

**Company registration number 05717612**

**WE7 Limited**

**Directors' Report and Financial Statements**

**for the year ended 31 December 2011**

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# **WE7 Limited**

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# **WE7 Limited**

## **Company information**

### **Directors**

G J Taysom (resigned 14/6/2012)  
S Purdham  
G Reakes  
M D Large (resigned 14/6/2012)  
C Grimsdale (resigned 14/6/2012)  
M Moens (resigned 14/6/2012)  
J Lloyd (appointed 14/6/2012)  
M George (appointed 14/6/2012), (resigned 15/6/2012)

### **Company secretary**

Sumit (Company Secretary) Limited

### **Registered office**

17 Cosgrove Road  
Old Stratford  
Milton Keynes  
MK19 6AG

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Thames Valley Office  
The Atrium  
1 Harefield Road  
Uxbridge  
UB8 1EX

### **Bankers**

Bank of Scotland  
Teviot House  
41 South Gyle Crescent  
Edinburgh  
EH12 9DR

### **Solicitors**

Manches LLP  
9400 Garsington Road  
Oxford Business Park  
Oxford  
OX4 2HN

# **WE7 Limited**

## **Report of the directors for the year ended 31 December 2011**

The directors present their annual report and audited financial statements of the Company for the year ended 31 December 2011. The report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the companies Act 2006

### **Company registered number**

The registered number of the Company is 05717612

### **Business review and principal activities**

The principal activity of the Company during the year was to build, promote and evangelize a new model for the distribution of digital recorded music, providing a cloud based music platform which lets music lovers listen to music which is personalised for them and giving them the ability to select specific requests as and when they wish. The economic models that this presents are primarily an advertising based platform (similar to commercial radio) and for music fanatics, a monthly subscription service.

The fundamental business model for WE7 Ltd is the use of great music to attract great audiences.

There are 51.9 million people age 15+ in the UK, and 46.7m listen to Radio each week, showing that Radio is still one of the most 'mass market' modes of consuming music. 4.6% listen via the Internet and this has grown 37% year on year. WE7 Ltd is looking to this sector for its future growth and potential.

### **Results and dividends**

The Company's loss after tax for the year was £3,301,113 (2010: £2,969,346). The directors do not recommend a payment of dividend for the year (2010: Nil).

### **Post balance sheet events**

In January 2012 the second tranche of funding (agreed in May 2011) was received from shareholders totalling £2.1m. An R&D tax credit was claimed after the year end and will be included in the 2012 Statutory Accounts. On June 14<sup>th</sup> 2012 Tesco Holdings Ltd acquired 100% shareholding in We7.

### **Charitable and political donations**

There were no charitable or political donations for the period (2011: none).

### **Employees**

The Company had 35 employees during the period (2011: 26).

### **Future Outlook**

The transition to 'Radio with requests' makes the economic model more achievable and provides a solid level of encouragement to push for scale.

# **WE7 Limited**

## **Report of the directors for the year ended 31 December 2011 (continued)**

### **Going concern**

As is common for a relatively young company, the Company's forecast projections assume forecast increases in the level of revenue and costs from the successful implementation of the Company's business strategy

The Directors recognise that the timing and amount of increases in revenues and costs arising is not guaranteed and that as a result the Company's financial position cannot be certain. This indicates the existence of a material uncertainty, which may cast significant doubt over the Company's ability to continue as a going concern.

However, the Directors believe that following the acquisition of the company by Tesco Holdings Ltd, they have a reasonable expectation that the Company will have sufficient working capital for the foreseeable future and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis.

The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required, these adjustments would be made to the balance sheet of the Company to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

On 26 September 2012, Tesco PLC provided a letter of support to the Company stating Tesco PLC accepts responsibility for providing and undertakes to provide sufficient financial assistance to WE7 Limited as and when it is needed to enable WE7 Limited to continue its operations and fulfil all of its financial obligations now and in the future.

### **Cautionary statement regarding forward-looking information**

Where this review contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of important factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

# **WE7 Limited**

## **Report of the directors for the year ended 31 December 2011 (continued)**

### **Directors**

Directors who served during the year and up to the date of signing the financial statements were as follows

Graham Taysom (resigned 14/6/2012)  
Stephen Purdham  
Gareth Reakes  
Michael Large (resigned 14/6/2012)  
Charles Grimsdale (resigned 14/6/2012)  
Marc Moens (resigned 14/6/2012)  
New Media Spark Directors Limited (resigned 13 April 2011)  
J Lloyd (appointed 14/6/2012)  
M George (appointed 14/6/2012), (resigned 15/6/2012)

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Report of the Directors 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 prepared the 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 company and of the profit or loss of the company 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,

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 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Statement as to Disclosure of information to auditors**

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

This report has been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 relating to small companies.

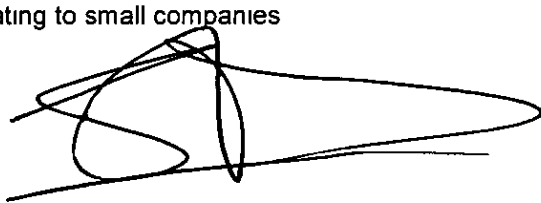
On behalf of the Board

Stephen Purdham  
Director

September 2012

We7 company number 05717612

Registered Office Address 17 Cosgrove Road, Old Stratford, Milton Keynes, MK19 6AG



# **WE7 Limited**

## **Independent auditors' report to the members of WE7 Limited**

We have audited the financial statements of WE7 Limited for the year ended 31 December 2011 which comprise Profit and loss account, the Balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, 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 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 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 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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, 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.

### **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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or

## **WE7 Limited**

### **Independent auditors' report to the members of WE7 Limited (continued)**

- 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, or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' Report



David Beer (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
St Albans

 September 2012

## WE7 Limited

### Profit and loss account for the year ended 31 December 2011

		2011	2010
	Note	£	£
Turnover	1	792,678	965,374
Cost of sales		(822,066)	(1,904,535)
Gross loss		(29,388)	(939,161)
Administrative expenses		(3,284,918)	(2,254,423)
Operating loss	2	(3,314,306)	(3,193,584)
Interest receivable and similar income		13,193	12,679
Loss on ordinary activities before Taxation		(3,301,113)	(3,180,905)
Tax on loss on ordinary activities	4	-	211,559
Loss for the financial year	12	(3,301,113)	(2,969,346)

The results for the year derive entirely from continuing activities

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

There is no material difference between the loss on ordinary activities before taxation and retained loss for the financial years stated above and their historical cost equivalents

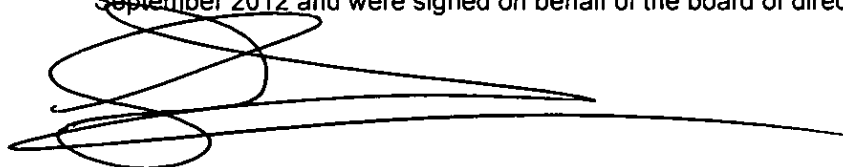
# WE7 Limited

## Balance sheet as at 31 December 2011

		2011	2010
	Note	£	£
<b>Fixed assets</b>			
Tangible assets	5	93,597	95,046
<b>Current assets</b>			
Debtors	6	693,946	749,411
Cash at bank and in hand		233,500	156,777
<b>Total current assets</b>		927,446	906,188
<b>Creditors' amounts falling due within one year</b>	7	(1,761,866)	(2,261,187)
<b>Net current (liabilities)/assets</b>		(834,420)	(1,354,999)
<b>Total assets less current liabilities</b>		(740,823)	(1,259,953)
<b>Net liabilities</b>		(740,823)	(1,259,953)
<b>Capital and reserves</b>			
Called up share capital	10	8,835	2,968
Share premium account	12	13,787,720	9,973,344
Profit and loss account	12	(14,537,378)	(11,236,265)
<b>Total shareholders' deficit</b>		(740,823)	(1,259,953)

These financial statements have been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006 and with the Financial Reporting Standard for Smaller Entities (effective April 2008)

The financial statements on pages 7 to 16 were approved by the Board of Directors on September 2012 and were signed on behalf of the board of directors by



**S Purdham**  
Director

**We7**  
Company registration number 05717612

# **WE7 Limited**

## **Notes to the financial statements for the year ended 31 December 2011**

### **1 Accounting policies**

#### **Basis of accounting**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with special provision of Part 15 of the Companies Act 2006 applicable to small companies and in accordance with the Financial Reporting Standards for smaller entities (effective April 2008). The principal accounting policies, which have been applied consistently throughout the year, are set out below.

#### **Going concern**

The continued high cost of music licencing ensures that the Company's forecast projections predict the Company will continue to incur losses with the successful implementation of the Company's business strategy. The business has started to generate some positive gross margins but will need significant growth to achieve breakeven.

The Directors recognise the Company's financial position cannot be certain however, following the acquisition of the company by Tesco Holdings Ltd, they have a reasonable expectation that the Company will have sufficient working capital for the foreseeable future and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis.

However, the Directors believe they have a reasonable expectation that the Company will be able to raise money or sell the business and consequently believe that it is appropriate for the financial statements to be prepared on a going concern basis.

The financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis. If required, these adjustments would be made to the balance sheet of the Company to increase or reduce the balance sheet values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

#### **Turnover**

Turnover represents the value (excluding VAT) of fees for services provided for advertising and consumer downloads.

The company allows audio downloads from its website for cash. Revenue relating to cash downloads is recognised upon payment of cash and download by the user. Advertising revenue is generated by sales of both display and audio advertising slots on the Company's website. Revenue is recognised over the period of the advertising contract.

#### **Operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

#### **Government grants**

Government grants are recognised in the profit and loss account when the conditions for its receipt have been complied with and there is reasonable assurance that the grant will be received so as to match with the expenditure toward which they are intended to contribute.

## **WE7 Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **Tangible fixed assets and depreciation**

All fixed assets are initially recorded at cost, being the purchase price and any costs associated with bringing the asset to full working order

Assets are valued at historic purchase cost less accumulated depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Computer equipment and software	- over 3 years
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#### **Share based payments**

The Company operates a number of equity settled share based compensation plans. As permitted under FRSE (2007), the company is not required to account for share-based payments. Disclosures as required under FRSE are provided under note 11

#### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

A net deferred tax asset is recognised 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 against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted

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

#### **Research and development**

Research and development costs are written off to the profit and loss account as incurred

Any associated tax credit for research and development is recognised on an accruals basis, once receipt is reasonably certain and can be reasonably estimated

#### **Royalties**

Royalties payable to record labels are accounted for when a track is streamed or downloaded either by accruing the appropriate amount or, by winding down a prepaid amount based upon agreed contracted rates or the Directors' best estimate at the applicable rate

## WE7 Limited

### Notes to the financial statements for the year ended 31 December 2011 (continued)

#### 2 Operating loss

	2011 £	2010 £
<b>Operating loss is stated after charging/(crediting)</b>		
Research and development	1,155,768	894,434
Government grants received	(261,099)	-
Auditors' remuneration - audit	16,500	12,500
Depreciation of tangible assets (note 5)	69,261	59,997

During the year the Company received £261,099 as part payment of a grant awarded by the Technology Strategy Board (2010 £nil)

#### 3 Staff costs and employee information

	2011 £	2010 £
Wages and salaries	1,819,066	1,219,615
Social security costs	204,050	137,454
	<b>2,023,116</b>	<b>1,357,069</b>

The number of employees as at year end by activity is as follows

By Activity	2011 Number	2010 Number
General and administrative	10	5
Sales and marketing	8	2
Research and development	26	20
	<b>44</b>	<b>27</b>

The average number of persons, including directors, employed by the company during the year was 35 (2010 26)

#### Directors' emoluments

	2011 £	2010 £
Aggregate emoluments	344,064	280,000

# WE7 Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 4 Tax on loss on ordinary activities

	2011 £	2010 £
Current tax		
Research and development tax credit	-	211,559
Total tax credit for the year	-	211,559

#### Factors affecting tax credit for the year

The tax credit for the year is higher (2010 higher) than the rate of corporation tax for small companies in the UK of 20% (2010 21%). The differences are explained below

	Year ended 31 December 2011 £	Year ended 31 December 2010 £
Loss on ordinary activities before tax	(3,301,113)	(3,180,905)
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 20% (2010 21%)	(660,223)	(667,990)
Effects of		
Expenses not deductible	-	7,637
Depreciation in excess of capital allowances	-	(11,887)
Current year tax losses not utilised	660,223	672,240
Research and development tax credit	-	211,559
<b>Current tax credit for the year</b>	<b>-</b>	<b>211,559</b>

#### Factors that may affect future tax charges

The deferred tax asset at 31 December 2011 not recognised in the financial statements of £3,126,527 (2010 £2,412,366) relates to tax losses. The deferred tax asset has not been recognised due to uncertainty regarding sustainable future profits.

# WE7 Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 5 Tangible assets

	Other tangible assets £
<b>Cost</b>	
At 1 <sup>st</sup> January 2011	206,181
Additions	68,107
Disposals	(295)
<b>At 31<sup>st</sup> December 2011</b>	<b>273,993</b>
<b>Accumulated depreciation</b>	
At 1 <sup>st</sup> January 2011	111,135
Charge for the year	69,261
<b>At 31<sup>st</sup> December 2011</b>	<b>180,396</b>
<b>Net book value</b>	
<b>At 31<sup>st</sup> December 2011</b>	<b>93,597</b>
At 31 <sup>st</sup> December 2010	95,046

### 6 Debtors

	2011	2010
	£	£
Amounts falling due within one year		
Trade debtors	160,080	238,399
Value added tax receivable	103,122	86,696
Corporation tax receivable	108,938	211,559
Prepayments and other debtors	321,806	212,757
<b>Total debtors</b>	<b>693,946</b>	<b>749,411</b>

### 7 Creditors: amounts falling due within one year

	2011	2010
	£	£
Trade creditors	512,007	1,066,067
Accrued expenses	1,029,154	1,154,173
Other taxes and social security payables	60,705	40,947
Bank and other borrowings	160,000	-
<b>Total creditors</b>	<b>1,761,866</b>	<b>2,261,187</b>

The other borrowings of £160,000 relate to a convertible loan note issued in May 2011 that is interest free. The loan note will be converted into equity (D Preferred shares) at a price of £0.0008037 per share at the loan note holder's request, on an IPO or sale, or at the request of the Company, subject to certain conditions. This has been converted to equity as part of the Tesco acquisition.

## **WE7 Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **8 Cash flow from operating activities**

The Company, as a small reporting entity, is, under Financial Reporting Standard for Smaller Entities (effective January 2007), not required to prepare a cash flow statement

#### **9 Commitments under operating leases**

At 31 December 2011 the Company had annual commitments under non-cancellable operating leases as set out below

	2011	2010
	£	£
Expiring		
Within one year	140,209	37,510
2-5 years	-	-

# WE7 Limited

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 10 Called up share capital

Authorised, allotted and fully paid:

	Ordinary shares of 0.0001p each	Preferred A shares of 0.0001p each		Preferred B shares of 0.0001p each		Preferred C shares of 0.0001p each		Preferred D shares of 0.0001p each	
		£	Number	£	Number	£	Number	£	Number
At 1 January 2011	611,650,961	612	875,768,881	876	731,952,123	732	751,781,946	752	-
Issued during the year	-	-	-	-	-	-	566,129,269	566	5,297,715,994
At 31 December 2011	611,650,961	612	875,768,881	876	731,952,123	732	1,317,911,215	1,318	5,297,715,994
									5,297

During 2011 existing investors subscribed for 5,297m Preferred D shares for a net consideration of £3.8m plus a number of shareholders exercised their right to purchase 566m Preferred C shares for a net consideration of £566. The A, B, C and D Preferred shares have the following rights attaching to them

- Dividends are payable when the company decide to distribute them
- No repayment conditions attached to any class of shares
- On sales of shares the proceeds are distributed in the following order

Preferred D's  
Preferred C's  
Preferred B's  
Preferred A's  
Ordinary  
All shares have voting rights attached

## **WE7 Limited**

### **Notes to the financial statements for the year ended 31 December 2011 (continued)**

#### **11 Share based payments**

The Company operates an employee share option scheme approved by HMRC under EMI provisions for its employees. The principal terms and conditions of the scheme are that the options vest gradually over a period of three years from the date of grant. The options require that the employee shall, on exercise, pay the employers national insurance contribution in addition to income tax and employee's national insurance contributions. The vested options will lapse in ten years from date of grant, if not exercised.

During the year, options were granted over 169,000,000 shares to 38 employees of the Company at a price of 0.00011 pence.

In addition, the Company has also granted unapproved options over its shares. These have substantially the same conditions as the EMI option scheme. Grants totalling 608,972,284 were made under this scheme to three directors and a shareholder during 2011. Of the above 160,000,000 were granted at 0.000001 pence and the remainder were granted at 0.0008074 pence.

There are no performance conditions relating to these options.

#### **12 Reserves**

<b>Company</b>	<b>Share premium account £</b>	<b>Profit and loss account £</b>
At 1 January 2011	9,973,344	(11,236,265)
Share premium on issue of shares	3,814,376	-
Loss for the financial year	-	(3,301,113)
<b>At 31 December 2011</b>	<b>13,787,720</b>	<b>(14,537,378)</b>

#### **13 Related party transactions**

There were no related party transactions during the year (2010: none).

#### **14 Post balance sheet events**

In January 2012 the second tranche of funding (agreed in May 2011) was received from shareholders totalling £2.1m. On June 14<sup>th</sup> 2012 Tesco Holdings Ltd acquired 100% shareholding in We7.