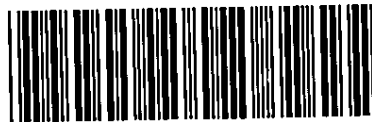

APACE MUSIC LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

WEDNESDAY



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COMPANIES HOUSE

RAWLINSON & HUNTER

Chartered Accountants
Eighth Floor 6 New Street Square London EC4A 3AQ

APACE MUSIC LIMITED

COMPANY INFORMATION

DIRECTORS

T P Millington
L J Cannon (resigned 30/01/08)
D G P Stoessel
C J Rowlands (resigned 16/1/07)
M J H Johnston

SECRETARY

R B Carter

COMPANY NUMBER

05192533

REGISTERED OFFICE

Unit LG3 Shepherds Central
Charecroft Way
London
W14 0EH

AUDITORS

Rawlinson & Hunter
Chartered Accountants & Registered Auditors
Eight Floor
6 New Street Square
New Fetter Lane
London
EC4A 3AQ

APACE MUSIC LIMITED

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Balance sheet	6
Notes to the financial statements	7 - 14

APACE MUSIC LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were music publishing and record distribution.

SMALL COMPANY PROVISION

The Company has taken advantage of the exemptions given in the Companies Act 1985 for smaller companies which are part of an ineligible group from presenting a full review of the business for the year.

RESULTS

The loss for the year, after taxation, amounted to £206,764 (2006 - profit £348,981)

APACE MUSIC LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2007**

DIRECTORS

The directors who served during the year were

T P Millington
L J Cannon (resigned 30/01/08)
D G P Stoessel
C J Rowlands (resigned 16/1/07)
M J H Johnston

PROVISION OF INFORMATION TO AUDITORS

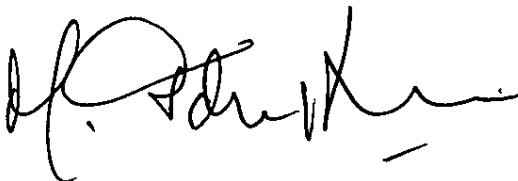
Each of the persons who are directors at the time when this directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each 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's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information

AUDITORS

The auditors, Rawlinson & Hunter, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985

This report was approved by the board on 16 JUNE 2008 and signed on its behalf



Director

APACE MUSIC LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APACE MUSIC LIMITED

We have audited the financial statements of Apace Music Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared in accordance with the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

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

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

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

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

APACE MUSIC LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF APACE MUSIC LIMITED

OPINION

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements



Chartered Accountants & Registered Auditors

Eight Floor
6 New Street Square
New Fetter Lane
London
EC4A 3AQ

Date

16 June 2008

APACE MUSIC LIMITED

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Note	2007 £	2006 £
TURNOVER	1,2	2,396,377	3,164,529
Cost of sales		(1,575,796)	(1,946,812)
GROSS PROFIT		820,581	1,217,717
Administrative expenses		(977,786)	(838,815)
OPERATING (LOSS)/PROFIT		(157,205)	378,902
Interest receivable		5	1,536
Interest payable	6	(49,564)	(31,457)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(206,764)	348,981
Tax on (loss)/profit on ordinary activities	7	-	-
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	(206,764)	348,981

All amounts relate to continuing operations

There were no recognised gains and losses for 2007 or 2006 other than those included in the profit and loss account

The notes on pages 7 to 14 form part of these financial statements

APACE MUSIC LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2007**

	Note	£	2007	£	£	2006	£
FIXED ASSETS							
Intangible fixed assets	8			248,849		272,471	
Tangible fixed assets	9			2,465		6,894	
				<u>251,314</u>		<u>279,365</u>	
CURRENT ASSETS							
Stocks	10	537,347			318,421		
Debtors	11	821,794			1,461,071		
Cash at bank		-			2,085		
				<u>1,359,141</u>		<u>1,781,577</u>	
CREDITORS: amounts falling due within one year	12	(1,400,797)			(1,644,520)		
NET CURRENT (LIABILITIES)/ASSETS				<u>(41,656)</u>		<u>137,057</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES				<u>209,658</u>		<u>416,422</u>	
CAPITAL AND RESERVES							
Called up share capital	13			1,000		1,000	
Profit and loss account	14			208,658		415,422	
SHAREHOLDERS' FUNDS	15			<u>209,658</u>		<u>416,422</u>	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

16 JUNE 2008



Director

The notes on pages 7 to 14 form part of these financial statements

APACE MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

1 ACCOUNTING POLICIES

1.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

1.2 CASH FLOW

The Company has taken advantage of the exception in Financial Reporting Standard No 1 (revised 1996) paragraph 5(a) not to prepare a cashflow on the basis that the ultimate parent Company produces consolidated accounts which include a cash flow statement into which the Company's accounts are fully consolidated

1.3 TURNOVER

Turnover comprises revenue recognised by the Company when music is shipped and when owned material is used by other entities, exclusive of Value Added Tax and trade discounts

1.4 INTANGIBLE FIXED ASSETS AND AMORTISATION

Intangible fixed assets are stated at cost less amortisation. Amortisation is at 33% on a straight line basis from time of acquisition for all intangible assets

1.5 TANGIBLE FIXED ASSETS AND DEPRECIATION

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

Fixtures & fittings	-	15%	straight line
Office equipment	-	15%	straight line
Computer equipment	-	33%	straight line

1.6 OPERATING LEASES

Rentals under operating leases are charged on a straight line basis over the lease term

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate

1.7 STOCKS

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads

APACE MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

1. ACCOUNTING POLICIES (continued)

1.8 FOREIGN CURRENCIES

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date

Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction

Exchange gains and losses are recognised in the profit and loss account

2. TURNOVER

A geographical analysis of turnover by class of business is as follows

	2007	2006
	£	£
United Kingdom	2,020,854	2,098,789
Rest of Europe	263,174	752,287
Rest of the World	112,349	313,453
	2,396,377	3,164,529

The whole of the turnover is attributable to the sale of CDs and published music

3. OPERATING (LOSS)/ PROFIT

The operating (loss) / profit is stated after charging

	2007	2006
	£	£
Amortisation - intangible fixed assets	195,275	134,869
Depreciation - tangible fixed assets owned by the Company	4,429	4,195
Auditors' remuneration - audit	8,000	8,000
Auditors' remuneration - non-audit	4,324	4,318
Rent - operating leases	17,668	22,200
Difference on foreign exchange	404	172

APACE MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

4 STAFF COSTS

Staff costs, including directors' remuneration, were as follows

	2007 £	2006 £
Wages and salaries	303,941	303,709
Social security costs	42,157	35,330
	<u>346,098</u>	<u>339,039</u>

The average monthly number of employees, including the directors, during the year was as follows

	2007 No	2006 No
Management	2	2
Administration	3	3
	<u>5</u>	<u>5</u>

5. DIRECTORS' REMUNERATION

	2007 £	2006 £
Emoluments	<u>176,500</u>	<u>182,000</u>

6 INTEREST PAYABLE

	2007 £	2006 £
On bank loans and overdrafts	80	21
On finance leases and hire purchase contracts	72	-
On loans from group undertakings	49,412	31,436
	<u>49,564</u>	<u>31,457</u>

7 TAXATION

	2007 £	2006 £
UK corporation tax charge on (loss)/profit for the year	<u>-</u>	<u>-</u>

APACE MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

7. TAXATION (continued)

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

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

	2007 £	2006 £
(Loss)/profit on ordinary activities before tax	<u>(206,764)</u>	<u>348,981</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 - 30%)	(62,029)	104,694
EFFECTS OF:		
Expenses not deductible for tax purposes	59	1,250
Depreciation in excess of capital allowances	128	19
Losses claimed by / (from) group companies	61,842	(105,963)
CURRENT TAX CHARGE FOR THE YEAR (see note above)	<u>-</u>	<u>-</u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

There were no factors that may affect future tax charges

APACE MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

8 INTANGIBLE FIXED ASSETS

	Intellectual Property £	Website £	Total £
COST			
At 1 January 2007	461,625	11,858	473,483
Additions	170,213	1,440	171,653
At 31 December 2007	631,838	13,298	645,136
AMORTISATION			
At 1 January 2007	198,549	2,463	201,012
Charge for the year	187,838	7,437	195,275
At 31 December 2007	386,387	9,900	396,287
NET BOOK VALUE			
At 31 December 2007	245,451	3,398	248,849
At 31 December 2006	263,076	9,395	272,471

Included within intellectual property are mastering costs, CD packaging - design costs, buyout costs relating to the acquisition of music rights and the costs incurred in the development of an artist's CD. Amortisation is at 33% on a straight line basis from time of acquisition for all the intangible assets.

9 TANGIBLE FIXED ASSETS

	Fixtures & Fittings £	Office Equipment £	Computer Equipment £	Total £
COST				
At 1 January 2007 and 31 December 2007	1,108	4,012	11,092	16,212
DEPRECIATION				
At 1 January 2007	415	1,389	7,514	9,318
Charge for the year	167	602	3,660	4,429
At 31 December 2007	582	1,991	11,174	13,747
NET BOOK VALUE				
At 31 December 2007	526	2,021	(82)	2,465
At 31 December 2006	693	2,623	3,578	6,894

APACE MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

10 STOCKS

	2007 £	2006 £
Finished goods and goods for resale	<u>537,347</u>	<u>318,421</u>

The difference between purchase price or production cost of stocks and their replacement cost is not material

11 DEBTORS

	2007 £	2006 £
DUE AFTER MORE THAN ONE YEAR		
Prepayments and accrued income	100,000	100,000
DUE WITHIN ONE YEAR		
Trade debtors	438,001	1,021,615
Other debtors	38,976	9,521
Prepayments and accrued income	244,817	329,935
	<u>821,794</u>	<u>1,461,071</u>

**12 CREDITORS:
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2007 £	2006 £
Bank loans and overdrafts	95,148	197,934
Trade creditors	670,051	686,598
Amounts owed to parent undertaking	584,937	679,794
Amounts owed to fellow subsidiaries	-	1,704
Social security and other taxes	11,822	39,960
Other creditors	1,466	20,000
Accruals and deferred income	37,373	18,530
	<u>1,400,797</u>	<u>1,644,520</u>

All of the amounts owed to the parent undertaking are secured on the assets of the business. Included in the amount owed to the parent undertaking is a £457,445 (2006 - £506,315) loan which accrues interest at 2% per annum above the base rate. The remaining balance owed to the parent undertaking and all the amounts owed to fellow subsidiaries are interest free. All the amounts owed to the parent undertaking and fellow subsidiaries are repayable on demand.

Included in bank loans and overdrafts is a bank overdraft which is secured on the assets of Apace Music Ltd, Apace Media plc, Steadfast Television Ltd, Steadfast International Ltd and Pro-Active Projects Ltd.

The bank has a claim on the assets of the Company before the parent undertaking.

APACE MUSIC LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

13 SHARE CAPITAL

	2007 £	2006 £
AUTHORISED		
200,000 Ordinary shares of £10 each	<u>2,000,000</u>	<u>2,000,000</u>
ALLOTTED, CALLED UP AND FULLY PAID		
100 Ordinary shares of £10 each	<u>1,000</u>	<u>1,000</u>

14. RESERVES

	Profit and loss account £
At 1 January 2007	415,422
Loss for the year	(206,764)
At 31 December 2007	<u>208,658</u>

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2007 £	2006 £
Opening shareholders' funds	416,422	67,441
(Loss)/profit for the year	<u>(206,764)</u>	<u>348,981</u>
Closing shareholders' funds	<u>209,658</u>	<u>416,422</u>

16 CONTINGENT LIABILITIES

There is a standard unlimited intercompany guarantee formally charged to the bank with accession between Apace Media plc, Steadfast International Limited, Apace Music Limited, Pro-Active Projects Limited and Steadfast Television Limited

APACE MUSIC LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

17 OPERATING LEASE COMMITMENTS

At 31 December 2007 the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2007	2006
	£	£
EXPIRY DATE:		
Within 1 year	-	22,200

18 RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under Financial Reporting Standard 8 'Related Party Transactions' not to disclose any transactions with group members when 90% or more of the voting rights are controlled within the group

19 ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The ultimate parent undertaking is Apace Media plc, a Company listed on the Alternative Investment Market of London Stock Exchange

Copies of the Apace Media plc 2007 Annual Report can be obtained from its registered office at Unit LG3, Shepherds Central, Charecroft Way, London, W14 0EH

The is no ultimate controlling party

APACE MUSIC LIMITED

**DETAILED TRADING AND PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2007**

	Page	2007 £	2006 £
Turnover	16	2,396,377	3,164,529
Cost of sales	16	(1,575,796)	(1,946,812)
		<hr/>	<hr/>
Gross profit		820,581	1,217,717
Less Overheads			
Administration expenses	16	(977,786)	(838,815)
		<hr/>	<hr/>
Operating (loss)/profit		(157,205)	378,902
Interest receivable	17	5	1,536
Interest payable	17	(49,564)	(31,457)
		<hr/>	<hr/>
(Loss)/profit for the year		(206,764)	348,981
		<hr/>	<hr/>

APACE MUSIC LIMITED

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007 £	2006 £
Turnover		
Sales	1,707,663	3,074,390
Premium sales	-	9,552
Pinnacle sales	536,318	(63,250)
MCPS revenue	133,546	118,473
PRS revenue	17,001	7,447
Commissions receivable	-	16,581
Royalties receivable	1,849	1,336
	<u>2,396,377</u>	<u>3,164,529</u>
	2007 £	2006 £
Cost of sales		
Opening stocks - finished goods	318,421	230,656
Direct manufacturing costs	1,163,539	1,133,807
Commissions payable	146,361	358,558
Royalty payable	463,762	542,212
Distributor recharges	21,059	-
Closing stocks - finished goods	(537,346)	(318,421)
	<u>1,575,796</u>	<u>1,946,812</u>
	2007 £	2006 £
Administration expenses		
Directors' salaries	176,500	182,000
Directors' national insurance	22,422	21,987
Staff salaries	127,441	121,709
Staff national insurance	19,735	13,342
Management expenses	75,000	83,713
Motor running costs	8,738	8,810
Entertainment	13,723	12,293
Hotels, travel and subsistence	22,510	19,859
Printing and stationery	1,585	4,172
Postage	(5)	146
Telephone and fax	7,010	6,940
Advertising and promotion	92,222	74,981
Trade subscriptions	4,798	3,311
Legal and professional	64,843	44,640
Auditors' remuneration	8,000	8,000
Auditors' remuneration - non-audit	4,324	4,318
Equipment hire	-	30
Bank charges	2,786	1,373
	<u>651,632</u>	<u>611,624</u>
Sub-total carried forward		

APACE MUSIC LIMITED

**SCHEDULE TO THE DETAILED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007**

	2007 £	2006 £
Administration expenses (continued)		
Sub-total brought forward	651,632	611,624
Bad debts	35,415	-
Difference on foreign exchange	404	172
Sundry expenses	43,216	51,371
Rent - operating leases	17,668	22,200
Rates	6,153	289
Dilapidations	12,754	414
Light and heat	45	573
Cleaning	-	43
Insurances	4,396	1,067
Repairs and maintenance	6,399	11,998
Depreciation - office equipment	602	602
Depreciation - computer equipment	3,660	3,427
Depreciation - fixtures & fittings	166	166
Amortisation - intangible fixed assets	195,276	134,869
	<u>977,786</u>	<u>838,815</u>
	2007 £	2006 £
Interest receivable		
Bank interest receivable	<u>5</u>	<u>1,536</u>
	2007 £	2006 £
Interest payable		
Bank overdraft interest payable	80	21
Group interest payable	49,412	31,436
Hire purchase interest payable	72	-
	<u>49,564</u>	<u>31,457</u>