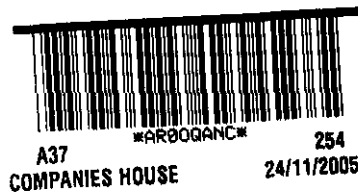


CH

Company Registration No. 4257337 (England and Wales)

AUDIO NETWORK PLC
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005



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

AUDIO NETWORK PLC

COMPANY INFORMATION

Directors**Executive directors**

R Hurst
A Sunnucks

Non Executive directors

J Fanaris
M Hemsley (appointed 14 January 2005)
J Leveque (resigned 10 November 2005)
M Ruffell
J Sanderson

Secretary

R Hurst

Company number

4257337

Registered office

61 Holywell Hill
St Albans
Herts
AL1 1HF

Registered auditors

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

Business address

School Farm Studios
Little Maplestead
Halstead
Essex
CO9 2SN
Tel: 01787 477 277
Fax: 01787 477 609
E Mail: office@audiolicense.net
Web site: www.audiolicense.net

Bankers

Coutts & Co
Media Banking
440 Strand
London
WC2 0QS

National Westminster Bank Plc
High Street
Halstead
Essex
CO9 2AG

AUDIO NETWORK PLC

COMPANY INFORMATION

Solicitors

Calverts Solicitors
77 Weston Street
London
SE1 3RS

AUDIO NETWORK PLC

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AUDIO NETWORK PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2005

The directors are pleased to present their report and financial statements of the group for the year ended 30 June 2005.

Principal activities and review of the business

The principal activity of the group is the publishing of music and sound for use in film, television and multi-media.

Our customer base continued to grow strongly during the year resulting in an increase of 119% in music licence income from producers and an increase of 202% in music royalty receipts.

Music based activities now account for over 90% of the gross profit of the group.

During the year our recorded music catalogue grew by 42% from 5,500 tracks to 7,800 tracks resulting in a corresponding increase in the directors' assessment of the underlying open market value of the intellectual property rights in the music catalogue held by the group.

Under our historical cost based accounting policies, copyrights are held in the balance sheet at historical cost without any revaluation. As a result of development activities undertaken by the group, the directors believe that the open market value of the copyrights, and other rights owned by the group, is significantly in excess of the balance sheet amount.

Against the strong performance from our music publishing activities, it is disappointing to report that during the year, our former United States based sound supplier, SoundStorm Inc., ceased trading and filed for bankruptcy under Chapter 7 of the United States bankruptcy code after more than 20 years of creating sounds for Hollywood films.

The group elected under s365(n) of the US bankruptcy code to carry forward rights that it holds over the SoundStorm sound effects library.

The company's seven Soundstorm members sold back to the company a total of 1.25m one penny shares in the company at one penny per share. The repurchase by the company of these 1.25m shares for a consideration of £12,500 was financed by a fresh issue of 41,667 new shares at 30 pence per share.

To finance the working capital requirements of the next phase of growth, the company also raised £260,000 of new equity finance at 30 pence per share, including an investment of £250,000 by Leisure & Media VCT Plc.

The net impact of the buy-back of shares and the issue of new shares during the year has been to reduce the number of issued shares in circulation (by 341,667 shares), whilst also boosting the cash reserves of the group at 30 June 2005 to £275,485.

The price paid for new shares during the year of 30 pence per share values the issued share capital of 10,461,737 one penny ordinary shares at £3.1m (2004: 10,803,404 shares at 25p = £2.7m).

AUDIO NETWORK PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

Results and dividends

The consolidated profit and loss account for the year is set out on page 6.

Highlights:

- Turnover up 73% to £473,015
- Gross profit up 85% to £400,405.

The growth achieved by the group from our core publishing activities during the year is particularly pleasing given the amount of management time that has been spent responding to issues arising from the cessation of trading of our US based sound supplier.

The operating loss for the year was reduced by 39% from £280,878 to £171,837 with the growth in administrative expenses (13%) running significantly below the rate of growth of both turnover (73%) and gross profit (85%).

The reported operating loss continues to reflect the delays between investing in the creation of a long term intellectual property portfolio and the subsequent receipt of royalty income flows throughout the life of copyright lasting more than seventy years.

Issues associated with the demise of SoundStorm Inc. and the subsequent financial restructuring of the company led to an exceptional charge of £63,306 to the profit and loss account.

The key management task for the next year is to continue closing the gap between revenues and expenditure to a level where the group is able to self-finance investment in the creation of further valuable intellectual property rights in our music catalogue from retained profits.

The directors do not recommend the payment of a dividend for the year (2004: £nil).

AUDIO NETWORK PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

Directors' and their interests

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

	Ordinary shares of 1p each	
	30 June 2005	1 July 2004 or subsequent date of appointment
R Hurst	1,481,083	1,460,250
A Sunnucks	1,481,084	1,460,250
J Fanaris	321,400	500,000
M Hemsley (appointed 14 January 2005)	33,333	33,333
J Leveque (resigned 10 November 2005)	178,550	357,100
M Ruffell	550,500	550,500
J Sanderson	94,579	94,579

J Fanaris served as the SoundStorm Inc. representative on the Board. SoundStorm Inc. was the registered holder of 10,000 Ordinary shares of 1p each at 30 June 2005 (2004: 10,000).

M Hemsley joined the Board during the year as the Leisure & Media VCT Plc shareholder representative. Leisure & Media VCT held 833,333 Ordinary shares of 1p each upon appointment and at 30 June 2005.

J Leveque served as the SoundStorm member representative on the Board on behalf of the seven SoundStorm members in the company; namely G Bluffer, J Fanaris, J Leveque, B Stambler, R Sullivan, J Switzer and R Yawn. The SoundStorm shareholders collectively held a total of 1,392,800 Ordinary shares of 1p each at 30 June 2005 (2004: 2,642,800) inclusive of the shares held by J Fanaris and J Leveque.

Further share options have been granted during the year to R Hurst, A Sunnucks and M Ruffell at a subscription price of 30p per share. Details of share options are set out in note 15 to the accounts with details of deferred emoluments and transactions with directors set out in note 20 to the accounts.

Creditor payment policy

The group aims to pay all its suppliers within a reasonable period of their invoices being received and approved, provided that the supplier has performed in accordance with the relevant terms and conditions. At 30 June 2005, the number of days' credit taken for the purchases by the company was 30 days (2004: 30 days)

Auditors

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

AUDIO NETWORK PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005


Directors' responsibilities

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

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

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

On behalf of the board


.....
R Hurst
Director
22/11/05
.....

AUDIO NETWORK PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AUDIO NETWORK PLC

We have audited the financial statements of Audio Network plc on pages 6 to 21 for the year ended 30 June 2005. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities on page 4 the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

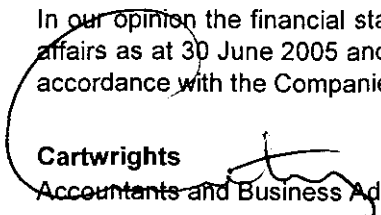
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 30 June 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Cartwrights

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

Date: 22/11/05

AUDIO NETWORK PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2005

	Notes	2005 £	2004 £
Turnover	2	473,015	274,207
Cost of sales		(72,610)	(57,835)
Gross profit		<u>400,405</u>	<u>216,372</u>
Administrative expenses		(572,642)	(506,158)
Other operating income		400	8,908
Operating loss	4	<u>(171,837)</u>	<u>(280,878)</u>
Exceptional item	3	(63,306)	-
Loss on ordinary activities before interest		<u>(235,143)</u>	<u>(280,878)</u>
Other interest receivable and similar income		11,092	5,569
Loss on ordinary activities before taxation	4	<u>(224,051)</u>	<u>(275,309)</u>
Tax on loss on ordinary activities	5	-	-
Loss on ordinary activities after taxation		<u><u>(224,051)</u></u>	<u><u>(275,309)</u></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 SHEETS AS AT 30 JUNE 2005

	Notes	Group		Company	
		2005 £	2004 £	2005 £	2004 £
Fixed assets					
Intangible assets	7	246,556	162,643	246,556	162,643
Tangible assets	8	15,203	16,968	15,203	16,968
Investments	9	-	-	2	2
		<u>261,759</u>	<u>179,611</u>	<u>261,761</u>	<u>179,613</u>
Current assets					
Stocks	10	59,871	42,980	59,871	42,980
Debtors	11	113,430	96,570	114,332	98,514
Cash at bank and in hand		275,485	251,300	275,373	251,300
		<u>448,786</u>	<u>390,850</u>	<u>449,576</u>	<u>392,794</u>
Creditors: amounts falling due within one year	12	<u>(322,893)</u>	<u>(117,637)</u>	<u>(322,393)</u>	<u>(117,137)</u>
Net current assets		<u>125,893</u>	<u>273,213</u>	<u>127,183</u>	<u>275,657</u>
Total assets less current liabilities		<u>387,652</u>	<u>452,824</u>	<u>388,944</u>	<u>455,270</u>
Creditors: amounts falling due after more than one year	13	<u>(101,154)</u>	<u>(202,282)</u>	<u>(101,154)</u>	<u>(202,282)</u>
		<u>286,498</u>	<u>250,542</u>	<u>287,790</u>	<u>252,988</u>
Capital and reserves					
Called up share capital	15	104,617	108,034	104,617	108,034
Share premium account	16	1,287,017	1,023,594	1,287,017	1,023,594
Profit and loss account	16	(1,105,136)	(881,086)	(1,103,844)	(878,640)
Shareholders' funds - equity interests	17	<u>286,498</u>	<u>250,542</u>	<u>287,790</u>	<u>252,988</u>

The financial statements were approved by the board on 22/11/05


.....
R Hurst
Director


.....
A Sunnucks
Director

AUDIO NETWORK PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	2005		2004	
	£	£	£	£
Net cash outflow from operating activities		(116,015)		(372,389)
Returns on investments and servicing of finance				
Interest received	11,092		5,569	
	<u>11,092</u>		<u>5,569</u>	
Net cash inflow for returns on investments and servicing of finance		11,092		5,569
Capital expenditure				
Payments to acquire intangible assets	(121,085)		(92,491)	
Payments to acquire tangible assets	(9,814)		(9,610)	
	<u>(130,899)</u>		<u>(102,101)</u>	
Net cash outflow for capital expenditure		(130,899)		(102,101)
		<u>(130,899)</u>		<u>(102,101)</u>
Net cash outflow before management of liquid resources and financing		(235,822)		(468,921)
Financing				
Issue of ordinary share capital	272,507		266,466	
Purchase of own shares	(12,500)		-	
	<u>260,007</u>		<u>266,466</u>	
Issue and purchase of shares	260,007		266,466	
	<u>260,007</u>		<u>266,466</u>	
Directors' deferred salaries	-		202,282	
	<u>-</u>		<u>202,282</u>	
(Decrease)/increase in debt		-		202,282
		<u>-</u>		<u>202,282</u>
Net cash inflow from financing		260,007		468,748
		<u>260,007</u>		<u>468,748</u>
Increase/(decrease) in cash in the year		24,185		(173)
		<u>24,185</u>		<u>(173)</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

1	Reconciliation of operating loss to net cash outflow from operating activities		2005	2004	
			£	£	
	Operating loss		(235,143)	(280,878)	
	Depreciation of tangible assets		11,579	15,272	
	Amortisation of intangible assets		37,172	22,610	
	Increase in stocks		(16,891)	(15,747)	
	Increase in debtors		(16,860)	(38,278)	
	Increase/(decrease) in creditors within one year		104,128	(75,368)	
	Net cash outflow from operating activities		(116,015)	(372,389)	
2	Analysis of net funds	1 July 2004	Cash flow	Other non-cash changes	30 June 2005
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	251,300	24,185	-	275,485
	Debt:				
	Debts falling due after one year	(202,282)	101,128	-	(101,154)
	Net funds	49,018	125,313	-	174,331
3	Reconciliation of net cash flow to movement in net debt		2005	2004	
			£	£	
	Increase/(decrease) in cash in the year		24,185	(173)	
	Cash outflow/(inflow) from decrease/(increase) in debt		101,128	(202,282)	
	Movement in net funds in the year		125,313	(202,455)	
	Opening net funds		49,018	251,473	
	Closing net funds		174,331	49,018	

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

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

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 June 2005. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Turnover

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

1.5 Copyrights and Licences

Throughout the year the company has continued to invest in the acquisition of copyrights and licences and in the development of its own copyrights. Whereas the costs of acquiring copyrights and licences 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 and licences are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal 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 copyright exists for 70 years after the death of the composer.

1.6 Development costs

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

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

1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

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

1.8 Investments

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

1.9 Stock

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

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

1 Accounting policies

(continued)

1.10 Pensions

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

1.11 Deferred taxation

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

1.12 Foreign currency translation

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

1.13 Recognition of income

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

1.14 Royalty advances

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

2 Turnover

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

Segmental analysis by geographical area

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

Geographical segment	2005 £	2004 £
Sound projects		
Rest of the world	1,430	18,375
	<u>1,430</u>	<u>18,375</u>
Other music & sound publishing activities		
United Kingdom	342,199	177,122
Rest of the world	129,386	78,710
	<u>471,585</u>	<u>255,832</u>
Group		
United Kingdom	342,199	177,122
Rest of the world	130,816	97,085
	<u>473,015</u>	<u>274,207</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

3 Exceptional item

The exceptional item represents legal and ancillary costs arising from the cessation of trading by SoundStorm Inc., the US based sound supplier to the group, and the consequent financial restructuring of the group.

4 Operating loss	2005	2004
Operating loss is stated after charging:	£	£
Depreciation of intangible assets	37,172	22,610
Depreciation of tangible assets	11,579	15,272
Auditors' remuneration (company £6,250; 2004: £5,250)	6,750	5,750
Remuneration of auditors for non-audit work	1,716	2,758

5 Taxation

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

6 Loss for the financial year

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

	2005	2004
	£	£
Holding company's loss for the financial year	(225,205)	(276,075)

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

7 Intangible fixed assets Group and company

	Copyrights and Licences £	Development Costs £	Total £
Cost			
At 1 July 2004	128,384	67,130	195,514
Additions	94,816	26,269	121,085
At 30 June 2005	223,200	93,399	316,599
Amortisation			
At 1 July 2004	7,677	25,194	32,871
Charge for the year	9,070	28,102	37,172
At 30 June 2005	16,747	53,296	70,043
Net book value			
At 30 June 2005	206,453	40,103	246,556
At 30 June 2004	120,707	41,936	162,643

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

8 Tangible fixed assets Group and company

	Plant and machinery £	Fixtures, fittings and equipment £	Total £
Cost			
At 1 July 2004	13,656	39,111	52,767
Additions	458	9,356	9,814
At 30 June 2005	14,114	48,467	62,581
Depreciation			
At 1 July 2004	10,976	24,823	35,799
Charge for the year	2,521	9,058	11,579
At 30 June 2005	13,497	33,881	47,378
Net book value			
At 30 June 2005	617	14,586	15,203
At 30 June 2004	2,680	14,288	16,968

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

9 Fixed asset investments Company

	Shares in group undertakings £
Cost	
At 1 July 2004 & at 30 June 2005	2

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

Holdings of more than 20%

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

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

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

	Principal activity
SoundStorm (UK) Limited	Music and sound effects projects for film & multi-media

10 Stocks

	Group		Company	
	2005 £	2004 £	2005 £	2004 £
Raw materials and consumables	27,413	22,664	27,413	22,664
Finished goods and goods for resale	32,458	20,316	32,458	20,316
	<u>59,871</u>	<u>42,980</u>	<u>59,871</u>	<u>42,980</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

11 Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	82,551	79,308	82,551	79,308
Amounts owed by group undertakings	-	-	1,577	2,032
Other debtors	13,397	4,256	12,722	4,168
Prepayments and accrued income	17,482	13,006	17,482	13,006
	<u>113,430</u>	<u>96,570</u>	<u>114,332</u>	<u>98,514</u>

12 Creditors : amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade creditors	48,216	25,694	48,216	25,694
Taxes and social security costs	24,164	12,143	24,164	12,143
Directors' current accounts	1,033	3,401	1,033	3,401
Other creditors	37,166	20,666	37,166	20,666
Accruals and deferred income	212,314	55,733	211,814	55,233
	<u>322,893</u>	<u>117,637</u>	<u>322,393</u>	<u>117,137</u>

13 Creditors : amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Directors' deferred salaries	<u>101,154</u>	<u>202,282</u>	<u>101,154</u>	<u>202,282</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

14 Pension costs

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

	2005 £	2004 £
Contributions payable by the group for the year	<u>16,109</u>	<u>8,570</u>

15 Share capital

	2005 £	2004 £
Authorised		
25,000,000 Ordinary shares of 1p each	<u>250,000</u>	<u>250,000</u>
Allotted, called up and fully paid		
10,461,737 Ordinary shares of 1p each	<u>104,617</u>	<u>108,034</u>

During the year Ordinary shares were issued as follows:

Date	Number of shares	Price per share	Proceeds of Issue £
14 January 2005	866,666	£0.30	260,000
31 January 2005	<u>41,667</u>	£0.30	<u>12,500</u>
Total	<u>908,333</u>		<u>272,500</u>

866,666 shares were issued to finance the working capital commitments of the company, and 41,667 shares were issued at 30 pence per share to finance the purchase by the company of 1.25m shares at one penny per share from Soundstorm members.

Also during the year the following Ordinary shares were bought back:

Date	Number of shares	Price per share	Total Consideration £
31 January 2005	<u>1,250,000</u>	£0.01	<u>12,500</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

15 Share capital

(continued)

At the balance sheet date options had been granted and were still outstanding in respect of Ordinary shares of 1p each as follows:

	Number of shares	Subscription price	Exercisable
R Hurst*	2,500,000	£0.01	01/01/05 to 31/12/10
A Sunnucks*	2,500,000	£0.01	01/01/05 to 31/12/10
R Hurst~	375,000	£0.20	11/06/06 to 31/12/10
A Sunnucks~	375,000	£0.20	11/06/06 to 31/12/10
R Hurst	120,000	£0.25	11/06/06 to 31/12/10
A Sunnucks	120,000	£0.25	11/06/06 to 31/12/10
M Ruffell	24,000	£0.25	11/01/06 to 31/12/10
R Hurst	11,000	£0.30	31/01/05 to 31/12/10
A Sunnucks	11,000	£0.30	31/01/05 to 31/12/10
M Ruffell	10,000	£0.30	31/01/05 to 31/12/10
Others	335,000	£0.20 to £0.30	01/07/02 to 31/12/10

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

~ Share options held under an Enterprise Management Scheme have been issued to R Hurst and A Sunnucks.

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

16 Statement of movements on reserves Group

	Share premium account £	Profit and loss account £
Balance at 1 July 2004	1,023,593	(881,085)
Retained loss for the year	-	(224,051)
Premium on shares issued during the year	263,424	-
Balance at 30 June 2005	<u>1,287,017</u>	<u>(1,105,136)</u>

Company

	Share premium account £	Profit and loss account £
Balance at 1 July 2004	1,023,593	(878,639)
Retained loss for the year	-	(225,205)
Premium on shares issued during the year	263,424	-
Balance at 30 June 2005	<u>1,287,017</u>	<u>(1,103,844)</u>

17 Reconciliation of movements in shareholders' funds Group

	2005 £	2004 £
Loss for the financial year	(224,051)	(275,309)
Proceeds from issue of shares	272,507	266,466
Purchase of own shares	(12,500)	-
Net addition to/(depletion in) shareholders' funds	35,956	(8,843)
Opening shareholders' funds	250,542	259,385
Closing shareholders' funds	<u>286,498</u>	<u>250,542</u>

	2005 £	2004 £
Loss for the financial year	(225,205)	(276,075)
Proceeds from issue of shares	272,507	266,466
Purchase of own shares	(12,500)	-
Net addition to/(depletion in) shareholders' funds	34,802	(9,609)
Opening shareholders' funds	252,988	262,597
Closing shareholders' funds	<u>287,790</u>	<u>252,988</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

18 Contingent liabilities

Group

On 2nd March 2005, following the filing for Chapter 7 bankruptcy during September 2004 by the US based sound supplier to the group, SoundStorm Inc., adversary proceedings were filed against the company in the United States by the new owners of the residual SoundStorm assets.

On 8th September 2005, the company and the plaintiff signed a binding letter of mutual understanding and agreement regarding the principal terms and conditions of a final and complete settlement, including an undertaking to enter into a new licence agreement regarding the SoundStorm sound effects library and to complete the documentation regarding the final and complete settlement of adversary proceedings.

The directors consider the possibility of any material liability arising from the cessation of trading by our former US based sound supplier in excess of the amounts provided at the balance sheet date to be remote.

19 Directors' emoluments	2005 £	2004 £
Emoluments for qualifying services	172,604	171,236
Company pension contributions to money purchase schemes	15,500	8,000
	<u>188,104</u>	<u>179,236</u>

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2004- 2).

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

20 Transactions with directors

During the year A Sunnucks received £1,200 (2004: £1,200) for rent in respect of the occupation of the business premises by the company.

At the balance sheet date Messrs. R Hurst, A Sunnucks and M Ruffell, directors of the company, had deferred emoluments in order to assist the working capital of the company. Such liabilities have been accrued in the balance sheet as follows:

Creditors: amounts falling due within one year	2005	2004
	£	£
R Hurst	50,000	-
A Sunnucks	50,000	-
M Ruffell	10,152	-
	<u>110,152</u>	<u>-</u>

Creditors: amounts falling due after more than one year	2005	2004
	£	£
R Hurst	50,577	97,757
A Sunnucks	50,577	97,757
M Ruffell	-	6,768
	<u>101,154</u>	<u>202,282</u>

The above include National Insurance contributions of £23,978 (2004: £22,954).

21 Employees

Number of employees

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

	2005	2004
	Number	Number
Management and administration	<u>7</u>	<u>6</u>

Employment costs

	£	£
Wages and salaries	271,025	242,799
Social security costs	28,286	27,267
Other pension costs	16,109	8,570
	<u>315,420</u>	<u>278,636</u>

AUDIO NETWORK PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2005

22 Control

There is no ultimate controlling party in the group.

23 Related party transactions

Group

The group has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.