

Shazam Entertainment Limited

FINANCIAL STATEMENTS

for the period ended

31 August 2001

Company Registration No. 3998831



Shazam Entertainment Limited

DIRECTORS AND OFFICERS

DIRECTORS

C J P Barton
P G Inghelbrecht
D Mukherjee
A L Wang
S Murdoch
K R A Ibbett
A Chowdhury

SECRETARY

P G Inghelbrecht

COMPANY NUMBER

3998831 (England and Wales)

REGISTERED OFFICE

2 Bloomsbury Street
London, WC1B 3ST

AUDITORS

Baker Tilly
2 Bloomsbury Street
London
WC1B 3ST

BANKERS

HSBC Bank plc
43 Queensway
Bayswater
London W2 4QL

Shazam Entertainment Limited

DIRECTORS' REPORT

The directors submit their report and financial statements of Shazam Entertainment Limited for the period ended 31 August 2001.

PRINCIPAL ACTIVITIES

The principal activities of the company during the period were research and development of methodology and systems for real time music identification over mobile phones, music digitisation and storage, SMS and IVR (Interactive Voice Response) music entertainment systems and services.

The company was incorporated on 22 May 2000 under the name Law 2163 Limited and changed its name to Shazam Entertainment Limited on 14 June 2000.

REVIEW OF THE BUSINESS

During the period, despite the difficult investment climate, the company successfully raised £3.4 million from a combination of Venture Capital funds, Business Angel investors and private investors. A further £2.5 million has been committed by Venture Capitalists subject to achievement of development benchmarks during 2002. The results for the period and financial position at the period end were considered satisfactory by the directors and reflect the spend on research and development activities which are expected to continue.

RESULTS AND DIVIDENDS

The trading loss for the period was £998,229.

DIRECTORS

The following directors have held office since 22 May 2000:-

Huntsmoor Limited	(Appointed 22 May 2000 and resigned 27 June 2000)
Huntsmoor Nominees Limited	(Appointed 22 May 2000 and resigned 27 June 2000)
C J P Barton	(Appointed 3 July 2000)
P G Inghelbrecht	(Appointed 14 August 2000)
D Mukherjee	(Appointed 14 August 2000)
A L Wang	(Appointed 27 July 2000)
S Murdoch	(Appointed 1 August 2001)
K R A Ibbett	(Appointed 23 July 2001)
A Chowdhury	(Appointed 23 July 2001)

Shazam Entertainment Limited

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS IN SHARES

Directors' interests in the shares of the company, including family interests, were as follows:

	<i>Ordinary shares of £0.000004 each</i>	
	31.08.01	22.05.00
C J P Barton	6,288,958	-
A L Wang	6,288,958	-
P G Inghelbrecht	6,288,958	-
D Mukherjee	6,288,958	-
	<i>Preferred ordinary shares of 20p each</i>	
	31.08.01	22.05.00
S Murdoch	491,248	-

The directors' interests indicated above in respect of PG Ingelbrecht and D Mukherjee represent beneficial interests held by Trusts in which they have a beneficial interest.

RESEARCH AND DEVELOPMENT

During the period the company has carried out research into developing a new form of technology enabling fast real-time music identification based on a patent pending technology in audio pattern recognition. At the same time, new methodology has been developed to enable bulk storage and rapid search of a very large database of digitised music, with searching instigated by mobile phone and results distributed by SMS text message and made available through an IVR. All related costs relating to these activities have been written off through the profit and loss account in the period in which they were incurred.

AUDITORS

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

On behalf of the board



P G Inghelbrecht
Director

31 January 2002

Shazam Entertainment Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

AUDITORS' REPORT TO THE SHAREHOLDERS OF SHAZAM ENTERTAINMENT LIMITED

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 August 2001 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

BAKER TILLY



Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London
WC1B 3ST

31 January 2002

Shazam Entertainment Limited

PROFIT AND LOSS ACCOUNT

for the period ended 31 August 2001

	<i>Notes</i>	Period ended 31 August 2001 £
Other operating expenses	1	(1,009,684)
OPERATING LOSS		(1,009,684)
Investment income	2	11,455
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(998,229)
Taxation	5	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	12	(998,229)

The operating loss for the period arises from the company's continuing operations.

No separate Statement of Total Recognised Gains and Losses has been presented as all such gains and losses have been dealt with in the Profit and Loss Account.

Shazam Entertainment Limited

BALANCE SHEET

31 August 2001

	Notes	2001 £
FIXED ASSETS		
Intangible assets	6	34,033
Tangible assets	7	48,273
Investments	8	100
		<u>82,406</u>
CURRENT ASSETS		
Debtors	9	74,698
Cash at bank and in hand		2,586,589
		<u>2,661,287</u>
CREDITORS: Amounts falling due within one year	10	<u>(321,682)</u>
NET CURRENT ASSETS		<u>2,339,605</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u><u>2,422,011</u></u>
CAPITAL AND RESERVES		
Called up share capital	11	2,393,540
Share premium account	12	935,844
Other reserves	12	90,856
Profit and loss account	12	<u>(998,229)</u>
SHAREHOLDERS' FUNDS	13	<u><u>2,422,011</u></u>

Approved by the board on 31 January 2002

P G Inghelbrecht



Director

C J P Barton



Director

Shazam Entertainment Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and on a going concern basis. As set out in note 11, further equity funding of £2.6 million has already been committed and cash flow forecasts have been produced indicating that this will meet the company's development capital and working capital requirements. Accordingly, the directors are happy to adopt the going concern basis in the preparation of these accounts.

PATENTS

Patents are included at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over their estimated useful life of 4 years.

RESEARCH AND DEVELOPMENT

All research and development costs are written off as incurred.

TANGIBLE FIXED ASSETS

Fixed assets are stated at historical cost less depreciation.

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value evenly over its expected useful life, as follows:-

Fixtures, fittings & equipment	- Straight line over 3 years
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INVESTMENTS

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

DEFERRED TAXATION

Provision is made for taxation deferred or accelerated by the effect of timing differences, to the extent that it is probable that a liability will crystallise, at the rate expected to be ruling at that date.

FOREIGN CURRENCY TRANSLATION

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

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 August 2001

1.	OTHER OPERATING EXPENSES	2001 £
	Administrative expenses	<u>1,009,684</u>
2.	INVESTMENT INCOME	2001 £
	Bank interest	<u>11,455</u>
3.	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2001 £
	Loss on ordinary activities before taxation is stated after charging/(crediting):	
	Amortisation of intangible assets	11,345
	Depreciation of tangible assets:	
	Charge for the period:	
	owned assets	24,137
	Research and development:	
	Current year's expenditure	178,432
	Auditors' remuneration	8,000
	Remuneration of auditors for non-audit work	<u>4,425</u>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

4. EMPLOYEES

The average monthly number of persons (including directors) employed by the company during the period was:	2001 No.
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Management and administration	5
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£

Staff costs for the above persons:

Wages and salaries	461,826
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Social security costs	37,743
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499,569

DIRECTORS' REMUNERATION

2001

£

Emoluments for qualifying services	377,839
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Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	98,045
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5. TAXATION

There is no liability to corporation tax based on the loss incurred during the period.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

6. INTANGIBLE FIXED ASSETS

	<i>Patents</i> £
Cost	
22 May 2000	-
Additions	45,378
	<hr/>
31 August 2001	45,378
	<hr/>
Provision for diminution in value	
22 May 2000	-
Charge in the period	11,345
	<hr/>
31 August 2001	11,345
	<hr/>
Net book value	
31 August 2001	34,033
	<hr/> <hr/>

7. TANGIBLE FIXED ASSETS

	<i>Fixtures, fittings & equipment</i> £
Cost	
22 May 2000	-
Additions	72,410
	<hr/>
31 August 2001	72,410
	<hr/>
Depreciation	
22 May 2000	-
Charge in the period	24,137
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31 August 2001	24,137
	<hr/>
Net book value	
31 August 2001	48,273
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Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

8. FIXED ASSET INVESTMENTS

	<i>Shares in subsidiary undertakings £</i>
Cost	
22 May 2000	-
Additions	100
	<hr/>
31 August 2001	100
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In the opinion of the directors the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Holdings of more than 20%

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

Company	Country of registration or incorporation	Shares held	
		Class	%
Subsidiary undertakings			
Shazam Entertainment Inc	USA	Ordinary	100

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves	Profit for the year
Shazam Entertainment Inc	100	-

9. DEBTORS

	2001 £
Due within one year	
Other debtors	33,502
Prepayments and accrued income	41,196
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	74,698
	<hr/>

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

10. CREDITORS: Amounts falling due within one year	2001 £
Trade creditors	119,265
Amounts owed to group undertakings	100
Taxes and social security costs	56,262
Other creditors	6,591
Accruals and deferred income	139,464
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	321,682
	<hr/>

The company has a debenture which is secured by fixed and floating charges on all assets of the company.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

11. SHARE CAPITAL	2001 £
Authorised	
125,000,000 Ordinary shares of £0.000004 each	500
125,000,000 Ordinary "B" shares of £0.000004 each	500
25,000,000 Preferred ordinary shares of 20p each	5,000,000
	<u>5,001,000</u>
Allotted, issued and fully paid	
25,155,832 Ordinary shares of £0.000004 each	100
11,967,200 Preferred ordinary shares of 20p each	2,393,440
	<u>2,393,540</u>

RIGHTS OF SHARES

The preferred ordinary shares have greater rights than ordinary shares as follows:

Each preferred ordinary shareholder has a right to vote a general meetings as if the shares had been converted into ordinary shares.

The preferred ordinary shareholders have a right to participate in dividends declared as if the shares had been converted into ordinary shares.

The preferred ordinary shareholders have a right to convert their shares into ordinary shares on the terms, set out in a formula in the Articles which, if future subscriptions were at 30p per share, would be on a one for one basis.

On a return of capital, preferred ordinary shares have significant additional rights, set out in Article 6, including a right to receive, in preference to all other shareholders, a percentage of the original price subscribed, whereas ordinary shareholders only have a right to receive their nominal value.

ISSUE OF SHARES

The company was incorporated with 1,000 ordinary shares of £1 each of which 1 ordinary share of £1 was issued at par, for cash consideration.

On 26 July 2000 the ordinary shares were subdivided into 50,000 ordinary shares of £0.01 each and 50,000 "B" ordinary shares of £0.01 each. On the same date 9,900 ordinary shares of £0.01 were issued at par, for cash consideration.

On 1 September 2000 50,000 ordinary shares of £0.01 each were subdivided into 125,000,000 ordinary shares of £0.000004 each. On the same date 50,000 "B" ordinary shares of £0.01 each were subdivided into 125,000,000 "B" ordinary shares of £0.000004 each.

On 1 September 2000 10,000 ordinary shares of £0.01 each were subdivided into 25,000,000 ordinary shares of £0.000004 each.

On 23 July 2001 the authorised share capital was increased from £1,000 to £5,001,000 by the creation of 25,000,000 preferred ordinary shares of £0.20 each.

On 23 July 2001 155,832 ordinary shares of £0.000004 each were allotted, for cash consideration, at a price of £0.30 each.

On 23 July 2001 9,114,461 preferred ordinary shares of £0.20 each were allotted, for cash consideration, at a price of £0.30 each.

On 23 July 2001 2,852,739 preferred ordinary shares of £0.20 each were allotted, for cash consideration, at a price of £0.24 each.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

11 SHARE CAPITAL

(continued)

Current investor shareholders have entered into a binding agreement with the company whereby they are committed to acquire further shares on the meeting of certain defined conditions by the company. These rights are to be exercised on 5,179,389 preferred ordinary shares for cash consideration of £1,553,817 in January 2002, and on 3,452,926 preferred ordinary shares for cash consideration of £1,035,878 in May 2002.

SHARE OPTIONS

On 31 May 2001 an Enterprise Management Incentive Scheme was established. Under the scheme a total of 808,612 ordinary shares of £0.000004 each are exercisable at an exercise price of £0.2409 each. The first date of exercise is 1 May 2002, when up to a quarter of the shares under the option may be exercised. One forty eighth of the shares may then be exercised each month thereafter with the remainder being exercisable on the fourth anniversary of this agreement. The last date of exercise is 1 May 2011.

On 31 May 2001 an Unapproved Share Option Scheme was established. Under the scheme a total of 539,075 ordinary shares of £0.000004 each are exercisable at an exercise price of £0.2409 each. The dates and rules of the scheme are the same as those relating to the Enterprise Management Incentive Scheme disclosed above.

Share options have been granted over 262,500 ordinary "B" shares to informal advisors of the company in lieu of fees. 162,500 options vest equally over a 36 month period, the latest date of which is December 2003 and 100,000 options vest on the achievement of certain milestones by the company. None of these options had been exercised at the balance sheet date.

Shazam Entertainment Limited

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the period ended 31 August 2001

12. STATEMENT OF MOVEMENT ON RESERVES

	<i>Share premium account</i>	<i>Other reserves</i>	<i>Profit and loss account</i>
	£	£	£
Retained loss for the period	-	-	(998,229)
Premium on shares issued during the period	1,072,308	-	-
Share premium - other movements	(136,464)	-	-
Movement during the period	-	90,856	-
31 August 2001	<u>935,844</u>	<u>90,856</u>	<u>(998,229)</u>

SHARE PREMIUM

On 23 July 2001 155,832 ordinary shares of £0.000004 each were issued at a premium of £0.299996, creating a total premium of £46,750.

On 23 July 2001 9,114,461 preferred ordinary shares of £0.20 each were issued at a premium of £0.10 each, creating a total premium of £911,446.

On 23 July 2001 2,852,739 preferred ordinary shares of £0.20 were issued at a premium of £0.04 each, creating a total premium of £114,112.

OTHER RESERVES

This relates to shares that the company has contracted to issue in settlement of certain liabilities that were due for payment at the balance sheet date.

13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £
Loss for the financial period	(998,229)
Proceeds from issue of shares	3,465,848
Shares still to be issued	90,856
Cost of share issue written off to share premium account	<u>(136,464)</u>
Net addition to shareholders' funds	2,422,011
Opening shareholders' funds	<u>-</u>
Closing shareholders' funds	<u>2,422,011</u>