

Shazam Entertainment Limited

REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2007



Company Registration No 3998831

Shazam Entertainment Limited

DIRECTORS AND ADVISORS

DIRECTORS

A Chowdhury
CS Wong
N Marovac
A Fisher
P Parodi
AJ Pearson

SECRETARY

K Lovell

REGISTERED OFFICE

Charles House
4th Floor, Block F
375 Kensington High Street
London W14 8QH

INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP
Chartered Accountants
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 the financial statements of Shazam Entertainment Limited for the year ended 30 June 2007

PRINCIPAL ACTIVITIES

The principal activity of the company during the period was the provision of music recognition services via mobile phone, which were commercially active during the period both in the UK and internationally. The company also continued to develop and improve methodology and systems for real time music identification via smart client applications on mobile phones. The company is developing an integrated web presence, which will enable it to deliver its mission of being the world's leading provider of services that enable consumers to experience music through discovery, purchase and interaction with others across mobile devices and the internet.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year the company continued to expand the international distribution of its music recognition services and significant traction was generated in the second half of the year. Research and development continued into further applications. The company expects to continue to invest in the marketing of its services, support geographic expansion and undertake new product development.

RESULTS AND DIVIDENDS

The loss for the year after taxation was £2,532,276 (2006 £4,277,599 profit)

The directors are precluded from recommending a dividend (2006 £Nil)

DIRECTORS

The following directors have held office during the year

A Chowdhury
CS Wong
N Marovac
A Fisher
P Parodi
AJ Pearson (appointed 30 December 2006)

DIRECTORS' INTERESTS IN SHARE OPTIONS

The interests of directors, who were in office at 30 June 2007 in the share options of the company were as follows

	Date of grant	At 1 July 2006	Options granted during the year	At 30 June 2007	Exercise price
CS Wong	28 July 2006	-	51,456,000	51,456,000	£0.00253
A Fisher	21 September 2006	-	51,456,000	51,456,000	£0.00253
AJ Pearson	3 November 2006	-	8,500,000	8,500,000	£0.00253

Shazam Entertainment Limited

DIRECTORS' REPORT

RESEARCH AND DEVELOPMENT

During the year the company continued research and development into new architectures and methodologies of delivering the service to users through software embedded directly in mobile phones and other portable computing devices. All costs relating to these activities have been written off in the year in which they were incurred.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

AUDITORS

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

By order of the board

Secretary

Date 12.12.07



Shazam Entertainment Limited

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 requirements of 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHAZAM ENTERTAINMENT LIMITED

We have audited the financial statements on pages 6 to 16

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and 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 financial statements.

In addition, we also 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs at 30 June 2007 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

14/12/2007

Shazam Entertainment Limited
PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2007

	Notes	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
TURNOVER	1	2,406,264	2,394,325
Cost of sales		(308,969)	(356,540)
Gross profit		<u>2,097,295</u>	<u>2,037,785</u>
Other operating expenses (net)	2	(4,944,913)	(4,824,797)
OPERATING LOSS		<u>(2,847,618)</u>	<u>(2,787,012)</u>
Exceptional item	3	146,552	10,367,222
Investment income	4	207,647	44,081
Interest payable	5	(45,824)	(82,668)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	<u>(2,539,243)</u>	<u>7,541,623</u>
Taxation	8	6,967	(3,264,024)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	<u><u>(2,532,276)</u></u>	<u><u>4,277,599</u></u>

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

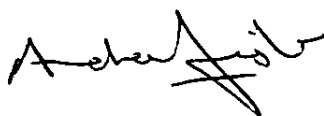
Shazam Entertainment Limited
BALANCE SHEET
30 June 2007

	<i>Notes</i>	30 June 2007 £	30 June 2006 £
FIXED ASSETS			
Tangible assets	9	302,210	284,225
Investments	10	100	100
		<u>302,310</u>	<u>284,325</u>
CURRENT ASSETS			
Debtors due within one year	11	1,197,202	799,882
Cash at bank and in hand	13	5,003,201	7,692,248
		<u>6,200,403</u>	<u>8,492,130</u>
CREDITORS Amounts falling due within one year	14	(1,388,448)	(1,132,259)
NET CURRENT ASSETS		<u>4,811,955</u>	<u>7,359,871</u>
NET ASSETS		<u>5,114,265</u>	<u>7,644,196</u>
CAPITAL AND RESERVES			
Called up share capital	15	5,269,728	5,269,725
Share premium account	16	6,409,072	6,406,730
Profit and loss account	17	(6,564,535)	(4,032,259)
SHAREHOLDERS' FUNDS	18	<u>5,114,265</u>	<u>7,644,196</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

Approved and authorised for issue by the board on ~~14~~ **DECEMBER** 2007

Director



Shazam Entertainment Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (FRSSE)

The directors have prepared and considered trading and cash flow forecasts for a period of at least 12 months from the date of signing these financial statements. On this basis, the directors consider that the company will be able to continue to trade and to meet its liabilities as they fall due.

GROUP ACCOUNTS

The company and its subsidiary undertaking comprise a small sized group. The company has therefore taken advantage of the exemptions provided by section 248 of the Companies Act 1985 not to prepare group accounts. The accounts therefore present information about the company as an individual undertaking and not about the group.

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. Current asset investments are stated at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recoverable against suitable taxable profits in the future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

LEASED ASSETS

The annual rentals on 'operating leases' are charged to the profit and loss account on a straight line basis over the lease term.

Shazam Entertainment Limited

ACCOUNTING POLICIES

FOREIGN CURRENCIES

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

TURNOVER

Turnover represents the invoiced value, net of Value Added Tax where appropriate, of services provided to customers. Revenue is derived from four sources:

- (a) Usage income from music recognition services carried out in a period. Some agreements allow for advance payment of such fees and revenue is spread accordingly. Minimum periodic guarantees apply in some instances and revenue is spread over the explicit periods.
- (b) Exclusivity fees and fees for recurring contractual rights, relating to music recognition services. Some agreements allow for one-off upfront exclusivity fees in which case revenue is recognised at the point the contract starts. Upfront fees for recurring contractual rights are spread over the appropriate period.
- (c) Implementation and development income is recognised over the period from the delivery of the software to the point at which there are no significant vendor obligations remaining. In most instances monies are collected in advance or at performance milestones.
- (d) Maintenance fees and recurring licence fees are spread over the contract period.

COMPARATIVES

The comparative period is 16 months to 30 June 2006.

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

1 TURNOVER AND (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and profit/(loss) before taxation were all derived from its principal activity

A breakdown of sales by geographical markets has not been disclosed since, in the opinion of the directors, this information would be seriously prejudicial to the interests of the company

2 OTHER OPERATING EXPENSES (NET)	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
Administration expenses	4,944,913	4,824,797
	<u> </u>	<u> </u>
3 EXCEPTIONAL ITEM	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
Net profit on disposal of intellectual property and contracts	146,552	10,367,222
	<u> </u>	<u> </u>
4 INVESTMENT INCOME	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
Bank interest	207,647	44,081
	<u> </u>	<u> </u>
5 INTEREST PAYABLE	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
Other interest	45,824	82,668
	<u> </u>	<u> </u>

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

6	(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
	(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting)		
	Amortisation of intangible assets	-	32,506
	Depreciation and amounts written off tangible fixed assets		
	Charge for the year		
	owned assets	182,995	121,278
	Research and development		
	current year's expenditure	-	355,701
	Operating lease rentals		
	Land and buildings	88,282	117,783
	Loss/(profit) on foreign exchange transactions	560,866	(81,140)
	Auditors' remuneration	17,500	20,000
		<u> </u>	<u> </u>
7	EMPLOYEES	Year ended 30 June 2007 No	16 months ended 30 June 2006 No
	The average monthly number of persons (including directors) employed by the company during the year was		
	Management and administration	40	40
		<u> </u>	<u> </u>
		£	£
	Staff costs for above persons		
	Wages and salaries	2,162,219	2,541,055
	Social security costs	228,857	267,981
		<u>2,391,076</u>	<u>2,809,036</u>
		<u> </u>	<u> </u>
		Year ended 30 June 2007 £	16 months ended 30 June 2006 £
	DIRECTORS' REMUNERATION		
	Emoluments	399,099	454,905
		<u> </u>	<u> </u>
	Emoluments disclosed above include the following amounts paid to the highest paid director		
	Emoluments	197,198	231,996
		<u> </u>	<u> </u>

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

8	TAXATION	Year ended	16 months
		30 June 2007 £	ended 30 June 2006 £
	Current tax		
	UK corporation tax on results of the period	-	7,552
	Adjustments in respect of previous periods	(6,967)	403,496
	Total current tax	(6,967)	411,048
	Deferred tax		
	Origination and reversal of timing differences	-	2,852,976
	Total deferred tax	-	2,852,976
	Tax on (loss)/profit on ordinary activities	(6,967)	3 264,024
	Factors affecting tax credit for period	Year ended 30 June 2007 £	16 months ended 30 June 2006 £
	(Loss)/profit on ordinary activities before tax	(2 539,243)	7,541 623
	(Loss)/profit ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	(761,773)	2,262,487
	Effects of		
	Expenses not deductible for tax purposes	1,760	27,445
	Capital allowances in (less than)/excess of depreciation	(45,408)	(609,576)
	Tax losses (utilised)/carried forward	798 936	(1,617,909)
	Tax losses carried back	9,485	-
	Research and Development tax relief	-	(34,222)
	Other tax adjustment	(3,000)	(20,673)
	Adjustment to tax charge in respect of previous periods	(6,967)	403 496
	Tax (credit)/charge for period	(6 967)	411 048

The company has trading losses of approximately £5.9 million (2006 £3.2 million) which, subject to agreement with the Inland Revenue, are available to carry forward and offset future profits of the same trade

A deferred tax asset of £1.96 million (2006 £1.2 million) has not been recognised in the financial statements as there is no certainty that future profits will be available to offset these losses

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

9	TANGIBLE FIXED ASSETS	Fixtures, fittings and equipment £
	Cost	
	1 July 2006	1,560,149
	Additions	200,980
	30 June 2007	1,761,129
	Depreciation	
	1 July 2006	1,275,924
	Charged in the year	182,995
	30 June 2007	1,458,919
	Net book value	
	30 June 2007	302,210
	30 June 2006	284,225

10	FIXED ASSETS INVESTMENTS	Shares in group undertakings £
	Cost	
	1 July 2006 and 30 June 2007	100

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

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

Shazam Entertainment Inc was dormant throughout the period

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

11	DEBTORS	30 June 2007 £	30 June 2006 £
	Due within one year		
	Trade debtors	802,587	489,700
	Other debtors	59,923	37,442
	Corporation tax	6,967	-
	Prepayments and accrued income	327,725	272,740
		<u>1,197,202</u>	<u>799,882</u>
12	DEFERRED TAX	30 June 2007 £	30 June 2006 £
	1 July 2006	-	2,852,976
	Deferred tax (charged)/credited to profit and loss account	-	(2,852,976)
	30 June 2007	<u>-</u>	<u>-</u>
13	CASH AT BANK AND IN HAND		
	Cash at bank includes £4,590,071 (2006 £4,706,244) held in escrow in accordance with the Agreement for the Sale and Purchase of the Sale Assets of the company and Landmark Digital Services LLC dated 26 August 2005. The amount was not available to the company as free cash at the balance sheet date but was released in full to the company on 28 August 2007.		
14	CREDITORS Amounts falling due within one year	30 June 2007 £	30 June 2006 £
	Bank loan	500,000	-
	Trade creditors	187,563	187,052
	Amounts owed to group undertakings	100	100
	Corporation tax	-	411,048
	Taxes and social security costs	71,264	71,277
	Other creditors	5,018	5,018
	Accruals and deferred income	624,503	457,764
		<u>1,388,448</u>	<u>1,132,259</u>

The bank loan disclosed above is secured by way of a first fixed charge over the assets of the company

The bank loan was repaid on 31 August 2007

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

15	SHARE CAPITAL	30 June 2007 £	30 June 2006 £
	Authorised		
	1,500,000,000 Ordinary shares of £0 000004 each	6,000	6,000
	25,000,000 Preferred ordinary "A" shares of £0 20 each	5,000,000	5,000,000
	215,168,319 Preferred ordinary "B" shares of £0 01 each	2,151,683	2,151,683
	1,200,000,000 Preferred ordinary "C" shares of £0 0001 each	120,000	120,000
	250,000,000 Management Incentive Shares of £0 000001 each	250	250
		<u>7,277,933</u>	<u>7,277,933</u>
	Allotted, issued and fully paid		
	97,062,538 (2006 96,317,348) Ordinary shares of £0 000004 each	388	385
	21,527,781 Preferred ordinary "A" shares of £0 20 each	4,305,556	4,305,556
	85,709,455 Preferred ordinary "B" shares of £0 01 each	857,095	857,095
	1,066,889,647 Preferred ordinary "C" shares of £0 0001 each	106,689	106,689
		<u>5,269,728</u>	<u>5,269,725</u>

During the year 745,190 Ordinary shares of £0 000004 were issued for consideration of £2,345

All shares rank pari passu except

- i) The preferred ordinary "A" shares carry voting rights only in relation to resolutions proposed to holders of each share
- ii) The preferred ordinary "A" shares preferred ordinary "B" shares, preferred ordinary "C" shares and Management incentive shares can all be converted into ordinary shares based on various ratios and conditions as indicated in the company's articles
- iii) The preferred ordinary "A" shares, preferred ordinary "B" shares and preferred ordinary "C" shares are entitled to dividends declared in relation to the ordinary shares
- iv) The management incentive share have no voting or dividend rights

SHARE OPTIONS

The company has established an Enterprise Management Incentive Scheme ("EMI") and an Unapproved Share Option Scheme ("Unapproved")

Under the terms of the EMI Scheme, a total of 309,808,429 options over ordinary shares have been issued between July 2001 and June 2007 at an exercise price of between £0 00253 and £0 032 per share and remain outstanding at 30 June 2007. A further 745,159 share options were exercised during the year at prices of £0 00253 or £0 032

Under the terms of the Unapproved Scheme, a total of 60,695,855 options over ordinary shares have been issued between July 2001 and June 2007 at an exercise price of between £0 00253 and £0 0030 per share and remain outstanding at 30 June 2007

All options vest over a thirty-six to forty-eight month period and expire on the tenth anniversary from date of grant

Shazam Entertainment Limited
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2007

16	SHARE PREMIUM ACCOUNT	30 June 2007 £	30 June 2006 £
	1 July 2006	6,406,730	6,406,730
	Premium on shares issued during the year	2,342	-
	30 June 2007	<u>6,409,072</u>	<u>6,406,730</u>
17	PROFIT AND LOSS ACCOUNT	30 June 2007 £	30 June 2006 £
	1 July 2006	(4,032,259)	(8,309,858)
	(Loss)/profit for the financial year	<u>(2,532,276)</u>	<u>4,277,599</u>
	30 June 2007	<u>(6,564,535)</u>	<u>(4,032,259)</u>
18	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	30 June 2007 £	30 June 2006 £
	(Loss)/profit for the financial year	(2,532,276)	4,277,599
	Proceeds from issue of shares	2,345	-
	Net (decrease)/increase in shareholders' funds	<u>(2,529,931)</u>	<u>4,277,599</u>
	Opening shareholders' funds	7,644,196	3,366,597
	Closing shareholders' funds	<u>5,114,265</u>	<u>7,644,196</u>
19	COMMITMENTS UNDER OPERATING LEASES		
	At 30 June 2007 the company had annual commitments under non-cancellable operating leases as follows		
		30 June 2007 £	30 June 2006 £
	Land and buildings		
	within two to five years	88,282	88,000
		<u>88,282</u>	<u>88,000</u>