

Shazam Entertainment Limited

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 30 June 2010



Company Registration No. 3998831

Shazam Entertainment Limited

DIRECTORS AND ADVISERS

DIRECTORS

A Fisher
K Lovell
N Marovac
P Parodi (resigned 28th February 2011)
AJ Pearson
C Smart
CS Wong
J Sykes (appointed 1st February 2011)

SECRETARY

B Kerle

REGISTERED OFFICE

Shazam Entertainment Ltd
Second Floor, East Wing
26 - 28 Hammersmith Grove
London W6 7HA

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

BANKERS

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

Shazam Entertainment Limited

DIRECTORS' REPORT

The directors submit their annual report and the audited consolidated financial statements of Shazam Entertainment Limited for the year ended 30 June 2010

Business Review and Principal Activities

The principal activity of the Group during the period was the world wide provision of music recognition services via mobile phone. Shazam also continued to develop and improve methodology and systems for real time music identification via smart client applications on mobile phones and also has an integrated web presence.

Shazam's mission is to be the world's leading provider of mobile discovery services

During the year the Group continued rapidly expanding the international distribution of its services with significant contracts with major networks, manufacturers and service providers, plus successful launches on a number of App Stores. The Group expects to continue to invest in the marketing of its services, support geographic expansion and undertake new product development

The results for the Group show revenues of £10.6m (2009 £7.3m) and a loss before tax of £355,146 (2009 loss of £20,943). The company had no trading subsidiaries during the year and the results for both years represent both the Group and Company. The Group is debt free

A funding round was completed during the year with leading USA venture capital firm Kleiner Perkins Caulfield and Byers.

The directors are precluded from recommending a dividend (2010: £nil).

Research and Development

Shazam continues to develop and improve methodology and systems for real time music identification via smart client applications on mobile phones and is looking to further develop these applications

Future Outlook

The commercial environment is likely to remain competitive, but the directors are confident that Shazam will continue to successfully expand as a result of the skills and experience within the Group, an excellent product set and strong financial backing. All of these factors combined will enable Shazam to maintain its leadership position in the market.

Principal risks and Uncertainties

The management of the business and execution of the company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the company are considered to be from existing and new competitors, availability of skilled resource and the global economy. These risks are all managed and mitigated through close executive management review and line management ownership. Major issues are covered by formal company policies which are approved at board level where of sufficient materiality

The key financial risk is represented by exchange rate fluctuation, the majority of which relates to USD. This is managed through a combination of natural hedging, by matching USD income with USD expenses. Interest rate fluctuation does not affect the company as there are no borrowings, and the interest income on deposits is not material to the financial results

Shazam Entertainment Limited

DIRECTORS' REPORT

Key Performance Indicators

Shazam announced in May 2010 that over 1 billion transactions had been handled since the business started and in December 2010 that Shazam users had passed the 100 million mark. The business continues to add new users at the rate of 1 million per week. Given the current size and straightforward nature of the business, the company's directors are of the opinion that further analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Directors

The following directors have held office throughout the year:

A Fisher
K Lovell
N Marovac
P Parodi (resigned 28th February 2011)
AJ Pearson
C Smart
CS Wong
J Sykes (appointed 1st February 2011)

Liability Insurance

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and currently remains in place. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance of £5 million.

Disclosure of Information to Auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, as far as they are aware, 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 auditors.

Independent auditors

During the year Baker Tilly resigned as auditors and PricewaterhouseCoopers LLP were appointed in their place. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the board



B. Kerle
Company Secretary 30 MAR 2011

Shazam Entertainment Limited

STATEMENT OF 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 elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Shazam Entertainment Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHAZAM ENTERTAINMENT LIMITED

We have audited the group and parent company financial statements (the "financial Statements") of Shazam Entertainment Limited for the year ended 30th June 2010 which comprise the Consolidated Profit and Loss Account, the Group and Parent Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. 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).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 4 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 group's and parent 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 group's and the parent company's affairs as at 30th June 2010 and of the group's loss and cash flows 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

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 financial statements are prepared is consistent with the financial statements.

Shazam Entertainment Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SHAZAM ENTERTAINMENT LIMITED

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



Brian Henderson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

30 March 2011

Shazam Entertainment Limited
CONSOLIDATED PROFIT AND LOSS ACCOUNT
for the year ended 30 June 2010

	Note	Year ended 30 June 2010 £	Year ended 30 June 2009 £
TURNOVER	1	10,587,713	7,336,293
Cost of sales		(516,914)	(886,903)
Gross profit		<u>10,070,799</u>	<u>6,449,390</u>
Administration expenses		(10,498,690)	(6,582,852)
OPERATING LOSS		<u>(427,891)</u>	<u>(133,462)</u>
Profit on disposal of fixed assets	2	34,000	33,774
Interest receivable and similar income	3	38,745	78,745
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	4	<u>(355,146)</u>	<u>(20,943)</u>
Taxation	6	(280,220)	(69,000)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	14	<u><u>(635,366)</u></u>	<u><u>(89,943)</u></u>

All results derive from continuing operations

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

Shazam Entertainment Limited

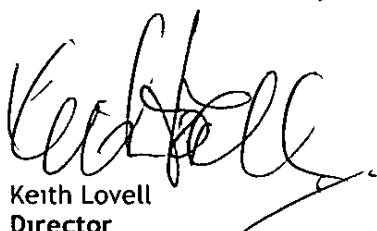
BALANCE SHEETS

30 June 2010

Company Registration No 3998831

	Note	Group		Company	
		30 June 2010 £	30 June 2009 £	30 June 2010 £	30 June 2009 £
FIXED ASSETS					
Intangible assets	7	245,323	-	245,323	-
Tangible assets	8	1,863,523	586,540	1,863,523	586,540
Investments	9	-	-	100	100
		<u>2,108,846</u>	<u>586,540</u>	<u>2,108,946</u>	<u>586,640</u>
CURRENT ASSETS					
Debtors	10	2,528,359	3,226,259	2,528,359	3,226,259
Cash at bank and in hand		7,171,902	3,091,000	7,171,902	3,091,000
		<u>9,700,261</u>	<u>6,317,259</u>	<u>9,700,261</u>	<u>6,317,259</u>
CREDITORS: Amounts falling due within one year	11	(5,618,090)	(3,208,154)	(5,618,090)	(3,208,154)
NET CURRENT ASSETS		<u>4,082,171</u>	<u>3,109,105</u>	<u>4,082,171</u>	<u>3,109,105</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,191,017</u>	<u>3,695,645</u>	<u>6,191,117</u>	<u>3,695,745</u>
CAPITAL AND RESERVES					
Called up share capital	12	5,293,909	5,269,979	5,293,909	5,269,979
Share premium account	13	9,474,976	6,409,255	9,474,976	6,409,255
Warrant reserve	12	41,087	-	41,087	-
Profit and loss account	14	(8,618,955)	(7,983,589)	(8,618,855)	(7,983,489)
TOTAL SHAREHOLDERS' FUNDS	15	<u>6,191,017</u>	<u>3,695,645</u>	<u>6,191,117</u>	<u>3,695,745</u>

The financial statements, which comprise the consolidated profit and loss account, the group and company balance sheets, the consolidated cash flow statement and related notes were approved and authorised for issue by the board by



Keith Lovell
Director

30.3.11

Shazam Entertainment Limited

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 30 June 2010 £	Year ended 30 June 2009 £
Reconciliation of operating loss to net cash inflow from operating activities		
Operating loss	(427,891)	(133,462)
Adjustments for		
Depreciation of tangible fixed assets	550,866	328,502
Amortisation of intangible assets	17,523	-
Decrease/(Increase) in debtors	738,987	(1,372,555)
Increase in creditors	2,409,936	1,440,628
Net cash inflow from operating activities	3,289,421	263,113
Returns on investments and servicing of finance		
Interest received	38,745	78,745
Net cash inflow from returns on investments and servicing of finance	38,745	78,745
Taxation	(280,220)	(63,446)
Capital expenditure		
Purchase of tangible fixed assets	(1,827,849)	(464,239)
Purchase of intangible fixed assets	(262,846)	-
Sale of fixed assets	34,000	33,774
Net cash outflow for capital expenditure	(2,056,695)	(430,465)
Financing		
Net proceeds on issue of ordinary share capital	3,089,651	434
Net cash inflow from financing	3,089,651	434
Increase/(decrease) in net cash	4,080,902	(151,619)
Reconciliation to net cash		
Net cash at 1 July	3,091,000	3,242,619
Increase/(decrease) in net cash	4,080,902	(151,619)
Net cash at 30 June	7,171,902	3,091,000

Shazam Entertainment Limited

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared on the going concern basis under the historical cost convention in accordance with applicable accounting standards in the United Kingdom and Companies Act 2006. The principal accounting policies of the Company, which have been applied consistently throughout the year, are set out below.

BASIS OF CONSOLIDATION

The consolidated accounts include the accounts of the company and its subsidiary undertaking made up to 30 June 2010 under the acquisition method of accounting. The group applies uniform accounting policies unless otherwise stated, and any profits or losses arising on inter-group transactions have been eliminated.

INTANGIBLE FIXED ASSETS

Intangible assets are stated at historical cost less amortisation.

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 and equipment - Straight line over 3 to 5 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.

TAXATION

Current tax for the current and prior periods is provided at the amount expected to be paid (or recorded) using the tax rates and tax laws that have been enacted or substantially enacted by the balance sheet date.

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.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term.

Shazam Entertainment Limited

ACCOUNTING POLICIES

SHARE BASED PAYMENT

Shazam Entertainment Ltd operates an employee share scheme, which entails the grant of stock options to certain employees. In accordance with the accounting standard FRS20 the cost of the share awards is recognised over the vesting period to which they relate is included as a charge within operating expenses. The adoption of FRS20 has not resulted in any material charge to the profit and loss account for the current or prior year.

FINANCIAL INSTRUMENTS- BORROWINGS

Borrowings are recognised initially at their carrying value, net of any transaction costs incurred. Borrowings are classified within creditors due within one year unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The discounted value of the liability portion of a loan with a convertible warrant option is determined using an effective interest rate for an equivalent loan with a non-convertible warrant option. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' funds. The applicable interest or 'discount' is recognised in the profit or loss over the period of the borrowing.

FOREIGN CURRENCIES

Monetary 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 five 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 period 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.
- (d) Maintenance fees and recurring licence fees are spread over the contract period.
- (e) One off lifetime payments for premium applications are spread over 12 months and subscription payments are spread over the period of subscription.
- (f) All other income, including advertising and affiliate fees, is fully recognised in the period to which it relates.

Shazam Entertainment Limited

NOTES TO FINANCIAL STATEMENTS

for the year ended 30 June 2010

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	PROFIT ON DISPOSAL OF FIXED ASSETS	Group	
		Year ended 30 June 2010 £	Year ended 30 June 2009 £
	Net profit on disposal of intellectual property and contracts	34,000	33,774

3	INTEREST RECEIVABLE AND SIMILAR INCOME	Group	
		Year ended 30 June 2010 £	Year ended 30 June 2009 £
	Bank interest receivable	38,745	78,745

4	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	Group	
		Year ended 30 June 2010 £	Year ended 30 June 2009 £
	Loss on ordinary activities before taxation is stated after Charging/(crediting)		
	Depreciation of tangible fixed assets.		
	- owned assets	550,866	328,502
	Amortisation of intangible fixed assets		
	-owned assets	17,523	-
	Operating lease rentals		
	Land and buildings	160,589	114,776
	Loss/(profit) on foreign exchange transactions	763	(282,259)
	Services provided by the company's auditor		
	During the year the group obtained the following services from the company's auditor:		
	Fees payable to company auditor for the audit of parent company and consolidated financial services	30,000	18,500
	Fees payable to the company's auditor and its associates for other services		
	- Tax services	5,000	-

Current year auditor's remuneration is to PricewaterhouseCoopers LLP whereas in the prior year the auditors were Baker Tilly

Shazam Entertainment Limited
NOTES TO FINANCIAL STATEMENTS
for the year ended 30 June 2010

5	EMPLOYEES	Group	
		Year ended 30 June 2010 No.	Year ended 30 June 2009 No
	The average monthly number of persons (including directors) employed by the company during the year was		
	Management and administration	57	53
		<u> </u>	<u> </u>
		£	£
	Staff costs for above persons:		
	Wages and salaries	3,958,093	3,352,509
	Social security costs	409,733	401,897
		<u>4,367,826</u>	<u>3,754,406</u>
		<u> </u>	<u> </u>
		Year ended 30 June 2010 £	Year ended 30 June 2009 £
	DIRECTORS' REMUNERATION		
	Emoluments	731,490	665,499
		<u> </u>	<u> </u>
	Emoluments disclosed above include the following amounts paid to the highest paid director		
	Emoluments	283,576	281,478
		<u> </u>	<u> </u>
	None of the directors is accruing any benefits under either money purchase or defined contribution pension schemes (2009: none)		
6	TAXATION	Group	
		Year ended 30 June 2010 £	Year ended 30 June 2009 £
	Current tax:		
	UK corporation tax on results of the period	-	-
	Foreign tax	280,220	69,000
	Total current tax	<u>280,220</u>	<u>69,000</u>
		<u> </u>	<u> </u>
	Tax charge on loss on ordinary activities	280,220	69,000
		<u> </u>	<u> </u>

Shazam Entertainment Limited
NOTES TO FINANCIAL STATEMENTS
for the year ended 30 June 2010

6 TAXATION (continued)	Year ended 30 June 2010 £	Year ended 30 June 2009 £
Factors affecting tax charge for period		
Loss on ordinary activities before tax	(355,146)	(20,943)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 21%)	(99,441)	(4,398)
Effects of		
Expenses not deductible for tax purposes	25,530	13,759
Capital allowances less than depreciation	(127,234)	5,129
Other timing differences	232,894	-
Foreign tax deduction claimed	(31,749)	(14,490)
Foreign tax suffered	280,220	69,000
Tax charge for period	<u>280,220</u>	<u>69,000</u>

The company has trading losses of approximately £7.3 million (2009: £6.6 million) which, subject to agreement with HM revenue and Customs, are available to carry forward and offset future profits of the same trade

A deferred tax asset of £2.0 million (2009 £1.8 million) has not been recognised in the financial statements as there is insufficient certainty as to the timing of future profits available to offset these losses

On the 23rd March 2011 it was announced that a corporation tax rate decrease of 26% would be effective from 1st April 2011. This will affect future recognition of deferred assets & liabilities

Shazam Entertainment Limited
NOTES TO FINANCIAL STATEMENTS
for the year ended 30 June 2010

7	INTANGIBLE FIXED ASSETS - Group and Company	Intellectual Property Rights £
	Cost	
	1 July 2009	-
	Additions	262,846
	30 June 2010	<u>262,846</u>
	Depreciation	
	1 July 2009	-
	Charged in the year	17,523
	30 June 2010	<u>17,523</u>
	Net book value	
	30 June 2010	<u>245,323</u>
	30 June 2009	<u>-</u>

The additions to intangible fixed assets relate to the purchase of IP rights relating to innovative product capability that the company will be utilising in its Smartphone applications

The amortisation period is five years, based on the directors' assessment of the useful economic lives.

8	TANGIBLE FIXED ASSETS - Group and Company	Fixtures, fittings and equipment £
	Cost	
	1 July 2009	2,604,819
	Additions	1,827,849
	Disposals	(1,086,383)
	30 June 2010	<u>3,346,285</u>
	Depreciation	
	1 July 2009	2,018,279
	Charged in the year	550,866
	Disposals	(1,086,383)
	30 June 2010	<u>1,482,762</u>
	Net book value	
	30 June 2010	<u>1,863,523</u>
	30 June 2009	<u>586,540</u>

Shazam Entertainment Limited

NOTES TO FINANCIAL STATEMENTS

for the year ended 30 June 2010

9	FIXED ASSETS INVESTMENTS	Company Shares in group undertakings £
	Cost	
	1 July 2009 and 30 June 2010	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:

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

Shazam Entertainment Inc was dormant throughout the period

10	DEBTORS	Group and Company	
		30 June	30 June
		2010	2009
		£	£
	Due within one year		
	Trade debtors	1,699,644	2,879,709
	Other debtors	81,670	26,374
	Prepayments and accrued income	747,045	320,176
		<u>2,528,359</u>	<u>3,226,259</u>

11	CREDITORS	Group and Company	
		30 June	30 June
		2010	2009
		£	£
	Due within one year		
	Trade creditors	1,003,663	566,335
	Taxes and social security costs	109,774	89,040
	Accruals and deferred income	4,504,653	2,552,779
		<u>5,618,090</u>	<u>3,208,154</u>

The company implemented a debt facility of \$5 million with TriplePoint Capital, from 8 March 2010. This facility was not utilised during the year and terminated on 8 March 2011 without being drawn upon. Please see note 12 with respect to share warrants issued part of this facility.

Shazam Entertainment Limited

NOTES TO FINANCIAL STATEMENTS

for the year ended 30 June 2010

12 SHARE CAPITAL	Group and Company	
	30 June 2010 £	30 June 2009 £
Authorised		
1,500,000,000 Ordinary shares of £0.000004 each	6,000	6,000
25,000,000 Preferred "A" shares of £0 20 each	5,000,000	5,000,000
215,168,319 Preferred "B" shares of £0 01 each	2,151,683	2,151,683
1,200,000,000 Preferred "C" shares of £0.0001 each	120,000	120,000
350,000,00 preferred "C1" shares of £0.0001 each	35,000	-
140,000,00 founder shares of £0.000004 each	560	-
250,000,000 Management Incentive shares of £0 000001 each	250	250
	<u>7,313,493</u>	<u>7,277,933</u>
Allotted, issued and fully paid		
144,426,222 (2009: 97,160,184) Ordinary shares of £0 000004 each	578	389
21,527,781 Preferred "A" shares of £0 20 each	4,305,556	4,305,556
85,709,455 Preferred "B" shares of £0.01 each	857,095	857,095
1,066,889,647 Preferred "C" shares of £0.0001 each	106,689	106,689
231,810,173 Preferred "C1" shares of £0 0001 each	23,181	-
140,000,000 Founder shares of £0.000004 each	560	-
250,000,000 Management Incentive shares of £0 000001 each	250	250
	<u>5,293,909</u>	<u>5,269,979</u>

During the year 47,266,038 Ordinary shares were issued for £16,048, 231,810,173 preferred C1 shares were issued for £3,238,620 and 140,000,000 Founder Shares were issued for £560

All shares rank pari passu except

- i) The Preferred "A" shares carry voting rights only in relation to resolutions proposed to holders of each share.
- ii) The Preferred "A" shares, Preferred "B" shares, Preferred "C" shares, Preferred "C1" shares and Founders Shares can all be converted into Ordinary shares based on various ratios and conditions as indicated in the company's Articles.
- iii) The Preferred "A" shares, Preferred "B" shares, Preferred "C" and Preferred "C1" shares are entitled to dividends declared in relation to the Ordinary shares
- iv) The Founder Shares and Management Incentive shares have no voting or dividend rights.

Shazam Entertainment Limited

NOTES TO FINANCIAL STATEMENTS

for the year ended 30 June 2010

12 SHARE CAPITAL (continued)

The company has established an Enterprise Management Incentive Scheme ("EMI") and an Unapproved Share Option Scheme ("Unapproved") All options vest over a forty-eight month period and expire on the tenth anniversary from date of grant

A total of 6,728,904 options under the EMI scheme were exercised during the year, at prices between £0.000004 and £0 00253 per share. A total of 40,551,748 options under the Unapproved scheme were exercised during the year, at a price of £0 000004 per share.

Under the terms of the EMI Scheme, a total of 245,609,875 options over Ordinary shares were issued between July 2001 and June 2010 at an exercise price of between £0 000004 and £0 032 per share and remain outstanding and exercisable at 30 June 2010, subject to vesting conditions being met

Under the terms of the Unapproved Scheme, a total of 100,409,570 options over Ordinary shares were issued between July 2001 and June 2009 at an exercise price of between £0 000004 and £0 30 per share and remain outstanding and exercisable at 30 June 2010, subject to vesting conditions being met

All options existing on the above schemes as at 08 December 2009, were waived and reissued on terms consistent with the original conditions but at an option exercise price of £0 000004 per share The waiver and subsequent reissue of these options, meets the definition of a modification of the awards under FRS 20.

The fair value calculation in respect of the options has not resulted in a material charge and accordingly no expense has been recognised in the profit and loss account in the current or prior year.

WARRANTS

There are 64,379,449 warrants in issue that can be exercised over Preferred "C" shares at an exercise price of £0 0031625 per share

A further 8,217,290 warrants were issued during the year which can be exercised over Preferred "C1" shares at a price of £0 013971 per share

Warrant Reserve

The discounted value of the liability portion of the loan has been determined using an effective interest rate for an equivalent loan with a non-convertible warrant option. This amount has been recorded as a liability on an amortised cost basis until it is extinguished on conversion or maturity. The remainder of the proceeds have been allocated to the conversion option

13 SHARE PREMIUM ACCOUNT

	Group and Company	
	30 June 2010	30 June 2009
	£	£
1 July 2009	6,409,255	6,409,072
Premium on shares issued during the year	3,065,721	183
30 June 2010	<u>9,474,976</u>	<u>6,409,255</u>

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14	PROFIT AND LOSS ACCOUNT	Group		Company	
		30 June 2010 £	30 June 2009 £	30 June 2010 £	30 June 2009 £
	1 July 2009	(7,983,589)	(7,893,646)	(7,983,489)	(7,893,546)
	Loss for the financial year	(635,366)	(89,943)	(635,366)	(89,943)
	30 June 2010	<u>(8,618,955)</u>	<u>(7,983,589)</u>	<u>(8,618,855)</u>	<u>(7,983,489)</u>

15 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Group		Company	
	30 June 2010 £	30 June 2009 £	30 June 2010 £	30 June 2009 £
Loss for the financial year	(635,366)	(89,943)	(635,366)	(89,943)
Net proceeds from issue of shares	3,089,651	434	3,089,651	434
Warrants issued in the year	41,087	-	41,087	-
Net increase / (decrease) in shareholders' funds	<u>2,495,372</u>	<u>(89,509)</u>	<u>2,495,372</u>	<u>(89,509)</u>
Opening shareholders' funds	3,695,645	3,785,154	3,695,745	3,785,254
Closing shareholders' funds	<u>6,191,017</u>	<u>3,695,645</u>	<u>6,191,117</u>	<u>3,695,745</u>

16 COMMITMENTS UNDER OPERATING LEASES

At 30 June 2010 the company had annual commitments under non-cancellable operating leases as follows

	Group and Company	
	30 June 2010 £	30 June 2009 £
Land and buildings within 2- 5 years	136,829	-
Within 1 year	-	75,000
	<u>136,829</u>	<u>75,000</u>

17 RELATED-PARTY TRANSACTIONS

Other than the directors emoluments as described in note 5 there were no related party transactions in the year

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NOTES TO FINANCIAL STATEMENTS

for the year ended 30 June 2010

18 POST BALANCE SHEET EVENTS

The company was subject to a patent infringement action brought by Iceberg Industries LLC in the Virginia Eastern District Court USA. This action was subsequently resolved and was dismissed on 28 February 2011.

19 ULTIMATE CONTROLLING PARTY

The directors do not consider there to be an ultimate controlling party.