

Company Registration No. 4257337 (England and Wales)

**AUDIO NETWORK PLC**  
**DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL**  
**STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2004**



**CARTWRIGHTS**  
**Accountants and Business Advisors**  
**Regency House**  
**33 Wood Street**  
**Barnet, Herts**  
**Herts, EN5 4BE**

# AUDIO NETWORK PLC

## COMPANY INFORMATION

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### Directors

#### **Executive directors**

R Hurst  
A Sunnucks

#### **Non Executive directors**

J Fanaris  
J Leveque (appointed 16 June 2004)  
M Ruffell  
J Sanderson

#### **Secretary**

R Hurst

#### **Company number**

4257337

#### **Registered office**

61 Holywell Hill  
St Albans  
Herts  
AL1 1HF

#### **Registered auditors**

Cartwrights  
Accountants and Business Advisors  
Regency House  
33 Wood Street  
Barnet, Herts  
EN5 4BE

#### **Business address**

School Farm Studios  
Little Maplestead  
Halstead  
Essex  
CO9 2SN  
Tel: 01787 477 277  
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E Mail: [office@audiolicense.net](mailto:office@audiolicense.net)  
Web site: [www.audiolicense.net](http://www.audiolicense.net)

#### **Bankers**

Coutts & Co  
Media Banking  
440 Strand  
London  
WC2 0QS

National Westminster Bank Plc  
High Street  
Halstead  
Essex  
CO9 2AG

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# AUDIO NETWORK PLC

## COMPANY INFORMATION

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### Solicitors

Calverts  
Solicitors  
77 Weston Street  
London  
SE1 3RS

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# AUDIO NETWORK PLC

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# AUDIO NETWORK PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2004

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The directors are pleased to present their report and financial statements of the group for the year ended 30 June 2004.

### Principal activities and review of the business

The principal activity of the group is the publishing of music and sound effects, specialising in the supply of high quality content to the film, television and multi-media sectors.

The primary focus throughout the year has been to continue building the use of Audio Network catalogues in film, television and multimedia projects whilst growing the value of the intellectual property rights held by the Group.

Increased music usage has led to further healthy growth of pipeline royalties.

By the balance sheet date the music catalogue had grown to 5,500 music tracks/cuts from one hundred composers. The Group also owns the exclusive, global and perpetual rights to the extensive SoundStorm sound effects archives which are being marketed alongside our music.

£266,466 of new equity finance was raised during the year, taking the year-end cash position to £251,300.

The price paid for new shares during the final quarter of the year of 25 pence per share values the issued share capital of 10,803,404 one penny ordinary shares at £2.7m (2003: 9,531,633 shares @ 22.5p =£2.1m)

Our wholly owned subsidiary Audio Network (Projects) Limited had a quiet year with no major sound projects being referred by SoundStorm Inc. In June 2004 the subsidiary company was re-named SoundStorm (UK) Limited and John Leveque was appointed to the Group board as the SoundStorm shareholder representative.

### Results and dividends

The consolidated profit and loss account for the year is set out on page 5.

#### Highlights:

- Gross Profit grew 170% to £216,372 despite lower Turnover & Gross Profit from film sound projects.
- Gross Profit before sound projects grew by 222%.
- Royalty receipts increased by 666% during the year as income from UK broadcasters started to flow to the Company through the Performing Rights Society.
- Turnover from music library sales grew by 225% which combined with strong domestic & international royalty pipelines is expected to result in sustained high performance royalty growth.
- Turnover from sound effects library sales grew by 135%.

During the prior year Audio Network (Projects) Ltd billed £377,940 for film sound projects. In the current year just £18,375 was billed, resulting in a 40% fall in consolidated Group Turnover, despite a 210% increase in Turnover before sound projects. The impact on Group Gross Profit was less significant due to low profit margins on sound projects relative to the core publishing activities.

As outlined in the prior year reports, the Directors expect royalty income from broadcasters to become the Group's primary source of income. Under our accounting policy, royalties are accounted for on a receipts basis with no accrual being made for pipeline royalty income.

# AUDIO NETWORK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

Television programmes containing our music have already been broadcast in some 200 countries. The resultant international royalties are expected to result in a further healthy increase in performance royalty income during subsequent periods as these royalties start to flow to the Group through the international collecting societies.

Good progress was made in closing the gap between revenue and expenditure as the year progressed. The reported loss for the year was reduced by £115,645 (30%) and net operating cash outflow (before reclassification of deferred directors' salaries) was reduced by £120,057 (41%). The focus for the next year will be to continue closing the gap between revenue and the expenditure.

The reported loss in our second full year of trading reflects the delay between investing in the creation of a long term intellectual property portfolio and the subsequent receipt of royalty income flows throughout the life of copyright lasting more than seventy years.

The directors do not recommend payment of an ordinary dividend.

### Directors' and their interests

The directors who have served during the year and their interests in the shares of the company were as stated below:

	Ordinary shares of 1p each	
	30 June 2004 or at date of resignation	1 July 2003 or subsequent date of appointment
R Hurst	1,460,250	1,460,250
A Sunnucks	1,460,250	1,460,250
J Fanaris	500,000	357,200
M Ruffell	550,500	475,500
J Sanderson	94,579	75,000
B Stambler (resigned 16 November 2003)	357,200	357,200
J Leveque (appointed 16 June 2004)	357,100	357,100

Share options have been granted to R Hurst, M Ruffell and A Sunnucks, the details of which are set out in the notes to the accounts.

Bruce Stambler resigned as a director on 16 November 2003. The SoundStorm shareholder representative position on the Board remained vacant until 16 June 2004 when Oscar and BAFTA winning SoundStorm supervising sound editor John Leveque joined the Board as the new SoundStorm shareholder representative.

### Creditor payment policy

The Group aims to pay all its suppliers within a reasonable period of their invoices being received and approved, provided that the supplier has performed in accordance with the relevant terms and conditions. At 30 June 2004, the number of days' credit taken for the purchases by the company was 30 days (2003:30 days)

### Auditors

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Cartwrights be reappointed as auditors of the company will be put to the Annual General Meeting.

# AUDIO NETWORK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

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### Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

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

On behalf of the board



.....  
R Hurst

Director

19 November 2004

# AUDIO NETWORK PLC

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AUDIO NETWORK PLC

We have audited the financial statements of Audio Network plc on pages 5 to 17 for the year ended 30 June 2004. These financial statements have been prepared under the historical cost convention and 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 3 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the company 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 United Kingdom Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group'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.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 30 June 2004 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Cartwrights

Accountants and Business Advisors  
Registered Auditor  
Regency House  
33 Wood Street, Barnet  
Herts, EN5 4BE

Date: 22/11/04



# AUDIO NETWORK PLC

## CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 £	2003 £
Turnover	2	274,207	460,637
Cost of sales		(57,835)	(380,503)
<b>Gross profit</b>		216,372	80,134
Administrative expenses		(506,158)	(501,311)
Other operating income		8,908	25,000
<b>Operating loss</b>	3	(280,878)	(396,177)
Other interest receivable and similar income		5,569	5,223
<b>Loss on ordinary activities before taxation</b>	3	(275,309)	(390,954)
Tax on loss on ordinary activities	4	-	-
<b>Loss on ordinary activities after taxation</b>		(275,309)	(390,954)

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

# AUDIO NETWORK PLC

## BALANCE SHEETS AS AT 30 JUNE 2004

		Group		Company	
	Notes	2004	2003	2004	2003
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	6	162,643	92,760	162,643	92,760
Tangible assets	7	16,968	22,630	16,968	22,630
Investments	8	-	-	2	2
		<u>179,611</u>	<u>115,390</u>	<u>179,613</u>	<u>115,392</u>
<b>Current assets</b>					
Stocks	9	42,980	27,233	42,980	27,233
Debtors	10	96,570	58,292	98,514	43,142
Cash at bank and in hand		251,300	251,473	251,300	251,473
		<u>390,850</u>	<u>336,998</u>	<u>392,794</u>	<u>321,848</u>
<b>Creditors: amounts falling due within one year</b>	11	(117,637)	(193,005)	(117,137)	(174,645)
<b>Net current assets</b>		<u>273,213</u>	<u>143,993</u>	<u>275,657</u>	<u>147,203</u>
<b>Total assets less current liabilities</b>		<u>452,824</u>	<u>259,383</u>	<u>455,270</u>	<u>262,595</u>
<b>Creditors: amounts falling due after more than one year</b>	12	(202,282)	-	(202,282)	-
		<u>250,542</u>	<u>259,383</u>	<u>252,988</u>	<u>262,595</u>
<b>Capital and reserves</b>					
Called up share capital	14	108,034	95,316	108,034	95,316
Share premium account	15	1,023,594	769,843	1,023,594	769,843
Profit and loss account	15	(881,086)	(605,776)	(878,640)	(602,564)
<b>Shareholders' funds - equity interests</b>	16	<u>250,542</u>	<u>259,383</u>	<u>252,988</u>	<u>262,595</u>

The financial statements were approved by the board on 19 November 2004

  
.....  
R Hurst  
Director

  
.....  
A Sunnucks  
Director

# AUDIO NETWORK PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	2004		2003	
	£	£	£	£
<b>Net cash outflow from operating activities</b>		(372,389)		(290,164)
<b>Returns on investments and servicing of finance</b>				
Interest received	5,569		5,223	
<b>Net cash inflow for returns on investments and servicing of finance</b>		5,569		5,223
<b>Capital expenditure</b>				
Payments to acquire intangible assets	(92,491)		(51,284)	
Payments to acquire tangible assets	(9,610)		(4,116)	
<b>Net cash outflow for capital expenditure</b>		(102,101)		(55,400)
<b>Net cash outflow before management of liquid resources and financing</b>		(468,921)		(340,341)
<b>Financing</b>				
Issue of ordinary share capital	266,466		232,332	
Directors' deferred salaries	202,282		-	
<b>Net cash inflow from financing</b>		468,748		232,332
<b>(Decrease)/increase in cash in the year</b>		(173)		(108,009)

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

1	Reconciliation of operating loss to net cash outflow from operating activities	2004	2003
		£	£
	Operating loss	(280,878)	(396,177)
	Depreciation of tangible assets	15,272	13,112
	Amortisation of intangible assets	22,610	9,437
	Increase in stocks	(15,747)	(24,176)
	Increase in debtors	(38,278)	(33,505)
	(Decrease)/Increase in creditors within one year	(75,368)	141,145
	Net cash outflow from operating activities	(372,389)	(290,164)

2	Analysis of net funds	1 July 2003	Cash flow	Other non-cash changes	30 June 2004
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	251,473	(173)	-	251,300
	Debts falling due after one year	-	(202,282)	-	(202,282)
	Net funds	251,473	(202,455)	-	49,018

3	Reconciliation of net cash flow to movement in net debt	2004	2003
		£	£
	Decrease in cash in the year	(173)	(108,009)
	Cash inflow from increase in debt	(202,282)	-
	Movement in net funds in the year	(202,455)	(108,009)
	Opening net funds	251,473	359,482
	Closing net funds	49,018	251,473

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

#### 1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable accounting standards.

#### 1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 June 2004. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

#### 1.4 Turnover

Turnover represents amounts receivable for goods, services and rights net of VAT and trade discounts.

#### 1.5 Copyrights

Throughout the year the company has invested in both the acquisition of copyrights and the development of its own copyrights. Whereas the costs of acquiring copyrights are capitalised in the balance sheet as intangible fixed assets, development costs paid by the company such as producing, recording, mixing, mastering or categorisation are expensed as incurred.

Copyrights are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful lives. In accordance with FRS 10 a maximum useful economic life of 20 years has been used as a basis of amortisation of copyrights, whereas in most territories music copyright exists for 70 years after the death of the composer.

#### 1.6 Development costs

Development expenditure is written off as incurred unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

The directors believe that the costs incurred on website, server and database development meet these criteria and such expenditure is being amortised over a period of three years.

#### 1.7 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 less estimated residual value of each asset over its expected useful life, as follows:

Plant and machinery	33.33% straight line
Computer equipment	33.33% straight line
Fixtures, fittings and equipment	20%-33.33% straight line

#### 1.8 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

#### 1.9 Stock

Stock is valued at the lower of cost and net realisable value.

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 1 Accounting policies

(continued)

#### 1.10 Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17.

#### 1.11 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

#### 1.12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

#### 1.13 Recognition of income

Income from the grant of usage rights is recognised from the date of grant unless the company has an ongoing obligation when subscriptions in advance are deferred and released to the profit and loss account over the subscription period. Royalty income is recognised on a receipts basis.

#### 1.14 Royalty advances to composers

Advances to composers are provided against to the extent that, in the directors' view they are not covered by anticipated future royalty income.

### 2 Turnover

The total turnover of the group for the year has been derived from its principal activity.

#### Segmental analysis by geographical area

The analysis by geographical area of the group's turnover is set out as below:

	2004	2003
	£	£
<b>Geographical segment</b>		
<b>Sound projects</b>		
United Kingdom	-	377,940
Rest of the world	18,375	-
	<u>18,375</u>	<u>377,940</u>
<b>Other music &amp; sound publishing activities</b>		
United Kingdom	177,122	57,915
Rest of the world	78,710	24,782
	<u>255,832</u>	<u>82,697</u>
<b>Group</b>		
United Kingdom	177,122	435,855
Rest of the world	97,085	24,782
	<u>274,207</u>	<u>460,637</u>

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

3	Operating loss	2004	2003
	Operating loss is stated after charging:	£	£
	Depreciation of intangible assets	22,610	9,437
	Depreciation of tangible assets	15,272	13,112
	Auditors' remuneration (company £5,250; 2003: £2,500)	5,750	3,500
	Remuneration of auditors for non-audit work	2,758	7,438

### 4 Taxation

On the basis of these financial statements no provision has been made for corporation tax as there are no profits chargeable to corporation tax. Losses are available for relief against future profits.

### 5 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:

	2004	2003
	£	£
Holding company's loss for the financial year	(276,075)	(387,742)

### 6 Intangible fixed assets Group and company

	Copyrights	Development Costs	Total
	£	£	£
<b>Cost</b>			
At 1 July 2003	58,075	44,947	103,022
Additions	70,309	22,183	92,492
At 30 June 2004	128,384	67,130	195,514
<b>Amortisation</b>			
At 1 July 2003	3,075	7,186	10,261
Charge for the year	4,602	18,008	22,610
At 30 June 2004	7,677	25,194	32,871
<b>Net book value</b>			
At 30 June 2004	120,707	41,936	162,643
At 30 June 2003	55,000	37,760	92,760

The company has not revalued its catalogue of rights within the balance sheet. As a result of the development activities undertaken by the group, the directors' believe that the open market value of the copyrights and other rights owned by the company is significantly in excess of the balance sheet amount.

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 7 Tangible fixed assets Group and company

	Plant and machinery	Fixtures, fittings and equipment	Total
Cost	£	£	£
At 1 July 2003	13,193	29,962	43,155
Additions	463	9,148	9,611
At 30 June 2004	13,656	39,110	52,766
Depreciation			
At 1 July 2003	6,513	14,013	20,526
Charge for the year	4,463	10,809	15,272
At 30 June 2004	10,976	24,822	35,798
Net book value			
At 30 June 2004	2,680	14,288	16,968
At 30 June 2003	6,681	15,949	22,630

### 8 Fixed asset investments Company

	Shares in group undertakings £
Cost	
At 1 July 2003 & at 30 June 2004	2

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following company:

Company	Country of registration or incorporation	Shares held Class	%
<b>Subsidiary undertakings</b>			
SoundStorm (UK) Limited	England and Wales	Ordinary	100

The principal activity of this undertaking for the last relevant financial year was as follows:

	Principal activity
SoundStorm (UK) Limited	Music and sound effects projects for film



# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 9 Stocks

	Group 2004 £	2003 £	Company 2004 £	2003 £
Raw materials and consumables	22,664	8,324	22,664	8,324
Finished goods and goods for resale	20,316	18,909	20,316	18,909
	<u>42,980</u>	<u>27,233</u>	<u>42,980</u>	<u>27,233</u>

### 10 Debtors

	Group 2004 £	2003 £	Company 2004 £	2003 £
Trade debtors	79,308	32,750	79,308	23,839
Amounts owed by group undertakings	-	-	2,032	-
Other debtors	4,256	7,128	4,168	4,908
Prepayments and accrued income	13,006	18,414	13,006	14,395
	<u>96,570</u>	<u>58,292</u>	<u>98,514</u>	<u>43,142</u>

Amounts falling due after more than one year and included in the debtors above are:

	2004 £	2003 £	2004 £	2003 £
Other debtors	<u>1,320</u>	<u>4,908</u>	<u>1,320</u>	<u>4,908</u>

Other debtors due after more than one year relate to royalties paid in advance.

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 11 Creditors : amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Trade creditors	25,694	22,404	25,694	12,510
Amounts owed to group undertakings	-	-	-	2,662
Taxes and social security costs	12,143	14,515	12,143	7,543
Directors' current accounts	3,401	7,154	3,401	7,154
Other creditors	20,666	12,500	20,666	12,500
Accruals and deferred income	55,733	136,432	55,233	132,276
	<u>117,637</u>	<u>193,005</u>	<u>117,137</u>	<u>174,645</u>

### 12 Creditors : amounts falling due after more than one year

	Group		Company	
	2004	2003	2004	2003
	£	£	£	£
Directors' deferred salaries	<u>202,282</u>	<u>-</u>	<u>202,282</u>	<u>-</u>

### 13 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund.

#### Defined contribution

	2004	2003
	£	£
Contributions payable by the company for the year	<u>8,570</u>	<u>7,593</u>

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

14 Share capital	2004 £	2003 £
<b>Authorised</b>		
25,000,000 Ordinary shares of 1p each	<u>250,000</u>	<u>250,000</u>
<b>Allotted, called up and fully paid</b>		
10,803,400 Ordinary shares of 1p each	<u>108,034</u>	<u>95,316</u>

During the period Ordinary shares were issued as follows in order to finance the working capital commitments of the company:

Date	Number of shares	Price per share	Proceeds of Issue £
11 September 2003	44,444	£0.225	10,000
16 January 2004	380,789	£0.20	76,158
16 February 2004	481,959	£0.20	96,392
16 March 2004	144,579	£0.20	28,916
31 March 2004	220,000	£0.25	55,000
Total	<u>1,271,771</u>		<u>266,466</u>

At the balance sheet date options had been granted and were still outstanding in respect of Ordinary shares as follows:

	Number of shares	Subscription price	Exercisable
R Hurst*	2,500,000	£0.01	01/01/05 to 31/12/10
A Sunnucks*	2,500,000	£0.01	01/01/05 to 31/12/10
Sainty Hird & Partners	125,000	£0.20	01/07/02 to 31/12/06
R Jones	25,000	£0.25	01/01/06 to 31/12/10
S Turner	25,000	£0.25	01/01/06 to 31/12/10
R Hurst	375,000	£0.20	11/06/06 to 31/12/10
A Sunnucks	375,000	£0.20	11/06/06 to 31/12/10
R Hurst	120,000	£0.25	11/06/06 to 31/12/10
A Sunnucks	120,000	£0.25	11/06/06 to 31/12/10
J Bingham	25,000	£0.25	01/01/06 to 31/12/10
J Bingham	50,000	£0.25	01/01/07 to 31/12/10
R Jones	25,000	£0.25	01/01/07 to 31/12/10
S Turner	25,000	£0.25	01/01/07 to 31/12/10
M Ruffell	24,000	£0.25	11/06/06 to 31/12/10

\* Shares options up to a maximum of 2.5 million shares each have been issued to R Hurst and A Sunnucks under an Enterprise Management Incentive Scheme linked to the price achieved on a realisable event.

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

### 15 Statement of movements on reserves Group

	Share premium account	Profit and loss account
	£	£
Balance at 1 July 2003	769,846	(605,777)
Retained loss for the year	-	(275,309)
Premium on shares issued during the year	253,748	-
	<u>1,023,594</u>	<u>(881,086)</u>
Balance at 30 June 2004	1,023,594	(881,086)

### Company

	Share premium account	Profit and loss account
	£	£
Balance at 1 July 2003	769,846	(602,565)
Retained loss for the year	-	(276,075)
Premium on shares issued during the year	253,748	-
	<u>1,023,594</u>	<u>(878,640)</u>
Balance at 30 June 2004	1,023,594	(878,640)

### 16 Reconciliation of movements in shareholders' funds Group

	2004 £	2003 £
Loss for the financial year	(275,309)	(390,954)
Proceeds from issue of shares	266,466	232,332
	<u>(8,843)</u>	<u>(158,622)</u>
Net depletion in shareholders' funds	(8,843)	(158,622)
Opening shareholders' funds	259,383	418,005
	<u>250,542</u>	<u>259,383</u>
Closing shareholders' funds	250,542	259,383

### Company

	2004 £	2003 £
Loss for the financial year	(276,075)	(387,742)
Proceeds from issue of shares	266,466	232,332
	<u>(9,609)</u>	<u>(155,410)</u>
Net depletion in shareholders' funds	(9,609)	(155,410)
Opening shareholders' funds	262,595	418,005
	<u>252,988</u>	<u>262,595</u>
Closing shareholders' funds	252,988	262,595

# AUDIO NETWORK PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2004

17 Directors' emoluments	2004 £	2003 £
Emoluments for qualifying services	171,236	172,047
Company pension contributions to money purchase schemes	8,000	6,657
	<u>179,236</u>	<u>178,704</u>

### 18 Transactions with directors

During the year A Sunnucks received £1,200 (2003: £1,145) for rent in respect of the occupation of the business premises by the company.

At the Balance Sheet date Messrs. R. Hurst and M Ruffell, directors of the company, had deferred emoluments in order to assist the working capital of the company. Such liabilities are shown as long term liabilities in the Balance Sheet.

The balances outstanding as at 30 June 2004 were:

R Hurst £ 97,757 (2003: £52,173)  
A Sunnucks £ 97,757 (2003:£52,173) and  
M Ruffell £ 6,768 (2003:£ Nil).

The above include National Insurance contributions of £ 21,348 (2003:£10,340)

### 19 Employees

#### Number of employees

The average monthly number of employees (including directors) during the year was:

	2004 Number	2003 Number
Management and administration	<u>6</u>	<u>6</u>

#### Employment costs

	£	£
Wages and salaries	242,799	239,990
Social security costs	27,268	24,622
Other pension costs	8,570	7,593
	<u>278,637</u>	<u>272,205</u>