

Company Registration No. 4257337 (England and Wales)

**AUDIO NETWORK PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 30 JUNE 2002**



**Cartwrights**  
**Chartered Accountants**  
**Registered Auditors**  
**Regency House**  
**33 Wood Street**  
**Barnet**  
**Herts**  
**EN5 4BE**

# AUDIO NETWORK PLC

## COMPANY INFORMATION

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<b>Directors</b>	R Hurst	(Appointed 23 July 2001)
	A Sunnucks	(Appointed 23 July 2001)
	J Fanaris	(Appointed 26 October 2001)
	M Ruffell	(Appointed 19 April 2002)
	J Sanderson	(Appointed 19 April 2002)
	J Switzer	(Appointed 26 October 2001)
<b>Secretary</b>	R Hurst	
<b>Company number</b>	4257337	
<b>Registered office</b>	61 Holywell Hill St Albans Herts AL1 1HF	
<b>Auditors</b>	Cartwrights Chartered Accountants Registered Auditors Regency House 33 Wood Street Barnet, Herts EN5 4BE	
<b>Business address</b>	School Farm Studios Little Maplestead Halstead Essex C09 2SN	
<b>Bankers</b>	Coutts & Co Media Banking 440 Strand London WC2 0QS	
<b>Solicitors</b>	Calvert, Jackson Nokes Solicitors 77 Weston Street London SE1 3RS	

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# AUDIO NETWORK PLC

## COMPANY INFORMATION

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### Sound Effects

Soundstorm: Hollywood's premier sound editorial team

G Blufer  
J Fanaris  
J Leveque  
B Stambler  
B Sullivan  
J Switzer  
R Yawn

### Music Composers

J Birch	R Kimmings
C Blackwell	C Laine
B Booth	R Lacy
S Copeland	G Malcangi
R Cotton	F Mizen
M Creese	P Mottram
J Dankworth	C Norton
T Devine-King	D O'Brien
S Dymond	J Pedder
P Dupuy	T Quick
T Garland	T Renwick
B Gledden	D Scarratt
A Glen	P Shand
E Glennie	J Sharp
N Glockler	C Slaski
C Goze	M Stobbie
P Haslam	W Taylor
E Hayes	A Warnes
P Hawes	P Wingfield
M Hill	S Wood
I Hughes	M Yogeswaran
G Keezer	

# AUDIO NETWORK PLC

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# AUDIO NETWORK PLC

## DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 2002

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The directors present their report and financial statements for the period ended 30 June 2002.

### **Principal activities, review of the business and future developments**

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

In under twelve months the company has progressed a business plan into a funded content owning international publishing business poised for growth.

The achievement was acknowledged by the DTI in June 2002, when Audio Network was awarded first place in the Beyond Bricks Elevator Pitch competition and officially became the best new business of 2002.

In the period since incorporation on 23 July 2001 the company has created a valuable catalogue of intellectual property rights and has established an extensive international network of composers, producers, sound supervisors, distributors and investors.

The primary focus of the limited resources of the company throughout the period has been on creating value for shareholders through the acquisition of publishing rights and the creation of recording rights whilst also attracting the finance necessary to create the sales and distribution infrastructure.

The company now owns the copyright in a comprehensive catalogue of music from 40 leading composers for film, television and multi-media usage and has secured the exclusive perpetual global rights to exploit the prestigious Soundstorm catalogue of Hollywood sound effects. We are delighted that 28 content providers have elected to join us as shareholders in the company.

Despite the difficult market for raising start-up finance during the period the company successfully secured Angel financing at 20 pence for ordinary shares of one penny each during the final quarter. At 20 pence per share the value of the issued share capital of 8,420,000 ordinary shares would be £1.7m.

During the period we designed and built an SQL database, recorded and categorised our first 40 hours of new music recordings, categorised the first 10,000 Soundstorm sound effects and launched our website at [www.audiolicense.net](http://www.audiolicense.net).

Music tracks have been registered with the MCPS/PRS alliance and music CDs distributed to the United Kingdom's major broadcasters. Whereas the directors expect royalty income from broadcasters to ultimately become the company's primary source of income there is an inherent delay between shipping of content, the selection of music tracks, use in broadcast productions and subsequent distribution of royalties through the collecting society network. Consequently the directors do not expect the company to receive significant royalties from broadcasters for at least 12 months when the company will start to receive its share of publishing income from the collecting societies. In summary, we must wait until the year ending June 2004 until royalty income really starts to flow.

Sales to independent production companies have to date been insignificant, reflecting the pre-financing management focus referred to above and deferral of income received over the life of the subscription.

Following recruitment of a sales team by the end of the period the content, cash, resources and infrastructure were all finally in place to start actively promoting and selling the catalogues to the independent production community through the year ending June 2003.

By 30 June 2002 the company had also agreed non-exclusive deals with its first three international distributors with income expected to start flowing from early in the year ending June 2003.

# AUDIO NETWORK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

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### Results and dividends

The results for the period are set out on page 5.

The directors do not recommend payment of an ordinary dividend.

### Directors

The following directors have held office since 23 July 2001:

R Hurst	(Appointed 23 July 2001)
A Sunnucks	(Appointed 23 July 2001)
J Fanaris	(Appointed 26 October 2001)
M Ruffell	(Appointed 19 April 2002)
J Sanderson	(Appointed 19 April 2002)
J Switzer	(Appointed 26 October 2001)

### Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of 1p each	
	30 June 2002	23 July 2001
R Hurst	1,460,250	-
A Sunnucks	1,460,250	-
J Fanaris	357,200	-
M Ruffell	375,000	-
J Sanderson	50,000	-
J Switzer	357,200	-

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

### Charitable and political donations

No charitable or political donations were made during the period.

### Creditor payment policy

The company 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 2002, the number of days' credit taken for purchases by the company was 30 days.

### Auditors

Cartwrights were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

# AUDIO NETWORK PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

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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 profit or loss of the company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the board



R Hurst

Director

25 September 2002

# AUDIO NETWORK PLC

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

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We have audited the financial statements of AUDIO NETWORK PLC on pages 5 to 16 for the period ended 30 June 2002. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

### Respective responsibilities of the 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.

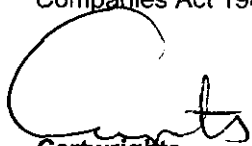
### Basis of audit opinion

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 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 affairs as at 30 June 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



**Cartwrights**  
Chartered Accountants  
Registered Auditors  
Regency House  
33 Wood Street  
Barnet, Herts  
EN5 4BE

Date: 3-10-02



# AUDIO NETWORK PLC

## PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30 JUNE 2002

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	Notes	Period ended 30 June 2002 £
Turnover	2	1,083
Administrative expenses		(228,177)
Other operating income		10,000
		<hr/>
Operating loss	3	(217,094)
Other interest receivable and similar income		2,272
		<hr/>
Loss on ordinary activities before taxation		(214,822)
Tax on loss on ordinary activities	4	-
		<hr/>
Loss on ordinary activities after taxation	12	<u>(214,822)</u>

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 SHEET AS AT 30 JUNE 2002

	Notes	2002 £	£
<b>Fixed assets</b>			
Intangible assets	5		50,915
Tangible assets	6		31,624
			<u>82,539</u>
<b>Current assets</b>			
Stocks	7	3,057	
Debtors	8	24,787	
Cash at bank and in hand		359,482	
		<u>387,326</u>	
<b>Creditors: amounts falling due within one year</b>	9	(51,860)	
		<u></u>	
<b>Net current assets</b>			335,466
<b>Total assets less current liabilities</b>			<u>418,005</u>
<b>Capital and reserves</b>			
Called up share capital	11		84,200
Share premium account	12		548,627
Profit and loss account	12		(214,822)
			<u></u>
<b>Shareholders' funds - equity interests</b>	13		<u>418,005</u>

The financial statements were approved by the Board on 25 September 2002

  
.....  
R Hurst  
Director

  
.....  
A Sunnucks  
Director

# AUDIO NETWORK PLC

## CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2002

	£	Period ended 30 June 2002 £
Net cash outflow from operating activities		(184,843)
Returns on investments and servicing of finance		
Interest received	2,272	
Net cash inflow/(outflow) for returns on investments and servicing of finance		2,272
Capital expenditure		
Payments to acquire intangible assets	(51,735)	
Payments to acquire tangible assets	(39,039)	
Net cash outflow for capital expenditure		(90,774)
Net cash outflow before management of liquid resources and financing		(273,345)
Financing		
Issue of ordinary share capital	632,827	
Net cash inflow/(outflow) from financing		632,827
Increase/(decrease) in cash in the period		359,482

# AUDIO NETWORK PLC

## NOTES TO THE CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2002

<b>1</b>	<b>Reconciliation of operating loss to net cash outflow from operating activities</b>	<b>2002</b>
		<b>£</b>
	Operating (loss)/profit	(217,094)
	Depreciation of tangible assets	7,415
	Amortisation of intangible assets	820
	(Increase)/decrease in stocks	(3,057)
	Increase in debtors	(24,787)
	Increase in creditors within one year	51,860
	<b>Net cash outflow from operating activities</b>	<b>(184,843)</b>

<b>2</b>	<b>Analysis of net funds/(debt)</b>	<b>23 July 2001</b>	<b>Cash flow</b>	<b>Other non-cash changes</b>
		<b>£</b>	<b>£</b>	<b>£</b>
	Net cash:			
	Cash at bank and in hand	-	359,482	-
	Net (debt)/funds	-	359,482	-

<b>3</b>	<b>Reconciliation of net cash flow to movement in net funds</b>	<b>2002</b>
		<b>£</b>
	Increase in cash in the period	359,482
	<b>Movement in net funds in the period</b>	<b>359,482</b>
	Opening net debt	-
	<b>Closing net funds</b>	<b>359,482</b>

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2002

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### 1 Accounting policies

#### 1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

Having made enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

#### 1.2 Compliance with accounting standards

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

#### 1.3 Turnover

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

#### 1.4 Copyrights

Throughout the period 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.

#### 1.5 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 during the period on website and database development meet these criteria and such expenditure is being amortised over a period of three years.

#### 1.6 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 & equipment	20% - 33.33% straight line

#### 1.7 Stock

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

#### 1.8 Pensions

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

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

### 1 Accounting policies

(continued)

#### 1.9 Deferred taxation

Deferred taxation is provided at appropriate rates on timing differences using the full provision method as set out in FRS 19.

#### 1.10 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.

#### 1.11 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

#### Geographical market

Turnover  
2002  
£

United Kingdom	966
Rest of the World	117
	<u>1,083</u>

### 3 Operating loss

2002  
£

Operating loss is stated after charging:

Amortisation of intangible assets	820
Depreciation of tangible assets	7,415
Auditors' remuneration	1,500
Remuneration of auditors for non-audit work	<u>11,321</u>

### 4 Taxation

On the basis of these financial statements no provision has been made for corporation tax.

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

### 5 Intangible fixed assets

	Copyrights	Development Costs	Total
	£	£	£
<b>Cost</b>			
At 23 July 2001	-	-	-
Additions	33,325	18,410	51,735
	<u>33,325</u>	<u>18,410</u>	<u>51,735</u>
At 30 June 2002	33,325	18,410	51,735
	<u>33,325</u>	<u>18,410</u>	<u>51,735</u>
<b>Amortisation</b>			
At 23 July 2001	-	-	-
Charge for the period	820	-	820
	<u>820</u>	<u>-</u>	<u>820</u>
At 30 June 2002	820	-	820
	<u>820</u>	<u>-</u>	<u>820</u>
<b>Net book value</b>			
At 30 June 2002	32,505	18,410	50,915
	<u>32,505</u>	<u>18,410</u>	<u>50,915</u>
At 22 July 2001	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

The company has not revalued its catalogue of rights within the balance sheet. As a result of the development activities undertaken by the company during the period, 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 FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

### 6 Tangible fixed assets

	Plant and machinery	Fixtures, fittings & equipment	Computer equipment	Total
	£	£	£	£
<b>Cost</b>				
At 23 July 2001	-	-	-	-
Additions	13,168	7,414	18,458	39,040
	<u>13,168</u>	<u>7,414</u>	<u>18,458</u>	<u>39,040</u>
At 30 June 2002	13,168	7,414	18,458	39,040
	<u>13,168</u>	<u>7,414</u>	<u>18,458</u>	<u>39,040</u>
<b>Depreciation</b>				
At 23 July 2001	-	-	-	-
Charge for the period	2,119	1,707	3,590	7,416
	<u>2,119</u>	<u>1,707</u>	<u>3,590</u>	<u>7,416</u>
At 30 June 2002	2,119	1,707	3,590	7,416
	<u>2,119</u>	<u>1,707</u>	<u>3,590</u>	<u>7,416</u>
<b>Net book value</b>				
At 30 June 2002	11,049	5,707	14,868	31,624
	<u>11,049</u>	<u>5,707</u>	<u>14,868</u>	<u>31,624</u>

### 7 Stocks

	2002 £
Raw materials and consumables	2,991
Finished goods and goods for resale	66
	<u>3,057</u>



# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

<b>8 Debtors</b>	<b>2002</b>
	<b>£</b>
Trade debtors	8,763
Other debtors	4,000
Prepayments and accrued income	12,024
	<u>24,787</u>

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

	<b>2002</b>
	<b>£</b>
Other debtors	<u>4,000</u>

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

<b>9 Creditors: amounts falling due within one year</b>	<b>2002</b>
	<b>£</b>
Trade creditors	10,410
Taxes and social security costs	7,692
Directors' current accounts	1,186
Other creditors	6,213
Accruals and deferred income	26,359
	<u>51,860</u>

### 10 Pension costs

#### Defined contribution

The company operates a defined contribution stakeholder pension scheme and pays contributions to the directors' personal pension schemes. The assets of the stakeholder 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 both the stakeholder and personal schemes.

	<b>2002</b>
	<b>£</b>
Contributions payable by the company for the period	<u>7,517</u>

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

<b>11 Share capital</b>	<b>2002</b>
	<b>£</b>
<b>Authorised</b>	
25,000,000 Ordinary shares of 1p each	250,000
<b>Allotted, called up and fully paid</b>	
8,420,000 Ordinary shares of 1p each	84,200

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
23 July 2001	5,000,000	£0.01
24 October 2001	532,500	£0.01
24 October 2001	250,000	£0.20
18 January 2002	9,000	£0.20
5 April 2002	2,568,500	£0.20
19 April 2002	60,000	£0.20

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	-
A Sunnucks*	2,500,000	£0.01	-
J Sanderson	50,000	£0.20	01/07/02 to 31/12/02
M Ruffell	50,000	£0.20	01/07/02 to 31/12/02
Sainty Hird & Partners	125,000	£0.20	01/07/02 to 31/12/06
Boosey & Hawkes Music Publishers Limited	1,000,000	£1.00	01/07/02 to 31/12/02

\*Share options upto a maximum of 2.5million 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.

On 20 March 2002 a special resolution was passed by the company's shareholders whereby the directors were given authority, under s80 of the Companies Act 1985, until the conclusion of the 2002 Annual General Meeting to allot shares upto a maximum of 3.5 million Ordinary shares of one pence each.

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

### 12 Statement of movements on reserves

	Share premium account £	Profit and loss account £
Retained loss for the period	-	(214,822)
Premium on shares issued during the period	548,627	-
	<hr/>	<hr/>
Balance at 30 June 2002	548,627	(214,822)
	<hr/>	<hr/>

### 13 Reconciliation of movements in shareholders' funds

	2002 £
Loss for the financial period	(214,822)
Proceeds from issue of shares	632,827
	<hr/>
Net addition to shareholders' funds	418,005
Opening shareholders' funds	-
	<hr/>
Closing shareholders' funds	418,005
	<hr/>

### 14 Directors' emoluments

	2002 £
Emoluments for qualifying services	76,580
Company pension contributions to money purchase schemes	7,410
	<hr/>
	83,990
	<hr/>

### 15 Transactions with directors

During the period A Sunnucks received £1,145 rent in respect of the occupation of the business premises by the company.

# AUDIO NETWORK PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2002

### 16 Employees

#### Number of employees

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

	2002 Number
Management and administration	3

#### Employment costs

	£
Wages and salaries	83,716
Social security costs	5,497
Other pension costs	7,517
	<u>96,730</u>

### 17 Related party transactions

J Fanaris is President of Soundstorm Inc. and J Switzer is Vice-President of Soundstorm Inc. On 25 October 2001 the company entered into a licensing agreement on an arms length basis with Soundstorm Inc. whereby the company undertook to build an internet delivery platform and to pay royalties on sales in return for an exclusive licence to publish the Soundstorm archive of sound effects.