

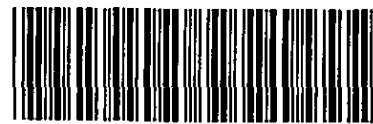
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

TOUCH LOCAL LIMITED

31 DECEMBER 2011

Registered No 02885607

FRIDAY



L11F776B

LD3

28/09/2012

#363

COMPANIES HOUSE

TOUCH LOCAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

CONTENTS	Page
Officers and professional advisers	2
Directors' report	3
Statement of directors' responsibilities in respect of the Directors' Report and the 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
Consolidated Cash Flow Statement	11
Statement of movement in Shareholders' funds	12
Notes to the financial statements	13

TOUCH LOCAL LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2011

**OFFICERS AND PROFESSIONAL ADVISERS
DIRECTORS**

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

Gary Dannatt
Mark Livingstone
Barry Maloney

SECRETARY

Gary Dannatt

REGISTERED OFFICE

16th Floor
89 Albert Embankment
London
SE1 7TP

BANKERS

NatWest Bank plc
Westminster Branch
PO Box 3038
57 Victoria Street
London
SW1H 0HN

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

TOUCH LOCAL LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2011

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

Consolidated financial statements have been prepared comprising the results of the company and its wholly owned subsidiaries Touch (NW) Limited, Enable Media Limited and Central Index Limited. The consolidated loss for the year ended 31 December 2011 after taxation amounted to £627,000 (2010 £4,301,000) and has been deducted from reserves. The loss attributable to the company for the year ended 31st December 2011 after taxation amounted to £747,000 (2010 £4,303,000).

The directors do not recommend any dividend on the ordinary shares in respect of the year ended 31 December 2011 (2010 *£nil*).

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 sales headcount to sell further advertising space on this platform.

The business continues to promote its online directory network via customers with a wide audience reach and a comprehensive suite of online marketing products.

POST BALANCE SHEET EVENTS

On 2nd April 2012 a further loan facility of £330,000 was made available by Balderton Capital. The facility carries an interest rate of 2% above the Bank of England base rate, and £213,333 was repaid on 13th June 2012.

On 13th June 2012 the Company received a new 2 year loan facility from BMS Finance of £1,250,000. The facility carries an interest rate of 18%.

TOUCH LOCAL LIMITED

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 ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

AUDITORS

In accordance with Section 487 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

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



Gary Dannatt

Director

28 September 2012

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 group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 parent company and of their profit or loss for that period

In preparing each of the group and parent company 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 adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006. They have 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



KPMG LLP
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Touch Local Limited

We have audited the financial statements of Touch Local Limited for the year ended 31 December 2011 set out on pages 8 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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, and express an opinion on, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

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 31 December 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK 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.

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

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's 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

Andy Turner
Senior Statutory Auditor
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

8 Salisbury Square
London
EC4Y 8BB

28 September 2012

TOUCH LOCAL LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2011

		Year ended 31 December 2011	Year ended 31 December 2010
	Notes	£'000	£'000
TURNOVER	1	8 972	9,220
Cost of sales		(1,279)	(1,489)
GROSS PROFIT		<u>7 693</u>	<u>7,731</u>
Administrative expenses excluding goodwill impairment		(8,102)	(11,516)
Goodwill impairment	7	-	(278)
Total Administrative expenses		<u>(8,102)</u>	<u>(11,794)</u>
OPERATING LOSS		<u>(409)</u>	<u>(4,063)</u>
Interest payable and similar charges	5	(218)	(238)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	2	<u>(627)</u>	<u>(4,301)</u>
Tax on loss on ordinary activities	6	-	-
LOSS AFTER TAXATION FOR THE FINANCIAL YEAR		<u>(627)</u>	<u>(4 301)</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 £627,000 (2010 £4,301,000)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

		31 December 2011	31 December 2010
	Notes	£'000	£'000
FIXED ASSETS			
Intangible assets	7	-	365
Tangible assets	8	151	245
		<u>151</u>	<u>610</u>
CURRENT ASSETS			
Debtors	10	426	581
Cash at bank and in hand		64	213
		<u>490</u>	<u>794</u>
CREDITORS amounts falling due within one year	11	(5,904)	(6,793)
NET CURRENT LIABILITIES		<u>(5,414)</u>	<u>(5,999)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(5,263)</u>	<u>(5,389)</u>
CREDITORS amounts falling due after more than one year	12	(1,596)	(853)
NET LIABILITIES		<u>(6,859)</u>	<u>(6,242)</u>
CAPITAL AND RESERVES			
Called-up share capital	13	1	1
Share premium account	14	23,695	23,685
Capital redemption reserve	14	12,200	12,200
Profit and loss account	14	(42,755)	(42,128)
SHAREHOLDERS' DEFICIT		<u>(6,859)</u>	<u>(6,242)</u>

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

Approved and authorised for issue by the board on 28 September 2012 and signed on its behalf by



Gary Dannatt
Director

Company Number 02885607

TOUCH LOCAL LIMITED

COMPANY BALANCE SHEET

As at 31 December 2011

		31 December 2011	31 December 2010
	Notes	£'000	£'000
FIXED ASSETS			
Intangible assets	7	-	322
Tangible assets	8	45	149
		<u>45</u>	<u>471</u>
CURRENT ASSETS			
Debtors	10	208	301
Cash at bank and in hand		40	66
		<u>248</u>	<u>367</u>
CREDITORS amounts falling due within one year	11	(6 200)	(6,751)
NET CURRENT LIABILITIES		<u>(5 952)</u>	<u>(6,384)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(5,907)	(5,913)
CREDITORS amounts falling due after more than one year	12	(1 596)	(853)
NET LIABILITIES		<u>(7,503)</u>	<u>(6,766)</u>
CAPITAL AND RESERVES			
Called-up share capital	13	1	1
Share premium account	14	23,695	23,685
Capital redemption reserve	14	12,200	12,200
Profit and loss account	14	(43,399)	(42,652)
SHAREHOLDERS' DEFICIT		<u>(7 503)</u>	<u>(6,766)</u>

The accompanying notes are an integral part of this balance sheet

Approved and authorised for issue by the board on 28 September 2012 and signed on its behalf by



Gary Dannatt
Director

Company Number 02885607

TOUCH LOCAL LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

	<i>Notes</i>	2011 £'000	2010 £'000
Cash flow from operating activities	18	(451)	(1,568)
Dividends from joint ventures and associates	19	-	-
Returns on investments and servicing of finance	19	(218)	(238)
Taxation		-	-
Capital expenditure and financial investment	19	(266)	(417)
Acquisitions and disposals	19	-	(278)
Dividends paid on shares classified in shareholders funds		-	-
Cash (outflow)/inflow before management of liquid resources and financing		(931)	(2 501)
Management of liquid resources	19	-	-
Financing	19	787	2,501
Decrease in cash in the period		(148)	-
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT	20		
Decrease in cash in the period		(148)	-
Cash inflow from increase in debt and lease financing		(1,000)	(500)
Cash outflow from repayments in debt financing		223	999
Change in net debt resulting from cash flows		(925)	499
Decrease in debt resulting from conversion of debt to equity		-	625
Movement in net debt in the period		(925)	1,124
Net debt at the start of the period		(1,024)	(2 148)
Net debt at the end of the period		(1,949)	(1,024)

The accompanying notes are an integral part of this consolidated cash flow statement

Approved and authorised for issue by the board on 28 September 2012 and signed on its behalf by



Gary Dannatt
Director

TOUCH LOCAL LIMITED**STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS****GROUP**

	31 December 2011	31 December 2010
	£'000	£'000
Loss for the year	(627)	(4 301)
Increase in share capital	-	-
Increase in share premium	10	3,625
Net movement in shareholders' deficit	<u>(617)</u>	<u>(676)</u>
Opening shareholders' deficit	(6,242)	(5 566)
Closing shareholders' deficit	(6,859)	(6,242)

COMPANY

	31 December 2011	31 December 2010
	£'000	£'000
Loss for the year	(747)	(4 303)
Increase in share capital	-	-
Increase in share premium	10	3 625
Net movement in shareholders' deficit	<u>(737)</u>	<u>(678)</u>
Opening shareholders' deficit	(6,766)	(6,088)
Closing shareholders' deficit	(7 503)	(6,766)

TOUCH LOCAL LIMITED

Notes

(Forming part of the financial statements)

1 STATEMENT OF ACCOUNTING POLICIES

Basis of accounting

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 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

Going Concern

The financial statements have been prepared on the going concern basis, notwithstanding a loss for the year of £627,000 (2010: loss £4,301,000), net current liabilities of £5,414,000 (2010: £5,999,000) and net liabilities of £6,859,000 (2010: £6,242,000) which the directors believe to be appropriate for the following reasons. The directors have prepared a forecast, and have also run a number of sensitivities on the company's forecasts and projections. Under certain scenarios the company will require additional funding to cover working capital needs. To cover this eventuality the company has received an undertaking from Balderton Capital that it is their present intention for at least 12 months from the date of the approval of these financial statements, to provide the necessary support to ensure the company has received sufficient funding to cover such eventualities. 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 group 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.

It is on this basis that the directors consider it appropriate to prepare the financial statements on a going concern basis. However if, under certain scenarios the company was unable to obtain funding, the directors are of the view that the company might find itself under cash pressure which may jeopardise the preparation of accounts on a going concern basis and that consequent adjustments would therefore have to be made to the carrying value of both assets and liabilities.

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.

Intangible assets – Research and Development

Research expenditure is written off as 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.

Intangible assets – goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since incorporation is capitalised. Goodwill is assessed for impairment annually and impairment losses recognised in the period in which they are identified. Goodwill is amortised to nil by equal annual instalments over its estimated useful life of 20 years.

TOUCH LOCAL LIMITED

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 result 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 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 group'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

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

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised at the fair value of the asset with an equivalent liability categorised as appropriate under creditors within or after one year. The assets are depreciated over the shorter of the lease term or their useful lives. The interest element of rental obligations is apportioned over the term of the lease.

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

Provisions

A provision is recognised in the balance sheet when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected risk-adjusted and future cash flows at a pre-tax risk-free rate.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (continued)

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.

Classification of financial instruments issued by the Group (Continued)

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.

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.

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 remeasured 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 into 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.

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

All turnover is generated by one class of business and in one geographic area: the United Kingdom.

Government Grants

Government grants are recognised in the profit and loss account to the extent that the company has fulfilled their obligations under the grant. Income from government grants is shown net against the related expenditure. Any receipts received prior to the fulfilment of obligations are deferred until they meet the criteria for recognition.

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (continued)

Post Retirement Policy

The company makes contributions to the personnel pension schemes of certain employees. The amount charged to the profit and loss account represents contributions paid to the schemes in respect of the accounting period.

2 LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
The loss on ordinary activities before taxation is stated after charging/(crediting)		
Amortisation of intangible assets	200	128
Impairment of software licences	314	-
Depreciation of owned assets	211	266
Goodwill impairment	-	278
Government Grants	(68)	(57)

The analysis of auditors' remuneration is as follows

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	18	18
Audit of Group companies pursuant to legislation	11	11
Total audit fees	29	29

3 DIRECTORS' REMUNERATION

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Directors' emoluments		
Remuneration	437	437
Pension Contributions	13	13
	450	450

Total compensation of the highest paid director was £236,000 (2010: £236,000) and £13,000 (2010: £13,000) pension contributions were made on his behalf.

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 STAFF COSTS

Group

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Staff costs during the period (including directors)		
Wages and salaries	5 163	6 210
Social security costs	884	1 017
Pension Contributions	13	13
	<u>6,060</u>	<u>7 240</u>
Average number of persons employed (including directors)		
	Number	Number
Administrative	56	73
Operational	158	138
Total	<u>213</u>	<u>211</u>

5 INTEREST

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Loan interest payable	(218)	(238)
	<u>(218)</u>	<u>(238)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no current UK tax charge for the year (2010 £nil) due to losses made in the year. At the future tax rate of 25% (2010 28%) the accumulated tax losses and the benefit of other timing differences give rise to a potential deferred tax asset of £11,262,000 (2010 £12,100,000), which has not been recognised because of the uncertainty of future profits with which to utilise the losses.

The difference between the total current tax charge and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows:

	Year ended 31 December 2011 £'000	Year ended 31 December 2010 £'000
Loss on ordinary activities before tax	(627)	(4,301)
Tax on ordinary activities at the standard rate of 26.5% (2010 28%)	(166)	(1,204)
<i>Factors affecting the charge for the year</i>		
Permanent differences	44	104
Depreciation in excess of capital allowances	61	27
Other timing differences	(35)	-
Tax losses utilised	(82)	-
Tax losses carried forward	178	1,073
Total current tax charge	-	-

Factors that may affect future tax charges

The Finance Act 2011 substantively enacted a rate reduction such that the corporation tax rate was reduced to 26% with effect from 1 April 2011. Therefore the average corporation tax rate for the year ended 31 December 2011 is 26.5%. The Finance Act 2011 also substantively enacted a corporation tax rate of 25% with effect from 1 April 2012. Following announcements in the 2012 Budget on 21 March 2012, it was proposed that the full rate of corporation tax be reduced to 24% with effect from 1 April 2012, with further rate reductions ultimately bringing the corporation tax rate down to 22% with effect from 1 April 2014.

As the rate reduction from 25% to 24% was not substantively enacted at the balance sheet date the enacted rate of 25% has been applied to the timing differences at the balance sheet date.

The effect of the rate change to 22% if it had been enacted at the balance sheet date would be to reduce the potential deferred asset that has not been recognised by £1,351,000 to £9,911,000. The rate change will also impact the amount of the future cash tax payments to be made by the company.

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 INTANGIBLE FIXED ASSETS

	Goodwill	Licences	Development costs	Total
GROUP	£'000	£'000	£'000	£'000
Cost				
At 1 January 2011	834	459	128	1 421
Additions	-	127	22	149
At 31 December 2011	834	586	150	1,570
Amortisation				
At 1 January 2011	834	124	98	1,056
Charge for the year	-	168	32	200
Impairment	-	294	20	314
At 31 December 2011	834	586	150	1,570
Net book value				
At 31 December 2011	-	-	-	-
At 31 December 2010	-	335	30	365

The directors have assessed the carrying value of the goodwill as £nil and therefore have fully impaired goodwill balances due to the uncertainty as to what future cashflows will be attributable to the acquired business's current operations

The directors have undertaken a review of intangible assets and are of the opinion that licences with no commercial benefit to the company should be fully impaired

	Licences	Development costs	Total
COMPANY	£'000	£'000	£'000
Cost			
At 1 January 2011	393	128	521
Additions	127	22	149
At 31 December 2011	521	150	670
Amortisation			
At 1 January 2011	100	98	198
Charge for the year	149	32	181
Impairment	271	20	291
At 31 December 2011	521	150	670
Net book value			
At 31 December 2011	-	-	-
At 31 December 2010	292	30	322

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 TANGIBLE FIXED ASSETS

GROUP	Leasehold improvements	Plant, vehicles and equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2011	412	1,984	2,396
Additions	-	117	117
Disposals	-	(1,188)	(1,188)
At 31 December 2011	412	913	1,325
Depreciation			
At 1 January 2011	284	1,867	2,151
Charge for the year	68	60	128
Impairment	24	59	83
Disposals	-	(1,188)	(1,188)
At 31 December 2011	376	798	1,174
Net book value			
At 31 December 2011	36	115	151
At 31 December 2010	128	117	245

The directors have undertaken a review of the tangible assets which has resulted in the impairment of out-dated IT equipment

COMPANY	Leasehold improvements	Plant, vehicles and equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2011	274	1,774	2,048
Additions	19	35	54
Disposals	-	(1,188)	(1,188)
At 31 December 2011	293	621	914
Depreciation			
At 1 January 2011	226	1,673	1,899
Charge for the year	32	66	98
Impairment	18	42	60
Disposals	-	(1,188)	(1,188)
At 31 December 2011	276	593	869
Net book value			
At 31 December 2011	17	28	45
At 31 December 2010	48	101	149

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

9 FIXED ASSET INVESTMENTS

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	Proportion of voting rights and ordinary share capital owned	Nature of Business
Touch Local NW Limited	100%	Marketing and web services
Touch Jobs Limited	100%	Non-trading
Enable Media Limited	100%	Marketing and web services
Ask Alix	100%	Non-trading
Central Index Limited	100%	White label Online business directories

10 DEBTORS

	Group		Company	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	£'000	£'000	£'000	£'000
Trade debtors	174	97	63	-
Other debtors	45	44	45	44
Prepayments and accrued income	207	440	100	257
	<u>426</u>	<u>581</u>	<u>208</u>	<u>301</u>

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 CREDITORS amounts falling due within one year

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Loans	417	384	417	384
Trade creditors	579	692	315	482
Taxes and social security	940	1 063	680	837
Accruals and deferred income	3 968	4,654	1,696	2 809
Amounts owed to group undertakings	-	-	3,092	2,239
	<u>5 904</u>	<u>6 793</u>	<u>6,200</u>	<u>6,751</u>

12 CREDITORS amounts falling due after more than one year

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Loans	1 596	853	1,596	853
	<u>1 596</u>	<u>853</u>	<u>1 596</u>	<u>853</u>

Analysis of loan maturity

	Group		Company	
	31 December 2011 £'000	31 December 2010 £'000	31 December 2011 £'000	31 December 2010 £'000
Within one year	417	384	417	384
Two – five years	1,596	853	1,596	853
Over five years	-	-	-	-
	<u>2,013</u>	<u>1,237</u>	<u>2,013</u>	<u>1,237</u>

Loans are secured by a fixed and floating charge over the group's assets

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 CALLED-UP SHARE CAPITAL

31 December 2010	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	347,438	35
A shares of 0.01p each	8,693,859	869
B shares of 0.01p each	518,552	52
	<u>9,559,849</u>	<u>956</u>

31 December 2011	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	1,346,273	135
C shares of 0.01p each	24	0
D shares of 0.01p each	1,346,273	135
E shares of 0.01p each	1,096,964	110
<i>Allotted, called up and fully paid.</i>		
Ordinary shares of 0.01p each	347,438	35
A shares of 0.01p each	8,693,859	869
B shares of 0.01p each	1,346,273	135
C shares of 0.01p each	24	0
D shares of 0.01p each	1,346,273	135
E shares of 0.01p each	1,096,964	110
	<u>12,830,811</u>	<u>1,284</u>

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13 CALLED-UP SHARE CAPITAL *(Continued)*

On the 22 June 2011 827 721 B Shares were subscribed for at a price of £0.01 per share amounting to a total consideration of £8,277.21 together with 24 C Shares at a price of £1.00 per share giving a total consideration of £24.00. 1 346 273 D Shares at a price of £0.001 per share giving a total consideration of £1,346.27 and 1 096,964 E Shares at par

The A Shares, B Shares, C Shares, D Shares, E Shares, Ordinary Shares and Deferred Shares shall be entitled to the following rights

Voting in general meetings

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

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 B Shares, C Shares, D Shares, E Shares and Deferred Shares shall not confer any right to participate in any dividend declared by the Company

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 STATEMENTS OF MOVEMENTS IN RESERVES

GROUP

	Issued share capital	Share premium account	Capital redemption reserve	Profit and loss account	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	1	23,685	12,200	(42,128)	(6,242)	(5,566)
Issue of share capital	-	10	-	-	10	3,625
Loss for the year	-	-	-	(627)	(627)	(4,301)
At end of year	1	23,695	12,200	(42,755)	(6,859)	(6,242)

COMPANY

	Issued share capital	Share premium account	Capital redemption reserve	Profit and loss account	Year ended 31 December 2011	Year ended 31 December 2010
	£'000	£'000	£'000	£'000	£'000	£'000
At beginning of year	1	23,685	12,200	(42,652)	(6,766)	(6,088)
Issue of share capital	-	10	-	-	10	3,625
Retained loss for the year	-	-	-	(747)	(747)	(4,303)
At end of year	1	23,695	12,200	(43,399)	(7,503)	(6,766)

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows

Group	31 December 2011 £'000 Land and buildings	31 December 2010 £'000 Land and Buildings
Leases which expire		
Within one year	-	-
Within two to five years	582	354
Over five years	-	-
	582	354
Company	31 December 2011 £'000 Land and buildings	31 December 2010 £'000 Land and Buildings
Leases which expire		
Within one year	-	-
Within two to five years	268	190
Over five years	-	-
	268	190

TOUCH LOCAL LIMITED

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 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	64,600	Evenly over 4 years, annually in arrears	2018
2007 Unapproved Share Option grants	Equity	132,000	Evenly over 2 years, annually in arrears	2018

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

	2011 Weighted average exercise price	2011 Number of options
Outstanding at the beginning of the year	60.40p	191,781
Granted during the year	80.00p	196,600
Lapsed	0.01p	(23,500)
Outstanding at the end of the year	69.70p	364,881
Exercisable at the end of the year	nil	nil

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

TOUCH LOCAL LIMITED

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 £667 charge has been accounted for within the profit and loss account for 2011 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
Fair value at measurement date	£70,596	£70,596
Weighted average share price	£1.57	£1.57
Exercise price	£2.46	£2.46
Expected volatility (expressed as a percentage used in the modelling under Black Scholes model)	50.75%	50.75%
Warrant life	10 Years	10 Years
Expected dividends	-	-
Risk free interest rate (based on national government bonds)	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 RECONCILIATION OF OPERATING PROFIT/(LOSS) TO OPERATING CASH FLOWS

	2011	2010
	£000	£000
Operating loss	(409)	(4,063)
Depreciation, amortisation and impairment charges	725	672
Decrease in debtors	155	320
Decrease/(increase) in creditors	(922)	1,503
Net cash outflow from operating activities	(451)	(1,568)

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 ANALYSIS OF CASH FLOWS

	<i>Notes</i>	2011 £000	2011 £000	2010 £000	2010 £000
Returns on investment and servicing of finance					
Interest paid		(218)		(238)	
		<u>(218)</u>		<u>(238)</u>	
			(218)		(238)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(117)		(63)	
Purchase of intangible fixed assets		(149)		(354)	
		<u>(266)</u>		<u>(417)</u>	
			(266)		(417)
Acquisitions and disposals					
Purchase of subsidiary undertaking		-		(273)	
Net liabilities acquired with subsidiary		-		(5)	
		<u>-</u>		<u>(278)</u>	
			-		(278)
Financing					
Issue of ordinary share capital		11		3,000	
Debt due within one year					
Cash inflow from Issue of convertible debt		-		-	
Cash inflow from additional loan finance		1,000		500	
Net cash outflow from loan repayments		(257)		(927)	
Debt due after more than one year					
Net cash outflow from loan repayments		33		(72)	
		<u>787</u>		<u>2,501</u>	
			787		2,501

TOUCH LOCAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 ANALYSIS OF NET DEBT

	At beginning of year £000	Cash flow £000	Other non cash changes £000	At end of year £000
Cash in hand at bank	213	(149)	-	64
Debt due after one year	853	743	-	1,596
Debt due within one year	384	33	-	417
Net Debt	1,024	925	-	1,949

21 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

22 POST BALANCE SHEET EVENTS

On 2nd April 2012 a further loan facility of £330,000 was made provided by Balderton Capital. The facility carries an interest rate of 2% above the Bank of England base rate, and £213,333 was repaid on 13th June 2012.

On 13th June 2012 the Company received a new 2 year loan facility from BMS Finance of £1,250,000. The facility carries an interest rate of 18%.

23 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.