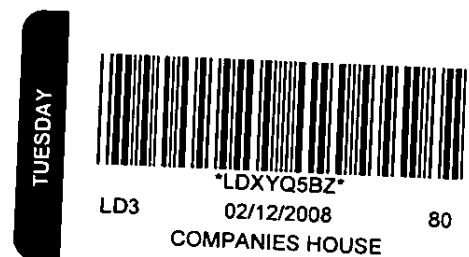


# Shazam Entertainment Limited

## REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2008



Company Registration No. 3998831

# Shazam Entertainment Limited

## DIRECTORS AND ADVISORS

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### DIRECTORS

A Fisher  
K Lovell  
N Marovac  
P Parodi  
AJ Pearson  
C Smart  
CS Wong

### 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

Royal Bank of Scotland Group plc  
London Knightsbridge Branch  
175 - 177 Kensington High Street  
London  
W8 6SH

# Shazam Entertainment Limited

## DIRECTORS' REPORT

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The directors submit their report and the financial statements of Shazam Entertainment Limited for the year ended 30 June 2008.

### PRINCIPAL ACTIVITIES

The principal activity of the company during the period was the provision of music recognition services via mobile phone, 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 has also developed an integrated web presence. Shazam's mission is to be the world's leading provider of mobile music services enabling 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 rapidly expanding the international distribution of its services with significant contracts with major networks, manufacturers and service providers. 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 £1,329,011 (2007: £2,532,276 loss).

The directors are precluded from recommending a dividend (2007: £Nil).

### DIRECTORS

The following directors have held office during the year,

A Chowdhury (resigned 28 February 2008)  
CS Wong  
N Marovac  
A Fisher  
P Parodi  
AJ Pearson  
K Lovell (appointed 29 November 2007)  
C Smart (appointed 28 February 2008)

### DIRECTORS' INTERESTS IN SHARE OPTIONS

The interests of directors, who were in office at 30 June 2008, in the share options of the company were as follows:

	Date of grant	At 01 July 2007	Options granted during the year	At 30 June 2008	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
	24 April 2008	-	33,600,000	33,600,000	£0.00253
AJ Pearson	3 November 2006	8,500,000	-	8,500,000	£0.00253
K Lovell	14 August 2006	13,000,000	-	13,000,000	£0.00253
	21 September 2006	4,000,000	-	4,000,000	£0.00253
	24 April 2008	-	4,275,000	4,275,000	£0.00253

# Shazam Entertainment Limited

## DIRECTORS' REPORT

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### STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

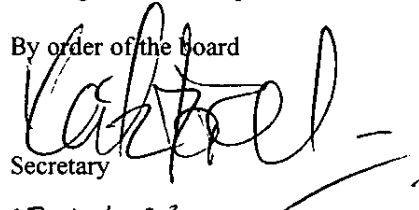
The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have 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

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

A handwritten signature in black ink, appearing to be 'V. Patel', is written over the text 'By order of the board' and 'Secretary'.

Secretary

27 NOVEMBER 2008

# Shazam Entertainment Limited

## DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF FINANCIAL STATEMENTS

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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 15.

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 2008 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 Ltd*

BAKER TILLY UK AUDIT LLP

Registered Auditor  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

27/11/ 2008

**Shazam Entertainment Limited**  
**PROFIT AND LOSS ACCOUNT**  
for the year ended 30 June 2008

	Notes	Year ended 30 June 2008 £	Year ended 30 June 2007 £
TURNOVER	1	4,597,246	2,406,264
Cost of sales		(645,159)	(308,969)
Gross profit		<u>3,952,087</u>	<u>2,097,295</u>
Other operating expenses (net)	2	(5,804,474)	(4,944,913)
OPERATING LOSS		<u>(1,852,387)</u>	<u>(2,847,618)</u>
Exceptional item	3	389,699	146,552
Investment income	4	162,300	207,647
Interest payable	5	(10,150)	(45,824)
		<u>                    </u>	<u>                    </u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(1,310,538)	(2,539,243)
Taxation	8	(18,473)	6,967
		<u>                    </u>	<u>                    </u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	15	<u>(1,329,011)</u>	<u>(2,532,276)</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

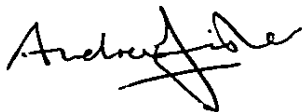
30 June 2008

	Notes	30 June 2008 £	30 June 2007 £
<b>FIXED ASSETS</b>			
Tangible assets	9	450,803	302,210
Investments	10	100	100
		<u>450,903</u>	<u>302,310</u>
<b>CURRENT ASSETS</b>			
Debtors due within one year	11	1,859,258	1,197,202
Cash at bank and in hand		3,242,619	5,003,201
		<u>5,101,877</u>	<u>6,200,403</u>
<b>CREDITORS: Amounts falling due within one year</b>	12	<u>(1,767,526)</u>	<u>(1,388,448)</u>
<b>NET CURRENT ASSETS</b>		<u>3,334,351</u>	<u>4,811,955</u>
<b>NET ASSETS</b>		<u>3,785,254</u>	<u>5,114,265</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	13	5,269,728	5,269,728
Share premium account	14	6,409,072	6,409,072
Profit and loss account	15	(7,893,546)	(6,564,535)
<b>SHAREHOLDERS' FUNDS</b>	16	<u>3,785,254</u>	<u>5,114,265</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 27 NOVEMBER 2008

Director





# Shazam Entertainment Limited

## ACCOUNTING POLICIES

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### 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.

### 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.
--------------------------------	---	-----------------------------

### 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

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### 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.

# Shazam Entertainment Limited

## NOTES TO THE FINANCIAL STATEMENTS

### for the year ended 30 June 2008

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#### 1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

The company's turnover and 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 2008 £	Year ended 30 June 2007 £
	Administration expenses	5,804,474	4,944,913
		<u>          </u>	<u>          </u>
3	EXCEPTIONAL ITEMS	Year ended 30 June 2008 £	Year ended 30 June 2007 £
	Net profit on disposal of intellectual property and contracts	389,699	146,552
		<u>          </u>	<u>          </u>
4	INVESTMENT INCOME	Year ended 30 June 2008 £	Year ended 30 June 2007 £
	Bank interest	162,300	207,647
		<u>          </u>	<u>          </u>
5	INTEREST PAYABLE	Year ended 30 June 2008 £	Year ended 30 June 2007 £
	Other interest	10,150	45,824
		<u>          </u>	<u>          </u>
6	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	Year ended 30 June 2008 £	Year ended 30 June 2007 £
	Loss on ordinary activities before taxation is stated after charging:		
	Depreciation and amounts written off tangible fixed assets:		
	Charge for the year		
	owned assets	230,858	182,995
	Operating lease rentals:		
	Land and buildings	88,000	88,282
	Loss on foreign exchange transactions	55,053	560,866
	Auditors' remuneration	18,000	17,500
		<u>          </u>	<u>          </u>

**Shazam Entertainment Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2008

7	EMPLOYEES	Year ended 30 June 2008 No.	Year ended 30 June 2007 No.
	The average monthly number of persons (including directors) employed by the company during the year was:		
	Management and administration	45	40
		<u>£</u>	<u>£</u>
	Staff costs for above persons:		
	Wages and salaries	2,733,450	2,541,055
	Social security costs	271,383	267,981
		<u>3,004,833</u>	<u>2,809,036</u>
		Year ended 30 June 2008 £	Year ended 30 June 2007 £
	DIRECTORS' REMUNERATION		
	Emoluments	712,108	399,099
	Emoluments disclosed above include the following amounts paid to the highest paid director:		
	Emoluments	276,023	197,198
8	TAXATION	Year ended 30 June 2008 £	Year ended 30 June 2007 £
	Current tax:		
	UK corporation tax on results of the period	-	-
	Adjustments in respect of previous periods	-	(6,967)
	Foreign tax	18,473	-
	Total current tax	<u>18,473</u>	<u>(6,967)</u>
	Tax charge / (credit) on loss on ordinary activities	<u>18,473</u>	<u>(6,967)</u>

**Shazam Entertainment Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2008**

**8 TAXATION (continued)**

	Year ended 30 June 2008 £	Year ended 30 June 2007 £
Factors affecting tax charge / (credit) for period:		
Loss on ordinary activities before tax	(1,310,538)	(2,539,243)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 29.50% (2007: 30%)	(386,608)	(761,773)
Effects of:		
Expenses not deductible for tax purposes	23,926	1,760
Capital allowances less than / (in excess of) depreciation	47,797	(45,408)
Tax losses carried forward	320,335	798,936
Tax losses carried back	-	9,485
Foreign tax expensed under s811	(5,450)	-
Foreign tax suffered	18,473	-
Other tax adjustment	-	(3,000)
Adjustment to tax charge in respect of previous periods	-	(6,967)
Tax charge/(credit) for period	18,473	(6,967)

The company has trading losses of approximately £6.6 million (2007: £5.5 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 £1.8 million (2007: £1.65 million) has not been recognised in the financial statements as there is sufficient uncertainty as to the timing of future profits available to offset these losses.

**9 TANGIBLE FIXED ASSETS**

	Fixtures, fittings and equipment £
Cost	
1 July 2007	1,761,129
Additions	379,451
30 June 2008	2,140,580
Depreciation	
1 July 2007	1,458,919
Charged in the year	230,858
30 June 2008	1,689,777
Net book value	
30 June 2008	450,803
30 June 2007	302,210

# Shazam Entertainment Limited

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2008

### 10 FIXED ASSETS INVESTMENTS

*Shares in group  
undertakings  
£*

Cost  
1 July 2007 and 30 June 2008 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>Class</i>	<i>Shares held %</i>
Subsidiary undertakings			
Shazam Entertainment Inc.	USA	Ordinary	100

Shazam Entertainment Inc. was dormant throughout the period.

11 DEBTORS	30 June 2008 £	30 June 2007 £
Due within one year:		
Trade debtors	1,107,883	802,587
Other debtors	46,926	59,923
Corporation tax	5,554	6,967
Prepayments and accrued income	698,895	327,725
	<u>1,859,258</u>	<u>1,197,202</u>

12 CREDITORS: Amounts falling due within one year	30 June 2008 £	30 June 2007 £
Bank loan	-	500,000
Trade creditors	479,726	187,563
Amounts owed to group undertakings	100	100
Taxes and social security costs	79,843	71,264
Other creditors	-	5,018
Accruals and deferred income	1,207,857	624,503
	<u>1,767,526</u>	<u>1,388,448</u>

The bank loan disclosed above was 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 2008

13	SHARE CAPITAL	30 June 2008 £	30 June 2007 £
	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:		
	97,075,038 (2007: 97,062,538) Ordinary shares of £0.000004 each	388	388
	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>5,269,728</u>

During the year 12,500 Ordinary shares of £0.000004 were issued for consideration of £0.05.

All shares rank pari passu except:

- The preferred ordinary "A" shares carry voting rights only in relation to resolutions proposed to holders of each share.
- 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.
- 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.
- The management incentive shares 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 198,390,227 options over ordinary shares have been issued between July 2001 and June 2008 and remain exercisable, subject to vesting conditions being met, at an exercise price of between £0.00253 and £0.032 per share. No options were exercised during the year.

A total of 95,601,090 options held by ex employees were waived during the year in return for total consideration of £125,500 paid by the Company.

Under the terms of the Unapproved Scheme, a total of 87,973,973 options over ordinary shares have been issued between July 2001 and June 2008 and remain exercisable at an exercise, subject to vesting conditions being met, price of between £0.000004 and £0.30 per share. A further 12,500 options were exercised during the year at a price of £0.000004.

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 2008**

14	SHARE PREMIUM ACCOUNT	30 June 2008 £	30 June 2007 £
	1 July 2007	6,409,072	6,406,730
	Premium on shares issued during the year	-	2,342
	30 June 2008	<u>6,409,072</u>	<u>6,409,072</u>
15	PROFIT AND LOSS ACCOUNT	30 June 2008 £	30 June 2007 £
	1 July 2007	(6,564,535)	(4,032,259)
	Loss for the financial year	(1,329,011)	(2,532,276)
	30 June 2008	<u>(7,893,546)</u>	<u>(6,564,535)</u>
16	RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS	30 June 2008 £	30 June 2007 £
	Loss for the financial year	(1,329,011)	(2,532,276)
	Proceeds from issue of shares	-	2,345
	Net decrease in shareholders' funds	(1,329,011)	(2,529,931)
	Opening shareholders' funds	5,114,265	7,644,196
	Closing shareholders' funds	<u>3,785,254</u>	<u>5,114,265</u>
17	COMMITMENTS UNDER OPERATING LEASES		
	At 30 June 2008 the company had annual commitments under non-cancellable operating leases as follows:		
		30 June 2008 £	30 June 2007 £
	Land and buildings		
	within one to two years	88,000	-
	within two to five years	-	88,282
		<u>88,000</u>	<u>88,282</u>