	1
	<hr/>
At 31 July 2008	2
Charge for the year	2
	<hr/>
At 31 December 2009	4
	<hr/>
Carrying amount	
At 31 December 2009	18
	<hr/> <hr/>
At 31 July 2008	20
	<hr/> <hr/>

Depreciation is calculated to write down the cost less estimated residual value of equipment, fixtures and fittings by equal annual instalments reflecting the basis of consumption of the assets over their estimated useful economic lives. The rates generally applicable are:

Plant and machinery	20%
Fixtures and fittings	20 %

5 Fixed asset investments

At 31 December 2009 the Company has investments in the following subsidiaries which principally affected the profits or net assets of the Group.

Name	Country of incorporation	Principal activity	Holding of Ordinary Shares
Netcollex Limited	England	Digital media content	100%
Strictly Broadband Limited	England	Digital media content	55.5%
Go Content Limited*	England	Digital media content	55.5%
Telecom 2 Limited	England	Digital media content	51%
Watchme.com Limited	England	Digital media content	51%
Strictlybroadband.co.uk Limited	England	Dormant	100%
Sport Newspapers Limited	England	Newspaper publishing	100%
Moresport Limited**	England	Newspaper publishing	100%
Melton Enterprises Limited**	England	Newspaper publishing	100%

* This subsidiary is owned by Strictly Broadband Limited

** These subsidiaries are owned by Sport Newspapers Limited

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

	Investments in subsidiaries £'000
Cost	
At 1 August 2007	1,337
Acquisitions	51,909
Provision for impairment	(17,340)
At 31 July 2008	<u>35,906</u>
Acquisitions	-
Provision for impairment	(21,006)
At 31 December 2009	<u>14,900</u>
Carrying amount	
At 31 December 2009	<u>14,900</u>
At 31 July 2008	<u>35,906</u>

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in preference shares of subsidiary undertakings included in the Group.

The provision for impairment relates to the Group's investment in Sport Newspapers Limited.

As set out in note 16 to the consolidated financial information on the Group, the directors have decided to fully impair the carrying value of £18.0m of goodwill related to the acquisition of Sport Newspapers.

For the purposes of the financial statements of the parent undertaking, the carrying value of the investment in Sport Newspapers has been written down to the discounted cash flows attributable to the income generating unit (IGU), giving rise to a charge of £21m.

The key assumptions underpinning these calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the IGUs and the rate used was 12%. The growth rates are based on the directors' growth forecasts and the rates used were 1% per annum for fifteen years followed by a decline of 5% in perpetuity thereafter. The directors believe that the rate of 1% is justified based on past performance and the Group's positioning in the market.

6 Debtors

	2009 £'000	2008 £'000
Trade debtors	-	2
Amounts due from subsidiary undertakings	349	209
Other debtors	38	38
	<u>387</u>	<u>249</u>

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

7 Deferred tax

The following are the deferred assets recognised by the company and movements thereon during the current and prior reporting period.

	Share based payment £'000	Total £'000
At 1 August 2007	-	-
(Charge)/credit to income	126	126
As 31 July 2008	126	126
(Charge)/credit to income	(126)	(126)
As 31 December 2009	-	-

8 Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade creditors	109	93
Other taxes and social security	28	-
Amounts due to subsidiary undertakings	5,731	5,885
Bank and other loans	10,647	9,000
Accruals	863	73
	<u>17,378</u>	<u>15,051</u>

Bank and other loans comprise:

	2009 £'000	2008 £'000
Bank loans and overdraft	6,585	6,500
Other creditor (in relation to the Sport Newspapers acquisition)	2,500	2,500
Other loans	1,562	-
	<u>10,647</u>	<u>9,000</u>

The borrowings are repayable as follows:

On demand or within one year	10,647	9,000
In the second year	-	-
In the third to fifth years inclusive	-	-
	<u>10,647</u>	<u>9,000</u>

Details of borrowings are set out in note 20 to the consolidated financial statements of the Group.

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

9 Called-up share capital

	Number of Shares	Placing price	£'000
Authorised as at 31 July 2008 and 31 December 2009: 200 million ordinary shares of 0.25p each			<u>500</u>
Issued and fully paid ordinary shares of 0.25p each:			
1 August 2006	38,450,438		96
Issue of shares to fund acquisitions	<u>134,442</u>		<u>-</u>
1 August 2007	38,584,880		96
Placing – September 2007	<u>58,266,667</u>	75p	<u>146</u>
31 July 2008	96,851,547		242
Shares issued on exercise of options – September 2009	<u>1,990,836</u>		<u>5</u>
31 December 2009	<u>98,842,383</u>		<u>247</u>

The Company has one class of ordinary shares which carry no right to fixed income. During the year certain ordinary shares were designated 'A' ordinary shares and 58,266,667 'A' ordinary shares were issued in a share placement arrangement. The 'A' ordinary shares rank pari passu in all respects with the ordinary shares except in that they did not carry an entitlement to participate in dividend payments in respect of the year ended 31 July 2007.

Transaction costs of £3,204,000 were incurred on the issue of shares in 2008 of which £2,600,000 was satisfied by the issue of shares and the remainder settled in cash, and these costs were deducted from the share premium account.

10 Share premium account

	£'000
Balance at 1 August 2006	1,161
Premium arising on issue of equity shares	106
Expenses of issue of equity shares	<u>(80)</u>
Balance at 1 August 2007	1,187
Premium arising on issue of equity shares	43,554
Expenses of issue of equity shares	<u>(3,204)</u>
Balance at 1 August 2008	41,537
Shares issued on exercise of options – September 2009	<u>-</u>
Balance at 31 December 2009	<u>41,537</u>

Sport Media Group plc

Notes to the parent company financial statements – period ended 31 December 2009

11 Profit & loss account

	£'000
Balance at 1 August 2007	65
Net loss for the year	(18,027)
Dividends paid	(3,480)
	<hr/>
Balance at 1 August 2008	(21,442)
Net loss for the year	(23,376)
	<hr/>
Balance at 31 December 2009	(44,818)

12 Reconciliation of movements in shareholders' funds

	£'000
Balance at 1 August 2007	2,348
Net loss for the year	(19,053)
Share based payments	1,026
Dividends paid	(3,480)
Issue of share capital	43,700
Expenses of issue of equity shares	(3,204)
	<hr/>
Balance at 1 August 2008	21,337
Net loss for the period	(24,989)
Share based payments	1,613
Dividends paid	-
Issue of share capital	5
	<hr/>
Balance at 31 December 2009	(2,034)