



**Press Release**

**21 April 2008**

**SPORT MEDIA GROUP PLC**

("Sport Media", "SPMG", "the Group" or "the Company")

**Interim results for the six months to 31 January 2008 and trading update**

Sport Media Group plc (AIM: SPMG.L), the integrated multi-media group that publishes the Sunday and Daily Sport newspapers and digital content for internet and mobile channels, today publishes its interim results for the six months ended 31 January 2008.

**Financial Overview for the Interim Period**

- Turnover up 181% to £14.4 million (2007 H1: £5.1 million) (includes less than 5 months of Sport Newspapers Ltd consolidated results)
- Operating profit increased by 11% to £2.3 million (2007 H1: £2.0 million)
- Pre-tax profit increased by 10% to £2.3 million (2007 H1: £2.1 million)
- Underlying pre-tax profit increased by 48% to £3.2 million (2007 H1: £2.2million)
- EPS down to 1.81p (2007 H1: 3.73p) partly due to the impact of substantially increased charges for amortisation of intangibles and share based payments
- Adjusted EPS decreased to 2.55p (2007 H1: 3.86p) due to issue of 58.3 million new shares for the acquisition of Sport Newspapers Ltd.
- Interim dividend of 2.0p (2007 Interim: 3.0p) per share in line with the Group's policy of a pay-out of around 80% of underlying EPS

**Operational Overview for the Interim Period**

- Completion of transformational acquisition of Sport Newspapers Ltd following a successful share placing that raised £43.7 million.
- Completion of the integration of the 2006/7 acquisition of the majority of Strictly Broadband
- Strengthening of the management of the Group with the appointments of

Andrew Fickling as Executive Director and Managing Director of Sport Newspapers (subsequently made Chief Executive Officer of the Group post period end) and Barry McIllheney as Editor in Chief

- Significant new retailers now selling The Sport titles, including Somerfield, to increase total retailer base by approximately 2,000 outlets, an increase in penetration of target sales universe by 20%
- New mass market advertisers attracted to the titles, including Setanta, Dial-a-phone and Ladbrokes
- Advertising yield increased by 10% to £6.60 since acquisition

### **Trading update**

- Current market conditions have led to the Board taking a more cautious view on future growth.
- Re-launch of the Daily Sport on 21 April 2008
- Waste levels have now dropped to circa 46%
- Advertising yields are currently running up 8%

Commenting on the results, Andrew Fickling, Chief Executive Officer, said: "The first half of the year has been a period of considerable positive change within the Group and we are pleased to report results broadly in line with our expectations for the first half. The second-half of year was always going to be more important than the first half and is considerably more significant with respect to the full year expectations. The combination of the delayed re-launch and the deteriorating macro economic climate has led the Board to adopt a more cautious approach to the full year forecasts. However, the continued success we have achieved in reducing costs whilst at the same time growing distribution puts us in a strong position for growth into 2009 and beyond."

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## **Notes to Editors:**

Formed by a reverse takeover of Sport Newspapers Limited by Interactive World plc, SPMG combines an established national newspaper brand with recognised experience in the delivery of content through digital channels, including both broadband and mobile.

Through integrating traditional print with new media digital content, SPMG's strategy is to expand its target audiences beyond its current loyal readership and users. The Group will also build upon the brand to attract a more diverse audience thereby attracting a broader base of significant advertisers. The integration also provides significant cross selling and marketing opportunities.

## **CHAIRMAN'S STATEMENT**

### **Overview**

I am pleased to report a solid set of results for the period ended 31 January 2008, which has seen significant focus on reorganisation and investment.

These results have been prepared in accordance with accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') expected to be adopted and effective at 31 July 2008, our first full annual reporting date at which we are required to apply IFRS. As a result, the presentation of the results is somewhat different and the comparative figures for both the previous half year and the full year ended 31 July 2007 have been restated to comply with IFRS. The new accounting policies and reconciliations of the differences between the IFRS results and the results as previously published are set out in the IFRS Transition Document, which is published today.

The results for the six months to 31 January 2008 include the results of Sport Newspapers Ltd ("Sport Newspapers") for just less than five months since the acquisition which has transformed the business and the balance sheet of the Group. The results demonstrate a significant step change in the size and scope of our business with turnover increasing by 181% to £14.4 million and underlying pre-tax

profit (before amortisation of intangibles and share based payment charges) reaching £3.2 million; an increase of 48% on 2007. These results have been achieved in what are widely regarded as difficult operating conditions, particularly in the retail universe where the majority of the revenues of Sport Newspapers are generated.

In line with our dividend policy of having a pay-out ratio of 80% of our underlying EPS, the Group is pleased to announce an interim dividend of 2p per share. The record date for the interim dividend will be 4 July 2008 and the dividend will be paid by 31 July 2008.

### **Operating results for the Interim Period**

In the six months to 31 January 2008 Group revenue increased by 181% to £14.4 million (2007 H1: £5.1 million). Excluding the acquisition, revenues were down by 9% on the prior period but with some growth at the gross profit level, which simply reflects changes in the mix of content delivery media.

Underlying pre-tax profit (before amortisation of intangible assets of £0.4 million and share based payment charges of £0.5 million increased by 48% to £3.2 million (2007 H1: £2.2 million). This increase includes the benefits of the inclusion of just under five months of the Sport Newspapers acquisition.

The positive impact of the acquisition was partially offset by the inclusion of a small interest charge associated with the modest debt taken on to finance the Sport Newspapers acquisition. Interest charges were £23,000, up from £Nil for H1 2007.

EPS decreased to 1.81p (2007 H1: 3.73p) partly due to the impact of substantially increased amortisation of intangibles and share based payment charges. Adjusted EPS, with those charges stripped out, has also decreased to 2.55p (2007: 3.86p) due to issue of 58.3 million new shares in September 2007 to fund the Sport Newspapers acquisition.

The balance sheet as at 31 January 2008 shows net assets of £49.2 million. Net debt stood at just £8.0 million at the period end. The placing in September 2007, which raised £43.7 million, was used to fund the majority of the acquisition costs of Sport Newspapers and to facilitate investment in working capital. Further deal costs of £1.2 million and debt repayment of £2.0 million were met from the cash generation

of the Group, as was the cost of acquiring new media and content rights (in addition to rights acquired with Sport Newspapers) during the period at a cost of £1.7 million.

Cash generated from operations increased by 109% to £3.5 million (2007 H1: £1.7 million) despite a substantial additional net investment in working capital in the Sport Newspapers business. The Group currently has un-drawn borrowing facilities of £2.2 million. The Group is adequately capitalised for the anticipated future growth and working capital requirement in the medium term.

### **Consolidation of acquisitions**

During the period, the Group has consolidated the acquisition of Sport Newspapers. As highlighted at the time of acquisition, an extensive 'turn around' process was required to reinvigorate the various brands. This required, and continues to require, management to address expected concerns about the products which are held by retailers, potential advertisers and customers alike.

### **Sport Newspapers Limited**

The re-launch of the Daily Sport on 21 April 2008 is the culmination of the new management team working to present a new proposition to the retail, advertiser and consumer markets, and embark on the most significant and focused marketing campaign in the newspaper's history.

The date of 21 April was chosen to ensure that re-launch avoided the extended Easter holiday period and to allow the longest stable sales period possible prior to the summer holidays. This was marginally later than originally planned and as such means that the expected benefits of the re-launch will not be felt as quickly as hoped. Nevertheless, the long term prospects for the revised formats remains very exciting, and the Board is optimistic that circulation levels will grow quickly once the re-launch takes hold.

The re-launch also sees the entire adult advertising section of the newspaper being placed into its own dedicated section in the middle of the newspaper, offering an unprecedented platform for mainstream advertisers to adopt. The Board's belief in the success of attracting mainstream advertising is supported by the commitment that has come from those advertisers who have used the paper in this transitional

phase, in particular Ladbrokes, Setanta, Dial-a-Phone, who have all become regular advertisers, prior even to the re-launch.

Much work was required in advance of the re-launch in order to maximise the benefits that would accrue. Improvements have been seen in distribution, wastage and yields since acquisition, and further substantial long terms cost savings have been identified and are commencing along side the re-launch process.

The newspaper has maintained its presence in the additional 2,000 retailers gained during the course of the year, and the Board fully expects this to rise further following the re-launch. Trial promotional activity carried out with the Somerfield supermarket group, which yielded an 8% increase in sales during the promotion, again supports the Board's belief that building commercial relationships with key retail partners will provide significant benefits to the business. Information from trials like the Somerfield promotion is being used in presentations to other key retailers, including the main retail chains.

Despite slight falls in circulation during the first half of the year, predominantly attributed to smaller supply levels, the rate of decline has slowed considerably compared to pre-acquisition levels. This has been helped by all of the improvements to the content of the newspapers, retail estate increases and the removal of shrouding in WH Smith Travel outlets announced previously.

We have also started a programme of retailer awareness, tied to the re-launch of the newspaper, to ensure greater compliance in display throughout the existing retail estate. This is considered by the Board to be as high a priority as securing new retail outlets.

New retail opportunities are being evaluated carefully to ensure optimum selling locations are prioritised, for example where a retailer can secure copy sales of over 5 copies per outlet, to ensure that the efficiencies gained in the supply chain are maintained during this expansion. We are currently discussing contracts with a number of such retailers.

Waste levels have now dropped to circa 46% and continue to fall, realizing significant savings in supply costs. This represents a drop in supplied copies from 250,000 copies per day in September 2007, to 180,000 copies per day at present.

A retailer banding system has been introduced with all wholesalers to more accurately control supply to the whole estate. This enables extra supply to be accurately allocated to only those retailers who have a specific profile and therefore obtain maximum benefit from supply changes.

Advertising yields are currently up 8% compared to pre-acquisition levels with year-on-year yield increases of 4.5%. Advertising revenues are down 8% year-on-year due to a general downturn in the adult advertising market reflecting current economic climate.

We have continued to implement significant cost savings throughout the newspaper, with editorial content costs down 10% since acquisition and 30% year-on-year.

Further consolidation of the business is occurring through a programme of voluntary redundancies which will again yield significant savings.

#### *Management team strengthened*

During the first half of the year we have secured the appointment of key staff and partners, including:

Barry McIlheney (Editor-in-Chief)

Jon Dyer (Circulation Director)

John Maddock (non-executive Director)

David Bailey (non-executive Director)

Jill Britton (Marketing consultant)

Wardour Publishing and Design (London advertising representation)

Julian Bovis (Re-launch art director)

I am pleased to report that during the period under review we also appointed Andrew Fickling as an Executive Director of the Company and Managing Director of Sport Newspapers. After the period end we were further delighted to announce Andrew as Chief Executive Officer of the Group.

In addition, James Brown was appointed as consultant Editor of Sport Newspapers.

On 14 January 2008 we announced the appointment of Barry McIlheney as Editor-in-Chief of Sport Newspapers. Barry spent 21 highly successful years at Emap plc, where he was responsible for a number of landmark publishing achievements, including heading up the teams that launched Heat, FHM and Zoo.

Attracting someone of the calibre of Barry to The Sport is a great coup and will allow us to continue to build the paper as a vehicle to reach young men on a daily basis. He has almost unparalleled success in magazine editing and launches and we are confident that Barry can replicate this success at The Sport.

These appointments significantly strengthen our management team and will provide added support as we continue to grow and develop our business.

### **Netcollex Limited**

The Netcollex Mobile Content business, whilst still being highly profitable, has been affected by a more cautious approach to celebrity content being taken by publishers in the UK, as a result of the use of the Human Rights Act to protect against invasion of privacy. This has led to prime video content opportunities being lost. The Directors have been advised that publishers in print have shied away from publication in the face of threatened privacy litigation. The 'public interest' argument over the right to privacy has yet to be truly tested in the Courts. However a recent high profile story involving a prominent figure of the motor racing industry may go to court and is likely to have a substantial impact in the development of this area.

Mobile network operators have started to open up their portals to our services with two networks now live with our sites and test results for this have been encouraging for both us and the network partners, a planned roll out later in the year will be good for sales in 2008/2009.

Overseas markets have not been exploited as originally hoped, Australia now has age verification in place across all 3 networks, however so far only approximately 2,000 individuals have age verified themselves. Unlike the UK they did not pre-opt in all their contract customers. As the pool of age verified users grows it will be a market we will push into and similar positions are being monitored in Eire, Spain and South Africa.

Video on Demand (VOD) with Strictly Broadband has seen their continuance as the market leader in the UK for adult VOD. Growth in sales has flattened in the last 6 months and the traffic from Google has been brought back to in-house management after 2 agencies were trialled for 3 monthly contracts and shown to be less effective. Other methods of getting traffic to the website are being pursued with strategic partnerships in negotiation. Strictly Broadband has piloted with the BBFC for the certificated VOD product and this puts us in a unique position to allow internet service providers to deal with a trusted legalised distributor and this will facilitate more deals in the coming year.

Locked DVD's have shown good sales growth with distribution occurring through retail, mail order and publishing all of which are being exploited in equal measure. The method of payment for unlocking is via voice call and reverse-billed SMS and we intend to introduce credit card billing in Q3 2008. Three DVD's have been commissioned to go out with editions of the Sunday Sport in April, May and June, providing opportunities for both circulation increase and revenue from DVD content.

### **Trading update**

Whilst the first half of the year has been broadly in line with our expectations, it has become clear recently that our customers are not immune to the present economic uncertainty being felt across the country.

In view of weaknesses in the market at the turn of the year, we took the strategic decision to postpone the planned Q1 2008 re-launch of the titles until after the extended Easter period to ensure optimum return from the marketing spend allocated to this project.

As a 'second purchase' product, the current climate has inevitably put our newspaper circulations under pressure and, whilst the successes achieved in slowing the rate of decline since acquisition have encouraged the Board, we have taken a more cautious view on future growth.

Purchasing patterns across all of our business are strongly impulse driven and we believe take-up of our products and services, particularly of our new digital partnerships with the major mobile networks, has similarly been slower than

expected as a result, however the Board do not believe that there has been any fundamental change in the growth strategy adopted.

Throughout the entire sector, advertising spend has declined, but the Board are encouraged that, despite affecting display advertising in the newspaper, classified advertising has mitigated this decline and is running at its strongest rate since acquisition.

As a result of the above, the momentum and growth we were predicting for the second half of the year will be less dramatic than originally expected, delayed partly because of the general economic environment, and partly because of the strategic re-evaluation of the optimum re-launch date in order to provide the maximum opportunity for positive impact.

The re-launch and associated marketing and PR activity will reinvigorate the newspapers, and present them to an audience of media buyers, retailers and consumers who have previously discounted, or not been exposed to them before. It will also firmly establish the papers as a unique offering on the newsstand, creating a valuable platform for advertisers targeting our audience profile. In addition to benefiting the paper's revenue streams, increases in circulation resulting from this activity will have an immediate positive impact on the digital side of the Group, providing opportunities for increased response across all digital offerings.

The strengthening of the management team also ensures that a coherent internet strategy can now be developed for the newspapers, which will be rolled out following the re-launch, bringing a digital publishing element to the current mix within the Group, and enhancing our advertising platforms even further.

At the time of the acquisition of Sport Newspapers our forecast for the year was second-half loaded to accommodate the planned changes to the newspapers. Although the first half has been broadly in line with that forecast, our attitude looking forward is more prudent for the reasons discussed above. The re-launch and associated activities over the coming weeks will quickly allow us to gain a better perspective on progress. The continued success achieved in reducing costs across all areas of the Group to date puts us in a strong position for growth into 2009 and beyond.

Finally, I would like to take this opportunity to thank our staff for their dedication and excellent work to date and look forward to updating shareholders with further progress in due course.

**Simon Hume Kendal**

**Chairman**

**21 April 2008**

## CONSOLIDATED INTERIM INCOME STATEMENT

|   |             | <b>6 months to<br/>31 Jan<br/>2008<br/>Unaudited<br/>£'000s</b> |                                |                | 6 months to<br>31 Jan<br>2007<br>Restated<br>Unaudited<br>£'000s | Year to<br>31 July<br>2007<br>Restated<br>Unaudited<br>£'000s |
|---|-------------|---|--------------------------------|----------------|--|---|
|   | <b>Note</b> | <b>Continuing<br/>£'000s</b>                                    | <b>Acquisitions<br/>£'000s</b> |                |  |   |
| Revenue   | <b>2</b>    | 4,628   | 9,736                          | <b>14,364</b>  | 5,109  | 11,363  |
| Cost of sales   |             | (1,789)   | (5,355)                        | <b>(7,144)</b> | (2,296)  | (4,361)   |
|   |             | <hr/>   | <hr/>                          | <hr/>          | <hr/>  | <hr/>   |
| <b>Gross profit</b>   |             | 2,839   | 4,381                          | <b>7,220</b>   | 2,813  | 7,002   |
| Administrative costs  |             | (1,498)   | (3,454)                        | <b>(4,952)</b> | (776)  | (1,711)   |
|   |             | <hr/>   | <hr/>                          | <hr/>          | <hr/>  | <hr/>   |
| <b>Operating profit</b>   | <b>2</b>    | 1,341   | 927                            | <b>2,268</b>   | 2,037  | 5,291   |
| Interest received   |             |   |                                | 77             | 65   | 109   |
| Finance costs   |             |   |                                | <b>(23)</b>    | -  | (2)   |
|   |             |   |                                | <hr/>          | <hr/>  | <hr/>   |
| <b>Profit before tax analysed between:</b>  |             |   |                                |                |  |   |
| Profit before amortisation of intangibles and share based payments  |             |   |                                | <b>3,210</b>   | 2,169  | 5,568   |
| Amortisation of intangibles   |             |   |                                | <b>(418)</b>   | (47)   | (110)   |
| Share based payments  |             |   |                                | <b>(470)</b>   | (20)   | (60)  |
| <b>Profit before tax</b>  |             |   |                                | <b>2,322</b>   | 2,102  | 5,398   |
| Income taxes  |             |   |                                | <b>(737)</b>   | (658)  | (1,665)   |
| <b>Profit for the period from continuing operations</b>   |             |   |                                | <b>1,585</b>   | 1,444  | 3,733   |
| Minority interest   |             |   |                                | <b>(40)</b>    | (10)   | (43)  |
| <b>Profit for the period attributable to equity holders of the Company</b>                                |             |   |                                | <b>1,545</b>   | 1,434  | 3,690   |
| <b>Earnings per share for profit attributable to the equity holders of the Company during the period:</b> |             |   |                                |                |  |   |
| Basic earnings per share  | <b>3</b>    |   |                                | <b>1.81p</b>   | 3.73p  | 9.57p   |
| Adjusted earnings per share   | <b>3</b>    |   |                                | <b>2.55p</b>   | 3.86p  | 9.88p   |
| Diluted earnings per share  | <b>3</b>    |   |                                | <b>1.61p</b>   | 3.39p  | 8.72p   |

## CONSOLIDATED INTERIM BALANCE SHEET

|  | 31 Jan 2007<br>Unaudited | 31 Jan 2007<br>Restated<br>Unaudited | 31 July 2007<br>Restated<br>Unaudited |
|--|--------------------------|--------------------------------------|---------------------------------------|
| Note   | £'000s                   | £'000s                               | £'000s                                |
| <b>Non-current assets</b>                                  |                          |                                      |                                       |
| Property, plant and equipment                              | 393                      | 122                                  | 126                                   |
| Indefinite lived assets                                    | 4     31,751             | -                                    | -                                     |
| Customer relationships and contracts                       | 4     3,559              | 145                                  | 130                                   |
| Goodwill   | 4     24,700             | 166                                  | 200                                   |
| Other intangible assets                                    | 4     4,922              | 746                                  | 770                                   |
| Investments  | 3                        | -                                    | 3                                     |
| Deferred tax assets  | 141                      | 8                                    | 20                                    |
|  | <u>65,469</u>            | <u>1,187</u>                         | <u>1,249</u>                          |
| <b>Current assets</b>                                      |                          |                                      |                                       |
| Inventories  | 100                      | -                                    | 35                                    |
| Trade and other receivables                                | 7,559                    | 2,273                                | 4,390                                 |
| Cash and cash equivalents                                  | 1,118                    | 2,387                                | 1,704                                 |
|  | <u>8,777</u>             | <u>4,660</u>                         | <u>6,129</u>                          |
| <b>Total assets</b>  | <u><u>74,246</u></u>     | <u><u>5,847</u></u>                  | <u><u>7,378</u></u>                   |
| <b>Current liabilities</b>                                 |                          |                                      |                                       |
| Trade and other payables                                   | 3,853                    | 1,263                                | 1,518                                 |
| Short-term borrowings                                      | 8,924                    | 326                                  | -                                     |
| Current tax payable  | 1,005                    | 392                                  | 914                                   |
|  | <u>13,782</u>            | <u>1,981</u>                         | <u>2,432</u>                          |
| <b>Non-current liabilities</b>                             |                          |                                      |                                       |
| Deferred tax   | 11,307                   | -                                    | -                                     |
|  | <u>11,307</u>            | <u>-</u>                             | <u>-</u>                              |
| <b>Total liabilities</b>                                   | <u><u>25,089</u></u>     | <u><u>1,981</u></u>                  | <u><u>2,432</u></u>                   |
| <b>Total net assets</b>                                    | <u><u>49,157</u></u>     | <u><u>3,866</u></u>                  | <u><u>4,946</u></u>                   |
| <b>Equity attributable to equity holders of the parent</b> |                          |                                      |                                       |
| Share capital  | 6     242                | 96                                   | 96                                    |
| Share premium account                                      | 44,741                   | 1,262                                | 1,187                                 |
| Other reserves   | 100                      | 100                                  | 100                                   |
| Share option reserve                                       | 538                      | 28                                   | 68                                    |
| Retained earnings  | 3,465                    | 2,366                                | 3,464                                 |
| <b>Equity shareholder' funds</b>                           | <u>49,086</u>            | <u>3,852</u>                         | <u>4,915</u>                          |
| Minority interest  | 71                       | 14                                   | 31                                    |
| <b>Total shareholders' funds</b>                           | <u><u>49,157</u></u>     | <u><u>3,866</u></u>                  | <u><u>4,946</u></u>                   |

## CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

|                                   | Note     | Share<br>capital<br>£'000s | Share<br>premium<br>account<br>£'000s | Other<br>reserves<br>£'000s | Share<br>option<br>reserve<br>£'000s | Retained<br>earnings<br>£'000s | Total<br>equity<br>£'000s |
|-----------------------------------|----------|----------------------------|---------------------------------------|-----------------------------|--------------------------------------|--------------------------------|---------------------------|
| <b>Balance at 1 August 2006</b>   |          | <b>96</b>                  | <b>1,161</b>                          | <b>100</b>                  | <b>8</b>                             | <b>2,470</b>                   | <b>3,835</b>              |
| Profit for the period             |          | -                          | -                                     | -                           | -                                    | 1,434                          | 1,434                     |
| Value of options granted          |          | -                          | -                                     | -                           | 20                                   | -                              | 20                        |
| Dividends                         | <b>5</b> | -                          | -                                     | -                           | -                                    | (1,538)                        | (1,538)                   |
| Issue of share capital            | <b>6</b> | -                          | 106                                   | -                           | -                                    | -                              | 106                       |
| Cost of shares issued             |          | -                          | (5)                                   | -                           | -                                    | -                              | (5)                       |
| <b>Balance at 31 January 2007</b> |          | <b>96</b>                  | <b>1,262</b>                          | <b>100</b>                  | <b>28</b>                            | <b>2,366</b>                   | <b>3,852</b>              |
| Profit for the period             |          | -                          | -                                     | -                           | -                                    | 2,256                          | 2,256                     |
| Value of options granted          |          | -                          | -                                     | -                           | 40                                   | -                              | 40                        |
| Dividends                         | <b>5</b> | -                          | -                                     | -                           | -                                    | (1,158)                        | (1,158)                   |
| Issue of share capital            | <b>6</b> | -                          | -                                     | -                           | -                                    | -                              | -                         |
| Cost of shares issued             |          | -                          | (75)                                  | -                           | -                                    | -                              | (75)                      |
| <b>Balance at 31 July 2007</b>    |          | <b>96</b>                  | <b>1,187</b>                          | <b>100</b>                  | <b>68</b>                            | <b>3,464</b>                   | <b>4,915</b>              |
| Profit for the period             |          | -                          | -                                     | -                           | -                                    | 1,545                          | 1,545                     |
| Value of options granted          |          | -                          | -                                     | -                           | 41                                   | -                              | 41                        |
| Value of share bonus granted      |          | -                          | -                                     | -                           | 429                                  | -                              | 429                       |
| Dividends                         | <b>5</b> | -                          | -                                     | -                           | -                                    | (1,544)                        | (1,544)                   |
| Issue of share capital            | <b>6</b> | 146                        | 43,554                                | -                           | -                                    | -                              | 43,700                    |
| <b>Balance at 31 January 2008</b> |          | <b>242</b>                 | <b>44,741</b>                         | <b>100</b>                  | <b>538</b>                           | <b>3,465</b>                   | <b>49,086</b>             |

## CONSOLIDATED INTERIM CASH FLOW STATEMENTS

|   | 6 months to<br>31 Jan<br>2008<br>Unaudited<br>£'000s | 6 months to<br>31 Jan 2007<br>Restated<br>Unaudited<br>£'000s | Year to 31<br>July 2007<br>Restated<br>Unaudited<br>£'000s |
|---|--|---|--|
| Note  |  |   |  |
| <b>Cash flows from operating activities</b>                 |  |   |  |
| Operating profit  | 2,268  | 2,037   | 5,291  |
| Adjustments for:  |  |   |  |
| Depreciation  | 103  | 36  | 106  |
| Amortisation of intangible assets                           | 418  | 47  | 110  |
| Share based payments  | 470  | 20  | 60   |
| Profit on disposal of investments                           | (106)  | -   | -  |
| Decrease/(increase) in trade and other<br>receivables       | 1,599  | (176)   | (2,292)  |
| (Increase) in inventories                                   | (60)   | -   | (35)   |
| (Decrease)/increase in trade & other<br>payables            | (1,209)  | (294)   | (96)   |
| <b>Cash generated from operations</b>                       | <b>3,483</b>   | <b>1,670</b>  | <b>3,144</b>   |
| Interest received   | 77   | 65  | 109  |
| Interest paid   | (23)   | -   | (2)  |
| Income taxes paid   | (873)  | (942)   | (1,439)  |
| <b>Net cash from operating activities</b>                   | <b>2,664</b>   | <b>793</b>  | <b>1,812</b>   |
| <b>Cash flows from investing activities</b>                 |  |   |  |
| Acquisitions of subsidiaries net of cash acquired           | (47,911)   | (4)   | (4)  |
| Purchase of property, plant and equipment                   | (70)   | (33)  | (101)  |
| Purchase of intangible assets                               | (1,455)  | (500)   | (500)  |
| Deferred development expenditure                            | (250)  | (72)  | (144)  |
| Sale/(purchase) of investments                              | 356  | -   | (3)  |
| <b>Net cash used in investing activities</b>                | <b>(49,330)</b>                                      | <b>(609)</b>  | <b>(752)</b>   |
| <b>Cash flows from financing activities</b>                 |  |   |  |
| Proceeds from issue of share capital                        | 6 43,700   | -   | -  |
| Share issue costs   | 6 -  | (5)   | (80)   |
| Proceeds from new borrowings                                | 5,000  | -   | -  |
| Repayment of borrowings                                     | (1,076)  | -   | -  |
| Payment of equity dividends                                 | 5 (1,544)  | (1,538)   | (2,696)  |
| <b>Net cash from financing activities</b>                   | <b>46,080</b>  | <b>(1,543)</b>  | <b>(2,776)</b>   |
| <b>Net decrease in cash and cash<br/>equivalents</b>        | <b>(586)</b>   | <b>(1,359)</b>  | <b>(1,716)</b>   |
| <b>Cash and cash equivalents at beginning of<br/>period</b> | <b>1,704</b>   | <b>3,420</b>  | <b>3,420</b>   |
| <b>Cash and cash equivalents at end of period</b>           | <b>1,118</b>   | <b>2,061</b>  | <b>1,704</b>   |

## **NOTES TO THE CONSOLIDATED INTERIM FINANCIAL INFORMATION**

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

The consolidated interim financial information is for the six months ended 31 January 2008. It has been prepared in accordance with the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" relevant to interim reports, because they are part of the period covered by the Group's first IFRS financial statements for the year ended 31 July 2008. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 July 2007.

The consolidated interim financial information (the interim financial information) has been prepared in accordance with the accounting policies set out in full in the IFRS Transition Document which has been published today and which can be found on our website ([www.sportmediagroup.co.uk](http://www.sportmediagroup.co.uk)) and which are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are expected to be adopted and effective at 31 July 2008, our first annual reporting date at which we are required to use IFRS accounting standards adopted by the EU.

Sport Media Group Plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 July 2007. The date of transition to IFRS was 1 August 2006, as a result, comparative figures in respect of 2007 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules presented and explained in full in the IFRS Transition Document.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated interim financial statements.

This consolidated interim financial information was been approved for issue by the Board of Directors on 21 April 2008.

The financial information set out in this interim report does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. The Group's statutory financial statements for the year ended 31 July 2007, prepared under UK GAAP, have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain a statement under Section 237(2) of the Companies Act 1985.

## **2. Segment analysis**

Prior to the acquisition of Sport Newspapers the Group was organised for management purposes into a single operating division delivering digital content to mobile telephony and internet based platforms. Following the acquisition of Sport Newspapers the group is organised into two operating divisions for management purposes – digital content deliver and newspapers.

### **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 deliver 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**

For internal reporting purposes the group records and monitors revenues of the newspapers division according to the nature of the revenues – from the wholesale distribution of newspaper titles and from advertising, differentiating its advertising revenues between classified and display. The group does not differentiate cost of sales in the newspaper division between wholesale and advertising revenue streams as the overwhelming majority of such costs represent shared costs of producing, printing and distributing its newspaper titles. Similarly, administrative expenses of

the newspapers 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 newspapers business consist of computer equipment and fixtures and fittings, which are utilised in the production of the titles. All of the group's newspaper activities are currently carried out in the United Kingdom and republic of Ireland.

### 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.

An analysis of revenues and costs and assets employed is set out below:

|                            | Digital<br>content<br>£'000s | Newspapers<br>£'000s | 6m to<br>31 Jan 2008<br>Total<br>£'000s | 6m to<br>31 Jan 2007<br>£'000s<br>Unaudited | 12m to<br>31 July 2007<br>£'000s<br>Unaudited |
|----------------------------|------------------------------|----------------------|---|---|---|
| <b>Revenues:</b>           |                              |                      |   |   |   |
| Mobile telephony           | 3,338                        | 7                    | <b>3,345</b>                            | 3,789                                       | 7,688   |
| Internet                   | 1,290                        | 126                  | <b>1,416</b>                            | 1,320                                       | 3,675   |
| Wholesale                  | -                            | 5,116                | <b>5,116</b>                            | -   | -   |
| Advertising                | -                            | 4,487                | <b>4,487</b>                            | -   | -   |
| <b>Total</b>               | <b>4,628</b>                 | <b>9,736</b>         | <b>14,364</b>                           | 5,019                                       | 11,363  |
| <b>Operating profit</b>    |                              |                      | <b>2,268</b>                            | 2,037                                       | 5,291   |
| Finance income             |                              |                      | <b>54</b>                               | 65  | 107   |
| <b>Profit before tax</b>   |                              |                      | <b>2,322</b>                            | 2,102                                       | 5,398   |
| Intangible assets          | 1,561                        | 63,371               | <b>64,932</b>                           | 1,057                                       | 1,100   |
| Other assets               | 2,279                        | 7,035                | <b>9,314</b>                            | 4,790                                       | 6,278   |
| Liabilities                | (2,226)                      | (22,863)             | <b>(25,089)</b>                         | (1,981)                                     | (2,432)                                       |
| <b>Net assets employed</b> | <b>1,614</b>                 | <b>47,543</b>        | <b>49,157</b>                           | 3,866                                       | 4,946   |

### 3. Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders of the Company 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.

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

#### 6 months to 31 January 2008

|   | Earnings<br>£'000s | Weighted<br>Average<br>number of<br>shares | Per share<br>amount<br>Pence |
|---|--------------------|--|------------------------------|
| <b>Continuing and total operations</b>  |                    |  |                              |
| Profit after tax  | 1,545              | 85,451,545                                 |                              |
| Earnings attributable to ordinary shareholders                                  | 1,545              |  |                              |
| Weighted average number of shares (used for basic earnings per share)           |                    | 85,451,545                                 |                              |
| Dilutive effect of options  | -                  | 3,754,802                                  |                              |
| Dilutive effect of share bonus schemes  | -                  | 6,779,604                                  |                              |
| Diluted weighted average number of shares (used for diluted earnings per share) | 1,545              | 95,985,951                                 |                              |
| Basic earnings per share  |                    |  | 1.81p                        |
| Diluted earnings per share  |                    |  | 1.61p                        |

#### 6 months to 31 January 2007

|   | Earnings<br>£'000s | Weighted<br>Average<br>number of<br>shares | Per share<br>Amount<br>Pence |
|---|--------------------|--|------------------------------|
| <b>Continuing and total operations</b>  |                    |  |                              |
| Profit after tax  | 1,434              | 38,495,252                                 |                              |
| Earnings attributable to ordinary shareholders                                  | 1,434              |  |                              |
| Weighted average number of shares (used for basic earnings per share)           |                    | 38,495,252                                 |                              |
| Dilutive effect of options  | -                  | 3,754,802                                  |                              |
| Diluted weighted average number of shares (used for diluted earnings per share) | 1,434              | 42,250,054                                 |                              |
| Basic earnings per share  |                    |  | 3.73p                        |
| Diluted earnings per share  |                    |  | 3.39p                        |

#### Year to 31 July 2007

**Weighted  
Average**

|   | Earnings<br>£'000s | number of<br>shares | Per share<br>amount<br>Pence |
|---|--------------------|---------------------|------------------------------|
| <b>Continuing and total operations</b>  |                    |                     |                              |
| Profit after tax  | 3,690              | 38,550,066          |                              |
| Earnings attributable to ordinary shareholders                                  | 3,690              |                     |                              |
| Weighted average number of shares (used for basic earnings per share)           |                    | 38,550,066          |                              |
| Dilutive effect of options  | -                  | 3,754,802           |                              |
| Diluted weighted average number of shares (used for diluted earnings per share) | 3,690              | 42,304,868          |                              |
| Basic earnings per share  |                    |                     | 9.57p                        |
| Diluted earnings per share  |                    |                     | 8.72p                        |

### 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 and after amortisation of acquired intangible assets and the costs of share based payments. The calculation of adjusted earnings per share is set out below:

|   | 6 months to<br>31 Jan<br>2008 | 6 months to 31<br>Jan<br>2007<br>Restated<br>Unaudited | Year to<br>31 July<br>2007<br>Restated<br>Unaudited |
|---|-------------------------------|--|---|
| Earnings attributable to ordinary shareholders (£'000s)               | 1,545                         | 1,434  | 3,690   |
| Post-tax amortisation of acquired intangible assets (£'000s)          | 293                           | 33   | 77  |
| Post-tax cost of share based payments (£'000s)                        | 329                           | 14   | 42  |
| <b>Adjusted profit on ordinary activities after taxation (£'000s)</b> | <b>2,167</b>                  | <b>1,481</b>   | <b>3,809</b>  |
| <b>Weighted average number of shares in issue – basic</b>             | <b>85,451,545</b>             | <b>38,495,252</b>                                      | <b>38,550,066</b>                                   |
| <b>- diluted</b>  | <b>95,985,951</b>             | <b>42,250,054</b>                                      | <b>42,304,868</b>                                   |
| Basic earnings per share (pence)                                      | 1.81                          | 3.73   | 9.57  |
| Amortisation of acquired intangible assets (pence)                    | 0.34                          | 0.09   | 0.20  |
| Cost of share based payments (pence)                                  | 0.40                          | 0.04   | 0.11  |
| <b>Adjusted earnings per share (pence)</b>                            |                               |  |   |
| <b>- basic</b>  | <b>2.55</b>                   | <b>3.86</b>  | <b>9.88</b>   |
| <b>- diluted</b>  | <b>2.35</b>                   | <b>3.52</b>  | <b>9.03</b>   |

#### 4. Additions and disposals of intangible assets

The following tables show the significant additions and disposals to intangible assets.

|   | Indefinite<br>lived assets<br>£'000s | Customer<br>relationships<br>£'000s | Goodwill<br>£'000s | Other<br>intangibles<br>£'000s | Total<br>£'000s<br>Unaudited |
|---|--------------------------------------|-------------------------------------|--------------------|--------------------------------|------------------------------|
| <b>Carrying amount at<br/>1 August 2007</b>   | -                                    | 130                                 | 200                | 770                            | 1,100                        |
| Acquisitions                                  | 31,751                               | 3,662                               | 24,500             | 2,632                          | 62,545                       |
| Additions                                     | -                                    | -                                   | -                  | 1,705                          | 1,705                        |
| Amortisation                                  | -                                    | (233)                               | -                  | (185)                          | (418)                        |
| <b>Carrying amount at<br/>31 January 2008</b> | <b>31,751</b>                        | <b>3,559</b>                        | <b>24,700</b>      | <b>4,922</b>                   | <b>64,932</b>                |
|   |                                      |                                     |                    |                                |                              |
|   | Indefinite<br>lived assets<br>£'000s | Customer<br>relationships<br>£'000s | Goodwill<br>£'000s | Other<br>Intangibles<br>£'000s | Total<br>Unaudited<br>£'000s |
| <b>Carrying amount at<br/>1 August 2006</b>   | -                                    | -                                   | -                  | 216                            | 216                          |
| Additions                                     | -                                    | 150                                 | 166                | 572                            | 888                          |
| Amortisation                                  | -                                    | (5)                                 | -                  | (42)                           | (47)                         |
| <b>Carrying amount at<br/>31 January 2007</b> | <b>-</b>                             | <b>145</b>                          | <b>166</b>         | <b>746</b>                     | <b>1,057</b>                 |
|   |                                      |                                     |                    |                                |                              |
|   | Indefinite<br>lived assets<br>£'000s | Customer<br>relationships<br>£'000s | Goodwill<br>£'000s | Other<br>intangibles<br>£'000s | Total<br>£'000s<br>Unaudited |
| <b>Carrying amount at<br/>1 February 2007</b> | -                                    | 145                                 | 166                | 746                            | 1,057                        |
| Additions                                     | -                                    | -                                   | 82                 | 24                             | 106                          |
| Amortisation                                  | -                                    | (15)                                | (48)               | -                              | (63)                         |
| <b>Carrying amount at<br/>31 July 2007</b>    | <b>-</b>                             | <b>130</b>                          | <b>200</b>         | <b>770</b>                     | <b>1,100</b>                 |

## 5. Dividends

|  | 6 months to<br>31 Jan<br>2008<br>Unaudited<br>£'000s | 6 months to<br>31 Jan 2007<br>Restated<br>Unaudited<br>£'000s | Year to 31<br>July 2007<br>Restated<br>Unaudited<br>£'000s |
|--|--|---|--|
| <b>Dividends paid</b>                        |  |   |  |
| 2006 final dividend - 4.00 pence per share   | -  | 1,538   | 1,538  |
| 2007 interim dividend - 3.00 pence per share | -  | -   | 1,158  |
| 2007 final dividend – 4.00 pence per share   | <b>1,544</b>   | -   | -  |
|  | <b>1,544</b>   | <b>1,538</b>  | <b>2,696</b>   |

## 6. Share issue

During the period to 31 January 2008 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. Shares issued and authorised for the period to 31 January 2008 are summarised as follows:

### 6 months to 31 January 2008

|                              | <b>Number</b>     | <b>£'000s</b> |
|------------------------------|-------------------|---------------|
| At 1 August 2007             | 38,584,880        | 96            |
| Issue of 'A' ordinary shares | 58,266,667        | 146           |
| At 31 January 2008           | <u>96,851,547</u> | <u>242</u>    |

### 6 months to 31 January 2007

|                    | <b>Number</b>     | <b>£'000s</b> |
|--------------------|-------------------|---------------|
| At 1 August 2006   | 38,450,438        | 96            |
| Issue of shares    | 134,442           | -             |
| At 31 January 2007 | <u>38,584,880</u> | <u>96</u>     |

### Year to 31 July 2007

|                  | <b>Number</b>     | <b>£'000s</b> |
|------------------|-------------------|---------------|
| At 1 August 2006 | 38,450,438        | 96            |
| Issue of shares  | 134,442           | -             |
| At 31 July 2007  | <u>38,584,880</u> | <u>96</u>     |

The share issue during the period yielded approximately £40 million in cash net of placing costs and increased equity by the same amount. The weighted average share price at the date of issue was £0.75p.

## 7. Share options and share based payments

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

| <b>Outstanding</b> | <b>Granted during</b> | <b>Exercised during</b> | <b>Outstanding</b> | <b>Exercise</b> | <b>Date of</b> | <b>First date of</b> | <b>Final date of</b> |
|--------------------|-----------------------|-------------------------|--------------------|-----------------|----------------|----------------------|----------------------|
|--------------------|-----------------------|-------------------------|--------------------|-----------------|----------------|----------------------|----------------------|

| <b>01.08.07</b>  | <b>period</b> | <b>period</b> | <b>31.01.08</b>  | <b>price</b> | <b>grant</b> | <b>exercise</b> | <b>exercise</b> |
|------------------|---------------|---------------|------------------|--------------|--------------|-----------------|-----------------|
| 463,972          | -             | -             | <b>463,972</b>   | 73p          | 08.05.06     | 08.05.07        | 08.05.10        |
| 1,345,765        | -             | -             | <b>1,345,765</b> | 73p          | 08.05.06     | 08.05.06        | 08.05.11        |
| 1,237,699        | -             | -             | <b>1,237,699</b> | 73p          | 08.05.06     | 08.05.06        | 08.05.16        |
| 707,366          | -             | -             | <b>707,366</b>   | 79.25p       | 01.11.06     | 01.11.09        | 01.11.16        |
| <b>3,754,802</b> | -             | -             | <b>3,754,802</b> |              |              |                 |                 |

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 profit and loss account 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.

The inputs into the model were as follows:

| <b>Granted</b>                  | <b>Unapproved</b> | <b>Other 2006</b> | <b>Other 2006</b> | <b>EMI 2007</b> |
|---------------------------------|-------------------|-------------------|-------------------|-----------------|
| Weighted average share price    | 73.00p            | 73.00p            | 73.00p            | 79.25p          |
| Weighted average exercise price | 73.00p            | 73.00p            | 73.00p            | 79.25p          |
| Expected volatility             | 25%               | 25%               | 25%               | 46%             |
| Expected life                   | 2 years           | 5 years           | 10 years          | 10 years        |
| Risk-free rate                  | 4%                | 4%                | 4%                | 4%              |
| Expected dividend yield         | 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 have estimated the actual volatility at the date of grant by reference to the company's share price since admission to AIM.

### **New schemes**

During the period three directors and one senior employee of the group were granted rights to acquire new ordinary shares under new schemes as follows:

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. At 31 January 2008 the following rights to acquire shares had been granted under the schemes:

| <b>Scheme</b> | <b>Rights over shares<br/>awarded</b> | <b>Vesting period</b> |
|---------------|---------------------------------------|-----------------------|
| ESBP          | 1,452,771                             | 18 months             |
| EIP           | 3,631,932                             | 36 months             |
| NESBP         | 484,257                               | 18 months             |
| NEIP          | 1,210,644                             | 36 months             |
| <b>Total</b>  | <b>6,779,604</b>                      |                       |

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 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 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 profit and loss account on a straight line basis over the vesting period, which is determined annually.

## **8. Business combinations**

Fair value adjustments have been made to the book value of the assets and liabilities in the Sport Newspapers Limited group of companies ('Sport Newspapers') to adjust, where applicable, the carrying value of certain assets and liabilities. The fair values

below are preliminary and will be further reviewed based on additional information available at 31 July 2008.

On 5 September 2007 the Company completed the acquisition of Sport Newspapers.

The acquired assets and liabilities of Sport Newspapers were:

|  | <b>Book<br/>Value<br/>£'000s</b> | <b>Fair value<br/>adjustment<br/>£'000s</b> | <b>Provisional<br/>fair value<br/>£'000s</b> |
|--|----------------------------------|---|--|
| Newspaper mastheads, publishing rights<br>and imprints | -                                | 31,751                                      | 31,751                                       |
| Content library  | -                                | 1,982                                       | 1,982  |
| Websites   | -                                | 650   | 650  |
| Customer relationships and contracts                   | -                                | 3,662                                       | 3,662  |
| Property, plant and equipment                          | 300                              | -   | 300  |
| Investments  | 450                              | (200)                                       | 250  |
| Inventories  | 5                                | -   | 5  |
| Trade and other receivables                            | 4,768                            | -   | 4,768  |
| Cash at bank   | 1,959                            | -   | 1,959  |
| Trade and other payables                               | (3,544)                          | -   | (3,544)                                      |
| Deferred tax   | -                                | (11,413)                                    | (11,413)                                     |
|  | <hr/>                            | <hr/>                                       | <hr/>  |
| Net assets acquired                                    | 3,938                            | 26,432                                      | 30,370                                       |
| Goodwill   |                                  |   | 24,500                                       |
|  |                                  |   | <hr/>  |
| Consideration  |                                  |   | 54,870                                       |
|  |                                  |   | <hr/> <hr/>                                  |
| Satisfied by:  |                                  |   |  |
| Cash   |                                  |   | 40,000                                       |
| Deferred consideration                                 |                                  |   | 5,000  |
| Loan notes   |                                  |   | 5,000  |
| Acquisition costs                                      |                                  |   | 4,870  |
|  |                                  |   | <hr/>  |
|  |                                  |   | 54,870                                       |
|  |                                  |   | <hr/> <hr/>                                  |

The material provisional fair value adjustments to the net assets of Sport Newspapers were:

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.

## 9. Explanation of transition to IFRS

Full details of the impact of the Group's transition to IFRS are set out in the IFRS Transition Document. As required by IFRS 1 in relation to the content of interim reports, set out below are a reconciliation of equity as previously reported at 31 January 2007 and a reconciliation of profits and losses as previously reported in the period ended 31 January 2007.

### Reconciliation of equity at 31 January 2007

|                                      | UK<br>GAAP<br>£'000s | a<br>£'000s | b<br>£'000s | c<br>£'000s | d<br>£'000s | e<br>£'000s  | IFRS<br>£'000s |
|--------------------------------------|----------------------|-------------|-------------|-------------|-------------|--------------|----------------|
| <b>Non-current assets</b>            |                      |             |             |             |             |              |                |
| Property, plant and equipment        | 122                  | -           | -           | -           | -           | -            | 122            |
| Customer relationships and contracts | -                    | -           | -           | 145         | -           | -            | 145            |
| Goodwill                             | 313                  | -           | 3           | (150)       | -           | -            | 166            |
| Other intangible assets              | 483                  | -           | -           | -           | 263         | -            | 746            |
| Deferred tax assets                  | -                    | 8           | -           | -           | -           | -            | 8              |
| <b>Total non-current assets</b>      | <b>918</b>           | <b>8</b>    | <b>3</b>    | <b>(5)</b>  | <b>263</b>  | <b>-</b>     | <b>1,187</b>   |
| <b>Current assets</b>                |                      |             |             |             |             |              |                |
| Trade and other receivables          | 2,435                | -           | -           | -           | -           | (162)        | 2,273          |
| Cash and cash equivalents            | 2,387                | -           | -           | -           | -           | -            | 2,387          |
| <b>Total current assets</b>          | <b>4,822</b>         | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>(162)</b> | <b>4,660</b>   |
| <b>Total assets</b>                  | <b>5,740</b>         | <b>8</b>    | <b>3</b>    | <b>(5)</b>  | <b>263</b>  | <b>(162)</b> | <b>5,847</b>   |
| <b>Current liabilities</b>           |                      |             |             |             |             |              |                |
| Trade and other payables             | 1,263                | -           | -           | -           | -           | -            | 1,263          |
| Short-term borrowings                | 326                  | -           | -           | -           | -           | -            | 326            |
| Current tax payable                  | 370                  | -           | -           | -           | 22          | -            | 392            |
| <b>Total current liabilities</b>     | <b>1,959</b>         | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>22</b>   | <b>-</b>     | <b>1,981</b>   |
| <b>Total liabilities</b>             | <b>1,959</b>         | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>22</b>   | <b>-</b>     | <b>1,981</b>   |
| <b>Net assets</b>                    | <b>3,781</b>         | <b>8</b>    | <b>3</b>    | <b>(5)</b>  | <b>241</b>  | <b>(162)</b> | <b>3,866</b>   |
| <b>Equity</b>                        |                      |             |             |             |             |              |                |
| Share capital                        | 96                   | -           | -           | -           | -           | -            | 96             |
| Share premium account                | 1,262                | -           | -           | -           | -           | -            | 1,262          |

|                                   |              |          |          |            |            |              |              |
|-----------------------------------|--------------|----------|----------|------------|------------|--------------|--------------|
| Other reserves                    | 100          | -        | -        | -          | -          | -            | 100          |
| Share option reserve              | -            | 28       | -        | -          | -          | -            | 28           |
| Retained earnings                 | 2,309        | (20)     | 3        | (5)        | 241        | (162)        | 2,366        |
| <b>Equity shareholders' funds</b> | <b>3,767</b> | <b>8</b> | <b>3</b> | <b>(5)</b> | <b>241</b> | <b>(162)</b> | <b>3,852</b> |
| Minority interest                 | 14           | -        | -        | -          | -          | -            | 14           |
| <b>Total equity</b>               | <b>3,781</b> | <b>8</b> | <b>3</b> | <b>(5)</b> | <b>241</b> | <b>(162)</b> | <b>3,866</b> |

### Reconciliation of profit for the six months ended 31 January 2007

|   | UK<br>GAAP<br>£'000s | a<br>£'000s | b<br>£'000s | c<br>£'000s | d<br>£'000s | e<br>£'000s | IFRS<br>£'000s |
|---|----------------------|-------------|-------------|-------------|-------------|-------------|----------------|
| <b>Continuing operations</b>                            |                      |             |             |             |             |             |                |
| Revenue   | 5,109                | -           | -           | -           | -           | -           | 5,109          |
| Cost of sales   | (2,368)              | -           | -           | -           | 72          | -           | (2,296)        |
| <b>Gross profit</b>                                     | <b>2,741</b>         | <b>-</b>    | <b>-</b>    | <b>-</b>    | <b>72</b>   | <b>-</b>    | <b>2,813</b>   |
| Administrative costs                                    | (729)                | (20)        | -           | (5)         | (22)        | -           | (776)          |
| <b>Operating profit</b>                                 | <b>2,012</b>         | <b>(20)</b> | <b>-</b>    | <b>(5)</b>  | <b>50</b>   | <b>-</b>    | <b>2,037</b>   |
| Interest received                                       | 65                   | -           | -           | -           | -           | -           | 65             |
| Finance costs   | -                    | -           | -           | -           | -           | -           | -              |
| <b>Profit before tax</b>                                | <b>2,077</b>         | <b>(20)</b> | <b>-</b>    | <b>(5)</b>  | <b>50</b>   |             | <b>2,102</b>   |
| Income tax expense                                      | (644)                | 8           | -           | -           | (22)        | -           | (658)          |
| <b>Profit for the period from continuing operations</b> | <b>1,433</b>         | <b>(12)</b> | <b>-</b>    | <b>(5)</b>  | <b>28</b>   | <b>-</b>    | <b>1,444</b>   |
| Minority interest                                       | (10)                 | -           | -           | -           | -           | -           | (10)           |
| <b>Profit for the period</b>                            | <b>1,423</b>         | <b>(12)</b> | <b>-</b>    | <b>(5)</b>  | <b>28</b>   | <b>-</b>    | <b>1,434</b>   |

### Notes to the reconciliations

a) Under UK GAAP, the Group applied FRS 20, "Share-Based Payment" for the first time in the year ended 31 July 2007. However, under IFRS 2, the equivalent international standard, retrospective adjustments are required at 31 July 2006 and 31 January 2007. The values of these changes were £8,000 and £20,000 respectively before adjustments for deferred tax. For presentational purposes the resultant entries are presented within equity as movements on a share option reserve.

b) Goodwill recognised by the Group on the acquisition of Strictly Broadband prior to 31 July 2007 under UK GAAP was amortised over a period of 15 years. Under IFRS

goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charged in 2007 in accordance with UK GAAP has been written back.

c) The Group acquired a controlling interest in Strictly Broadband on 4 December 2006. Application of IFRS 3 to this business combination resulted in the identification of a number of customer relationships and contracts. Under IFRS these have been recognised separately in the balance sheet at their fair value at the date of the combination. Under UK GAAP these intangible assets were subsumed within goodwill.

The result of these adjustments is to decrease goodwill and increase intangible assets at the combination date. At 31 January 2007 and 31 July 2007 the carrying value of other intangible assets was increased by £145,000 and £130,000 respectively. The value of goodwill at 31 January 2007 and 31 July 2007 was reduced by £150,000.

Goodwill recognised by the Group on the acquisitions of the Strictly Broadband under UK GAAP was amortised over a period of 15 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2007 has been written back. However, intangible assets other than goodwill identified on these business combinations in accordance with IFRS as described above are amortised in accordance with the accounting policy explained in note 3. The result of these adjustments is to increase the amortisation charge in the income statement for the six months ending 31 January 2007 by £5,000 and by £20,000 for the year ending 31 July 2007 and increase the carrying value of total intangible assets by the same amounts.

d) Under UK GAAP the Group expensed the cost of developing its bespoke software applications as they were incurred. Under IFRS the development costs which meet the recognition criteria set out in IAS38 are capitalised in the balance sheet and amortised over their expected useful life of five years.

The result of these adjustments is to increase other intangible assets at 1 August 2006 by £216,000. At 31 January 2007 and 31 July 2007 the carrying value of other intangible assets was increased by a further £72,000 less amortisation charged of £25,000 and at 31 July 2007 the carrying value of other intangible assets was increased by a further £72,000 less further amortisation charged of £32,000.

e) In carrying out an assessment of the fair values of financial instruments at the date of transition to IFRS an adjustment was made to reduce the carrying value of certain trade receivables by £162,000.