Company Registration Number 05454010

# X-Phonics plc

# Financial Statements

## 30th September 2009

# X-PHONICS PLC

## Financial Statements

**For the year ended 30th September 2009**

### Company Information

| | |
|---|---|
| Directors | M D Hosie<br>R F Davies<br>J I McLaughlin |
| Secretary | M D Hosie |
| Company Number | 05454010 |
| Registered Office | Grand Prix House<br>126-129 Power Road<br>Chiswick<br>London<br>W4 5PY |
| Auditors | CLB Gatwick LLP<br>Chartered Accountants<br>& Statutory Auditor<br>Imperial Buildings<br>Victoria Road<br>Horley<br>Surrey<br>RH6 7PZ |
| Bankers | Barclays Bank plc<br>Sussex and Gatwick Group<br>90-92 High Street<br>Crawley<br>West Sussex<br>RH10 1BP |
| Nominated Advisers and Broker | W H Ireland Ltd<br>4 Colston Avenue<br>Bristol<br>BS1 4ST |

# X-PHONICS PLC

## Financial Statements

## For the year ended 30th September 2009

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# X-PHONICS PLC

## Chairman's Statement

## For the year ended 30th September 2009

I present the financial statements for the year to 30th September 2009

As reported in the interim statement for the 6 months to 31st March 2009 there has continued to be little improvement in the music industry and in particular, the fortunes of smaller businesses such as ours

Against this background we have continued to tightly control and limit expenditure whilst benefiting from the modest revenues that have resulted from those artists in which we have retained an interest

Over the last six months we have continued 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

Having looked at a number of possible opportunities I am pleased to be able to tell you that the Company is currently in advanced discussions with a third party which may or may not lead to a substantial investment being made in the Company

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

**Robin Davies**
Chairman
30 June 2010

## X-PHONICS PLC

### The Directors' Report

### For the year ended 30th September 2009

The directors present their annual report and the audited financial statements of the group for the year ended 30 September 2009

**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 30th September 2009 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.

**Key performance indicators**
The Group made a loss of £98,349 for the year ended 30 September 2009 (2008: loss of £804,623)

**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 2009 | At 30 September 2008 |
|---|---|---|---|
| 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

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.

**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 87 days (2008. 75 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

## The Directors' Report

## For the year ended 30th September 2009

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 2006 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**
The Board intends to review the appointment of the auditor for the ensuing year and following that review the Board will make a proposal at the Annual General Meeting in accordance with section 489 of the Companies Act 2006

Signed by order of the directors

Michael Hosie

M Hosie
Company Secretary

Approved by the directors on.. 28 June 2010

## X-PHONICS PLC

### Independent Auditor's Report to the Shareholders

### For the year ended 30th September 2009

We have audited the group financial statements ("the financial statements") of X-Phonics plc for the year ended 30th September 2009 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 22. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

We have reported separately on the parent company financial statements of X-Phonics plc for the year ended 30th September 2009.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

**Respective responsibilities of directors and auditor**
As explained more fully in the directors' repsonsibilities statement set out in the Directors' Report, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

**Scope of the audit**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

**Opinion on the financial statements**

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2009 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

**Opinion on other matter prescribed by the Companies Act 2006**
In our opinion the information given in the Directors' report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

# X-PHONICS PLC

## Independent Auditor's Report to the Shareholders

## For the year ended 30th September 2009

### Emphasis of matter - Going Concern

Without qualifying our opinion, we draw attention to the disclosures made in note 22 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 22, 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

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

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

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

M R Neve

M R Neve (Senior Statutory Auditor)
For and of behalf of
CLB GATWICK LLP
Chartered Accountants
& Statutory Auditor

Imperial Buildings
Victoria Road
Horley
Surrey
RH6 7PZ

Date 30th June 2010

# X-PHONICS PLC

## Consolidated Group Income Statement

## For the year ended 30th September 2009

| | Note | 30 Sep 09 | 30 Sep 08 |
|---|---|---|---|
| | | £ | £ |
| **Revenue** | 2 | **94,066** | 84,567 |
| Cost of sales | | **(37,194)** | (149,716) |
| **Gross Profit/(loss)** | | **56,872** | (65,149) |
| Administrative expenses. | | | |
| Exceptional | 5 | - | (327,639) |
| Normal | | (154,722) | (411,606) |
| **Operating loss** | 3 | **(97,850)** | (804,394) |
| Finance income | 8 | **47** | 653 |
| Finance costs | 8 | **(546)** | (882) |
| **Loss on ordinary activities before taxation** | | **(98,349)** | (804,623) |
| Income tax expense | 9 | - | - |
| **Loss for the financial year** | | **(98,349)** | (804,623) |
| **Attributable to equity holders of the company** | | **(98,349)** | (804,623) |
| **Earnings per share for loss attributable to the equity holders of the company (pence)** | | | |
| Basic | 10 | **(0.15)** | (1 22) |
| Diluted | 10 | **(0.15)** | (1 22) |

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

Notes 1 to 22 form part of these financial statements

# X-PHONICS PLC – Registered Number - 05454010

## Group Balance Sheet

## 30th September 2009

| | Note | 30 Sep 09 | 30 Sep 08 |
|---|---|---|---|
| **Assets** | | £ | £ |
| **Non-current assets** | | | |
| Intangible Assets - Goodwill | 11 | - | - |
| Property, plant and equipment | 12 | 17,460 | 36,782 |
| | | 17,460 | 36,782 |
| **Current assets** | | | |
| Trade and other receivables | 13 | 49,328 | 84,259 |
| Cash and cash equivalents | | 7,457 | 6,359 |
| | | 56,785 | 90,618 |
| **Total assets** | | 74,245 | 127,400 |
| **Liabilities and Equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | 427,164 | 383,118 |
| Financial liabilities – borrowings – bank overdrafts | | 1,148 | - |
| **Total liabilities** | | 428,312 | 383,118 |
| **Equity** | | | |
| **Capital and reserves attributable to equity holders of the company** | | | |
| Called-up equity share capital | 18 | 2,803,119 | 2,803,119 |
| Share premium account | | 743,474 | 743,474 |
| Merger reserve | | (738,578) | (738,578) |
| Accumulated losses | | (3,162,082) | (3,063,733) |
| **Total Equity** | | (354,067) | (255,718) |
| **Total Liabilities and Equity** | | 74,245 | 127,400 |

These financial statements were approved by the directors on 28 June 2010 and are signed on their behalf by

Michael Hosie

M Hosie

Notes 1 to 22 form part of these financial statements

## X-PHONICS PLC

### Consolidated Group Cash Flow Statement

### For the year ended 30th September 2009

| | Note | 30 Sep 09<br>£ | 30 Sep 08<br>£ |
|---|---|---|---|
| **Net cash used in operating activities** | **20** | **2,233** | (124,690) |
| **Net cash from investing activities** | | | |
| Purchases of property, plant and equipment | | - | (1,217) |
| Interest received | | **47** | 653 |
| Interest paid | | **(546)** | (882) |
| **Net cash flow before financing activities** | | **1,734** | (126,136) |
| **Net cash from financing activities** | | | |
| Borrowings drawn/(eliminated) | | **(1,784)** | (4,224) |
| **Net (decrease)/increase in cash, cash equivalents and overdrafts** | | **(50)** | (130,360) |
| **Cash, cash equivalents and overdrafts at beginning of year** | | **6,359** | 136,719 |
| **Cash, cash equivalents and overdrafts at end of year** | | **6,309** | 6,359 |

**Notes 1 to 22 form part of these financial statements.**

# X-PHONICS PLC

## Consolidated Group Statement of Changes in Equity

## For the year ended 30th September 2009

| | Share Capital | Share Premium | Merger Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| Balance at 1/10/07 | 2,803,119 | 743,474 | (738,578) | (2,259,110) | (548,905) |
| Loss for the period | - | - | - | (804,623) | (804,623) |
| Balance at 1/10/08 | 2,803,119 | 743,474 | (738,578) | (3,063,733) | (255,718) |
| Loss for the period | - | - | - | (98,349) | (98,349) |
| At 30/09/09 | 2,803,119 | 743,474 | (738,578) | (3,162,082) | (354,067) |

Notes 1 to 22 form part of these financial statements

# X-PHONICS PLC

## Notes to the Financial Statements

## For the year ended 30th September 2009

**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 2006

**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 compromises 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 un-recouped 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 30th September 2009 (2008. £nil), 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

**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

**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 receivables***

Trade receivables and other receivables 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

### 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 Sep 09 | 30 Sep 08 |
|---|---|---|
| | £ | £ |
| United Kingdom | **94,066** | 56,104 |
| Overseas | **-** | 28,463 |
| | **94,066** | 84,567 |

### 3. Loss on ordinary activities before taxation

Loss before taxation is stated after charging

| | 30 Sep 09 | 30 Sep 08 |
|---|---|---|
| | £ | £ |
| Depreciation of owned property, plant and equipment | **16,399** | 26,952 |
| Depreciation of assets held under hire purchase agreements | **2,923** | 2,923 |
| Difference on foreign exchange | **-** | 8 |
| Operating lease costs | | |
| Land and buildings | **39,246** | 36,746 |

### 4. Auditors' remuneration

| | 30 Sep 09 | 30 Sep 08 |
|---|---|---|
| | £ | £ |
| 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 | **6,000** | 7,000 |
| Other services relating to taxation | **1,000** | 1,000 |
| All other services | **1,500** | 2,500 |

### 5. Exceptional administrative expenses

| | 30 Sep 09 | 30 Sep 08 |
|---|---|---|
| | £ | £ |
| Impairment of goodwill | **-** | 327,639 |

At the previous 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 was felt prudent and necessary to impair the investment to £nil

# X-PHONICS PLC

## Notes to the Financial Statements

## For the year ended 30th September 2009

### 6. Particulars of employees

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

| | 30 Sep 09 No. | 30 Sep 08 No |
|---|---|---|
| Number of management staff | **3** | 4 |

The aggregate remuneration costs of the above were

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| Wages and salaries | **-** | 176,000 |
| Social security costs | **1,891** | 11,022 |
| | **1,891** | 187,022 |

### 7. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| Emoluments receivable | **7,333** | 176,000 |

### 8. Finance income and costs

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| **Finance income** | | |
| Interest income on short term bank deposits | **47** | 653 |
| **Finance costs** | | |
| Interest payable on bank overdrafts | **109** | 10 |
| Finance charges | **437** | 872 |
| | **546** | 882 |

## 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 unutilized tax losses carried forward are £2,786,086 (2008 £2,696,099) 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 £585,078 (2008: 566,181)

### 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 21% (2008 – 20 5%)

| | **30 Sep 09** | 30 Sep 08 |
|---|---|---|
| | **£** | £ |
| Loss on ordinary activities before taxation | **(98,349)** | (804,623) |
| Profit/(loss) on ordinary activities by rate of tax | **(20,653)** | (164,948) |
| Expenses not deductible for tax purposes | **89** | 73 |
| Capital allowances for period in deficit/(excess) of depreciation | **1,673** | 2,840 |
| Impairment charge on goodwill | **-** | 67,166 |
| Credit for tax loss not utilised in the accounts | **18,891** | 94,869 |
| Total current tax | **-** | - |

# X-PHONICS PLC

## Notes to the Financial Statements

## For the year ended 30th September 2009

### 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 Sep 09** | 30 Sep 08 |
|---|---|---|
| | **£** | £ |
| Earnings for the purposes of basic earnings per share | **(98,349)** | (804,623) |
| Earnings for the purposes of diluted earnings per share | **(98,349)** | (804,623) |

| **Number of shares** | **30 Sep 09** | 30 Sep 08 |
|---|---|---|
| | **No.** | No |
| Basic weighted average number of shares | **66,214,920** | 66,214,920 |
| 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** | 66,214,920 |

### 11. Goodwill

| | **30 Sep 09** | 30 Sep 08 |
|---|---|---|
| | **£** | £ |
| **Cost** | | |
| At 1st October | **329,010** | 329,010 |
| **Amortisation** | | |
| At 1st October | **329,010** | 1,371 |
| Impairment charge | - | 327,639 |
| At 30th September | **329,010** | 329,010 |
| **Net book amount** | | |
| **At 30th September** | - | - |

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

# X-PHONICS PLC

## Notes to the Financial Statements

## For the year ended 30th September 2009

### 12. Property, plant and equipment

| 30th September 2009 | Leasehold Property | Furniture, fittings and equipment | Motor Vehicles | Equipment | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **Cost** | | | | | |
| At 1 October 08 | 22,056 | 4,929 | 30,688 | 142,237 | 199,910 |
| Additions | - | - | - | - | - |
| Disposals | - | - | (18,995) | - | (18,995) |
| **At 30 September 09** | 22,056 | 4,929 | 11,693 | 142,237 | 180,915 |
| **Depreciation** | | | | | |
| At 1 October 08 | 16,615 | 3,882 | 24,598 | 118,033 | 163,128 |
| Charge for the period | 1,679 | 848 | 2,923 | 13,872 | 19,322 |
| On disposals | – | | (18,995) | – | (18,995) |
| **At 30 September 09** | 18,294 | 4,730 | 8,526 | 131,905 | 163,455 |
| **Net book amount** | | | | | |
| **At 30 September 09** | 3,762 | 199 | 3,167 | 10,332 | 17,460 |

| 30th September 2008 | Leasehold Property | Furniture, fittings and equipment | Motor Vehicles | Equipment | Total |
|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ |
| **Cost** | | | | | |
| At 1 October 07 | 22,056 | 4,929 | 30,688 | 141,020 | 198,693 |
| Additions | – | – | – | 1,217 | 1,217 |
| **At 30 September 08** | 22,056 | 4,929 | 30,688 | 142,237 | 199,910 |
| **Depreciation** | | | | | |
| At 1 October 07 | 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 08** | 16,615 | 3,882 | 24,598 | 118,033 | 163,128 |
| **Net book amount** | | | | | |
| **At 30 September 08** | 5,441 | 1,047 | 6,090 | 24,204 | 36,782 |

**Hire purchase agreements**

Included within the net book amount of £17,460 is £3,167 (2008 - £6,090) relating to assets held under hire purchase agreements

## 13. Trade and other receivables

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| Trade receivables | **13,222** | 21,575 |
| VAT recoverable | **6,168** | 9,632 |
| Other receivables | **17,575** | 28,546 |
| Prepayments and accrued income | **12,363** | 24,506 |
| | **49,328** | 84,259 |

## 14. Trade and other payables

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| Trade payables | **50,130** | 53,549 |
| Hire purchase agreements | **4,983** | 6,767 |
| Social security and other taxes | **280** | - |
| Net wages | - | 321 |
| Other payables | **263,316** | 189,655 |
| Accruals and deferred income | **108,455** | 132,826 |
| | **427,164** | 383,118 |

## 15. Obligations under finance leases

Future commitments under hire purchase agreements are as follows:

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| No later than 1 year | **4,983** | 6,767 |

## 16. Commitments under operating leases

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

**Land and buildings**

| | 30 Sep 09 £ | 30 Sep 08 £ |
|---|---|---|
| No later than 1 year | **35,000** | 35,000 |
| Later than 1 year but no later than 5 years | **81,667** | 116,667 |
| More than 5 years | - | - |

## 17. 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 £19,408 (2008 £62,900) by Kerr Douglas Limited, a company under the control of M D Hosie This cost is made up of £7,333 (2008 £44,000) in respect of director's services, and £12,075 (2008 £18,900) in respect of bookkeeping services provided by M D Hosie's wife At the period end a VAT inclusive amount of £75,380 (2008 £55,286) was payable to Kerr Douglas Limited and is included within trade and other payables

During the period group companies were charged £nil (2008 £24,000) by R F Davies for director's services At the period end a VAT inclusive amount of £37,103 (2008 £37,103) was payable to R F Davies and is included within other payables R F Davies also provided loans to the group during the year amounting to £41,703 (2008 £25,000) At the period end an amount of £66,703 (2008 £25,000) is repayable to R F Davies and is included within trade and other payables

During the period group companies were charged £nil (2008 £15,000) by J I McLaughlin's wife in respect of PA services At the period end an amount of £7,500 (2008 £7,500) was payable in respect of such services and is included within trade and other payables

## 18. Share capital

**Authorised share capital:**

| | **30 Sep 09** | 30 Sep 08 |
|---|---|---|
| | **£** | £ |
| 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 |
| | **10,000,050** | 10,000,050 |

**Allotted, called up and fully paid:**

| | **30 Sep 09** | **30 Sep 09** | 30 Sep 08 | 30 Sep 08 |
|---|---|---|---|---|
| | **No** | **£** | No | £ |
| 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 |
| | **99,152,920** | **2,803,119** | 99,152,920 | 2,803,119 |

## 19. 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

| M Hosie | 30 Sep 09<br>No. | 30 Sep 08<br>£ |
|---|---|---|
| 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 | 3,310,746 | 3,310,746 |

| R Davies | 30 Sep 09<br>No. | 30 Sep 08<br>£ |
|---|---|---|
| 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 | 1,986,447 | 1,986,447 |

No options were exercised in the period however N Reed forfeited his share options 30th 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 13th October 2005 are exercisable at 20p per share whereas the options granted on 3rd January 2007 are exercisable at 10p per share

## 20. Cash generated/used by operations

| | 30 Sep 09<br>£ | 30 Sep 08<br>£ |
|---|---|---|
| Loss before taxation | (98,349) | (804,623) |
| Investment income | (47) | (653) |
| Interest payable | 109 | 10 |
| Interest element of hire purchase | 437 | 872 |
| Impairment of goodwill | - | 327,639 |
| Taxation in income statement | 1,257 | - |
| Depreciation | 19,322 | 29,875 |
| Decrease/(increase) in receivables | 33,675 | 55,651 |
| Increase in payables | 45,829 | 266,539 |
| Net cash used by operations | 2,233 | (124,690) |

### 21. Subsidiary undertakings

Details of the Company's subsidiaries at 30th September 2009 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% | Recently dissolved |
| X-Phonics Productions Limited | England and Wales | Ordinary shares | 100% | Dormant |

### 22. 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

## Independent Auditor's Report to the Shareholders

**For the year ended 30th September 2009**

We have audited the financial statements of X-Phonics plc for the year ended 30 September 2009, which comprise the principal accounting policies, the balance sheet and notes 1 to 11 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

We have reported separately on the Group financial statements of X-Phonics plc for the year ended 30 September 2009

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

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

### Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

### Opinion on Financial Statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

# X-PHONICS PLC

## Independent Auditor's Report to the Shareholders

**For the year ended 30th September 2009**

**Emphasis of matter**

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

**Opinion on other matters prescribed by Companies Act 2006**

In our opinion the information given in the Directors' report and the Chairman's statement for the financial year for which the financial statements are prepared is consistent with the financial statements

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

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

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

M R Neve (Senior statutory auditor)

For and on behalf of
**CLB GATWICK LLP**

Chartered Accountants
Statutory Auditor

Imperial Buildings
Victoria Road
Horley
Surrey
RH6 7PZ

Date 30th June 2010

# X-PHONICS PLC

## Company Balance Sheet

**As at 30th September 2009**

| | Note | 2009 £ | 2009 £ | 2008 £ | 2008 £ |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Tangible fixed assets | 5 | | 3,762 | | 5,441 |
| **Current assets** | | | | | |
| Debtors | 6 | 33,281 | | 1,476,046 | |
| Cash at bank | | 1 | | 11 | |
| | | 33,282 | | 1,476,057 | |
| **Creditors:** amounts falling due within one year | 7 | (277,469) | | (220,605) | |
| **Net current assets/(liabilities)** | | | (244,187) | | 1,255,452 |
| **Total assets less current assets/(liabilities)** | | | (240,425) | | 1,260,893 |
| **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 | | (3,787,018) | | (2,285,700) |
| **Shareholders' (deficit)/funds** | 10 | | (240,425) | | 1,260,893 |

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

M D Hosie
Director

Date 28 June 2010

# Notes to the Financial Statements

**For the year ended 30 September 2009**

## 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 2006 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 408 of the Companies Act 2006 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 2009 was £1,501,318 (2008· £2,000,757)

## 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 3 (2008 4) These represent management staff

## 4 Exceptional items

| | 2009 £ | *2008 £* |
|---|---|---|
| Write down of amounts due from group companies | 1,386,002 | - |

As indicated in Note 22 of the consolidated financial statements, the group does not presently have sufficient funds to meet its future obligations As a result there is little evidence to suggest that amounts payable to X-Phonics plc by subsidiary companies will be settled in the future Owing to this all amounts owed from group companies (as per above) have been written down to £nil, subject to any future activity

# X-PHONICS PLC

## Notes to the Financial Statements

**For the year ended 30 September 2009**

### 5 Tangible fixed assets

| | Short leasehold property £ |
|---|---|
| **Cost** | |
| At 1 October 2008 and 30 September 2009 | 8,394 |
| **Depreciation** | |
| At 1 October 2008 | 2,953 |
| Charge for the year | 1,679 |
| At 30 September 2009 | 4,632 |
| **Net book value** | |
| At 30 September 2009 | 3,762 |
| *At 30 September 2008* | *5,441* |

### 6 Debtors

| | 2008 £ | *2008 £* |
|---|---|---|
| **Due after more than one year** | | |
| Amounts owed by group undertakings | - | *1,431,191* |
| **Due within one year** | | |
| Other debtors | 23,668 | *22,648* |
| Prepayments and accrued income | 9,613 | *22,207* |
| | 33,281 | *1,476,046* |

### 7. Creditors: Amounts falling due within one year

| | 2009 £ | *2008 £* |
|---|---|---|
| Bank loans and overdrafts | 1,148 | - |
| Other creditors | 243,121 | *186,634* |
| Accruals and deferred income | 33,200 | *33,971* |
| | 277,469 | *220,605* |

### 8. Share capital

| | 2009 £ | *2008 £* |
|---|---|---|
| **Allotted, called up and fully paid** | | |
| 66,214,920 (2008 – 66,214,900) ordinary shares of 1p each | **662,149** | *662,149* |
| 32,938,000 deferred shares of 6 5p each | **2,140,970** | *2,140,970* |
| | **2,803,119** | *2,803,119* |

### 9. Reserves

| | Share premium account £ | Profit and loss account £ |
|---|---|---|
| At 1 October 2008 | 743,474 | (2,285,700) |
| Loss for the year | | (1,501,318) |
| At 30 September 2009 | 743,474 | (3,787,018) |

### 10. Reconciliation of movement in Shareholders' funds

| | 2009 £ | *2008 £* |
|---|---|---|
| Opening shareholders' funds | **1,260,893** | *3,261,650* |
| Loss for the year | **(1,501,318)** | *(2,000,757)* |
| Closing shareholders' (deficit)/funds | **(240,425)** | *1,260,893* |

### 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.