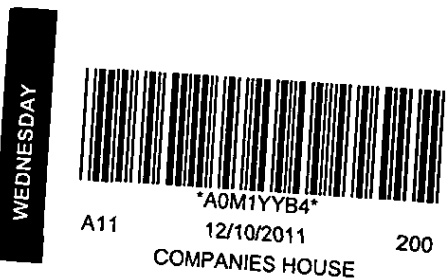


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SAT-7 MEDIA SERVICES LIMITED

FINANCIAL STATEMENTS

31 DECEMBER 2005



Polydoros Xenophontos

Chartered Accountants

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8 John Kennedy Ave., Suite 305
CY 1087, Nicosia
P.O.Box 22390
CY 1521, Nicosia
Cyprus

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SAT-7 MEDIA SERVICES LIMITED

Report and financial statements for the year ended 31 December 2005

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**Members of the Council, company secretary, advisers
and registered office**

Members of the Council	:	Terence Ascott Habib Badr Bishop Marcos Safwat El Baiady Roy Kemp
Company secretary	:	Scriba Secretarial Limited 70 Arsinoes street CY - 1010 Nicosia CYPRUS
Auditors	:	Polydoros Xenophontos Chartered Accountants 8 John Kennedy Avenue Athienitis Building, Suite 305, CY - 1087 Nicosia CYPRUS
Registered office	:	Hawaii Tower 41 Themistocles Dervis Street 6th Floor CY - 1066 Nicosia CYPRUS

**Report of the members at the Council
for the year ended 31 December 2005**

The members of the Council submit their report together with the audited financial statements for the year ended 31 December 2005

Country of incorporation

The company was incorporated in Cyprus on the 26 September 1995

Activities

The company's principal activity is to produce and broadcast TV programmes with Christian content in the countries of the Middle East and North Africa. The company is a non profit making organisation and derives its income from donations and utilises it to promote Christianity in the Middle East and North Africa

Company status

The company is limited by guarantee and has no share capital. The guarantors are the following.

	Amount of guarantee
	C£
Terence Ascott	9,996
Bishop Marcos	1
Habib Badr	1
Roy Kemp	1
Safwat El Baiady	1
	<hr/> 10,000 <hr/>

Results

The company's results during the year are shown on the income and expenditure account on page 5.

Members of the Council

The members of the Council at 31 December 2005 who will continue in office are shown on page 1.

Auditors

The auditors of the company Polydoros Xenophontos Chartered Accountants, have signified their willingness to continue in office. Their remuneration will be fixed at the Annual General Meeting

By order of the Board


Terence Ascott
Council Member

Nicosia
13 June 2006

Polydoros Xenophontos

Chartered Accountants

Athienitis Building
8 Kennedy Avenue, Suite 305
CY-1087 Nicosia
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SAT-7 Media Services Limited

Auditors' report to the members of SAT-7 Media Services Limited

Report on the financial statements

1 We have audited the financial statements appearing on pages 4 to 11, which comprise the balance sheet as at 31 December 2005 and the income statement, statement of changes in equity and cash flow statement for the year then ended and the related notes. These financial statements are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body in accordance with Section 156 of the Companies Law, Cap 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the financial statements give a true and fair view of the financial position of SAT-7 Media Services Limited as of 31 December 2005 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Cyprus Companies Law, Cap 113.

Report on other legal requirements

4 Pursuant to the requirements of the Companies Law, Cap 113, we report the following:

- ☒ We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- ☒ In our opinion, proper books of account have been kept by the Company.
- ☒ The Company's financial statements are in agreement with the books of account.
- ☒ In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner required.
- ☒ In our opinion, the information given in the report of the Board of Directors on page 2 is consistent with the financial statements.



Polydoros Xenophontos
Chartered Accountants

Nicosia
13 June 2005

**Income statement
for the year ended 31 December 2005**

		2005	2004
<i>Income</i>	Page	USD	USD
Income received	12	2,620,006	2,158,122
Other income / (expenses)			
Interest paid		(1)	(131)
Realised exchange gain/(loss)		6,456	(6,673)
Unrealised exchange gain		(138)	1,645
(Loss) on disposal of fixed assets		0	(2,403)
Gain due to reclaimed VAT from the period 01/02/2002 - 31/12/2003 on fixed assets		0	1,169
		<u>2,626,323</u>	<u>2,151,729</u>
Expenditure			
Administration, production and broadcasting expenses	13	2,617,864	2,137,936
Operating profit / (loss)		<u>8,459</u>	<u>13,793</u>
Taxation		0	0
Profit / (deficit) for the year		<u>8,459</u>	<u>13,793</u>
Profit / (Deficit) brought forward		9,053	(4,740)
Profit / (Deficit) carried forward		<u>17,512</u>	<u>9,053</u>


Statement of recognised gains and losses

There are no recognised gains and losses for the current or previous financial year other than those stated in the income statement

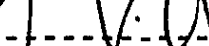
Balance Sheet as at 31 December 2005

	Note	2005 USD	2004 USD
Assets employed			
Fixed assets	7	624,500	223,346
Current assets			
Deposits and prepayments	8	23,518	26,804
Accounts receivable	9	207,897	55,158
Cash at bank	11	23,847	22,043
Cash in hand	11	11,301	3,408
Total current assets		266,563	107,413
Total assets		891,063	330,759
Equity and liabilities			
Equity		17,512	9,053
Current liabilities			
Accruals and other accounts payable	10	873,551	321,706
Total current liabilities		873,551	321,706
Total equity and liabilities		891,063	330,759

**Approved by the Members of the Council Board on 13 June 2006 and
are signed on their behalf by :**



 Terence Ascott)



 Roy Kemp)

Council
 Members

**Statement of changes in equity
for the year ended 31 December 2005**

	Equity USD
1 January 2005	
Balance	9,053
Issued share capital	0
	<u>9,053</u>
Profit for the year	8,459
Balance on 31 December 2005	<u><u>17,512</u></u>

Since the taxable year beginning 1 January 2005, if a Cyprus resident company does not distribute a dividend within two years from the end of the tax year then

- ☒ 70% of accounting profits (after some adjustments) are deemed to have been distributed.
- ☒ 15% special contribution for defence is imposed on deemed dividend distribution applicable to shareholders who are residents of Cyprus
- ☒ Deemed distribution is reduced with payments of actual dividends which have already been paid during the two years from the profits of the relevant year

When an actual dividend is paid after the deemed dividend distribution, then the special contribution for defence is imposed only on the additional dividend paid

**Cash Flow Statement
for the year ended 31 December 2005**

	2005 USD	2004 USD
Cash flow from ordinary activities		
Result for the period	8,459	13,793
Adjustments not involving the movement of funds		
Depreciation	105,171	47,448
Interest received	0	0
Loss on disposal of fixed assets	0	1,234
Bank charges paid	9,251	7,318
Operating surplus before working capital changes	122,881	69,793
Increase / (decrease) in working capital		
Decrease / (increase) in deposits and prepayments	3,286	(3,152)
(Increase) in accounts receivable	(152,735)	(18,343)
Increase / (decrease) in accounts payable and accruals	551,841	17,651
Cash generated from operating activities	525,273	65,949
Interest received	(1)	0
Bank charges paid	(9,251)	(7,318)
Net cash generated from operating activities	516,021	58,631
Cash flows used in Investing activities		
Purchase of fixed assets	(506,324)	(183,495)
Disposal of fixed assets	0	6,288
Net cash used in Investing activities	(506,324)	(177,207)
Cash flows from financing activities		
Restricted donations fund	0	0
Unrestricted donations fund	0	0
Net cash generated from financing activities	0	0
Net Increase in cash and cash equivalents	9,697	(118,576)
Cash and cash equivalents at 1 January	25,451	144,027
Cash and cash equivalents at 31 December (Note 11)	35,148	25,451

Notes to the Financial Statements for the year ended 31 December 2005

1. Country of incorporation

The company was incorporated in Cyprus on 26 September 1995

2. Activities

The company's principal activity is to produce and broadcast video films of Christian content to countries in the Middle East. The company is a non profit making organisation, derives its income from donations and utilises it to promote Christianity in the Middle East.

3. Principal accounting policies

A summary of the significant accounting policies adopted by the company is as follows

Accounting convention

The financial statements have been prepared in accordance with applicable International Accounting Standards. The financial statements are drawn up under the historical cost convention.

Exchange rates

The financial statements are expressed in United States Dollars. Transactions in foreign currencies are translated to United States Dollars at the rates ruling at the time of the transactions. Balances of assets and liabilities expressed in foreign currencies are translated to United States Dollars at the rates of exchange ruling at the end of the financial period. Any resulting exchange gains or losses are accounted as income or expense in the year they are incurred.

Cash and cash equivalents

Cash and cash equivalents represent cash in hand and bank balances and short term investments with maturity not exceeding three months, from the balance sheet date.

Fixed assets

The cost of fixed assets represents their purchase cost together with any incidental costs of acquisition. Assets which cost less than USD 300 are being expensed in the year they are incurred. During 2005 all assets that were purchased at a cost under USD 300 were written off.

Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight line basis over the expected useful lives of the assets concerned. The principal annual rates used for this purpose, are:

	%
Furniture and fittings	10
Office equipment	10
Studio equipment	10
Computer hardware	20
Computer software	33 1/3

Accounts receivable and prepayments

Accounts receivable and prepayments are stated net of provisions for amounts estimated to be uncollectible.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, or not billed by the supplier.

Notes to the Financial Statements for the year ended 31 December 2005

3. Principal accounting policies (continued)

Restricted funds

Donations received for specific projects or purpose are treated as restricted funds. The restricted funds are treated as a liability, until they will be expensed for the purpose the donor has made the donation and then and only then, they are taken to the income of the Company.

Donations

Donations represent the contributions receivable.

Provisions

Provisions are recorded when the Company has a present obligation as a result of past events, if it is probable that an outflow of funds will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Financial instruments

Financial risk factors

The Company is exposed to interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below.

Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets and it borrows at variable rates. The Company's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that it is not exposed to credit risk.

Liquidity risk

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At the year-end the Company had no significant balances in foreign currencies. The Company's policy is not to enter into any currency hedging transactions.

4. Operating profit

The following expenses have been charged before arriving at the operating profit

	2005 USD	2004 USD
Depreciation	105,171	47,448
Auditors remuneration	9,308	7,786
Repairs and maintenance	16,884	15,721
	<u>131,363</u>	<u>70,955</u>

Notes to the Financial Statements for the year ended 31 December 2005

5. Taxation

	2005 USD	2004 USD
Corporation tax for the year	0	0
	<u>0</u>	<u>0</u>

6. Employees salaries and contributions

	2005 USD	2004 USD
Wages and salaries	750,628	605,944
Social insurance costs	37,927	19,900
Other funds contributions	36,281	26,685
Training and recruitment cost of employees	9,340	16,404
	<u>834,176</u>	<u>668,933</u>

7. Fixed assets

	Furniture and fittings USD	Office equipment USD	Other equipment USD	Computer hardware USD	Computer software USD	Total USD
Cost						
1 January 2005	24,237	89,023	93,787	130,955	10,168	348,170
Additions	7,124	10,113	327,504	142,054	19,530	506,325
Disposals	0	0	0	0	0	0
Reclassification	4,179	(48,199)	44,018	715	(713)	0
31 December 2005	<u>35,540</u>	<u>50,937</u>	<u>465,309</u>	<u>273,724</u>	<u>28,985</u>	<u>854,495</u>
Depreciation						
1 January 2005	12,211	41,988	9,379	51,599	9,647	124,824
Disposals	0	0	0	0	0	0
Charge for the year	3,589	5,094	37,741	51,977	6,770	105,171
Reclassification	1,327	(21,368)	20,040	714	(713)	0
31 December 2005	<u>17,127</u>	<u>25,714</u>	<u>67,160</u>	<u>104,290</u>	<u>15,704</u>	<u>229,995</u>
Net book value						
At 31 December 2005	<u>18,413</u>	<u>25,223</u>	<u>398,149</u>	<u>169,434</u>	<u>13,281</u>	<u>624,500</u>
At 31 December 2004	<u>12,026</u>	<u>47,035</u>	<u>84,408</u>	<u>79,356</u>	<u>521</u>	<u>223,346</u>

**Notes to the Financial Statements
for the year ended 31 December 2005**

8. Deposits and prepayments

	2005	2004
	USD	USD
Deposits	20,520	21,153
Prepayments	2,998	5,651
Deposits and prepayments at 31 December	23,518	26,804

9. Accounts receivable

	2005	2004
	USD	USD
Accounts receivable	151,589	13,085
Accounts receivable from related companies	21,395	11,047
Advances to employees	0	1,747
Travel advances to employees	1,381	897
VAT account	33,532	28,382
Balance 31 December	207,897	55,158

10. Accruals and other accounts payable

	2005	2004
	USD	USD
SAT-7 International Trust	735,336	185,336
Inland revenue	387	627
Social Insurance	7,632	5,104
Other accounts payables	95,106	131,891
Accounts with employees	36,817	0
Accruals	(1,727)	(1,252)
Accruals and other payables at 31 December	873,551	321,706

11. Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following amounts :

	2005	2004
	USD	USD
Cash in hand	11,301	3,408
Bank balances	23,847	22,043
Cash and cash equivalents at 31 December	35,148	25,451

**Analysis of income
for the year ended 31 December 2005**

	2005	2004
	USD	USD
Income		
<i>Unrestricted donations</i>		
Donations from SAT-7 International Trust	1,866,572	1,433,825
Donations General funds	0	0
Sales	123,663	273,965
Associate's fee donations	0	0
Staff support	0	0
	1,990,235	1,707,790
<i>Gifts in kind</i>		
Value of seconded staff	174,428	153,824
Value of studio for As Sanabel	275,000	275,000
Value of studio for As Sanabel, Farsi	180,000	0
Gift in kind SUM admin	0	10,000
	629,428	438,824
<i>Other income</i>		
Air and programming	0	11,000
Foreign exchange translation	0	0
Audio channel income	343	50
Sundry income	0	458
	343	11,508
Total income	2,620,006	2,158,122

**Summary of Expenditure
for the year ended 31 December 2005**

	Page	2005 USD	2004 USD
<i>Expenditure</i>			
<i>Administration, production and broadcasting expenditure</i>			
Personnel remuneration and benefits	14	834,176	688,933
Broadcasting	15	49,827	39,106
Production	15	609,635	687,661
Program acquisitions	16	36,399	14,546
Audience relations	16	10,533	6,272
Marketing department	16	1,705	0
Fund raising and information	17	51,155	57,665
Information technology (IT)	17	13,632	7,587
ICB (Iranian Christian Broadcasting) and T-7	17	464,143	202,531
Administration	18	546,659	453,635
		<u>2,617,864</u>	<u>2,137,936</u>

**Analysis of expenses
for the year ended 31 December 2005**

	2005	2004
	USD	USD
<i>Personnel remuneration and benefits</i>		
Salaries	504,739	392,621
Social insurance	37,927	19,900
Casual labour	53,214	36,461
Health insurance	15,071	8,196
Overtime	0	861
Recruitment cost	1,472	7,204
Training cost of employees	7,868	9,200
Training cost of non-employees	201	0
Seconded personnel	170,295	153,824
Personnel Investment Plan (PIP)	21,210	18,489
Personnel expenses	22,179	22,177
	834,176	668,933

**Analysis of expenses
for the year ended 31 December 2005**

	2005	2004
	USD	USD
<i>Broadcasting</i>		
Research	377	343
Miscellaneous broadcasting expenses	14,750	12,221
Tapes	20,682	2,076
Broadcasting monitoring	6,122	3,407
Commission	0	17,560
Contracts	0	2,499
Travel International	7,896	1,000
	49,827	39,106
<i>Production</i>		
Conferences and meetings	2,928	186
Hospitality and public relations	✓ 986	729
Office supplies	359	0
Program planning	0	2,806
Travel international	16,513	16,860
Travel local	3,325	5,456
Tapes expenses	1,563	0
Pilot and research expenses	61,180	6,662
Outsourced production	51,515	173,500
Program expenses	196,266	206,462
Program expenses gifts in kind	275,000	275,000
	609,635	687,661

**Analysis of expenses
for the year ended 31 December 2005**

	2005	2004
	USD	USD
<i>Acquisitions</i>		
Conferences and meetings	1,481	1,323
Dubbing	21,742	2,272
Office supplies	8	125
International travel	6,551	8,526
Local travel	324	937
Tapes	6,293	1,363
	36,399	14,546
<i>Audience relations</i>		
Conferences and meetings	505	746
Counseling centres	0	1,291
Hospitality and public relations	30	307
Travel international	0	3,022
Travel local	0	344
Tapes	0	562
Audience research / viewers	9,998	0
	10,533	6,272
<i>Marketing department</i>		
Hired assistance	1,705	0
	1,705	0

**Analysis of expenses
for the year ended 31 December 2005**

	2005	2004
	USD	USD
<i>Fund raising and information</i>		
Advertising and marketing expenses	0	28
Fundraising costs	10,986	20,367
Promotional and public relations	4,386	0
International travel	25,964	35,391
Donations & ministries	1,172	0
Membership fees	0	73
Conferences and meetings	906	948
Tapes	318	812
Equipment rental	0	46
Annual report	7,423	0
	51,155	57,665
<i>Information technology (IT)</i>		
Internet expenses	9,612	6,082
Web hosting and software	4,020	1,505
	13,632	7,587
<i>ICB (Iranian Christian Broadcasting) and T-7</i>		
Tapes	1,498	2,594
ICB conferences	641	415
Board meetings	9,197	9,416
Information materials	0	895
ICB Audience Relations	0	3,149
Equipment rentals	0	771
Farsi As Sanabel	23,650	0
Miscellaneous	0	2,096
Dubbing	55,557	0
Farsi production	38,144	18,737
Farsi - Petra Broadcasting Co	129,180	138,620
ICB Childrens' programs	26,276	25,707
Program expenses gift inkind	180,000	0
T-7 meeting	0	131
	464,143	202,531

**Analysis of expenses
for the year ended 31 December 2005**

	Page	2005 USD	2004 USD
General administration			
Audit and accountancy fees		9,308	7,786
Bank charges		9,251	7,318
Legal fees		696	6,577
Board meetings		3,984	17,364
Network annual meeting		39,119	34,538
Conference and meetings		12,620	5,205
Freight and courier		18,922	11,875
Hospitality and public relations		4,205	7,388
Insurance		2,264	2,287
Membership fees		7,684	7,577
Office expenses		4,389	9,256
Office supplies		9,978	6,383
Postage		4,078	2,892
Professional / consulting fees		146,791	84,833
Office rent		81,426	75,560
Service common charges		6,664	6,952
Repairs and maintenance		16,884	15,721
Subscriptions		562	332
E - mail, fax, telephone		16,719	20,654
Local travel		4,488	5,306
Utilities, electricity, etc		20,418	14,374
Alarm and security systems		979	3,479
Taxes and licenses		3,040	45,887
Guests accommodation		6,313	1,104
Depreciation	19	105,171	47,448
Miscellaneous expenses		10,731	5,539
		546,684	453,635

**Analysis of expenses
for the year ended 31 December 2005**

	2005	2004
	USD	USD
<i>Depreciation</i>		
Depreciation - office equipment	5,094	8,861
Depreciation - furniture	3,589	2,424
Depreciation - IT equipment	51,976	24,841
Depreciation - software	6,770	1,943
Depreciation - Other equipment	37,742	9,379
	105,171	47,448