

**MADWAVES (UK) LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31ST DECEMBER 2006**

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MADWAVES (UK) LIMITED
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FOR THE YEAR ENDED 31ST DECEMBER 2006

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MADWAVES (UK) LIMITED
COMPANY INFORMATION

DIRECTORS:

G A B Kynoch
G H C Needler
A Georges
S G Barrell

SECRETARY:

Springfield Secretaries Limited
99-101 Crossbrook Street
Waltham Cross
Hertfordshire
EN8 8JR

REGISTERED OFFICE:

Springfield House
99-101 Crossbrook Street
Waltham Cross
Hertfordshire
EN8 8JR

REGISTERED NUMBER:

04404583 (England and Wales)

AUDITORS:

Horwath Clark Whitehill LLP
Chartered Accountants and Registered Auditors
St Bride's House
10 Salisbury Square
London EC4Y 8EH

FINANCIAL ADVISORS:

John East & Partners
28-30 Worship Street
London EC2A 2AH

MADWAVES (UK) LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2006

The directors present their report with the financial statements of the Group and of the Company for the year ended 31st December 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

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 Group and of the Company and of the profit or loss of the Group and 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 group will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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

So far as the director is aware at the time the report is approved,

- there is no relevant audit information of which the company's auditors are aware,
- the director has taken all steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

PRINCIPAL ACTIVITY

The principal activity of the company in the year under review in conjunction with SARL MadWaves, a wholly owned subsidiary, was that of the development and marketing of MadWaves core technology which centres on software to enable the remixing of music in different styles and software for sound banks and synthesisers

REVIEW OF BUSINESS

The results for the year and financial position of the group and company are as shown in the annexed financial statements

The Group has made a loss this year of £87,464 which included £55,590 in respect of compensation for a loss of office which occurred in 2005. The compensation will continue to be paid out of future US revenues, with a further £12,917 being payable at the year end. In addition £21,642 has been charged to the profit and loss in respect of share option grants on the implementation of FRS20. The company's trading losses, excluding the compensation and share option grants therefore reduced from £277,863 in 2005 to £28,283

During the year under review the Group, through its subsidiary company in France, has entered into another contract to supply a major manufacturer with polyphonic sound banks for mobile phones. The group continues to invest in the development of software for the remixing of music on the web and has re-invested income into this continued development. The Group writes off research and development costs as incurred

MADWAVES (UK) LIMITED
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2006

FUTURE DEVELOPMENTS

The group continues to develop the products for sound generation and for the use on the web based solution. In April 2007 a beta version of the web solution was launched which has received significant interest. The group will continue to invest in the web and looks forward to achieving significant visitor numbers in the future.

DIRECTORS

The directors during the year under review were

G H C Needler	
A Georges	- resigned 24 October 2007
G A B Kynoch	- appointed 25 July 2006
S G Barrell	- appointed 25 July 2006

The beneficial interests of the directors holding office on 31 December 2006 in the issued share capital of the company were as follows

	Ordinary shares of £1 each 31 December 2006	Ordinary shares of £1 each 1 January 2006 or on date of appointment
G H C Needler	1,336,536	1,336,536
A Georges	110,800	110,800
G A B Kynoch	-	-
S G Barrell	-	-

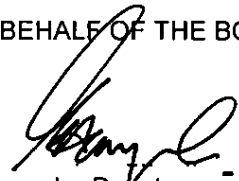
The following directors had share options in the company

	31 December 2006	1 January 2006 or on date of appointment
	Ordinary shares of £1 each	Ordinary shares of £1 each
G H C Needler	107,090	107,090
A Georges	110,800	110,800
G A B Kynoch	35,000	-
S G Barrell	35,000	-

AUDITORS

The auditors, Horwath Clark Whitehill LLP, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985

ON BEHALF OF THE BOARD


G Kynoch - Director

Date 25 October 2007

MADWAVES (UK) LIMITED
INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS

We have audited the group and parent company financial statements of Madwaves (UK) Limited for the year ended 31 December 2006 which comprise the group profit and loss account, the group and parent company changes in equity, the group and parent company balance sheets, the group cash flow and the related notes numbered 1 to 16. These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 opinion we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the accounts 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 consistent with the accounts.

In addition, we report to you, if in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and 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 International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned 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. However the evidence available to us was limited in relation to the corresponding amounts (for the year ended 31 December 2005) as all the financial information was not available in respect to the accounting records of the subsidiary company MadWaves USA Inc, which was dissolved in December 2005. In particular, we were unable to satisfy ourselves about the classification of income and expenditure but the net result is unlikely to be materially affected.

We have undertaken the audit in accordance with the requirements of APB Ethical Standards including APB Ethical Standard – Provision Available for Small Entities. In common with many other businesses of this size and nature, the company uses our firm to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

MADWAVES (UK) LIMITED
INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS

Qualified opinion arising from limitation in audit evidence about comparatives

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the financial statements for MadWaves USA Inc for the year ended 31 December 2005 in our opinion

- the financial statements give a true and fair view of the state of the group and company's affairs as at 31 December 2006 and of the groups loss for the year then ended and
- the financial statements have been properly prepared in accordance with the Companies Act 1985
- the information given in the directors' report is consistent with the financial statements

In respect alone of the limitation on our work relating to the comparative figures in respect of MadWaves USA

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit and
- we were unable to determine whether proper accounting records have been maintained

Emphasis of matter – Going Concern

In forming our opinion, which is not qualified in this respect, we have considered the adequacy of the disclosure made in Note 1a of the financial statements concerning the inherent uncertainty of the going concern assumption used in preparation of the financial statements. The validity of that assumption depends on a) further funding from, and support of, a director and other shareholders in the business in the short term b) the raising of further funds by the company in the medium term and c) the ongoing support of the creditors of the company. Should it transpire that the going concern basis of preparation of the financial statements is inappropriate, certain assets may need to be revalued down to their recoverable amounts, certain further liabilities provided for, and liabilities may need to be reclassified. In view of the significance of this uncertainty we consider that it should be drawn to your attention.

Horwath Clark Whitehill LLP
HORWATH CLARK WHITEHILL LLP
Chartered Accountants and
Registered Auditors
London

31 October 2007

MADWAVES (UK) LIMITED
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31ST DECEMBER 2006

	Notes	2006 £	2005 <i>Restated</i> £
Turnover	1	1,346,703	1,513,775
Administrative expenses		<u>(1,515,448)</u>	<u>(2,057,211)</u>
Operating Loss on Ordinary Activities	3	(168,745)	(543,436)
Net interest (payable)/ receivable	5	<u>(4,258)</u>	<u>5,886</u>
Loss on Ordinary Activities before taxation		(173,003)	(537,550)
Tax on loss on Ordinary Activities	6	<u>85,539</u>	<u>378,031</u>
Loss on Ordinary Activities after taxation		<u>(87,464)</u>	<u>(159,519)</u>

All amounts relate to continuing operations

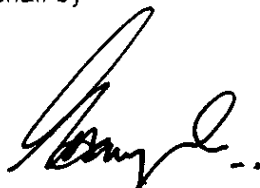
There were no recognised gains and losses for 2006 or 2005 other than those included in the profit and loss account

The notes on pages 11 to 19 form part of these financial statements.

MADWAVES (UK) LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31ST DECEMBER 2006

	Notes	£	2006 £	£	2005 £
FIXED ASSETS					
Intangible assets	7		293		2,184
Property, plant and equipment	9		<u>25,594</u>		<u>34,155</u>
			25,887		36,339
CURRENT ASSETS					
Debtors	10	696,750		432,587	
Cash at bank		<u>496,804</u>		<u>277,312</u>	
		1,193,554		709,899	
CREDITORS. Amounts falling due within one year	11	<u>842,965</u>		<u>277,506</u>	
NET CURRENT ASSETS			<u>350,589</u>		<u>432,392</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>376,476</u>		<u>468,732</u>
CAPITAL AND RESERVES.					
Called up share capital	12		3,514,923		3,514,923
Share premium	13		4,021,840		4,021,840
Translation reserve			(10,659)		(2,276)
Profit and loss account			<u>(7,149,628)</u>		<u>(7,065,755)</u>
SHAREHOLDERS' FUNDS			<u>376,476</u>		<u>468,732</u>

These financial statements were approved by the board of directors on 25 October 2007 and signed on their behalf by



G Kynoch – Director

The notes on pages 11 to 19 form part of these financial statements

MADWAVES (UK) LIMITED
BALANCE SHEET
AS 31ST DECEMBER 2006

	Notes	£	2006 £	£	2005 £
FIXED ASSETS					
Intangible assets	7		1		1
Investments	8		<u>15,000</u>		<u>15,000</u>
			15,001		15,001
CURRENT ASSETS					
Debtors	10	59,550		71,160	
Cash at bank		<u>1,523</u>		<u>51,458</u>	
		61,073		122,618	
CREDITORS: Amounts falling due within one year	11	<u>63,816</u>		<u>89,005</u>	
NET CURRENT (LIABILITIES)/ ASSETS			<u>(2,743)</u>		<u>33,613</u>
TOTAL ASSETS LESS CURRENT LIABILITIES:			<u>12,258</u>		<u>48,614</u>
CAPITAL AND RESERVES:					
Called up share capital	12		3,514,923		3,514,923
Share premium	13		4,021,840		4,021,840
Profit and loss account			<u>(7,524,505)</u>		<u>(7,488,149)</u>
SHAREHOLDERS' FUNDS			<u>12,258</u>		<u>48,614</u>

These financial statements were approved by the board of directors on 25 October 2007 and signed on their behalf by



G Kynoch - Director

MADWAVES (UK) LIMITED
STATEMENT OF CHANGES IN EQUITY
31ST DECEMBER 2006

Group	Share capital £	Share premium account £	Retained earnings £	Translation reserve £	Total £
1 January 2005	3,247,197	4,021,840	(6,929,867)	(3,093)	336,078
Shares issued in the year	267,726	-	-	-	267,726
Share option grants prior years	-	-	23,631	-	23,631
Exchange differences	-	-	-	817	817
Loss for the year as restated	-	-	(159,519)	-	(159,519)
1 January 2006	3,514,923	4,021,840	(7,065,755)	(2,276)	468,732
Exchange differences	-	-	-	(8,383)	(8,383)
Share option grants	-	-	3,591	-	3,591
Loss for the year	-	-	(87,464)	-	(87,464)
31 December 2006	3,514,923	4,021,840	(7,149,628)	(10,659)	376,476

The Group's total recognised income and expense for the year ended 31 December 2006 was £(87,464) (2005 £(159,519)) The restatement related to the implementation of FRS20 in respect of the share option grant costs

Company	Share capital £	Share premium account £	Retained earnings £	Total £
1 January 2005	3,247,197	4,021,840	(6,948,794)	320,243
Shares issued in the period	267,726	-	-	267,726
Share option grants prior	-	-	23,631	23,631
Loss for the year (as restated)	-	-	(562,986)	(562,986)
1 January 2006	3,514,923	4,021,840	(7,488,149)	48,614
Share option grants	-	-	3,591	3,591
Loss for the year	-	-	(39,947)	(39,947)
31 December 2006	3,514,923	4,021,840	(7,524,505)	12,258

The Company's total recognised income and expense for the year ended 31 December 2006 was £39,947 (2005 loss £563,986) The restatement related to the implementation of FRS20 in respect of the share option grant costs

MADWAVES (UK) LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2006

	Year ended 31 December 2006 £	Year ended 31 December 2005 £
Net cash flow from operating activities		
Operating loss on ordinary activities before tax	(168,745)	(543,436)
Depreciation and amortisation	14,545	31,023
Share option grants	3,591	23,631
Exceptional items	-	268,370
Exchange	(1,220)	171
	<u>(151,829)</u>	<u>(220,241)</u>
(Increase)/decrease in debtors	(196,722)	89,839
Increase/(decrease) in creditors	<u>577,123</u>	<u>(85,393)</u>
Net cash inflow/(outflow) from operations	228,572	(215,795)
Returns on investment and servicing of finance		
Interest received	883	6,201
Interest paid	<u>(5,141)</u>	<u>(315)</u>
Net cash inflow/(outflow) from returns on investment and servicing of finance	(4,258)	5,886
Capital expenditure and financial investment		
Purchase of property, plant and equipment	(4,822)	(1,022)
Proceeds from sale of fixed assets	<u>-</u>	<u>10,688</u>
Net cash inflow/(outflow) from capital expenditure	(4,822)	9,666
Cash inflow/(outflow) before financing	219,492	(200,243)
Increase/(decrease) in cash in the year	219,492	(200,243)
Cash at the start of the year	<u>277,312</u>	<u>477,555</u>
Cash at the end of the year	<u>496,804</u>	<u>277,312</u>

MADWAVES (UK) LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31ST DECEMBER 2006

1. ACCOUNTING POLICIES

1a) Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the UK Generally Accepted Accounting Principles (UK GAAP)

The financial statements have been prepared on a going concern basis. The directors foresee that the company will continue to be a going concern for the next twelve months, however, in forming this view, reliance has been placed upon further funding from, and support of, a director and other shareholders in the business in the short term. If such fundraising is not forthcoming this may give rise to questions over the company's going concern status.

b) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2006. Subsidiary companies were based in France and the USA with respect to the year ended 31 December 2005 and for France alone in the accounts for the year ended 31 December 2006, the USA subsidiary having ceased to trade. The results of subsidiaries acquired are consolidated for the period from the date on which control passes. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Acquisitions are consolidated under the purchase method of accounting. The results of the subsidiaries acquired and disposed of are included from the date of acquisition and up to the date of disposal. At the date of acquisition the fair values of the subsidiary's net assets are determined and these values are reflected in the consolidated financial statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

c) Turnover

Turnover represents net invoiced sales for royalties, development fees and management charges and withholding tax. Turnover is recognised when invoiced. If turnover is invoiced in advance for a contract the turnover is recognised over the period of the contract. Amounts received in excess of the turnover recognised for the period is carried forward as deferred income. In the consolidated accounts, turnover excludes inter-company trading.

d) Intangible fixed assets

The company writes off all research and development expenditure as it is incurred.

Patents & licenses are written off over 7 years from the date the expenses are incurred.

Intangible assets are reviewed for impairment on an annual basis and full provision is made against intangible assets when no revenue flow can be determined.

e) Investments

Investments are stated at cost less amounts written off. They are reviewed for impairment at the end of the financial year if events or changes in circumstance indicate that their carrying values may not be recoverable.

MADWAVES (UK) LIMITED
STATEMENT OF ACCOUNTING POLICIES
FOR THE YEAR ENDED 31ST DECEMBER 2006

1. ACCOUNTING POLICIES (continued)

f) Property, plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss

Depreciation is charged so as to write off the cost of assets less their estimated residual value over their estimated useful lives, using the straight line method at a rate of 25% per annum

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

g) Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but have not been reversed by the balance sheet date. Deferred taxation assets are only recognised to the extent that they are regarded as recoverable

Taxation assets in respect of Research and Development credits receivable are accounted for as claimed

h) Foreign exchange

Assets and liabilities in foreign exchange are translated into sterling at the rates of exchange ruling at the date of the balance sheet date. Transactions in foreign exchange are translated into sterling at the rates of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating loss

i) Share-based payments - equity settled

All share-based payment arrangements are recognised in the financial statements in accordance with FRS20

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets)

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to equity

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate, share premium

MADWAVES (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006

2. SEGMENTAL INFORMATION

All revenue derives from the sale of technology

All revenue is originated from Europe Geographical split of revenue by customer location is as follows

Year to 31 December 2006	Europe £	Asia/Pacific £	America £	Total £
Revenue from external customers	<u>1,209,156</u>	<u>89,281</u>	<u>48,266</u>	<u>1,346,703</u>
Assets	1,231,106	-	-	1,231,106
Liabilities	854,629	-	-	854,629
Property plant and equipment	25,594	-	-	25,594
Amortisation and depreciation	<u>14,545</u>	<u>-</u>	<u>-</u>	<u>14,545</u>
<i>Year to 31 December 2005</i>	<i>Europe £</i>	<i>Asia/Pacific £</i>	<i>America £</i>	<i>Total £</i>
Revenue from external customers	<u>1,564,585</u>	<u>-</u>	<u>-</u>	<u>1,564,585</u>
Assets	746,238	-	-	746,238
Liabilities	277,506	-	-	277,506
Property plant and equipment	34,155	-	-	34,155
Amortisation and depreciation	<u>31,023</u>	<u>-</u>	<u>-</u>	<u>31,023</u>

3. OPERATING LOSS

The operating loss is stated after charging

	2006 £	2005 £
Patents and licences written off	-	29,817
Depreciation and amortisation	14,545	31,023
Auditors' remuneration	<u>8,500</u>	<u>8,500</u>
Directors' emoluments and other benefits	142,377	47,000
Compensation to previous directors for loss of office	<u>55,590</u>	<u>267,726</u>

The compensation to previous directors for loss of office relates to the contingent liability of the group in respect of amounts due to a previous director from future revenue streams under the terms of his termination. The amounts outstanding in respect of the compensation are £12,917 (2005 £68,507)

The profit for the financial year dealt with in the financial statements of the parent company was £39,947 (2005 loss £562,986). As permitted by section 230 of the Companies Act 1985 no separate income statement is presented in respect of the parent company.

MADWAVES (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006

4. STAFF COSTS

The average number of persons employed by the Group (including directors) during the period was as follows

	Year ended 31 December 2006 Number	<i>Year ended 31 December 2005 Number</i>
Production and administration	<u>24</u>	<u>23</u>

The aggregate payroll costs for these persons were as follows

	Year ended 31 December 2006 £	<i>Year ended 31 December 2005 £</i>
Aggregate wages and salaries	775,485	754,377
Compensation for loss of office	55,590	267,726
Social security costs	<u>360,152</u>	<u>315,587</u>
	<u>1,191,227</u>	<u>1,337,690</u>

5. NET INTEREST PAYABLE/(RECEIVABLE)

	Year ended 31 December 2006 £	<i>Year ended 31 December 2005 £</i>
Interest receivable	883	6,201
Interest payable	<u>(5,141)</u>	<u>(315)</u>
	<u>(4,258)</u>	<u>5,886</u>

6. TAXATION

For the year ended 31st December 2006 nor for the year ended 31st December 2005 no liability to UK corporation tax arose on ordinary activities

The tax credit to the consolidated profit and loss account relate to Research and Development credits arising in the subsidiary company Research and Development credits are available for the French Subsidiary in respect of salary costs. The credits are available to be set off against future tax liabilities over the next three years, or paid to the subsidiary if there is no taxable liability in that period

MADWAVES (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006

6. TAXATION (continued)

Research and Development credits have arisen as follows

	Research and development credits £
At 1 January 2005	-
Credit for the year	<u>378,031</u>
As at 31 December 2005	378,031
Credit for the year	85,539
Exchange differences	<u>(6,433)</u>
At 31 December 2006	<u>457,137</u>

7. INTANGIBLE FIXED ASSETS

	Group Intangible assets Patents £	Company Intangible assets Patents £
Cost		
At 1 January 2006	11,153	40,378
Exchange differences	<u>(225)</u>	-
At 31 December 2006	<u>10,928</u>	<u>40,378</u>
Depreciation		
At 1 January 2006	8,969	40,377
Charge for the year	1,846	
Exchange differences	<u>(180)</u>	-
At 31 December 2006	<u>10,635</u>	<u>40,377</u>
Net book value		
At 31 December 2006	<u>293</u>	<u>1</u>
<i>At 31 December 2005</i>	<u>2,183</u>	<u>1</u>

MADWAVES (UK) LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2006

8. FIXED ASSET INVESTMENTS

The company's investments at the balance sheet date in the share capital of unlisted companies include the following

	2006 £	2005 £
Investments in subsidiary undertakings were as follows		
Investment - SARL Madwaves	<u>15,000</u>	<u>15,000</u>

SARL MadWaves

Country of incorporation France

Nature of business Research and development

	%
Class of shares	holding
Ordinary shares of 15 25 euros	100 00

SARL MadWaves owns 10% of MixMonsta Inc a company registered in Delaware USA

Class of shares ordinary of US\$1

Aggregate capital and reserves at 31 December 2006 US\$ 8,001

Loss for the year US\$ 69,282

Madwaves USA Inc. a 100% subsidiary incorporated in the USA was dissolved in February 2006

The subsidiary had no capital and reserves as at 31 March 2005 and incurred a loss for the year to 31 March 2005 of US\$31,211 There was no deficit on the dissolution of the company

9. TANGIBLE FIXED ASSETS

	Group Plant and equipment £	Company £
At 1 January 2006	122,838	-
Additions	4,823	-
Exchange differences	<u>(2,464)</u>	<u>-</u>
At 31 December 2006	<u>125,197</u>	<u>-</u>
Depreciation		
At 1 January 2006	88,683	-
Charge for the year	12,700	-
Exchange differences	<u>(1,780)</u>	<u>-</u>
At 31 December 2006	<u>99,603</u>	<u>-</u>
Net book value		
At 31 December 2006	<u>25,594</u>	<u>-</u>
<i>At 31 December 2005</i>	<u><i>34,155</i></u>	<u><i>-</i></u>

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10. DEBTORS

	Group		Company	
	31 December	31 December	31 December	31 December
	2006	2005	2006	2005
	£	£	£	£
Trade debtors	188,438	1,739	-	-
Research and development tax credits	457,137	378,031	-	-
Amounts owed by related undertaking	-	-	44,000	54,290
Other debtors	51,175	52,817	15,550	16,870
	<u>696,750</u>	<u>432,587</u>	<u>59,550</u>	<u>71,160</u>

As noted in note 5 the Research and Development tax credits are not due within one year. Of the amount due £ 371,598 is due in to be repaid in 2008 and £85,539 in 2009. Both amounts would be recovered earlier on by deduction against tax payable if corporation tax was due.

11. CREDITORS

Amounts falling due within one year	Group		Company	
	31 December	31 December	31 December	31 December
	2006	2005	2006	2005
	£	£	£	£
Trade creditors	38,452	28,683	33,789	1,161
Directors current account	-	16,920	-	16,920
Deferred income	540,851	-	-	-
Social security and other taxes	208,268	172,287	1,852	11,372
Accrued expenses	55,394	59,616	28,175	59,552
	<u>842,965</u>	<u>277,506</u>	<u>63,816</u>	<u>89,005</u>

12. CALLED UP SHARE CAPITAL

			2006	2005
			£	£
Authorised				
Number	Class	Nominal Value		
6,000,000	Ordinary	£1	<u>6,000,000</u>	<u>6,000,000</u>
Allotted, issued and fully paid.				
Number	Class	Nominal Value		
3,514,923	Ordinary	£1	<u>3,514,923</u>	<u>3,514,923</u>

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12. CALLED UP SHARE CAPITAL (CONT)

Options have been granted under an unapproved share options schemes to subscribe for ordinary shares of the company as follows

Date of grant	Number of shares	Subscription price	Exercise period
01 April 1999	103,100	1 00	1999-2009
01 April 2000	10,000	1 20	2000-2010
01 April 2000	35,000	3 73	2000-2010
01 April 2000	5,000	1 00	2000-2010
01 April 2001	10,000	2 70	2001-2011
01 April 2001	5,000	1 70	2001-2011
01 April 2003	72,890	4 12	2003-2013
01 April 2003	154,810	1 00	2003-2013
01 January 2004	12,000	4 12	2004-2014
01 June 2004	10,000	5 71	2004-2014
15 December 2004	24,000	1 00	2004-2014
20 July 2006	211,000	1 50	2006-2016
25 October 2006	6,667	1 50	2006-2016
Total options issued	<u>659,467</u>		

During the year, 217,667 options (2005 nil) were issued at a weighted average fair value of £1 50 pence per share (2005 nil pence per share)

The fair values of the options granted during the period ended 31 December 2006 were determined using the Black-Scholes valuation model. The model has been applied to each issue of options at the price prevailing at the time the options were issued. The value of the options has not been adjusted for future dividends as these are not significant in terms of the overall share price valuation. The model takes into account volatility rates of between 10 and 50 per cent. Being the assumed ongoing volatility for the future share based on historical experience and a risk free interest rate of between 4 and 5 per cent. It has been assumed that the options have a life of ten years from the date of grant.

The amount of employee remuneration expense in respect of the share options granted amounts to £3,591 (2005 £23,631) which has been included in the consolidated income statement.

13. SHARE PREMIUM

	2006 £	2005 £
Share premium account	<u>4,021,840</u>	<u>4,021,840</u>

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14. CONTINGENT LIABILITIES

The company has contracted to pay £12,917 (2005 £69,976) to a previous director, V Damevski, as part of his settlement for loss of office. This amount is payable out of income earned by Mixmonsta Inc and is not due until such times as Mixmonsta Inc has created sufficient income due to MadWaves (UK) Limited to fund his payment. During the year £55,590 was off set against amounts due to from Mixmonsta Inc.

The company has contracted to pay £15,000 to a previous director, David Steeds, as part of his settlement for loss of office. This amount is only payable following successful fund raising of a specific level.

15. OPERATING LEASE COMMITMENTS

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	<i>Land and buildings</i>
	2006	<i>2005</i>
EXPIRY DATE:	£	£
Within 1 year	-	32,319
Between 1 and 2 years	6,463	-
Between 2 and 5 years	<u>32,857</u>	<u>6,463</u>

16. RELATED PARTY DISCLOSURES

Under a previous research & development agreement the company paid to SARL MadWaves, a subsidiary of MadWaves (UK) Ltd, based in Sophia Antipolis, France, £nil (2005 £60,789). At the year end MadWaves (UK) Limited was owed by SARL MadWaves £44,000 (2005 £54,290).

Under a previous agreement with Madwaves USA Inc the company paid £nil (2005 £126,331) towards the public relations and marketing costs borne by that company, before its dissolution in December 2005. The investment in the company of £644 has been written off in these accounts.

During the year £nil (2005 - £38,174) was paid to Steeds & Co, of which D W H Steeds is principal, for accounting and financial advice.

As part of the settlement with a former director in 2005, SARL MadWaves acquired 10% investment in Mixmonsta Inc.