

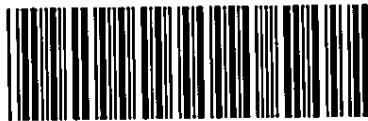
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TOUCH LOCAL LIMITED

31 DECEMBER 2008

Registered No 2885607

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CONTENTS	Page
Officers and professional advisers	2
Directors' report	3
Statement of directors' responsibilities in respect of the Directors' Report and Financial Statements	5
Independent auditors' report to the members of Touch Local Limited	6
Consolidated profit and loss account	8
Consolidated balance sheet	9
Company balance sheet	10
Notes to the financial statements	11

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

The directors of the company who served during the year are listed below:

Tamer Ozmen (resigned 25 June 2008)
Mark Evans (resigned 19 August 2008)
Gary Dannatt
Sean Seton Rogers (appointed 5 March 2008, resigned 10 February 2009)
Mark Livingstone (appointed 19 August 2008)
Barry Maloney (appointed 19 August 2008)

SECRETARY

Gary Dannatt

REGISTERED OFFICE

9th Floor
89 Albert Embankment
London
SE1 7TP

BANKERS

HSBC plc
62-76
Park Street
London
SE1 9D2

Barclays Bank plc
One Churchill Place
London
E14 5HP

SOLICITORS

Arnold Fooks Chadwick
15 Bolton Street
London
W1J 8AR

Nabarro
84 Theobald's Road
London
WC1X 8RW

AUDITORS

KPMG LLP
Chartered Accountants and Registered Auditors
8 Salisbury Square
London
EC4Y 8BB

DIRECTORS' REPORT

The directors present their directors' report and the audited financial statements for the year ended 31 December 2008.

RESULTS AND DIVIDENDS

Consolidated financial statements have been prepared comprising the results of the company and its wholly owned subsidiary Touch (NW) Limited. The loss after taxation for the year ended 31 December 2008 amounted to £6,925,000 (2007 - £5,868,000).

The directors do not recommend any dividend on the ordinary shares in respect of the year ended 31 December 2008 (2007 - £nil).

PRINCIPAL ACTIVITIES

The group's principal activity is the provision of online marketing and web directory services.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

During the year the business has continued to develop its online business directory website, touchlocal.com, and has significantly grown the customer base to sell further advertising space on this platform.

POST BALANCE SHEET EVENTS

On 23rd September 2009 the Company acquired the entire share capital of Enable Media Limited from ITV Plc. The consideration for the purchase is up to £1,000,000 wholly payable by way of deferred consideration. Enable Media Limited is a leading provider of online business directory, owning the Scoot and AskAlix brands.

On the 26th January 2009 Balderton Capital subscribed for an additional 1,392,751 'A' Ordinary Shares at a price of £1.651408 amounting to a total consideration of £2,300,000.

On the same date, a £700,000 Variable Rate Convertible Loan Stock issued on the 19th December 2008 was converted, including accrued interest, into 533,117 'A' Shares at a conversion price of £1.321127.

On the 3rd July 2009 Balderton Capital subscribed for £300,000 of Unsecured Convertible Loan Stock and a further £300,000 on the 21st July 2009. The Loan Stock carries an annual interest rate of 6%, and if not repaid by the Company by 30th June 2010, will convert into 'A' Shares at a price of £1.651408 per share, or if the Company secures additional equity finance prior to 30th June 2010 then at the price per share of that round discounted by 20%.

DIRECTORS

The directors of the company who served during the year are listed below:

Tamer Ozmen (resigned 25 June 2008)
Mark Evans (resigned 19 August 2008)
Gary Dannatt
Sean Seton Rogers (appointed 5 March 2008, resigned 10 February 2009)
Mark Livingstone (appointed 19 August 2008)
Barry Maloney (appointed 19 August 2008)

DIRECTORS' REPORT *(continued)*

OPERATIONAL RISK

The principal risk facing the company is in its ability to continue to grow monthly sales volumes and increase gross margin. This in itself is dependent upon the maintenance, and growth, of the internet as a cost effective marketing channel.

FINANCIAL RISK MANAGEMENT

The company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds financial assets are not sufficient to fund the obligations arising from liabilities as they fall due. The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk.

The only financial risk the directors consider relevant to this group is credit risk. This risk is mitigated by the nature of balances owed, and by the use of a debt provision formula reflecting historical performance of delinquent debtors.

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by order of the Board of Directors and signed on behalf of the Board by:



Gary Dannatt

23 October 2009

Director

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and 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 group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The directors' are responsible for the maintenance of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and disseminations of financial statements may differ from legislation in other jurisdictions.



KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Touch Local Limited

We have audited the group and parent company financial statements (the "financial statements") of Touch Local Limited for the year ended 31 December 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 director and auditors

The director's responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Director's Responsibilities on page 5.

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 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 Director's 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 judgments made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Independent auditors' report to the members of Touch Local Limited
(continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditors

23 October 2009

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

	Notes	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
TURNOVER	1	4,974	4,108
Cost of sales		(1,047)	(1,948)
GROSS PROFIT		<u>3,927</u>	<u>2,160</u>
Administrative expenses		(10,418)	(8,130)
OPERATING LOSS		<u>(6,491)</u>	<u>(5,970)</u>
Interest receivable and similar income	5	19	109
Interest payable and similar charges	5	(453)	(7)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	<u>(6,925)</u>	<u>(5,868)</u>
Tax on loss on ordinary activities	6	-	-
LOSS FOR THE YEAR		<u>(6,925)</u>	<u>(5,868)</u>

The accompanying notes are an integral part of this consolidated profit and loss account.

All results derive from continuing operations.

There are no other gains or losses other than the loss for the year of £6,925,000 (2007: loss £5,868,000).

There is no material difference between the results as reported and on an historical cost basis. Accordingly, no note of historical cost profit and losses has been prepared.

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

		31 December 2008	31 December 2007
	Note	£'000	£'000
FIXED ASSETS			
Intangible fixed assets	8	78	48
Tangible fixed assets	9	380	431
		<u>458</u>	<u>479</u>
CURRENT ASSETS			
Debtors	10	1,574	2,179
Cash at bank and in hand		172	567
		<u>1,746</u>	<u>2,746</u>
CREDITORS: amounts falling due within one year	11	(4,494)	(2,963)
NET CURRENT LIABILITIES		<u>(2,748)</u>	<u>(217)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(2,290)</u>	<u>262</u>
CREDITORS: amounts falling due after more than one year	12	(1,523)	(1,150)
NET LIABILITIES		<u>(3,813)</u>	<u>(888)</u>
CAPITAL AND RESERVES			
Called-up share capital	13, 14	-	-
Share premium account	14	17,060	13,060
Capital redemption reserve	14	12,200	12,200
Profit and loss account	14	(33,073)	(26,148)
SHAREHOLDERS' DEFICIT		<u>(3,813)</u>	<u>(888)</u>

The accompanying notes are an integral part of this consolidated balance sheet.

The financial statements were approved by the board of directors on 23 October 09 and were signed on its behalf by



Gary Dannatt
Director

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

COMPANY BALANCE SHEET
As at 31 December 2008

		31 December 2008	31 December 2007
	Note	£'000	£'000
FIXED ASSETS			
Intangible fixed assets	8	78	48
Tangible fixed assets	9	376	424
		<u>454</u>	<u>472</u>
CURRENT ASSETS			
Debtors	10	813	1,711
Cash at bank and in hand		156	301
		<u>969</u>	<u>2,012</u>
CREDITORS: amounts falling due within one year	11	(4,398)	(2,429)
NET CURRENT LIABILITIES		<u>(3,429)</u>	<u>(417)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(2,975)	55
CREDITORS: amounts falling due after more than one year	12	(1,523)	(1,150)
NET LIABILITIES		<u>(4,498)</u>	<u>(1,095)</u>
CAPITAL AND RESERVES			
Called-up share capital	13, 14	-	-
Share premium account	14	17,060	13,060
Capital redemption reserve	14	12,200	12,200
Profit and loss account	14	(33,758)	(26,355)
SHAREHOLDERS' DEFICIT		<u>(4,498)</u>	<u>(1,095)</u>

The accompanying notes are an integral part of this balance sheet.

The financial statements were approved by the board of directors on 23 October 09 and were signed on its behalf by:



Gary Dannatt
Director

NOTES TO THE FINANCIAL STATEMENTS
(Forming part of the financial statements)

1 ACCOUNTING POLICIES

Basis of preparation

Touch Local Limited is a company incorporated and resident in the UK. The financial statements are prepared in accordance with applicable United Kingdom accounting standards under the historical cost convention. The principal accounting policies are summarised below. They have all been applied consistently.

Basis of consolidation

The financial statements consolidate the accounts of Touch Local Limited and its subsidiary undertakings drawn up to 31 December each year. Acquisitions are accounted for under the acquisition method. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Going concern

The consolidated financial statements have been prepared on the going concern basis, notwithstanding a loss for the year of £6,925,000 (2007: loss £5,868,000), net current liabilities of £2,748,000 (2007: £217,000) and net liabilities of £3,813,000 (2007: £888,000) and Company net current liabilities of £3,429,000 (2007: net current liabilities of £417,000), net liabilities of £4,498,000 (2007: net liabilities of £1,095,000) which the directors believe to be appropriate for the following reason. The company is reliant for its working capital on funds provided to it by the company's shareholders, Balderton Capital Management (UK) Limited which has provided the company with an undertaking that it will, for at least 12 months from the date of the approval of these financial statements, continue to make available such funds as are needed by the company. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Cash flow Statement

The company has taken advantage of the exemption of being a small company under the Financial Reporting Standard No.1 (revised) 'Cash flow Statements' not to present a cash flow statement.

Intangible assets – licences

The fair value of acquired licences are amortised over their estimated useful lives or 20 years, whichever is the shorter. Provision is made for any impairment.

Goodwill

Goodwill, representing the excess of fair value of consideration given over the fair value of identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is 20 years. Provision is made for any impairment.

Intangible assets – Research and Development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development is also written off, except where the directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over a period of 3 to 5 years. Provision is made for any impairment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

1 ACCOUNTING POLICIES *(continued)*

Tangible fixed assets

Tangible fixed assets are stated at cost net of depreciation and any provision for impairment.

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

Leasehold improvements	- lower of lease term or asset life
Plant, vehicles and equipment	- 3 to 4 years

Investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is not discounted.

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

1 ACCOUNTING POLICIES *(continued)*

Classification of financial instruments issued by the Group (continued)

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Warrants

The fair value of warrants is calculated using the Black-Scholes Model in accordance with FRS 20 Share Based Payments. The resulting cost is charged against income over the vesting period of the warrants.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

For cash-settled share based payment transactions, the fair value of the amount payable to the employee is recognised as an expense with a corresponding increase in liabilities. The fair value is re-measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on an option pricing model taking in to account the terms and conditions upon which the instruments were granted. The liability is re-valued at each balance sheet date and settlement date with any changes to fair value being recognised in the profit and loss account.

Turnover

Turnover represents the amounts derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax.

All revenue except 3rd party directory products is recognised in equal monthly instalments over the length of the contract, as services are delivered.

3rd party directory products revenue is recognised at point of sale.

All turnover is derived from the provision of online marketing and web directory services in the United Kingdom.

NOTES TO THE FINANCIAL STATEMENTS (*Continued*)

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
<i>The loss on ordinary activities before taxation is stated after charging/ (crediting):</i>		
Waiver of balances due to former parent company	-	(34)
Impairment of intangible assets	-	398
Depreciation of intangible assets	32	11
Depreciation of owned assets	185	124

The analysis of auditors' remuneration is as follows:

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	15	20
Audit of Group companies pursuant to legislation	4	12
Non Audit Services	<u>5</u>	<u>5</u>
Total audit fees	<u>24</u>	<u>37</u>

3 DIRECTORS' REMUNERATION

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Directors' emoluments		
Remuneration	<u>391</u>	<u>318</u>

Total compensation of the highest paid director was £153,000 (2007:£169,000). The social security costs in 2008 were £34,101 (2007:£20,887)

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 STAFF COSTS

Group

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Staff costs during the period (including directors)		
Wages and salaries	6,010	3,476
Social security costs	<u>579</u>	<u>389</u>
	<u>6,589</u>	<u>3,865</u>
Average number of persons employed (including directors)	Number	Number
Administrative	21	15
Operational	<u>104</u>	<u>84</u>
Total	<u>125</u>	<u>99</u>

Company

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Staff costs during the period (including directors)		
Wages and salaries	5,002	2,814
Social security costs	<u>484</u>	<u>313</u>
	<u>5,486</u>	<u>3,127</u>
Average number of persons employed (including directors)	Number	Number
Administrative	20	11
Operational	<u>84</u>	<u>56</u>
Total	<u>104</u>	<u>67</u>

5 INTEREST

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Interest receivable and similar income		
Bank interest receivable	19	99
Interest on other loan	<u>-</u>	<u>10</u>
	<u>19</u>	<u>109</u>
Interest payable and similar charges		
Loan interest payable	<u>(453)</u>	<u>(7)</u>
	<u>(453)</u>	<u>(7)</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

6 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no current UK tax charge for the year (2007: *£nil*) due to losses made in the year. At the future tax rate of 28% (2007: 30%) the accumulated tax losses and the benefit of other timing differences give rise to a potential deferred tax asset of £9,100,000 (2007: £7,135,000), which has not been recognised because of the uncertainty of future profits with which to utilise the losses.

Factors affecting the tax charge for the current period

The current tax charge for the period is higher (2007: *higher*) than the standard rate of corporation tax in the UK (28.5%, 2007 :30 %). The differences are explained below.

	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Loss on ordinary activities before tax	(6,925)	(5,868)
Tax on ordinary activities at the standard rate of 28.5% (2007 – 30%)	(1,974)	(1,760)
<i>Factors affecting the charge for the year:</i>		
Expenses not deductible for tax purposes	31	158
Capital allowances in excess of depreciation	(17)	(51)
Other timing differences	6	(19)
Tax losses not utilised	1,954	1,672
Total current tax charge	<u>-</u>	<u>-</u>

7 LOSS ATTRIBUTABLE TO TOUCH LOCAL LIMITED

The loss for the year ended 31 December 2008 was £7,403,000 (2007: *loss £8,136,000*). As provided by Section 230 of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8 INTANGIBLE FIXED ASSETS

	Goodwill	Licences	Development costs	Total
GROUP	£'000	£'000	£'000	£'000
Cost				
At 1 January 2008	556	27	32	615
Additions	-	6	56	62
At 31 December 2008	<u>556</u>	<u>33</u>	<u>88</u>	<u>677</u>
Amortisation				
At 1 January 2008	556	6	5	567
Charge for the year	-	17	15	32
At 31 December 2008	<u>556</u>	<u>23</u>	<u>20</u>	<u>599</u>
Net book value				
At 31 December 2008	<u>-</u>	<u>10</u>	<u>68</u>	<u>78</u>
At 31 December 2007	<u>-</u>	<u>21</u>	<u>27</u>	<u>48</u>

The directors have assessed the carrying value of the goodwill as £nil and therefore have fully impaired goodwill balances.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8 INTANGIBLE FIXED ASSETS (continued)

	Licences	Development costs	Total
COMPANY	£'000	£'000	£'000
Cost			
At 1 January 2008	27	32	59
Additions	6	56	62
At 31 December 2008	<u>33</u>	<u>88</u>	<u>121</u>
Amortisation			
At 1 January 2008	6	5	11
Charge for the year	17	15	32
At 31 December 2008	<u>23</u>	<u>20</u>	<u>43</u>
Net book value			
At 31 December 2008	<u>10</u>	<u>68</u>	<u>78</u>
At 31 December 2007	<u>21</u>	<u>27</u>	<u>48</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

9 TANGIBLE FIXED ASSETS

GROUP	Leasehold improvements	Plant, vehicles and equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2008	256	1,628	1,884
Additions	16	118	134
At 31 December 2008	<u>272</u>	<u>1,746</u>	<u>2,018</u>
Depreciation			
At 1 January 2008	48	1,405	1,453
Charge for the year	63	122	185
At 31 December 2008	<u>111</u>	<u>1,527</u>	<u>1,638</u>
Net book value			
At 31 December 2008	<u>161</u>	<u>219</u>	<u>380</u>
At 31 December 2007	<u>208</u>	<u>223</u>	<u>431</u>

COMPANY	Leasehold improvements	Plant, vehicles and equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2008	256	1,521	1,777
Additions	16	118	134
At 31 December 2008	<u>272</u>	<u>1,639</u>	<u>1,911</u>
Depreciation			
At 1 January 2008	48	1,305	1,353
Charge for the year	63	119	182
At 31 December 2008	<u>111</u>	<u>1,424</u>	<u>1,535</u>
Net book value			
At 31 December 2008	<u>161</u>	<u>215</u>	<u>376</u>
At 31 December 2007	<u>208</u>	<u>216</u>	<u>424</u>

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 DEBTORS

	Group		Company	
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade debtors	689	1,573	559	1,361
Other debtors	13	266	13	12
Prepayments and accrued income	872	340	241	338
	<u>1,574</u>	<u>2,179</u>	<u>813</u>	<u>1,711</u>

11 CREDITORS: amounts falling due within one year

	Group		Company	
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade creditors	273	603	268	477
Taxes and social security	336	61	311	25
Loans	1,892	585	1,892	585
Accruals and deferred income	1,993	1,714	1,927	1,342
	<u>4,494</u>	<u>2,963</u>	<u>4,398</u>	<u>2,429</u>

12 CREDITORS: amounts falling due after more than one year

	Group		Company	
	31 December	31 December	31 December	31 December
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Loans	1,523	1,101	1,523	1,101
Accruals	-	49	-	49
	<u>1,523</u>	<u>1,150</u>	<u>1,523</u>	<u>1,150</u>

On the 19th December 2008 Balderton Capital subscribed for £700,000 of Variable Rate Convertible Loan Stock. The Loan Stock pays annual interest of 3% above the Bank of England Base Rate and can be converted into 'A' Ordinary shares at a price of £1.9718 per share, or if the Company secures additional equity finance prior to 31st March 2009 then at the price per share of that round discounted by 20%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 CALLED-UP SHARE CAPITAL

31 December 2007	Number	Amount £
<i>Authorised:</i>		
Ordinary shares of 0.01p each	1,076,867	108
'A' shares of 0.01p each	2,840,000	284
'B' shares of 0.01p each	17,999,999,999	1,800,000
	<u>18,003,916,866</u>	<u>1,800,392</u>
<i>Allotted, called up and fully paid</i>		
Ordinary shares of 0.01p each	585,776	59
'A' shares of 0.01p each	2,840,000	284
	<u>3,425,776</u>	<u>343</u>
 31 December 2008	 Number	 Amount £
<i>Authorised:</i>		
Ordinary shares of 0.01p each	833,038	83
A shares of 0.01p each	18,002,839,999	1,800,284
B shares of 0.01p each	583,135	58
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of 0.01p each	341,957	34
A shares of 0.01p each	4,462,857	446
B shares of 0.01p each	393,371	39
	<u>5,198,185</u>	<u>519</u>

On the 3rd April 2008 10 Ordinary Shares were issued for consideration of £25. On the 7th April 2008 243,829 Ordinary Shares were bought back for £24. On 21 May 2008 1,622,857 A Ordinary shares were issued for £4m. On 16 December 2008 393,371 B Ordinary shares were issued at par.

On the 26th January 2009 Balderton Capital subscribed for an additional 1,392,751 'A' Ordinary Shares at a price of £1.651408 for a total consideration of £2,300,000.

On the same date, the £700,000 Variable Rate Convertible Loan Stock issued on the 19th December 2008 was converted, including accrued interest, into 533,117 'A' Shares at a conversion price of £1.321127.

The A Shares, B Shares, Ordinary Shares and Deferred Shares shall be entitled to the following rights:

Voting in general meetings

The holders of the A Shares, B Shares and the Ordinary Shares shall be entitled to receive notice of and to attend and vote at the general meeting of the Company. The Deferred Shares shall not confer any entitlement to vote at a general meeting of the Company.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13 CALLED-UP SHARE CAPITAL *(Continued)*

Dividends

All dividends declared by the Company shall be payable to the holders of the A Shares and the holders of the Ordinary Shares *pari passu* as if the same were one class of the Shares, and shall be distributed *pro rata* according to the number of Shares held by them respectively. The Deferred Shares shall not confer any right to participate in any dividend declared by the Company.

Conversion

Immediately on the request in writing, at any time, by an A Shareholder, the A Shares held by such A Shareholder can be converted into Ordinary Shares at the rate of one Ordinary Share for every A Share.

Immediately on the request in writing, at any time, by a B Shareholder, the B Shares held by such B Shareholder can be converted into Ordinary Shares at the rate of one Ordinary Share for every B Share.

The Ordinary Shares arising on such conversion and redesignation shall rank *pari passu* with the Ordinary Shares then in issue and fully paid up and shall entitle the holders of such Ordinary Shares to all dividends and other distributions declared, made or paid on the Ordinary Shares by reference to any record date occurring after the date of the Conversion Date.

Capital Rights

On a return of assets on a liquidation or a winding-up, reduction of capital or otherwise, the assets of the Company remaining after payment of such liabilities as it is necessary to discharge to effect the distribution shall be distributed based on a complex formula laid out in the Articles of Association.

TOUCH LOCAL LIMITED
Directors' report and financial statements
31 December 2008

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 COMBINED STATEMENTS OF MOVEMENTS IN SHAREHOLDERS' (DEFICIT)/FUNDS AND STATEMENT OF MOVEMENTS ON RESERVES

GROUP

	Issued share capital	Share premium account	Capital redemption reserve	Profit and loss account	Year ended 31 December 2008	Year ended 31 December 2007
	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	-	13,060	12,200	(26,148)	(888)	6,840
Issue of share capital	-	4,000	-	-	4,000	-
Loss for the year	-	-	-	(6,925)	(6,925)	(5,868)
Warrants Issued	-	-	-	-	-	140
Share buy back	-	-	-	-	-	(2,000)
At end of year	-	17,060	12,200	(33,073)	(3,813)	(888)

COMPANY

	Issued share capital	Share premium account	Capital redemption reserve	Profit and loss account	Year ended 31 December 2008	Year ended 31 December 2007
	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	-	13,060	12,200	(26,355)	(1,095)	8,900
Issue of share capital	-	4,000	-	-	4,000	-
Loss for the year	-	-	-	(7,403)	(7,403)	(8,135)
Warrants issued	-	-	-	-	-	140
Share buy back	-	-	-	-	-	(2,000)
At end of year	-	17,060	12,200	(33,758)	(4,498)	(1,095)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

15 OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

Group	31 December 2008 £'000 Land and buildings	31 December 2007 £'000 Land and buildings
Leases which expire	190	-
- within two to five years	-	190
- over five years		
 Company	 31 December 2008 £'000 Land and buildings	 31 December 2007 £'000 Land and buildings
Leases which expire	190	-
- within two to five years	-	190
- over five years		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 EMPLOYEE SHARE OPTION SCHEMES

Share based payments – Group

On the 14th December 2007 the Group established an Unapproved Share Option Plan. The purpose of the Plan is to make Share Option grants to Directors and certain employees. The Options vest in equal amounts annually in arrears over a three or four year vesting period. Vested options may be exercised on a sale or flotation of the company or when an employee leaves the company. Transactions are recorded in the books of Touch Local Ltd; there are no other employee share option schemes in Touch Local group.

The terms and conditions of grants are as follows:

Grant date/ Employees entitled/ nature of scheme	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
2007 Unapproved Share Option grants	Equity	11,000	Evenly over 3 years, annually in arrears	2016
2007 Unapproved Share Option grants	Equity	58,459	Evenly over 4 years, annually in arrears	2016

The number and weighted average exercise prices of share options are as follows:

	2008 Weighted average exercise price	2008 Number of options	2007 Weighted average exercise price	2007 Number of options
Outstanding at the beginning of the year	0.01p	214,500	n/a	n/a
Granted during the year	25.00p	69,459	0.01p	214,500
Lapsed	0.01p	(122,000)	n/a	n/a
Outstanding at the end of the year	10.73p	161,959	0.01p	214,500
Exercisable at the end of the year	8.6p	46,417	nil	nil

No charge was made in the year in relation to the share option scheme as the amount is deemed to be insignificant.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17 SHARE BASED PAYMENTS WARRANTS

In 2007, 156,153 Warrants in Touch Local Ltd were issued against a loan. These warrants expire 16 December 2017, and have an exercise price of £2.46. No other Warrants were issued in group companies.

A £69,708 charge has been accounted for within the profit and loss account for 2008 in relation to warrants.

The terms and conditions of grants are as follows:

Grant date / nature of scheme	Method of settlement accounting	Number of instruments	Vesting conditions	Contractual life of options
Equity settled Warrant to Kreos Capital granted by Touch Local on 16/12/2007	Equity	78,076	Earlier of a sale, listing or 16/12/2017	16/12/2017
Equity settled Warrant to SVB granted by Touch Local on 16/12/2007	Equity	78,076	Earlier of a sale, listing or 16/12/2017	16/12/2017

The fair values of services received in return for warrants granted are measured by reference to the fair value of warrants granted. The estimate of the fair value of the services received is measured based on the Black Scholes model. Measurement inputs and assumptions are as follows.

	2008 Kreos Loan	2008 SVB Loan	2007 Kreos Loan	2007 SVB Loan
Fair value at measurement date	£70,596	£70,596	£70,596	£70,596
Weighted average share price	£1.57	£1.57	£1.57	£1.57
Exercise price	£2.46	£2.46	£2.46	£2.46
Expected volatility (expressed as a percentage used in the modelling under Black Scholes model)	50.75%	50.75%	50.75%	50.75%
Warrant life	10 Years	10 Years	10 Years	10 Years
Expected dividends	-	-	-	-
Risk free interest rate (based on national government bonds)	4.53%	4.53%	4.53%	4.53%

The expected volatility is based on the average historic volatility of businesses in the same market as Touch Local, adjusted for any expected changes to future volatility due to publicly available information.

18 RELATED PARTY TRANSACTIONS

The group has taken advantage of the exemption in Financial Reporting Standard Number 8 from disclosure in respect of intergroup related party transactions.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

19 SUBSIDIARY UNDERTAKINGS

The subsidiaries of Touch Local Limited, which are all incorporated in Great Britain and registered in England and Wales, are as follows:

Name of company	% holding	Nature of Business
Touch NW Limited	100%	Marketing and web services
Touch Job Limited	100%	Non- trading

20 POST BALANCE SHEET EVENTS

On the 26th January 2009 Balderton Capital subscribed for an additional 1,392,751 'A' Ordinary Shares at a price of £1.651408 for a total consideration of £2,300,000.

On the same date, a £700,000 Variable Rate Convertible Loan Stock issued on the 19th December 2008 was converted, including accrued interest, into 533,117 'A' Shares at a conversion price of £1.321127.

On the 3rd July 2009 Balderton Capital subscribed for £300,000 of Unsecured Convertible Loan Stock and a further £300,000 on the 21st July 2009. The Loan Stock carries an annual interest rate of 6%, and if not repaid by the Company by 30th June 2010, will convert into 'A' Shares at a price of £1.651408 per share, or if the Company secures additional equity finance prior to 30th June 2010 then at the price per share of that round discounted by 20%.

On 23rd September 2009 the company acquired the entire share capital of Enable Media Limited from ITV Plc. The consideration for the purchase is up to £1,000,000 wholly payable by way of deferred consideration. Enable Media Limited is a leading provider of online business directory, owning the Scoot and AskAlix brands.

21 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's immediate and ultimate parent and controlling company is Balderton Capital III, LP. Balderton Capital does not consolidate Touch Local Limited.