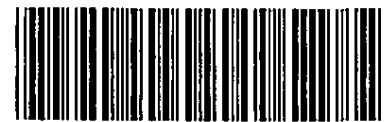


X-Phonics plc

Registered Number 5454010

Financial Statements 30 September 2008

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COMPANIES HOUSE

X-PHONICS PLC

Company Information

DIRECTORS

N Reed
M D Hosie
R F Davies
J I McLaughlin

SECRETARY

M D Hosie

COMPANY NUMBER

5454010

REGISTERED OFFICE

Grand Prix House
126-129 Power Road
Chiswick
London
W4 5PY

AUDITORS

CLB Gatwick LLP
Chartered Accountants & Registered Auditors
Imperial Buildings
Victoria Road
Horley
Surrey
RH6 7PZ

BANKERS

Barclays Bank plc
Sussex and Gatwick Group
90-92 High Street
Crawley
West Sussex
RH10 1BP

NOMINATED ADVISERS AND BROKER

W H Ireland Ltd
85-89 Colmore Row
Birmingham
B3 2BB

X-PHONICS PLC

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X-PHONICS PLC

Chairman's Statement

for the year ended 30 September 2008

I present the financial statements for the year to 30 September 2008.

It has been a difficult year for the music industry and particularly for smaller businesses such as ours that do not have established artists generating revenues with which to support the development of newer artists. The market has further deteriorated in the early part of 2009. The larger records labels, through which we had expected to jointly develop our artists, have taken on very few new projects and in fact have rationalised their own existing artist roster. Retail distribution in the high street is almost non-existent with the closure of many outlets, for example Zavvi and Woolworths with those remaining only interested in selling established artist product.

Financial Commentary

Sales of £84,567 were primarily achieved from our smaller and earlier stage artists. The Attic Lights, for whom we received an advance in May 2007 from Universal Island, released their first album, "Friday Night Lights" in November 2008. Whilst critically acclaimed it did not generate sufficient sales to increase our share of the sales beyond the initial advance. It is our expectation that a second album will be commissioned although in the current economic climate many larger record labels are taking the opportunity of renegotiating the terms of such projects. A lack of available cash has made it difficult to progress the smaller projects although modest progress has been made in some areas. Maeve O'Boyle has recorded her first album which is expected to be released through Linn Records in July 2009 and Keith Jack's album released in November continues to sell, although at a modest level.

Overheads have been reduced substantially to offset, as far as is possible, the lack of sales. The Directors have not drawn salaries since March 2008 and do not intend to do so under current circumstances. Other costs are being managed at a significantly lower level than in previous periods. Neil Reed, one of the original founders resigned in December 2008.

The Directors have made a number of attempts to raise additional funds during the last year none of which have been successful given the turmoil in the financial markets. This, linked to the likely low level of future revenues means that the Company's future cash flow is uncertain.

Given the Company's current situation and its reliance upon the music industry the Directors believe that it is in the best interest of shareholders to limit any additional exposure in that sector other than to what is necessary to maintain the collection of cash from existing projects, wherever possible.

In parallel, the Directors believe that it is sensible to seek alternative opportunities that could make use of the Company's infrastructure and listing on AIM in market sectors where there is scale, growth and a revenue model that is better suited to a public market.

I hope to be able to report progress upon this in due course.



Robin Davies
Chairman

8 April 2009

X-PHONICS PLC

Directors' Report

for the year ended 30 September 2008

The Directors present their annual report and the audited financial statements of the Group for the year ended 30 September 2008.

Principal activities and business review

The principal activity of the Company during the year was as holding company for X-Phonics Music Limited and other subsidiaries.

The principal activity of the Group during the year was management of music artistes and writing and publishing songs.

A review of the Group's performance for the year ended 30 September 2008 and future developments are contained in the Chairman's statement.

Results and dividends

The trading results for the period and the Group's financial position at the end of the period are shown in the attached financial statements.

The Directors have not recommended a dividend.

The Directors and their interests

The Directors who served the Company during the period together with their beneficial interests, including family holdings, in the shares of the Company were as follows:

	Class of share	At 30 September 2008	At 30 September 2007
N Reed (resigned 24 December 2008)	Ordinary 1p shares	3,200,810	3,200,810
	Deferred 6.5p shares	3,200,810	3,200,810
M D Hosie	Ordinary 1p shares	899,010	899,010
	Deferred 6.5p shares	683,590	683,590
R F Davies	Ordinary 1p shares	825,765	825,765
	Deferred 6.5p shares	661,265	661,265
J I McLaughlin	Ordinary 1p shares	8,234,500	8,234,500
	Deferred 6.5p shares	—	—

The interests in the Company's share capital shown above for M D Hosie and J I McLaughlin include their wives shares. The Directors' interests in share options (granted 13 October 2005) of the Company are as follows:

M D Hosie – 1,646,900 shares at an exercise price of 20 pence.

R F Davies – 823,450 shares at an exercise price of 20 pence.

N Reed – nil shares (2007: 329,380 shares at an exercise price of 20 pence) N Reed forfeited these share options on 30 April 2008 when he ceased to be an employee of the Company.

The Directors' interests in share options (granted 3 January 2007) of the Company are as follows:

M D Hosie – 1,663,846 shares at an exercise price of 10 pence.

R F Davies – 1,162,997 shares at an exercise price of 10 pence.

N Reed – nil shares (2007: 332,769 shares at an exercise price of 10 pence). N Reed forfeited his share options on 30 April 2008 when he ceased to be an employee of the Company.

X-PHONICS PLC

Directors' Report *(continued)*

for the year ended 30 September 2008

Financial risk management objectives and policies

The Group's activities expose it to some financial risks. The Group monitors these risks but does not consider it necessary to use any derivative financial instruments to hedge these risks.

Credit risk

The Group monitors credit risk closely and considers that its current policies of credit checks meets its objectives of managing exposure to credit risk.

The Group has no significant concentrations of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event other parties fail to perform their obligations under financial instruments.

Liquidity risk

The Group's policy throughout the year has been to ensure continuity of funding. In order that this is achieved, the Group maintains close control over future cash flows and regularly review medium and long-term finance against those future cash flows.

Policy on the payment of creditors

The Group's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the Group's contractual and other legal obligations.

Trade Creditors of the Group at the year end as a proportion of amounts invoiced by suppliers during the year represent 75 days (2007: 26 days).

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and separate parent Company financial statements under UK GAAP. The Group financial statements are required to give a true and fair view of the state of affairs 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 that the Group financial statements comply with IFRSs as adopted by the European Union; and
- prepare the Group financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

X-PHONICS PLC

Directors' Report *(continued)*

for the year ended 30 September 2008

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

In so far as the Directors are aware:

- there is no relevant audit information of which the Group's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Auditor

A resolution to re-appoint CLB Gatwick LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the Directors


M Hosie
Company Secretary

Approved by the Directors on 7 April 2009

X-PHONICS PLC

Independent Auditor's Report to the Shareholders

for the year ended 30 September 2008

We have audited the Group financial statements ("the financial statements") of X-Phonics plc for the year ended 30 September 2008 which comprise the principle accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement and the consolidated statement of changes in equity and notes 1 to 24.

We have reported separately on the parent company financial statements of X-Phonics plc for the year ended 30 September 2008.

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 auditor

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities in the Directors' Report.

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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to 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 Group 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 Group financial statements.

X-PHONICS PLC

Independent Auditor's Report to the Shareholders of X-Phonics plc

(continued)

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2008 and of the Group's loss for the year then ended.
- The Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.
- The information given in the Directors' Report is consistent with the financial statements.

Going Concern

Without qualifying our opinion, we draw attention to the disclosures made in note 23 of the financial statements concerning the Company's ability to continue as a going concern. These conditions, along with the matters set forth in note 23, indicate the existence of a material uncertainty which casts doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern. Overall in view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

CLB Gatwick LLP

CLB GATWICK LLP
Chartered Accountants
& Registered Auditors

Imperial Buildings
Victoria Road
HORLEY
Surrey
RH6 7PZ

7 April 2009

X-PHONICS PLC

Consolidated Group Income Statement

for the year ended 30 September 2008

		30 September 2008	Restated* 30 September 2007
	Note	£	£
Revenue	2	84,567	339,074
Cost of sales		(149,716)	(404,993)
Gross loss		(65,149)	(65,919)
Administrative expenses			
Exceptional	5	(327,639)	–
Normal		(411,606)	(406,327)
Operating loss	3	(804,394)	(472,246)
Finance income	8	653	6,826
Finance costs	8	(882)	(1,713)
Loss before taxation		(804,623)	(467,133)
Income tax expense	9	–	1,257
Loss for the financial year		(804,623)	(465,876)
Attributable to equity holders of the Company		(804,623)	(465,876)
Earnings per share for loss attributable to the equity holders of the Company (pence)			
Basic	10	(1.22)	(0.70)
Diluted	10	(1.22)	(0.70)

All of the activities of the Group are classed as continuing.

The Group has no recognised gains or losses other than the results for the period as set out above.

* Restated for International Financial Reporting Standards (note 24)

The notes on pages 13 to 27 form part of these financial statements.

X-PHONICS PLC

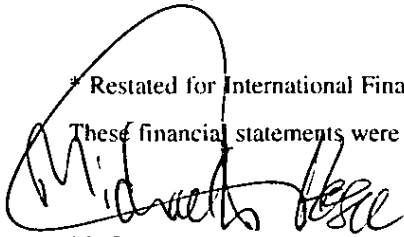
Group Balance Sheet

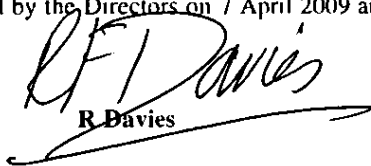
as at 30 September 2008

		30 September 2008	Restated* 30 September 2007
	Note	£	£
ASSETS			
Non-current assets			
Goodwill	11	–	327,639
Property, plant and equipment	12	36,782	65,440
		<u>36,782</u>	<u>393,079</u>
Current assets			
Trade and other receivables	13	84,259	139,911
Cash and cash equivalents		6,359	136,719
		<u>90,618</u>	<u>276,630</u>
Total assets		<u><u>127,400</u></u>	<u><u>669,709</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	14	383,118	114,036
Non-current liabilities			
Borrowings	15	–	6,768
Total liabilities		<u><u>383,118</u></u>	<u><u>120,804</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	19	2,803,119	2,803,119
Share premium account		743,474	743,474
Merger reserve		(738,578)	(738,578)
Accumulated losses		(3,063,733)	(2,259,110)
Total equity		<u><u>(255,718)</u></u>	<u><u>548,905</u></u>
Total equity and liabilities		<u><u>127,400</u></u>	<u><u>669,709</u></u>

* Restated for International Financial Reporting Standards (note 24).

These financial statements were approved by the Directors on 7 April 2009 and are signed on their behalf by:


M Hosie


R Davies

The notes on pages 13 to 27 form part of these financial statements.

X-PHONICS PLC

Consolidated Group Cash Flow Statement

for the year ended 30 September 2008

		30 September 2008	Restated* 30 September 2007
	Note	£	£
Net cash used in operating activities	21	(124,690)	(621,187)
Net cash from investing activities			
Purchases of property, plant and equipment		(1,217)	(27,607)
Interest received		653	6,826
Interest paid		(882)	(1,713)
Net cash used in investing activities		<u>(1,446)</u>	<u>(22,494)</u>
Net cash from financing activities			
Proceeds from issuance of ordinary shares		–	23,996
Borrowings drawn/(eliminated)		(4,224)	3,932
Net cash (used)/generated from financing activities		<u>(4,224)</u>	<u>27,928</u>
Net (decrease)/increase in cash, cash equivalents and overdrafts		<u>(130,360)</u>	<u>(615,753)</u>
Cash, cash equivalents and overdrafts at beginning of year		<u>136,719</u>	<u>752,472</u>
Cash, cash equivalents and overdrafts at end of year		<u><u>6,359</u></u>	<u><u>136,719</u></u>

* Restated for International Financial Reporting Standards (note 24).

The notes on pages 13 to 27 form part of these financial statements.

X-PHONICS PLC

Consolidated Group Statement of Changes in Equity

for the year ended 30 September 2008

	Called up Share Capital £	Share Premium £	Merger Reserve £	Accumulated Losses £	Total Equity £
Balance at 1/10/06	2,798,320	724,277	(738,578)	(1,793,234)	990,785
Shares issued	4,799	19,197	-	-	23,996
Loss for the period – restated	-	-	-	(465,876)	(465,876)
At 30 September 2007 (restated)	2,803,119	743,474	(738,578)	(2,259,110)	548,905
Loss for the period	-	-	-	(804,623)	(804,623)
At 30 September 2008	2,803,119	743,474	(738,578)	(3,063,733)	(255,718)

X-PHONICS PLC

Notes to the Financial Statements

for the year ended 30 September 2008

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of Companies Act 1985.

The disclosures required by IFRS 1, First-time Adoption of International Financial Reporting Standards, in respect of the transition from accounting principles generally accepted in the United Kingdom ("UK GAAP") to IFRS are provided in note 24.

The first time adoption of International Financial Reporting Standards in preparing group financial statements for the year ended 30 September 2008 has had no material effect upon the results and financial position of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all group undertakings. X-Phonics plc was incorporated on 17 May 2005 and on 1 July 2005 the Company acquired the entire share capital of X-Phonics Music Limited by way of a share for share exchange. As the shareholders were the same before and after this transaction, the share for share exchange qualifies as a common control transaction and falls outside the scope of IFRS 3, Business Combinations. No goodwill has been recorded and the difference between the parent company's cost of investment and X-Phonics Music Limited's share capital and share premium is presented as a merger reserve within equity on consolidation. Comparative amounts are restated as if the combination had taken place at the beginning of the earliest comparative period presented.

Revenue

Revenue comprises amounts recognised by the Group in respect of goods and services supplied, exclusive of VAT and trade discounts.

Advances to artistes

Advances to artistes and expenses incurred supporting new acts are assessed and the value of the unrecouped portion to be included in debtors is determined by the prospects of future recoupement, based on past sales performance, current popularity and projected sales.

In the period ended 30 September 2008 (2007: £15,000), no such carry forward of expenditure was considered appropriate.

Music publishing and record royalties and record producer services

Music publishing and record royalties are accounted for on a notified earnings basis, with any advances, if any, carried forward until the end of the relevant contract period. Royalties received for record producer services are accounted for on a cash basis. Royalties payable are expensed on an accruals basis except that music publishing advances are carried forward and recognised as an asset, where such advances relate to proven artistes or songwriters and where it is estimated that sufficient future royalties will be recouped against those advances.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

1. Accounting policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is allocated on acquisition to cash-generating units that are anticipated to benefit from the combination. Goodwill is not amortised but is reviewed annually for impairment. Impairment is determined by assessing the recoverable amount of a cash-generating unit to which the goodwill relates. This estimate of recoverable amount is performed at each balance sheet date. The estimate of recoverable amount requires significant judgement, and is based on a number of factors such as the near-term business outlook for the cash-generating unit, including both its operating profit and operating cash flow performance. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any provision for impairment in value.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold Property	-	over the period of the lease
Fixtures & Fittings	-	20% straight line
Motor Vehicles	-	25% straight line
Equipment	-	20% straight line

Leasing and Hire purchase agreements

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible non-current assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in liabilities net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the income statement so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Assets held under hire purchase agreements are capitalised and disclosed under tangible non-current assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the income statement on a straight line basis.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

1. Accounting policies (continued)

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred income taxes are calculated using the liability method on temporary differences. This involves the comparison of the carrying amounts of assets and liabilities in the consolidated financial statements with their respective tax bases. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred tax liabilities are always provided for in full. Deferred tax assets are recognised only to the extent that the Directors consider that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign Currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange gains and losses are recognised in the income statement.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Investments

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition costs associated with the investment.

Trade and other debtors

Trade receivables and other debtors are recognised and carried forward at invoice amounts less provisions for any doubtful debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

2. Revenue

The revenue and loss before tax are attributable to the one principal activity of the Group.

An analysis of revenue is given below:

	30 September 2008	30 September 2007
	£	£
United Kingdom	56,104	337,563
Overseas	28,463	1,511
	<u>84,567</u>	<u>339,074</u>

3. Loss on ordinary activities before taxation

Loss before taxation is stated after charging:

	30 September 2008	30 September 2007
	£	£
Depreciation of owned property, plant and equipment	26,952	35,750
Depreciation of assets held under hire purchase agreements	2,923	5,059
Difference on foreign exchange	8	(2)
Operating lease costs:		
Land and buildings	36,746	22,921
	<u>36,746</u>	<u>22,921</u>

4. Auditors' remuneration

	30 September 2008	30 September 2007
	£	£
Fees payable to the Company's auditor for the audit of the company's annual accounts	3,000	3,000
Fees payable to the Company's auditor in respect of:		
Auditing of the accounts of subsidiaries of the Company	7,000	6,500
Other services relating to taxation	1,000	1,000
All other services	2,500	3,200
	<u>2,500</u>	<u>3,200</u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

5. Exceptional administrative expenses

	30 September 2008	30 September 2007
	£	£
Impairment of goodwill	327,639	-

At the year end an impairment review was performed on the goodwill representing the investment in White Noise Music Limited. Due to the deterioration in trading performance against original plans and competitive pressures increasing in the music publishing industry it has been felt prudent and necessary to impair this investment to £nil.

6. Particulars of employees

The average number of staff employed by the Group (including directors) during the financial period amounted to:

	30 September 2008	30 September 2007
	No.	No.
Number of management staff	4	4

The aggregate remuneration costs of the above were:

	30 September 2008	30 September 2007
	£	£
Wages and salaries	176,000	181,996
Social security costs	11,022	15,192
	<u>187,022</u>	<u>197,188</u>

7. Directors' emoluments

The Directors' aggregate emoluments in respect of qualifying services were:

	30 September 2008	30 September 2007
	£	£
Emoluments receivable	<u>176,000</u>	<u>181,996</u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

8. Finance income and costs

	30 September 2008	30 September 2007
	£	£
Finance Income		
Interest income on short term bank deposits	653	6,826
Finance costs		
Interest payable on bank overdrafts	10	443
Finance charges	872	1,265
Other similar charges payable	-	5
	882	1,713

9. Income tax expense

The Company has traded at a loss for the period therefore no provision for taxation is considered necessary.

Deferred Tax

At the period end the unutilised tax losses carried forward are £2,696,099 (2007: £2,082,743). A deferred tax asset has not been recognised in respect of these losses in view of the uncertainty as to the level of future taxable profits. The deferred tax asset that is not recognised in the financial statements in relation to losses carried forward amounts to £566,181 (2007: 416,549).

Factors affecting current income tax charge

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 20.5% (2007: 20%).

	30 September 2008	30 September 2007
	£	£
Loss on ordinary activities before taxation	(804,623)	(467,133)
Profit/(loss) on ordinary activities by rate of tax	(164,948)	(93,427)
Expenses not deductible for tax purposes	73	624
Capital allowances for period in excess of depreciation	2,840	3,496
Utilisation of tax losses	-	(1,282)
Impairment charge on goodwill	67,166	-
Marginal rate tax relief	-	25
Credit for tax loss not utilised in the accounts	94,869	89,307
Total current tax	-	1,257

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

10. Earnings per share

The basic earnings per ordinary share is calculated by dividing profit/loss for the year attributable to equity holders of the Company less non-equity dividends and other appropriations in respect of non-equity shares by the weighted average number of equity shares in issue during the year.

The diluted earnings per ordinary share is calculated by dividing profit/loss for the year less non-equity dividends and other appropriations in respect of non-equity shares by the weighted average number of equity shares outstanding during the year (after adjusting both figures for the effect of dilutive potential ordinary shares).

The calculation of basic and diluted earnings per ordinary share is based upon the following data:

Earnings	30 September	Restated
	2008	30 September
	£	2007
		£
Earnings for the purposes of basic earnings per share	(804,623)	(465,876)
Earnings for the purposes of diluted earnings per share	(804,623)	(465,876)
Number of shares	30 September	30 September
	2008	2007
	No.	No.
Basic weighted average number of shares	66,214,920	66,109,732
Dilutive potential ordinary shares:		
Adjustment to average number of shares due to share options	–	–
Weighted average number of shares for the purposes of diluted earnings per share	66,214,920	66,109,732

11. Goodwill

Cost	30 September	Restated
	2008	30 September
	£	2007
		£
At 1 October	329,010	329,010
Amortisation		
At 1 October	1,371	1,371
Impairment charge	327,639	–
At 30 September	329,010	1,371
Net book amount		
At 30 September	–	327,639

Goodwill represents the investment in White Noise Music Limited. The explanation for the impairment charge in the year is explained in note 5.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

12. Property, plant and equipment

	Leasehold Property	Furniture, fitting and equipment	Motor Vehicles	Equipment	Total
30 September 2008	£	£	£	£	£
Cost					
At 1 October 2007	22,056	4,929	30,688	141,020	198,693
Additions	-	-	-	1,217	1,217
At 30 September 2008	22,056	4,929	30,688	142,237	199,910
Depreciation					
At 1 October 2007	14,936	3,034	21,675	93,608	133,253
Charge for the period	1,679	848	2,923	24,425	29,875
At 30 September 2008	16,615	3,882	24,598	118,033	163,128
Net book amount					
At 30 September 2008	5,441	1,047	6,090	24,204	36,782
	Leasehold Property	Furniture, fitting and equipment	Motor Vehicles	Equipment	Total
30 September 2007	£	£	£	£	£
Cost					
At 1 October 2006	13,662	4,592	18,995	133,837	171,086
Additions	8,394	337	11,693	7,183	27,607
At 30 September 2007	22,056	4,929	30,688	141,020	198,693
Depreciation					
At 1 October 2006	7,758	2,220	16,616	65,850	92,444
Charge for the period	7,178	814	5,059	27,758	40,809
At 30 September 2007	14,936	3,034	21,675	93,608	133,253
Net book amount					
At 30 September 2007	7,120	1,895	9,013	47,412	65,440

Hire purchase agreements

Included within the net book amount of £36,782 is £6,090 (2007: £9,013) relating to assets held under hire purchase agreements.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

13. Trade and other receivables

	30 September 2008	30 September 2007
	£	£
Trade receivables	21,575	73,413
VAT recoverable	9,632	1,806
Other receivables	28,546	19,373
Prepayments and accrued income	24,506	45,319
	<u>84,259</u>	<u>139,911</u>

14. Trade and other payable

	30 September 2008	30 September 2007
	£	£
Trade payables	53,549	29,928
Hire purchase agreements	6,767	4,224
Social security and other taxes	-	13,108
Net wages	321	-
Other payables	189,655	17,809
Accruals and deferred income	132,826	48,967
	<u>383,118</u>	<u>114,036</u>

15. Non-current liabilities: Amounts falling due after more than one year

	30 September 2008	30 September 2007
	£	£
Hire purchase agreements	-	6,768
	<u>-</u>	<u>6,768</u>

16. Obligations under finance leases

Future commitments under hire purchase agreements are as follows:

	30 September 2008	30 September 2007
	£	£
No later than one year	6,767	4,224
Later than but no later than five years	-	6,768
	<u>6,767</u>	<u>10,992</u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

17. Commitments under operating leases

The Group leases an office under a non-cancellable operating lease for which the future aggregate minimum lease payments are as follows:

	Land and buildings	
	30 September 2008	30 September 2007
	£	£
No later than one year	35,000	35,000
Later than one year but no later than five years	116,667	140,000
More than five years	-	11,667
	<u>151,667</u>	<u>186,667</u>

18. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the period group companies were charged £62,900 (2007: £63,133) by Kerr Douglas Limited, a company under the control of M D Hosie. This cost is made up of £44,000 (2007: £45,833) in respect of directors' services, and £18,900 (2007: £17,300) in respect of bookkeeping services provided by M D Hosie's wife. At the period end an amount of £45,250 (2007: £6,438) was payable to Kerr Douglas Limited and is included within creditors.

During the period group companies were charged £24,000 (2007: £15,800) by R F Davies for director's services. At the period end an amount of £36,000 (2007: £12,000) was payable to R F Davies and is included within other creditors.

During the period group companies were charged £15,000 (2007: £15,000) by J I McLaughlin's wife in respect of PA services. At the period end an amount of £7,500 (2007: £1,250) was payable in respect of such services and is included within creditors.

19. Share capital

	30 September 2008	30 September 2007
	£	£
Authorised share capital:		
785,908,000 Ordinary shares of £0.01 each	7,859,080	7,859,080
32,938,000 Deferred shares of £0.065 each	2,140,970	2,140,970
	<u>10,000,050</u>	<u>10,000,050</u>

	30 September 2008		30 September 2007	
	No.	£	No.	£
Allotted, called up and fully paid:				
Ordinary shares of £0.01 each	66,214,920	662,149	66,214,920	662,149
Deferred shares of £0.065 each	32,938,000	2,140,970	32,938,000	2,140,970
	<u>99,152,920</u>	<u>2,803,119</u>	<u>99,152,920</u>	<u>2,803,119</u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

20. Share options

The Directors are interested in the following options to subscribe for ordinary shares pursuant to the EMI scheme or the Directors' share option agreement:

	30 September 2008 No.	30 September 2007 No.
M Hosie		
EMI scheme – granted 13/10/2005	1,000,000	1,000,000
Director's share option agreement – granted 13/10/2005	646,900	646,900
Director's share option agreement – granted 03/01/2007	1,663,846	1,663,846
Total	<u>3,310,746</u>	<u>3,310,746</u>

	30 September 2008 No.	30 September 2007 No.
R Davies		
Director's share option agreement – granted 13/10/2005	823,450	823,450
Director's share option agreement – granted 03/01/2007	1,162,997	1,162,997
Total	<u>1,986,447</u>	<u>1,986,447</u>

	30 September 2008 No.	30 September 2007 No.
N Reed		
EMI scheme – granted 13/10/2005	–	329,380
Director's share option agreement – granted 13/10/2005	–	332,769
Total	<u>–</u>	<u>662,149</u>

No options were exercised in the period however N Reed forfeited his share options 30 April 2008 when he ceased to be an employee of the Company. The options are exercisable at any time within 10 years of being granted. The options granted on 13 October 2005 are exercisable at 20 pence per share whereas the options granted on 3 January 2007 are exercisable at 10 pence per share.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

21. Cash generated used by operations

	30 September 2008	30 September 2007
	£	£
Loss before taxation	(804,623)	(467,133)
Investment income	(653)	(6,826)
Interest payable	10	448
Interest element of hire purchase	872	1,265
Impairment of goodwill	327,639	–
Income taxes paid	–	(3,762)
Depreciation	29,875	40,809
Decrease/(increase) in receivables	55,651	(101,676)
Decrease in payables	266,539	(84,312)
Net cash used by operations	<u>(124,690)</u>	<u>(621,187)</u>

22. Subsidiary undertakings

Details of the Company's subsidiaries at 30 September 2008 are as follows:

	Country of incorporation	Holding Shares held	Nature of business
X-Phonics Music Limited	England and Wales	Ordinary shares 100%	Services in the Music industry
X-Phonics Music Publishing Limited	England and Wales	Ordinary shares 100%	Songwriting and publishing
White Noise Music Limited	England and Wales	Ordinary shares 100%	Services in the Music industry
X-Phonics Records Limited	England and Wales	Ordinary shares 100%	Dormant
X-Phonics Productions Limited	England and Wales	Ordinary shares 100%	Dormant

23. Going Concern

The Company has generated modest revenues and has funded operations primarily from the proceeds of public and private placements of its shares. It does not presently have sufficient funds to meet all of its forecast obligations for the next 12 months and is negotiating with a selection of investors for further funding. Based on discussions already held, the Directors of the Company have reasonable expectation that the Company will receive adequate funding, based on a possible restructuring of the business model along with indications provided by future investors regarding future financing. Accordingly the Directors of the Company have prepared these accounts on a going concern basis. However, whether or not the investors will actually provide such funding represents a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the going concern basis were not appropriate.

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

24. Reconciliation of net assets and profit under UK GAAP to IFRS

This is the first year that the Group has presented its consolidated financial statements under IFRS. The accounting policies set out above have been applied in preparing the financial statements for the year ended 30 September 2008. The comparative information presented in these financial statements for the year ended 30 September 2007 and in the preparation of the opening IFRS balance sheet at 1 October 2006.

In preparing its opening IFRS balance sheet, the Group made no adjustments in comparison to the financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows since 1st October 2006 is set out in the following tables and notes.

	UK GAAP £	Effect of change £	Adjusted IFRS £
Balance Sheet 1 October 2006			
ASSETS			
Non-current assets			
Goodwill	327,639	–	327,639
Property, plant and equipment	78,642	–	78,642
	<u>406,281</u>	<u>–</u>	<u>406,281</u>
Total non-current assets			
Current assets			
Trade and other receivables	36,978	–	36,978
Cash and cash equivalents	752,473	–	752,473
	<u>789,451</u>	<u>–</u>	<u>789,451</u>
Total current assets			
	<u>1,195,732</u>	<u>–</u>	<u>1,195,732</u>
Total assets			
	<u><u>1,195,732</u></u>	<u><u>–</u></u>	<u><u>1,195,732</u></u>
LIABILITIES			
Current liabilities			
Trade and other payables	202,505	–	202,505
Non-current liabilities			
Other liabilities	2,440	–	2,440
	<u>204,945</u>	<u>–</u>	<u>204,945</u>
Total liabilities			
	<u><u>204,945</u></u>	<u><u>–</u></u>	<u><u>204,945</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	2,798,320	–	2,798,320
Share premium account	724,277	–	724,277
Merger reserve	(738,578)	–	(738,578)
Accumulated losses	(1,793,232)	–	(1,793,232)
	<u>990,787</u>	<u>–</u>	<u>990,787</u>
Total equity			
	<u>990,787</u>	<u>–</u>	<u>990,787</u>
Total equity and liabilities			
	<u><u>1,195,732</u></u>	<u><u>–</u></u>	<u><u>1,195,732</u></u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

24. Reconciliation of net assets and profit under UK GAAP to IFRS *(continued)*

	UK GAAP	Effect of change	Adjusted IFRS
	£	£	£
Balance Sheet 30 September 2007			
ASSETS			
Non-current assets			
Goodwill	311,188	16,451	327,639
Property, plant and equipment	65,440	–	65,440
Total non-current assets	<u>376,628</u>	<u>16,451</u>	<u>393,079</u>
Current assets			
Trade and other receivables	139,911	–	139,911
Cash and cash equivalents	136,719	–	136,719
Total current assets	<u>276,630</u>	<u>–</u>	<u>276,630</u>
Total assets	<u>653,258</u>	<u>16,451</u>	<u>669,709</u>
LIABILITIES			
Current liabilities			
Trade and other payables	114,036	–	114,036
Non-current liabilities			
Other liabilities	6,768	–	6,768
Total liabilities	<u>120,804</u>	<u>–</u>	<u>120,804</u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	2,803,119	–	2,803,119
Share premium account	743,474	–	743,474
Merger reserve	(738,578)	–	(738,578)
Accumulated losses	(2,275,561)	16,451	(2,259,110)
Total equity	<u>532,454</u>	<u>16,451</u>	<u>548,905</u>
Total equity and liabilities	<u>653,258</u>	<u>16,451</u>	<u>669,709</u>

X-PHONICS PLC

Notes to the Financial Statements *(continued)*

for the year ended 30 September 2008

24. Reconciliation of net assets and profit under UK GAAP to IFRS *(continued)*

	UK GAAP	Effect of	Adjusted
	£	change	IFRS
Income Statement year ended 30 September 2007		£	£
Revenue	339,074	–	339,074
Cost of sales	(404,993)	–	(404,993)
Gross loss	(65,919)	–	(65,919)
Administrative expenses	(422,778)	16,451	(406,327)
Operating loss	(488,697)	16,451	(472,246)
Finance income	6,826	–	6,826
Finance costs	(1,713)	–	(1,713)
Loss before taxation	(483,584)	16,451	(467,133)
Income tax expense	1,257	–	1,257
Loss for the financial year	(482,327)	16,451	(465,876)

* Represents the amortisation of intangible assets included as goodwill under UK GAAP.

X-PHONICS PLC

Independent Auditor's Report to the Shareholders

For the year ended 30th September 2008

We have audited the financial statements of X-Phonics plc for the year ended 30 September 2008, which comprise the principal accounting policies, the balance sheet and notes 1 to 11. These financial statements have been prepared in accordance with the accounting policies set out therein.

We have reported separately on the Group financial statements of X-Phonics plc for the year ended 30 September 2008.

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 Auditors' 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

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 financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the parent company financial statements.

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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the Directors' Report and the Chairman's statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 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 parent company financial statements

X-PHONICS PLC

Independent Auditor's Report to the Shareholders

For the year ended 30th September 2008

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the parent company financial statements.

Going Concern

Without qualifying our opinion, we draw attention to the disclosures made in note 11 of the financial statements concerning the company's ability to continue as a going concern. These conditions, along with the matters set forth in note 11, indicate the existence of a material uncertainty which casts doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern. Overall in view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

CLB Gatwick Ltd

CLB GATWICK LLP

Chartered Accountants
Registered Auditors

Imperial Buildings
Victoria Road
Horley
Surrey
RH6 7PZ

Date: *7th April 2009*

X-PHONICS PLC

Company Balance Sheet

As at 30th September 2008

	Note	£	2008 £	£	2007 £
Fixed assets					
Tangible fixed assets	4		5,441		7,120
Fixed asset investments	5		-		1,829,380
			<u>5,441</u>		<u>1,836,500</u>
Current assets					
Debtors	6	1,476,046		1,335,337	
Cash at bank			<u>11</u>	<u>124,980</u>	
		1,476,057		1,460,317	
Creditors: amounts falling due within one year	7	<u>(220,607)</u>		<u>(35,169)</u>	
Net current assets			<u>1,255,450</u>		<u>1,425,148</u>
Total assets less current liabilities			<u>1,260,891</u>		<u>3,261,648</u>
Capital and reserves					
Called up share capital	8		2,803,119		2,803,119
Share premium account	9		743,474		743,474
Profit and loss account	9		<u>(2,285,702)</u>		<u>(284,945)</u>
Shareholders' funds	10		<u>1,260,891</u>		<u>3,261,648</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

.....
M D Hosie
Director

.....
J I McLaughlin
Director

Date:

X-PHONICS PLC

Notes to the Financial Statements

For the year ended 30 September 2008

1. Accounting policies

1.1 Basis of preparation of financial statements

The separate financial statements of the company are presented as required by Companies Act 1985. The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

1.2 Cash flow exemption

The company has made use of the exemption as permitted by FRS1 (revised) and has not presented a cash flow statement. The cash flow statement has been prepared in the group accounts.

1.3 Related party transactions

In accordance with Financial Reporting Standard Number 8, Related Party Disclosures, the company is exempt from disclosing transactions with entities that are part of the group headed by X-Phonics plc as it is a parent company publishing consolidated financial statements.

1.4 Investments

Investments in subsidiaries are valued at cost less provision for impairment.

2. Profit for the year

The company has made full use of the exemptions as permitted by Section 230(1) of the Companies Act 1985 and accordingly the Profit and Loss account of the company is not presented as part of the accounts. The parent company loss for the year ended 30th September 2008 was £2,000,757 (2007: £159,954).

3. Directors and employees

Details of directors' interests in the shares and options of the company are provided in the Directors' report of the consolidated financial statements.

Other than the directors there are no employees employed by the company.

Details of directors' remuneration are disclosed in note 7 to the consolidated financial statements.

The average number of staff employed by the company including directors was 4 (2007: 4). These represent management staff.

X-PHONICS PLC

Notes to the Financial Statements

For the year ended 30 September 2008

4. Tangible fixed assets

	Short leasehold property £
Cost	
At 1 October 2007 and 30 September 2008	<u>8,394</u>
Depreciation	
At 1 October 2007	1,274
Charge for the year	1,679
	<u>2,953</u>
At 30 September 2008	<u>2,953</u>
Net book value	
At 30 September 2008	<u>5,441</u>
At 30 September 2007	<u>7,120</u>

5. Fixed asset investments

	Shares in group undertakings £
Cost or valuation	
At 1 October 2007	1,829,380
Amounts written off	<u>(1,829,380)</u>
At 30 September 2008	<u>-</u>

Details of the Company's subsidiaries are shown in the group accounts.

At the year end an exercise was carried out to review the value of shares in group undertakings. Due to the deterioration in trading performance undertaken by the subsidiaries against original plans and competitive pressures increasing in the music publishing industry it has been felt prudent and necessary to write down these investments to £nil.

X-PHONICS PLC

Notes to the Financial Statements

For the year ended 30 September 2008

6. Debtors

	2008 £	2007 £
Due after more than one year		
Amounts owed by group undertakings	1,431,191	1,307,403
Due within one year		
Other debtors	22,648	19,134
Prepayments and accrued income	22,207	8,800
	<u>1,476,046</u>	<u>1,335,337</u>

7. Creditors: Amounts falling due within one year

	2008 £	2007 £
Other creditors	186,636	13,575
Accruals and deferred income	33,971	21,594
	<u>220,607</u>	<u>35,169</u>

8. Share capital

	2008 £	2007 £
Authorised		
785,908,000 ordinary shares of 1p each	7,859,080	7,859,080
32,938,000 deferred shares of 6.5p each	2,140,970	2,140,970
	<u>10,000,050</u>	<u>10,000,050</u>
Allotted, called up and fully paid		
66,214,920 ordinary shares of 1p each	662,149	662,149
32,938,000 deferred shares of 6.5p each	2,140,970	2,140,970
	<u>2,803,119</u>	<u>2,803,119</u>

X-PHONICS PLC

Notes to the Financial Statements

For the year ended 30 September 2008

9. Reserves

	Share premium account £	Profit and loss account £
At 1 October 2007	743,474	(284,945)
Loss for the year		(2,000,757)
	<hr/>	<hr/>
At 30 September 2008	<u>743,474</u>	<u>(2,285,702)</u>

10. Reconciliation of movement in Shareholders' funds

	2008 £	2007 £
Opening shareholders' funds	3,261,648	3,397,606
Loss for the year	(2,000,757)	(159,954)
Shares issued during the year	-	4,799
Share premium on shares issued (net of expenses)	-	19,197
	<hr/>	<hr/>
Closing shareholders' funds	<u>1,260,891</u>	<u>3,261,648</u>

11. Going concern

The company has generated modest revenues through its subsidiaries and has funded operations primarily from the proceeds of public and private placements of its shares. It does not presently have sufficient funds to meet all of its forecast obligations for the next 12 months and is negotiating with a selection of investors for further funding. Based on discussions already held, the directors of the company have reasonable expectation that the company will receive adequate funding, based on a possible restructuring of the business model along with indications provided by future investors regarding future financing. Accordingly the directors of the company have prepared these accounts on a going concern basis. However, whether or not the investors will actually provide such funding represents a material uncertainty which casts significant doubt on the company's ability to continue as a going concern and it may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that would result if the going concern basis were not appropriate.