

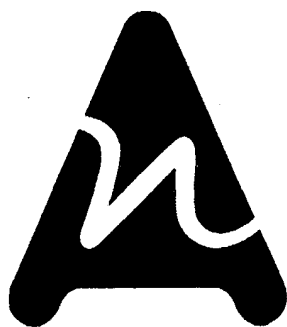
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Reg No: 04257337 (England & Wales)



**audio**  
network

**AUDIO NETWORK LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 30 JUNE 2016**

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COMPANIES HOUSE

# **AUDIO NETWORK LIMITED**

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## AUDIO NETWORK LIMITED

# Company Information

### Directors:

Robert Hurst  
Dan Marriott  
Miles Ruffell  
James Robert Smith (appointed 3<sup>rd</sup> October 2016)  
Andrew Sunnucks

### Company Secretary & CFO:

Kim Clarke

### Company number:

4257337

### Registered Office:

School Farm Studios  
Little Maplestead  
Halstead  
Essex, C09 2SN

### Auditors:

HW Fisher & Company  
Chartered Accountants  
Acre House  
11-15 William Road  
London, NW1 3ER

### Principal Business Addresses:

Audio Network Limited  
54 St John's Square  
London, EC1V 4JL  
England  
Tel: 020 7566 1441

Audio Network Limited  
School Farm Studios  
Halstead, Essex  
C09 2SN, England  
Tel: 01787 477 277

Audio Network Australia Pty Ltd  
645 Harris Street  
Ultimo, NSW 2007  
Australia  
Tel: 02 8204 0100

Audio Network Canada Inc  
8 Robert Attersley Dr. East  
Whitby, Toronoto,  
L1R 3E3, Canada  
Tel: +1 905 655 4897

Audio Network GmbH  
Tal 30/02, Stock  
8031 Munchen  
Germany  
Tel: 089 189 46 817

Audio Network (Holland) BV  
Vijzelstraat 20-IV  
1017 HK  
Amsterdam, Holland  
Tel: + 31 (0) 20 820 3830

Audio Network US, Inc  
9465 Wilshire Blvd  
Suite 300  
Beverly Hills  
CA 90212, USA  
Tel +1 310 889 0109

Audio Network US, Inc  
48 West 25<sup>th</sup> Street  
New York  
NY 10010  
USA  
Tel: +1 646 688 4320

Email: [office@audionetwork.com](mailto:office@audionetwork.com)

Web site: [www.audionetwork.com](http://www.audionetwork.com)

## **Strategic Report**

The directors are pleased to present the annual report and financial statements of the group for the year ended 30 June 2016.

### **Principal activity and review of the business**

The group's principal activity is to produce world-class and authentically crafted music and to publish it to creative communities everywhere.

We are pleased to report another year of excellent growth in our composer team and music catalogue contributing towards further organic growth in group turnover and profit.

Your board followed a strategy of utilising the growth achieved in turnover and gross profit to invest in the commissioning and development of new music copyrights, worldwide distribution channels, marketing and technology.

### **Results**

The consolidated profit and loss account for the year is set out on page 8.

#### **Highlights**

- Turnover up 16% to £20.5m
- Gross profit up 16% to £19.6m
- Profit before tax up 3% to £6.4m
- Profit after taxation up 1% to £5.1m
- Operating cash flow up 11% to £6.1m

Turnover growth and accrued income from performing rights societies reported in our sterling denominated financial statements benefited from a positive foreign exchange movement as a result of a weaker sterling.

### **Principal Risks and Uncertainties**

The management of the business and the execution of the group's strategy are subject to a number of inherent risks and uncertainties.

The key business uncertainty remains the impact that the digital market will continue to have on the business models and music budgets of broadcasters and production companies and the resulting impact on royalties from performing rights societies, as well as the explosive growth in content creation for video consumption online.

Other risks include the risk of competition from alternative music sources, regulatory changes to copyright laws, the retention of key people and management of transition following the referendum to Brexit from the EU.

Our strategy of international expansion across multiple territories and markets over recent years has reduced our exposure to the risk associated with any one market.

Your management seeks to maintain a strong customer-focused culture anticipating change and has adopted an agile and innovative approach to managing growth, focused on providing excellent customer relationship management across multiple customer segments.

## **AUDIO NETWORK LIMITED**

# **Strategic Report (continued)**

### **Financial Risk Management**

The group's operations expose it to a variety of financial risks. The policies for managing these risks are summarised below and have been applied throughout the year.

#### **Price Risk**

The group operates in a competitive market and it is the group's policy to review pricing against prevailing market conditions. The management seeks to minimise this risk through the quality and depth of its music catalogue, and customer service, ease of licensing and seamless integration into the workflows of our customers.

#### **Credit Risk**

The group seeks to reduce its exposure to credit risk through regular review of individual customer accounts to ensure that they are maintained within acceptable limits.

The group also seeks to reduce its exposure to any one financial institution by holding its cash reserves with more than one financial institution.

#### **Foreign Currency Risk**

The group has significant and growing overseas operations.

In particular, certain assets and liabilities of group companies are denominated in US dollars, Canadian dollars, Euros and Australian dollars. As a result the group's sterling balance sheet may be affected by movements in the sterling exchange rate relative to these currencies.

The group also has profit & loss account currency exposure due to revenues and costs denominated in foreign currencies.

The group seeks to minimise this profit and loss exposure by matching growth in foreign currency revenue streams with local currency overheads and expenses where appropriate.

#### **Financial Instruments**

The group's financial instruments comprise items such as trade receivables and trade payables that arise directly from its operations.

It continues to be the group's policy not to trade in financial instruments.

#### **Interest Rate Risk**

Cash balances are placed so as to maximise interest earned while maintaining the working capital requirements of the business.

The group has no long term loans or other long term borrowings.

#### **Brexit Risk**

Your management will continue to monitor Brexit negotiations and where necessary take the appropriate steps to minimise the risk of disruption to our group business.

## **Strategic Report (continued)**

### **Key Performance Indicators**

Our composer team grew by 139 (20%) during the year from 707 to 846 (2015 growth: 141).

We grew our music catalogue organically by 21,365 tracks (22%) from 97,704 tracks at the start of the year to 119,069 tracks by the end of the year (2015 growth: 18,179 tracks).

The number of tracks live on our website grew by 20,471 tracks (22%) from 94,345 tracks at the start of the year to 114,816 tracks by the end of the year (2015 growth: 17,652 tracks).

Group turnover grew by £2.9m (16%) to £20.5m (2015 growth: £2.2m).

International revenues grew by £2.2m (19%) to £14.1m (2015 growth: £1.6m).

International revenues now account for 69% of group revenue (2015: 68%).

Turnover from the UK grew by £0.6m (11%) to £6.4m (2015 growth: £0.6m).

Subscription churn rates increased to 12.5% in an increasingly competitive market (2015: 10%).

Cash at bank, in hand and on notice accounts of £5.3m was held by the group at 30 June 2016 (2015: £3.0m) after paying £2.0m of dividends (2015: £2.0m), share buy-backs of £0.3m (2015: £0.9m) and corporation tax payments of £1.0m (2015: £1.2m).

### **Share Buy-backs**

Special resolutions were passed by shareholders during the year authorising the company to buy back from selling shareholders 86,464 Ordinary shares and 5,000 C Ordinary shares. The buy-back shares, representing less than 1% of the issued Ordinary share capital and less than 2% of the issued C Ordinary share capital, were purchased by the company at a cost of £347,736 inclusive of stamp duty (2015: £886,501). The buy-backs allowed the company to continue trading for the benefit of the non-selling shareholders without management time being diverted to manage sale processes for a relatively small number of shares.

### **Future Outlook**

The management team remains committed to delivering significant growth both domestically and internationally for our shareholders, customers, composers, employees and other stakeholders.

On behalf of the Board



**Andrew Sunnucks**  
**Founder | Chairman**

Date: 3 November 2016

## AUDIO NETWORK LIMITED

# Directors' Report

### Directors

The directors who served during the year were as stated below:

Juliette Bingham (nee Squair)	resigned 30 June 2016
Christopher Blakeston	resigned 30 June 2016
Robert Hurst	
Dan Marriott	
Miles Ruffell	
John Sanderson	resigned 30 June 2016
Andrew Sunnucks	

Juliette Bingham, Christopher Blakeston and John Sanderson resigned as directors on 30 June 2016 and James Robert Smith (known as Robb Smith) was appointed to the Board as our new CEO on 3 October 2016.

The Board takes this opportunity of thanking the three directors who stepped down from the Board on 30 June 2016 for the contribution they each made to the growth of the group over many years.

### Political Donations

The group made no political donations during the year (2015: Nil).

### Employee involvement

Within the bounds of commercial confidentiality, information is disseminated to all employees about matters that affect the progress of the group and are of concern to them as employees.

Where deemed appropriate by the directors, cash or equity based incentive schemes are regularly used as an integral part of employee remuneration packages to help align the interests of employees with the long term interests of our composers, shareholders and other stakeholders.

### Results and Dividends

The profit for the year, after taxation, amounted to £5,051,484 (2015: £4,994,209).

A final dividend for the prior year of three pence (£0.03) per Ordinary share was paid during the current year (2015: £0.03).

A first interim dividend for the current year of five pence (£0.05) per Ordinary share was paid during March 2016 (2015: £0.05).

A second interim dividend for the current year of five pence (£0.05) per Ordinary share was paid during June 2016 (2015: £0.05).

The directors recommend a final dividend of three pence (£0.03) on each of the Ordinary shares entitled thereto (2015: £0.03) bringing the total dividend for the current year to thirteen pence (£0.13) per Ordinary share (2015: £0.13).

## **Directors' Report (continued)**

### **Auditors**

HW Fisher & Company have indicated their willingness to continue in office and a resolution to appoint them as auditors will be proposed at the next general meeting.

### **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 applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- \* select suitable accounting policies and then apply them consistently;
- \* make judgments and accounting estimates that are reasonable and prudent;
- \* state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- \* 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 adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Statement of disclosure to auditors**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



**Robert Hurst**  
**Founder | Director**

Date: 3 November 2016



## AUDIO NETWORK LIMITED

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

We have audited the financial statements of Audio Network Limited for the year ended 30 June 2016 which comprise the Group Profit And Loss Account, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Company Balance Sheet, the Group Statement of Changes in Equity, the Company Statement of Changes in Equity, the Group Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of director and auditor**

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

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2016 and of its profit for the year then ended;

have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**AUDIO NETWORK LIMITED**

**INDEPENDENT AUDITORS' REPORT TO THE  
SHAREHOLDERS OF AUDIO NETWORK LIMITED  
(continued)**

**Matters on which we are required to report by exception**

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

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

**Andrew Rich (Senior Statutory Auditor)  
for and on behalf of HW Fisher & Company**

**Chartered Accountants**

**Statutory Auditor**

Acre House  
11-15 William Road  
London  
NW1 3ER  
United Kingdom

Date:.....3/11/16.....

# AUDIO NETWORK LIMITED

## Consolidated Profit & Loss Account

for the year ended 30 June 2016

	Notes	2016 £	2015 £
<b>TURNOVER</b>		20,512,028	17,652,521
Cost of sales		(958,831)	(733,579)
Gross profit		19,553,197	16,918,942
Distribution costs		(59,005)	(50,221)
Administrative expenses		(13,187,461)	(10,767,784)
Other operating income		-	3,690
<b>OPERATING PROFIT</b>	4	6,306,731	6,104,627
Interest receivable and similar income	6	58,011	53,424
		6,364,742	6,158,051
Interest payable and similar charges	7	-	(1,517)
<b>Profit on ordinary activities before taxation</b>		6,364,742	6,156,534
Tax on profit on ordinary activities	8	(1,313,258)	(1,162,325)
<b>Profit after taxation</b>		5,051,484	4,994,209

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

## Consolidated Statement of Comprehensive Income

for the year ended 30 June 2016

	2016 £	2015 £
<b>PROFIT FOR THE FINANCIAL YEAR</b>	5,051,484	4,994,209
<b>Other comprehensive income / (expense):</b>		
Currency translation of differences on foreign investments, net of tax	191,158	(313,006)
<b>Other comprehensive income / (expense) for the year, net of tax</b>	191,158	(313,006)
<b>Total comprehensive income for the year</b>	5,242,642	4,681,203

**Consolidated and Company Balance Sheet**

As at 30 June 2016

		Group		Company	
		2016	2015	2016	2015
	Note	£	£	£	£
<b>Fixed assets</b>					
Intangible assets	10	3,411,101	3,421,650	2,931,669	2,882,451
Tangible assets	11	525,913	508,410	425,972	418,795
Investments	12	-	-	809,985	809,985
		<u>3,937,014</u>	<u>3,930,060</u>	<u>4,167,626</u>	<u>4,111,231</u>
<b>Current assets</b>					
Stocks	13	20,906	25,284	9,267	13,897
Debtors	14	9,462,521	7,142,220	7,888,370	6,437,957
Cash at bank and in hand		2,552,221	1,415,569	1,625,514	655,840
Current asset investments	15	2,698,772	1,546,678	2,698,772	1,546,678
		<u>14,734,420</u>	<u>10,129,751</u>	<u>12,221,923</u>	<u>8,654,372</u>
Creditors: amounts falling due within one year	16	(5,790,534)	(4,338,451)	(4,225,505)	(3,188,983)
<b>Net current assets</b>		<u>8,943,886</u>	<u>5,791,300</u>	<u>7,996,418</u>	<u>5,465,389</u>
Provisions for liabilities and charges	17	(119,968)	(115,066)	(128,222)	(148,363)
<b>Total assets less total liabilities</b>	3	<u>12,760,932</u>	<u>9,606,294</u>	<u>12,035,822</u>	<u>9,428,257</u>
<b>Capital &amp; reserves</b>					
Called up share capital	18	162,421	160,764	162,421	160,764
Share premium account		3,757,450	3,479,661	3,757,450	3,479,661
Capital redemption reserve		11,222	10,307	11,222	10,307
Shares held under JSOP		(1,290,000)	(1,290,000)	(1,290,000)	(1,290,000)
Profit and loss account		10,119,839	7,245,562	9,394,729	7,067,525
<b>Shareholders' funds</b>		<u>12,760,932</u>	<u>9,606,294</u>	<u>12,035,822</u>	<u>9,428,257</u>

Approved by the board and authorised for issue on 3 November 2016

  
 .....  
**Robert Hurst**  
 Founder | Director

  
 .....  
**Kim Clarke**  
 Company Secretary | CFO

**AUDIO NETWORK LIMITED**

**Company Statement of Changes in Equity**

As at 30 June 2016

	Note	Share capital £	Share premium £	Capital redemption reserve £	Shares held under JSOP £	Retained earnings £	Total equity £
Balance as at 1 July 2014	18	165,931	3,379,238	2,744	(1,290,000)	4,866,172	7,124,085
Profit for the year		-	-	-	-	5,108,018	5,108,018
Other comprehensive income for the year		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	5,108,018	5,108,018
Dividend paid		-	-	-	-	(2,020,164)	(2,020,164)
Issue of Shares		2,396	100,423	-	-	-	102,819
Shares repurchased		(7,563)	-	7,563	-	(886,501)	(886,501)
Total transactions with owners recognised directly in equity		(5,167)	100,423	7,563	-	(2,906,665)	(2,803,846)
<b>Balance as at 30 June 2015</b>	18	<b>160,764</b>	<b>3,479,661</b>	<b>10,307</b>	<b>(1,290,000)</b>	<b>7,067,525</b>	<b>9,428,257</b>
Profit for the year		-	-	-	-	4,695,569	4,695,569
Other comprehensive income for the year		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	-	4,695,569	4,695,569
Dividend paid		-	-	-	-	(2,020,629)	(2,020,629)
Issue of Shares		2,572	277,789	-	-	-	280,361
Share repurchased		(915)	-	915	-	(347,736)	(347,736)
Total transactions with owners recognised directly in equity		1,657	277,789	915	-	(2,368,365)	(2,088,004)
<b>Balance as at 30 June 2016</b>	18	<b>162,421</b>	<b>3,757,450</b>	<b>11,222</b>	<b>(1,290,000)</b>	<b>9,394,729</b>	<b>12,035,822</b>

**AUDIO NETWORK LIMITED**

**Consolidated Statement of Changes in Equity (continued)**

As at 30 June 2016

	Note	Share capital £	Share premium £	Capital redemption reserve £	Shares held under JSOP £	Retained earnings £	Total equity £
Balance as at 1 July 2014	18	165,931	3,379,238	2,744	(1,290,000)	5,471,024	7,728,937
Profit for the year		-	-	-	-	4,994,209	4,994,209
Other comprehensive loss for the year		-	-	-	-	(313,006)	(313,006)
Total comprehensive income for the year		-	-	-	-	4,681,203	4,681,203
Dividend paid		-	-	-	-	(2,020,164)	(2,020,164)
Issue of Shares		2,396	100,423	-	-	-	102,819
Shares repurchased		(7,563)	-	7,563	-	(886,501)	(886,501)
Total transactions with owners recognised directly in equity		(5,167)	100,423	7,563	-	(2,906,665)	(2,803,846)
<b>Balance as at 30 June 2015</b>	<b>18</b>	<b>160,764</b>	<b>3,479,661</b>	<b>10,307</b>	<b>(1,290,000)</b>	<b>7,245,562</b>	<b>9,606,294</b>
Profit for the year		-	-	-	-	5,051,484	5,051,484
Other comprehensive income for the year		-	-	-	-	191,158	191,158
Total comprehensive income for the year		-	-	-	-	5,242,642	5,242,642
Dividend paid		-	-	-	-	(2,020,629)	(2,020,629)
Issue of Shares		2,572	277,789	-	-	-	280,361
Shares repurchased		(915)	-	915	-	(347,736)	(347,736)
Total transactions with owners recognised directly in equity		1,657	277,789	915	-	(2,368,365)	(2,088,004)
<b>Balance as at 30 June 2016</b>	<b>18</b>	<b>162,421</b>	<b>3,757,450</b>	<b>11,222</b>	<b>(1,290,000)</b>	<b>10,119,839</b>	<b>12,760,932</b>

**AUDIO NETWORK LIMITED****Consolidated Cash Flow Statement**

For the year ended 30 June 2016

	<u>2016</u>		<u>2015</u>	
	£	£	£	£
<b>Net cash flow from operating activities (Note 1)</b>		6,105,417		5,522,809
<b>Returns on investments and servicing of finance</b>				
Acquisition of minority interest in joint venture (net of cash acquired)	-		(550,432)	
Interest received	58,011		53,424	
Interest paid	-		(1,517)	
<b>Net cash inflow / (outflow) for returns on investments and servicing of finance</b>		58,011		(498,525)
<b>Taxation</b>				
UK tax paid	(750,717)		(927,678)	
Foreign tax paid	(134,674)		(226,803)	
Withholding tax paid	(111,503)		(94,092)	
<b>Total Taxation paid</b>		(996,894)		(1,248,573)
<b>Capital expenditure</b>				
Payments to acquire intangible assets	(511,890)		(1,054,308)	
Payments to acquire tangible assets	(277,894)		(351,316)	
<b>Net cash outflow for capital expenditure</b>		(789,784)		(1,405,624)
<b>Net cash inflow before financing</b>		4,376,750		2,370,087
<b>Financing</b>				
(Increase)/decrease in current asset investments	(1,152,094)		799,041	
Issue of share capital	280,361		102,819	
Repayment of short term loans	(347,736)		(530,945)	
Purchase of own shares			(886,501)	
<b>Net cash outflow from financing</b>		(1,219,469)		(515,586)
<b>Dividends paid</b>		(2,020,629)		(2,020,164)
<b>Increase/(decrease) in cash in the year</b>		1,136,652		(165,663)

## Notes to the Consolidated cash flow statement

### (1) Reconciliation of profit on ordinary activities before interest to net cash flow from operating activities

	<u>2016</u>	<u>2015</u>
	£	£
Operating profit	6,306,731	6,104,627
Depreciation of tangible fixed assets	272,829	213,841
Amortisation of intangible fixed assets	522,439	399,719
Disposal of fixed asset	2,213	15,390
Decrease / (Increase) in stocks	4,378	(9,259)
Increase in debtors	(2,347,581)	(1,261,901)
Increase in creditors due within one year	1,167,900	378,984
Foreign currency translation	176,508	(318,592)
	<u>6,105,417</u>	<u>5,522,809</u>



## **Notes to the Consolidated Financial Statements**

### **1 Accounting Policies**

#### **1.1 Company information**

Audio Network Limited (“the company”) is a limited company domiciled and incorporated in England and Wales. The registered office is School Farm Studios, Little Maplestead, Halstead, Essex, C09 2SN.

The group consists of Audio Network Limited and all its subsidiaries.

#### **1.2 Accounting convention**

These financial statements have been prepared in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and the Republic of Ireland” (“FRS 102”) and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared on the historic cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below. The financial statements are prepared on the going concern basis of accounting.

These group and company financial statements for the year ended 30 June 2016 are the first financial statements of Audio Network Limited and the group prepared in accordance with FRS102, The Financial Reporting standard applicable in the UK and Republic of Ireland. The financial statements for the preceding period were prepared in accordance with the previous UK GAAP. The date of transition to FRS102 was 1 July 2014.

As permitted by s408 Companies Act 2006, the company has not presented its own profit and loss account and related notes.

#### **1.3 Basis of consolidation**

In the parent company financial statements, the cost of a business combination is the fair value at the acquisition date of the assets given, equity instruments issued and liabilities incurred or assumed, plus costs directly attributable to the business combination. The excess of the cost of a business combination over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recognisable as goodwill. The cost of the combination includes the estimated amount of contingent consideration that is probable and can be measured reliably, and is adjusted for changes in contingent consideration after the acquired date. Provisional fair values recognised for business combinations in previous periods are adjusted retrospectively for final fair values determined in the 12 months following the acquisition date. Investments in subsidiaries, joint ventures and associates are accounted for at cost less impairment.

## **Notes to the Consolidated Financial Statements (continued)**

### **1.3 Basis of consolidation (continued)**

The consolidated financial statements incorporate those of Audio Network Limited and all of its subsidiaries (i.e. entities that the group controls through its power to govern the financial and operating policies as to obtain economic benefits). Subsidiaries acquired during the year are consolidated using the purchase method. Their results are incorporated from the date that control passes.

All financial statements are made up to 30 June 2016. Where necessary, adjustments are made to the financial statements to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### **1.4 Going concern**

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

### **1.5 Turnover**

Turnover is recognised at the fair value of the consideration received or receivable for music rights granted in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts.

Income from the grant of usage rights is recognised from the date of the grant unless the group 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 an accruals basis based on estimated usage.

### **1.6 Copyrights and Licences**

The costs of acquiring copyrights and licences are capitalised in the balance sheet as intangible fixed assets. Post-acquisition costs paid by the group are expensed as incurred.

Copyrights and licences are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their useful lives. A maximum estimated useful economic life of 20 years has been used as a basis of amortisation of copyrights and licences.

## **Notes to the Consolidated Financial Statements (continued)**

### **1.7 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 over an estimated useful life. In this situation, the expenditure is deferred and amortised over the period during which the group is expected to benefit.

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

### **1.8 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 on a straight line basis, as follows:

Plant & Machinery	over 3 years
Computer Equipment	over 3 years
Fixtures, fittings & equipment	over 3 to 5 years
Software	over 3 years
Leasehold improvements	over the life of the lease

### **1.9 Fixed asset investments**

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

### **1.10 Current asset investments**

Cash on short term notice accounts totalling £2,698,772 at 30 June 2016 has been classified as current asset investments and the comparatives restated from cash at bank and in hand accordingly to better reflect the nature of these balances. These balances are stated at fair value.

### **1.11 Stock**

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

At each reporting date, an assessment is made for impairment. Any excess of the carrying amount of stocks over its estimated selling price less costs to complete and sell is recognised as an impairment loss in profit or loss. Reversals of impairment losses are also recognised in profit or loss.

## Notes to the Consolidated Financial Statements (continued)

### 1.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of less than three months, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

### 1.13 Pensions

The company and certain subsidiaries operate defined contribution pension schemes for the benefit of their employees. Contributions payable to the schemes, or to Self-Invested Personal Pension Schemes (SIPPs) held by two directors, are charged to the profit and loss account in the year they are payable.

### 1.14 Financial Instruments

The group has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the group's statement of financial position when the group becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### *Basic financial assets*

Basic financial assets, which include debtors and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

#### *Impairment of financial assets*

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

## Notes to the Consolidated Financial Statements (continued)

### 1.14 Financial Instruments (continued)

#### *Derecognition of financial assets*

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the group transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

#### *Classification of financial liabilities*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

#### *Basic financial liabilities*

Basic financial liabilities, including creditors, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

#### *Derecognition of financial liabilities*

Financial liabilities are derecognised when the group's contractual obligations expire or are discharged or cancelled.

### 1.15 Equity instruments

Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the group.

## **Notes to the Consolidated Financial Statements (continued)**

### **1.16 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

#### ***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

#### ***Deferred tax***

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset if, and only if, there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

### **1.17 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 the profit and loss account. Closing balances of overseas subsidiaries are translated at the rate ruling at the balance sheet date. Exchange differences arising on translation of subsidiary undertakings for the purposes of consolidation are taken to other comprehensive income.

### **1.18 Operating leases**

Rental payments under operating leases are charged to the profit and loss account on a straight line basis over the period of the lease.

### **1.19 Interest income and expenses**

Interest income and expenses are accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

## **Notes to the Consolidated Financial Statements (continued)**

### **1.20 Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved for payment by the directors.

### **1.21 Share based payments**

Equity based incentive schemes are an integral part of the remuneration package of certain executive directors and employees (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefits expense. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the group's estimate of the number of equity instruments that will ultimately vest. The profit and loss account expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

### **1.22 Nature and purpose of reserves**

The share premium account has been established to represent the excess of proceeds over the nominal value for all share issues, including the excess of the exercise share price over the nominal value of the shares on the exercise of share options as and when they occur, less any directly attributable share issue costs.

The capital redemption reserve is a non-distributable reserve which has been established to represent the nominal value of shares bought back by the company.

Other reserves include shares held under JSOP. The Audio Network Employees' Share Trust jointly purchased and has jointly held 500,000 of the company's own issued Ordinary shares of one penny each under a Joint Share Ownership Plan ("JSOP") with two plan members since 9 October 2012. The plan members have the option right under the plan to purchase the trust's proportion of the JSOP shares direct from the trust or the right to call upon the trust to join the member in selling their JSOP shares subject to the share transfer rules set out in the company articles of association. The directors of the company expect the trust will have sufficient funds for the loan amount of £1,290,000 to be repaid in full by the trust to the company following exercise by the plan members of either of these two rights.

### **1.23 Holiday pay accrual**

The cost of any holiday entitlement is recognised in the period in which the employees' services are received.

## Notes to the Consolidated Financial Statements (continued)

### 2 Judgements and key courses of estimation uncertainty

In the application of the group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised where the revision affects only that period, or in the period of the revision and future periods where the revision affects both current and future periods.

### 3 Geographical information

The turnover and profit of the group arise from the principal activity, the crafting and distribution of music commissioned from the United Kingdom.

The table below analyses turnover by source, profit before tax and net assets by territory:

	Turnover by source		Profit before tax		Net assets	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	£	£	£	£	£	£
<b>Group</b>						
United Kingdom	11,769,499	9,591,275	5,624,786	5,652,115	11,706,732	9,145,995
North America (*)	4,633,367	3,966,584	303,727	83,024	456,869	240,233
Continental Europe (*)	2,437,410	2,561,002	190,461	209,399	193,213	28,784
Australasia (*)	1,671,752	1,533,660	245,768	211,996	404,118	191,282
	<u>20,512,028</u>	<u>17,652,521</u>	<u>6,364,742</u>	<u>6,156,534</u>	<u>12,760,932</u>	<u>9,606,294</u>

(\*) International turnover above excludes international revenues booked direct by the UK companies.

The table below analyses turnover by destination of customer or broadcast:

	<u>2016</u>	<u>2015</u>
	£	£
<b>Group</b>		
United Kingdom	6,367,524	5,718,745
Continental Europe	6,589,172	5,130,816
North America	4,634,751	4,126,853
Australasia	1,700,485	1,580,699
Rest of the World	1,220,096	1,095,408
	<u>20,512,028</u>	<u>17,652,521</u>



## Notes to the Consolidated Financial Statements (continued)

### 4 Operating profit

Operating profit is stated after charging:

	<u>2016</u>	<u>2015</u>
	£	£
Amortisation of intangible fixed assets	522,439	399,719
Depreciation of tangible fixed assets	272,829	213,841
Operating lease rentals	600,368	436,836
Foreign exchange gain	(419,138)	(11,233)
Auditor's remuneration (company £21,000; 2015: £20,000)	31,500	29,000
Remuneration of auditors for non-audit work	41,195	32,898

### 5 Income from shares in group undertakings

#### Company

Income from group undertakings

<u>2016</u>	<u>2015</u>
£	£
-	661,418

### 6 Interest receivable and similar income

#### Group

Interest receivable

<u>2016</u>	<u>2015</u>
£	£
58,011	53,424

### 7 Interest payable and similar charges

#### Group

Loan interest payable (Note 24)

<u>2016</u>	<u>2015</u>
£	£
-	1,517

## Notes to the Consolidated Financial Statements (continued)

## 8 Taxation

	<u>2016</u>	<u>2015</u>
	£	£
<b>Current tax charge</b>		
Charge for the current year	1,079,169	967,569
Adjustment re prior periods	(8,852)	(43,325)
<b>Deferred tax charge (Note 17)</b>		
Charge for the current year	13,096	57,747
Adjustment re prior periods	(5,370)	2,967
<b>Foreign tax charge</b>		
Foreign tax charge	224,141	182,971
Adjustment re prior periods	11,074	(5,604)
	<u>1,313,258</u>	<u>1,162,325</u>
<b>Factors affecting the years' tax charge</b>		
Profit on ordinary activities before taxation	6,364,742	6,156,534
Profit on ordinary activities before taxation multiplied by rate of UK Corporation tax of 20% (2015: 20.75%)	1,272,948	1,277,481
Effects of:		
Non-deductible expenses	30,863	33,838
Depreciation add back	152,359	88,741
Capital allowances	(143,719)	(174,116)
Qualifying research & development expenditure	(86,320)	(84,694)
Share options exercised	(46,528)	(20,710)
Group brought forward tax losses utilised	-	2,059
Adjustment re prior periods	2,221	(48,929)
Deferred tax charge	7,726	60,714
Higher overseas tax rates	98,362	38,854
Other adjustments	25,346	(10,913)
<b>Current tax charge</b>	<u>1,313,258</u>	<u>1,162,325</u>

## 9 Profit for the financial year

As permitted by section 408 of the Companies Act 2006, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows:

	<u>2016</u>	<u>2015</u>
	£	£
Holding company's profit for the financial year	<u>4,695,569</u>	<u>5,108,018</u>

# AUDIO NETWORK LIMITED

## Notes to the Consolidated Financial Statements (continued)

### 10 Intangible fixed assets

<b>Group</b>	Customer relationships £	Copyrights & Licences £	Recordings in progress £	Development costs £	Total £
<b>Cost</b>					
At 1 July 2015	594,665	2,186,691	200,432	1,283,662	4,265,450
Additions	-	-	446,514	65,376	511,890
Transfers	-	344,165	(344,165)	-	-
At 30 June 2016	594,665	2,530,856	302,781	1,349,038	4,777,340
<b>Amortisation</b>					
At 1 July 2015	59,466	531,058	-	253,276	843,800
Charge for the year	59,466	148,140	-	314,833	522,439
At 30 June 2016	118,932	679,198	-	568,109	1,366,239
<b>Net book amount</b>					
At 30 June 2016	475,733	1,851,658	302,781	780,929	3,411,101
At 1 July 2015	535,199	1,655,633	200,432	1,030,386	3,421,650

<b>Company</b>	Copyrights & Licences £	Recordings in progress £	Development costs £	Total £
<b>Cost</b>				
At 1 July 2015	2,182,691	200,432	1,283,662	3,666,785
Additions	-	446,514	65,376	511,890
Transfers	344,165	(344,165)	-	-
At 30 June 2016	2,526,856	302,781	1,349,038	4,178,675
<b>Amortisation</b>				
At 1 July 2015	531,058	-	253,276	784,334
Charge for the year	147,839	-	314,833	462,672
At 30 June 2016	678,897	-	568,109	1,247,006
<b>Net book amount</b>				
At 30 June 2016	1,847,959	302,781	780,929	2,931,669
At 1 July 2015	1,651,633	200,432	1,030,386	2,882,451

## Notes to the Consolidated Financial Statements (continued)

<b>11 Tangible fixed assets</b>	<b>Plant &amp; Machinery</b>	<b>Fixtures, Fittings &amp; Equipment</b>	<b>Total</b>
<b>Group</b>			
	£	£	£
<b>Cost</b>			
At 1 July 2015	76,404	880,595	956,999
Additions	-	277,894	277,894
Disposals	(1,747)	(466)	(2,213)
Currency translation differences	276	31,978	32,254
At 30 June 2016	<u>74,933</u>	<u>1,190,001</u>	<u>1,264,934</u>
<b>Depreciation</b>			
At 1 July 2015	42,428	406,161	448,589
Charge for the year	11,855	260,974	272,829
Disposals	-	-	-
Currency translation differences	132	17,471	17,603
At 30 June 2016	<u>54,415</u>	<u>684,606</u>	<u>739,021</u>
<b>Net book amount</b>			
At 30 June 2016	<u>20,518</u>	<u>505,395</u>	<u>525,913</u>
At 1 July 2015	<u>33,976</u>	<u>474,434</u>	<u>508,410</u>

<b>Company</b>	<b>Plant &amp; Machinery</b>	<b>Fixtures, Fittings &amp; Equipment</b>	<b>Total</b>
	£	£	£
<b>Cost</b>			
At 1 July 2015	74,790	711,580	786,370
Additions	-	234,256	234,256
Disposals	(1,747)	-	(1,747)
At 30 June 2016	<u>73,043</u>	<u>945,836</u>	<u>1,018,879</u>
<b>Depreciation</b>			
At 1 July 2015	41,929	325,646	367,575
Charge for the year	11,362	213,970	225,332
Disposals	-	-	-
At 30 June 2016	<u>53,291</u>	<u>539,616</u>	<u>592,907</u>
<b>Net book amount</b>			
At 30 June 2016	<u>19,752</u>	<u>406,220</u>	<u>425,972</u>
At 1 July 2015	<u>32,861</u>	<u>385,934</u>	<u>418,795</u>

# AUDIO NETWORK LIMITED

## Notes to the Consolidated Financial Statements (continued)

### 12 Fixed asset investments Company

	<u>2016</u>	<u>2015</u>
Cost	£	£
Shares in group companies	<u>809,985</u>	<u>809,985</u>
Balance at 1 July 2015	809,985	188,567
Investment in Audio Network Project One Limited	-	100
Investment in Audio Network Project Two Limited	-	100
Increase in investment in Audio Network Australia Pty Ltd	-	621,218
Balance at 30 June 2016	<u>809,985</u>	<u>809,985</u>

During the year ended 30 June 2015 the company acquired the remaining 49% minority interest in the former joint venture company Audio Network Australia Pty Ltd which became a wholly owned group company from 1st July 2014. The company also incorporated two new group companies during the year ended 30 June 2015.

Details of the 49% share of book and fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	£
Intangible fixed assets (customer relationships)	594,665
Tangible fixed assets	8,624
Trade and other receivables	220,650
Cash and cash equivalents	43,149
Trade and other payables	(245,870)
Total identifiable net assets acquired	<u>621,218</u>
Goodwill	-
Total cash consideration	<u>621,218</u>

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

In the year ended 30 June 2016 Audio Network Australia Pty Ltd turnover was £1,671,752 (2015: £1,533,660) and profit after tax was £167,171 (2015: £153,910).

# AUDIO NETWORK LIMITED

## Notes to the Consolidated Financial Statements (continued)

### 12 Fixed asset investments (continued)

#### Holdings of more than 20%

As at 30 June 2016 the company held more than 20% of the share capital of the following companies each undertaking the principal activity of Music Publisher:

Company				
Name of Company	Country of Incorporation	Share Class	Share Held	Voting rights Held
Audio Network Australia Pty Ltd	Australia	Ordinary	100%	100%
Audio Network Canada Inc	Canada	Ordinary	100%	100%
Audio Network GmbH	Germany	Ordinary	100%	100%
Audio Network (Holland) BV	Holland	Ordinary	100%	100%
Audio Network Music Rights Limited (formerly Audio Network Project One Limited)	England & Wales	Ordinary	100%	100%
Audio Network US, Inc	United States	Ordinary	100%	100%
Trax 54 Limited (formerly Audio Network Project Two Limited)	England & Wales	Ordinary	100%	100%

### 13 Stocks

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Raw materials & consumables	20,906	25,284	9,267	13,897

### 14 Debtors

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade debtors	1,640,143	1,388,171	1,034,530	883,670
Amounts owed by group companies	-	-	3,401,816	3,322,847
Corporation tax receivable	-	27,281	-	-
Other debtors	123,788	18,212	108,974	8,033
Prepayments	344,125	290,918	253,729	193,602
Accrued income	7,354,465	5,417,638	3,089,321	2,029,805
	<u>9,462,521</u>	<u>7,142,220</u>	<u>7,888,370</u>	<u>6,437,957</u>

## Notes to the Consolidated Financial Statements (continued)

### 15 Current Investments

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
<b>Notice Accounts</b>				
Cash on 3 month notice account	339,393	29,910	339,393	29,910
Cash on 6 month notice account	2,359,379	1,516,768	2,359,379	1,516,768
	<u>2,698,772</u>	<u>1,546,678</u>	<u>2,698,772</u>	<u>1,546,678</u>

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

	Group		Company	
	2016	2015	2016	2015
	£	£	£	£
Trade creditors	785,618	384,669	752,925	367,988
Corporation tax	683,284	399,104	513,292	309,569
Taxes and social security costs	535,431	450,337	396,494	394,119
Other creditors	9,734	25,597	-	3,845
Accruals	1,512,707	1,207,356	1,280,128	1,022,508
Deferred income	2,263,760	1,871,388	1,282,666	1,090,954
	<u>5,790,534</u>	<u>4,338,451</u>	<u>4,225,505</u>	<u>3,188,983</u>

### 17 Provisions for liabilities and charges

Company	2016	2015
	£	£
Balance at 1 July 2015	(148,363)	(37,666)
Deferred tax credit /(charge) for year	20,141	(110,697)
Balance at 30 June 2016	<u>(128,222)</u>	<u>(148,363)</u>

Deferred tax is provided at 18% (2015:20%)  
analysed over the following timing differences:

Accelerated capital allowances	(137,235)	(151,909)
Short term timing differences	9,013	3,546
	<u>(128,222)</u>	<u>(148,363)</u>

## AUDIO NETWORK LIMITED

### Notes to the Consolidated Financial Statements (continued)

#### 17 Provisions for liabilities and charges (continued)

##### Group

Balance at 1 July 2015	(115,066)	(56,516)
Deferred tax asset held by joint venture at 1 July 2015		2,164
Deferred tax charge for year (Note 7)	(7,726)	(60,714)
Currency translation differences	2,824	-
Balance at 30 June 2016	<u>(119,968)</u>	<u>(115,066)</u>

Deferred tax is provided at rates between 18% and 45% (2015: between 20% and 45%) analysed over the following timing differences:

Accelerated capital allowances	(161,370)	(181,189)
Short term timing differences	41,402	66,123
	<u>(119,968)</u>	<u>(115,066)</u>
Tax losses available	18,227	13,155
	<u>(101,741)</u>	<u>(101,911)</u>
Unrecognised deferred tax asset	(18,227)	(13,155)
Deferred tax liability	<u>(119,968)</u>	<u>(115,066)</u>

At 30 June 2016, the group had tax losses of approximately £62,000 (2015: £46,000) available to carry forwards for relief against taxable profits in future periods.

Deferred tax assets of £18,227 (2015: £13,155) have not been recognised in these accounts because there is insufficient certainty over their recoverability.

#### 18 Share capital

	<u>2016</u>	<u>2015</u>
	£	£
<b>Allotted, called up and fully paid:</b>		
15,927,072 (2015: 15,886,436) Ordinary shares of 1p each	159,271	158,864
315,000 (2015 : 190,000 ) C Ordinary shares of 1p each	3,150	1,900
	<u>162,421</u>	<u>160,764</u>

During the year 127,100 (2015: 49,677) Ordinary shares were issued at a subscription price of £275,760 (2015: £97,499) under the company's share option schemes and 86,464 (2015: 236,334) Ordinary shares were purchased by the company from selling shareholders at a cost of £345,856 (2015: £876,871) plus stamp duty thereon.

5,000 C Ordinary shares were also bought back by the company during the year for a cost of £140. During the year 130,000 (2015: 190,000) C Ordinary shares were issued at a subscription price of £4,600 (2015: £5,320) under the company share option schemes.



## Notes to the Consolidated Financial Statements (continued)

### 18 Share capital (continued)

During the year ended 30 June 2015 the 520,000 B Ordinary Shares in issue at 1 July 2014 were bought back by the company at the nominal value of £5,200 plus stamp duty thereon.

C Ordinary shares are non-voting and only participate in dividends or capital growth to the extent that the Ordinary share price exceeds a Conversion Premium set at the time of each issue. C Ordinary shares can be converted into Ordinary shares at the Conversion Premium. All issued C Ordinary shares have a Conversion Premium of £5 per share.

The premium on issue of Ordinary and C Ordinary shares during the year of £277,793 (2015: £100,423) has been recognised in share premium.

The company has share schemes whereby options over Ordinary shares of 1p each and over C Ordinary shares of 1p each are granted to executive directors and employees.

The reconciliation of option movements over Ordinary shares during the year is shown below:

	<u>2016</u>	<u>2015</u>
	No of shares	No of shares
As at 1 July 2015	611,207	583,484
Exercised during the year	(127,100)	(49,677)
Waived or lapsed during the year	(62,900)	(900)
New options granted during the year	35,000	78,300
As at 30 June 2016	<u>456,207</u>	<u>611,207</u>

During the year options over 127,100 Ordinary shares were exercised as follows :

Date of exercise	No of shares	Subscription price	£
July 2015 (***)	1,000	£2.20	2,200
September 2015 (***)	7,500	£2.60	19,500
September 2015 (***)	7,500	£2.60	19,500
September 2015 (***)	600	£2.50	1,500
September 2015 (***)	1,000	£2.20	2,200
January 2016 (***)	8,000	£1.12	8,960
January 2016 (***)	14,000	£1.60	22,400
May 2016 (***)	15,000	£1.60	24,000
June 2016 (***)	20,000	£2.20	44,000
June 2016 (***)	12,500	£2.20	27,500
June 2016 (***)	40,000	£2.60	104,000
	<u>127,100</u>		<u>275,760</u>

Share options marked (\*\*\*) were held by directors and employees under an Enterprise Management Incentive Scheme.

# AUDIO NETWORK LIMITED

## Notes to the Consolidated Financial Statements (continued)

### 18 Share capital (continued)

During the year options over 35,000 Ordinary shares were granted as follows:

Date of issue	No of shares	Subscription price	Exercisable
September 2015 (***)	35,000	£4.23	03/09/2018 to 02/09/2025
	<u>35,000</u>		

Share options marked (\*\*\*) have been issued to directors and employees under an Enterprise Management Incentive Scheme.

Outstanding options in existence at 30 June 2016 over 456,207 Ordinary shares are exercisable between the dates set out below:

No of shares	Subscription price	Exercisable
20,000 (***)	£1.12	01/06/2011 to 31/05/2017
28,000 (***)	£1.60	03/10/2012 to 02/10/2018
62,000 (***)	£2.20	01/07/2013 to 30/06/2019
52,691 (***)	£2.20	18/06/2014 to 17/06/2020
39,400 (***)	£2.50	18/06/2015 to 17/06/2021
37,500 (***)	£2.60	18/09/2015 to 17/09/2021
104,016 (***)	£3.80	01/10/2016 to 30/09/2022
77,600 (***)	£4.00	30/08/2017 to 29/08/2024
35,000 (***)	£4.23	03/09/2018 to 02/09/2025
<u>456,207</u>		

Share options marked (\*\*\*) are held by directors and employees under an Enterprise Management Incentive Scheme.

The reconciliation of option movements over C Ordinary shares during the year is shown below:

	<u>2016</u>	<u>2015</u>
	No of shares	No of shares
As at 1 July 2015	45,000	-
New options granted during the year	145,000	235,000
Exercised during the year	(130,000)	(190,000)
Waived or lapsed during the year	(45,000)	-
As at 30 June 2016	<u>15,000</u>	<u>45,000</u>

During the year options over 130,000 C Ordinary shares were exercised as follows :

Date of exercise	Conversion Premium	No of shares	Subscription price	£
September 2015	£5.00	50,000	£0.028	1,400
January 2016	£5.00	80,000	£0.040	3,200
		<u>130,000</u>		<u>4,600</u>

# AUDIO NETWORK LIMITED

## Notes to the Consolidated Financial Statements (continued)

### 18 Share capital (continued)

During the year options over 145,000 C Ordinary shares were granted as follows :

No of shares	Subscription price	Vesting date	Conversion Premium	Exercisable	
50,000	£0.028	September 2018	£5.00	03/09/2015 to	03/09/2015
15,000 (***)	£0.0712	September 2018	£4.50	03/09/2018 to	03/09/2025
30,000	£0.040	March 2017	£5.00	28/01/2016 to	28/01/2016
30,000	£0.040	March 2018	£5.00	28/01/2016 to	28/01/2016
20,000	£0.040	March 2019	£5.00	28/01/2016 to	28/01/2016
<u>145,000</u>					

Share options marked (\*\*\*) have been issued to directors and employees under an Enterprise Management Incentive Scheme.

Outstanding options in existence at 30 June 2016 over 15,000 C Ordinary shares are exercisable between the dates set out below :

No of shares	Subscription price	Vesting date	Conversion Premium	Exercisable	
<u>15,000</u> (***)	£0.0712	September 2018	£4.50	03/09/2018 to	03/09/2025
<u>15,000</u>					

Share options marked (\*\*\*) are held by directors and employees under an Enterprise Management Incentive Scheme.

The options have been valued using the Black-Scholes valuation model. The following table lists the inputs to the Black-Scholes model used for the options issued in the year to 30 June 2016:

Dividend yield (per cent)	5.0%
Expected volatility (per cent)	10.0%
Risk-free interest rate (per cent)	2.0%
Expected life of share options (years)	3 years
Exercise price (£)	<u>£4.23-£5.00</u>

Expected volatility is determined by calculating the historical volatility of comparable companies in recognised exchanges in Western Europe. The volatility is based on market data, adjusted for the directors' perception of specific volatility associated with the company as the Company's share capital is not traded on any stock exchange and therefore has insufficient data of its own.

The dividend yield is based on the historic dividend yield of the company and the Directors' expectations of future dividends. The risk-free interest rate is based on the return in UK Gilt Strips. The expected life of the share options is based on current expectations and is not necessarily indicative of exercise patterns that may occur.

## Notes to the Consolidated Financial Statements (continued)

### 18 Share capital (continued)

The resulting share based payment charge from the above valuations was not deemed material to the financial statements and therefore no expense has been recognised in the year to 30 June 2016 (2015: £nil).

### 19 Directors' emoluments

	<u>2016</u>	<u>2015</u>
	£	£
Emoluments for qualifying services	667,116	693,524
Company pension contributions	34,141	47,073
	<u>701,257</u>	<u>740,597</u>

Emoluments disclosed above include payments to 4 executive directors (2015: 4) and to 2 non-executive directors (2015: 2).

Emoluments disclosed above include the following amounts paid to the highest paid director

	<u>2016</u>	<u>2015</u>
	£	£
Emoluments for qualifying services	<u>220,073</u>	<u>176,236</u>

Two directors exercised share options during the year (2015: 1)

### 20 Dividends

	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
	pence/share	pence/share	£	£
Final dividend for the prior financial year	3	3	465,518	466,427
Interim dividend for the current financial year	5	5	775,368	776,170
Second Interim dividend for the current year	5	5	779,743	777,567
	<u>13</u>	<u>13</u>	<u>2,020,629</u>	<u>2,020,164</u>
Final dividend for the current financial year	<u>3</u>	<u>3</u>		

Dividends are not yet payable on C Ordinary shares as the market value of Ordinary shares is below the Conversion Premium on the issued C Ordinary shares that have vested

## **Notes to the Consolidated Financial Statements (continued)**

### **21 Pension costs**

The company and certain subsidiaries operate defined contribution pension plans. The assets of the schemes are held separately from those of the group in independently administered funds.

The pension cost charge below represents contributions payable by the company and by the group to the schemes and to SIPPs held by two directors.

	<u>2016</u>	<u>2015</u>
	£	£
<b>Company</b>		
Contributions payable by the company for the year	<u>133,802</u>	<u>104,769</u>
<b>Group</b>		
Contributions payable by the group for the year	<u>168,865</u>	<u>128,795</u>

## Notes to the Consolidated Financial Statements (continued)

### 22 Transactions with directors

During the year the company paid dividends of £841,490 on shares owned directly or beneficially on behalf of the following directors (2015: £879,727):

	<u>2016</u>	<u>2015</u>
	£	£
Andrew Sunnucks	399,100	399,100
Robert Hurst	370,075	399,100
Miles Ruffell	26,000	26,000
Christopher Blakeston	21,054	20,675
Juliette Bingham (nee Squair)	14,062	23,653
John Sanderson	11,199	11,199
	<u>841,490</u>	<u>879,727</u>

Dan Marriott serves as the Stripes Group representative on the Board. Dividend payments to SG Growth Partners II Offshore AIV, LP in the year to 30 June 2016 amounted to £661,259 (2015: £619,951).

During the year, Andrew Sunnucks received £6,000 rent in respect of the occupation of School Farm Studios by the company (2015: £6,000). The company also paid royalties of £9,302 to Andrew Sunnucks in respect of his composer share of income from music compositions assigned to and published by the company (2015: £8,580).

The company rented storage space during the year from The Archive Warehouse Limited a company connected to Andrew Sunnucks, at a cost of £667 (2015: £ 675).

During April 2014 short term loans were made to the company to fund working capital requirements by Robert Hurst (loan amount: £153,500), Andrew Sunnucks (loan amount: £153,500) and the Stripes Group (loan amount: £223,945). All three short term loans were repaid by the company on 28 July 2014. Interest was paid on the loans as follows:

	Interest	
	<u>2016</u>	<u>2015</u>
	£	£
Robert Hurst	-	439
Andrew Sunnucks	-	439
SG Growth Partners II Offshore AIV, LP	-	639
	<u>-</u>	<u>1,517</u>

## Notes to the Consolidated Financial Statements (continued)

### 23 Employees

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

Group	<u>2016</u>	<u>2015</u>
	Number	Number
Management and administration	125	108
Employment costs	£	£
Wages & salaries	6,720,375	5,612,531
Social security costs	729,266	576,141
Other pension costs	168,865	128,795
	<u>7,618,506</u>	<u>6,317,467</u>

### 24 Financial Commitments

At the balance sheet date the group was committed to making the following lease payments under non-cancellable operating leases in the year to 30 June 2017:

	Land and buildings	
	<u>2016</u>	<u>2015</u>
Operating leases which expire:	£	£
Within one year	379,092	154,929
Within two to five years	478,517	337,308
	<u>857,609</u>	<u>492,237</u>

### 25 Control

There is no ultimate controlling party in the group.

### 26 Related party transactions

There are no related party transactions other than those disclosed in note 224.

### 27 Post balance sheet events

The following changes to the Company's share capital have taken place post year-end:

On 1 August 2016 the Company brought back 110,144 Ordinary shares at £4.00 per share and 20,000 C Ordinary shares at £0.028 per share.

Post year end new ordinary shares were issued on the exercise options as follows:

On 11 October 2016 400 @ £3.80  
 On 20 October 2016 400 @ £2.50  
 On 21 October 2016 500 @ £3.80  
 On 24 October 2016 400 @ £2.50  
 On 25 October 2016 10,000 @ £1.12

## Notes to the Consolidated Financial Statements (continued)

### 28 Transition to FRS 102

This is the first year that the group and company has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 30 June 2015. The date of transition to FRS 102 was 1 July 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 30 June 2015 and the total equity as at 1 July 2014 and 30 June 2015 between UK GAAP as previously reported and FRS 102.

#### Reconciliations

In accordance with the requirements of FRS 102 a reconciliation of opening balances is provided as below:

	Group 2015 £	Company 2015 £
<b>Reconciliation of profit or loss for the year</b>		
Profit for the year as previously reported under UK GAAP	5,002,194	5,116,003
Income statement items adjusted	(7,985)	(7,985)
Profit for the year as reported under FRS 102	<u>4,994,209</u>	<u>5,108,018</u>

	Group 1 July 2014 £	Company 1 July 2014 £
<b>Reconciliation of equity at 1 July 2014</b>		
Total equity previously reported under UK GAAP	7,776,847	7,171,995
Holiday Accrual	(47,910)	(47,910)
Total equity reported under FRS 102	<u>7,728,937</u>	<u>7,124,085</u>

	Group 30 June 2015 £	Company 30 June 2015 £
<b>Reconciliation of equity at 30 June 2015</b>		
Total equity previously reported under UK GAAP	9,662,189	9,484,152
Holiday Accrual	(55,895)	(55,895)
Total equity reported under FRS 102	<u>9,606,294</u>	<u>9,428,257</u>

#### Holiday pay accrual

Under previous UK GAAP the company did not accrue for holiday pay that was earned but the holiday entitlement was expected to be taken in the subsequent financial year. FRS102 requires an accrual to be recognised at the balance sheet date for pro rate holiday not taken by employees at the date. An accrual of £55,895 has been recognised at 30 June 2015 in respect of unused holiday allowances.