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This document comprises an admission document and has been drawn up in compliance with the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules and has not been approved by or filed with the Financial Services Authority (“FSA”). The Company, whose registered office appears on page 29, and the Directors, whose names are set out on page 29, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (each of whom has taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

**Ordinary Shares have not been marketed to and are not available for purchase, in whole or in part, by the public in the United Kingdom or elsewhere in connection with the Placing.**

**Investment in the Company is speculative and involves significant risks and special considerations. Prospective investors should read this entire document and, in particular, Part II: “Risk Factors” for certain risks that should be taken into account in considering whether to acquire Ordinary Shares.**

**Application has been made for the Ordinary Shares to be admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the official list of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.**

**Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers.**

**The London Stock Exchange has not itself examined or approved the contents of this document.**

## Blinkx plc

(Incorporated under the Companies Act 1985 and registered in England and Wales under registered number 6223359)

### Placing of 56,444,444 Ordinary Shares of £0.01 each at a price of 45p per Ordinary Share and admission to trading on AIM

Global Co-ordinator, Nominated Adviser and Bookrunner

## Citi

Authorised		Share capital of the Company immediately following First Admission	Issued and fully paid	
Number	Amount		Number	Amount
500,000,000	£5,000,000	Ordinary Shares, £0.01 nominal value per share	197,232,443	£1,972,324.43
Authorised		Share capital of the Company immediately following Further Admission	Issued and fully paid	
Number	Amount		Number	Amount
500,000,000	£5,000,000	Ordinary Shares, £0.01 nominal value per share	277,470,635	£2,774,706.35

It is expected that admission will become effective and that unconditional dealings in the Demerger Shares on AIM will commence at 8.00 a.m. (London time) on 22 May 2007 (“**First Admission**”) and that admission will become effective and that unconditional dealings in the Placing Shares and the Issue Shares on AIM will commence at 8.00 a.m. (London time) on 23 May 2007 (“**Further Admission**”).

The Demerger Shares, the Placing Shares and the Issue Shares will be entitled after their issue to participate in all dividends or other distributions thereafter declared, made or paid in the capital of the Company and will rank *pari passu* in all other respects with all other Ordinary Shares in issue on Further Admission.

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Citi, which is authorised and regulated in the UK by the FSA, is advising the Company and no one else in relation to the Placing and Admission and Autonomy and the Company and no one else in relation to the Demerger and will not be responsible to any other person for providing the protections afforded to customers of Citi, or for advising any other person in connection with the Demerger, the Placing and Admission, the contents of this document or any transaction or arrangement referred to herein.

Prospective investors should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied on as having been authorised by the Company, the Directors or Citi. In particular the content of the Website does not form part of this document and prospective investors should not rely on it. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription made under this document shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this document or that the information contained herein is correct as at any time subsequent to its date.

Prospective investors must not treat the contents of this document as advice relating to legal, taxation, investment or any other matters. Prospective investors must inform themselves as to: (a) the legal requirements within their own countries for the purchase, holding, transfer, redemption or other disposal of Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer, redemption or other disposal of Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer, redemption or other disposal of Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein.

Apart from the responsibilities and liabilities, if any, which may be imposed on Citi by FSMA or the regulatory regime established thereunder, Citi accepts no responsibility whatsoever for the contents of this document for which the Company and the Directors are solely responsible nor for any other statement made or purported to be made by it or on its behalf in connection with the Company or the Ordinary Shares. Citi accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this document or any such statement.

This document is being furnished by the Company in connection with an offering outside the United States exempt from registration under the Securities Act solely for the purposes of enabling a prospective investor to consider the purchase of Ordinary Shares. Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Ordinary Shares offered hereby is prohibited. Each offeree of the Ordinary Shares, by accepting delivery of this document, agrees to the foregoing.

### **Restrictions on Sales**

This document does not constitute, and may not be used for the purposes of, an offer or an invitation to subscribe for any Ordinary Shares by any person in any jurisdiction: (a) in which such offer or invitation is not authorised; or (b) in which the person making such offer or invitation is not qualified to do so; or (c) to any person to whom it is unlawful to make such offer or invitation. The distribution of this document and the Placing in certain jurisdictions may be restricted. Accordingly, persons outside the United Kingdom into whose possession this document comes are required by the Company and Citi to inform themselves about and to observe any restrictions as to the Placing and the distribution of this document under the laws and regulations of any territory in connection with any applications for Ordinary Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by the Company or Citi that would permit a public offering of the Ordinary Shares in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document other than in any jurisdiction where actions for that purpose are required.

### **Notice to prospective investors in the United Kingdom**

This document is only being distributed to and is only directed at: (a) persons who are outside the United Kingdom or (b) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO") or (c) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the FPO (all such persons together being referred to as "relevant persons"). The Ordinary Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Ordinary Shares will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

Persons outside the United Kingdom into whose possession this document comes are required by the Company and Citi to inform themselves about and to observe any restrictions as to the Placing and the distribution of this document under the laws and regulations of any territory in connection with any applications for Ordinary Shares, including obtaining any requisite governmental or other consent and observing any other formality prescribed in such territory. No action has been taken or will be taken in any jurisdiction by the Company or Citi that would permit a public offering of the Ordinary Shares in any jurisdiction where action for that purpose is required, nor has any such action been taken with respect to the possession or distribution of this document other than in any jurisdiction where actions for that purpose are required.

The Ordinary Shares are subject to restrictions on transfer, and may not be reoffered, resold, pledged or otherwise transferred except as permitted by the Articles and as provided in this document.

#### **Notice to prospective investors in the European Economic Area**

In any European Economic Area (“EEA”) Member State that has implemented Directive 2003/71/EC (together with any applicable implementing measures in any Member State, the “**Prospectus Directive**”), this communication is only addressed to and is only directed at: (a) qualified investors in that Member State within the meaning of the Prospectus Directive; and (b) other persons who are permitted to purchase the Ordinary Shares pursuant to an exemption from the Prospectus Directive and other applicable regulations.

This document has been prepared on the basis that all offers of the Ordinary Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in the Member States of the EEA, from the requirement to produce a prospectus for offers of shares. Accordingly any person making or intending to make any offer within the EEA for Ordinary Shares which are the subject of the placement contemplated in this document should only do so in circumstances in which no obligation arises for the Company or Citi to produce a prospectus for such offer. Neither the Company nor Citi has authorised, nor do they authorise the making of any offer of Ordinary Shares through any financial intermediary, other than offers made by a financial intermediary with the consent of Citi and other than offers made by Citi which constitute the final placement of Ordinary Shares contemplated in this document.

#### **Restrictions in the United States**

The Ordinary Shares have not been and will not be registered under the Securities Act or with any securities authority of any state or any other jurisdiction of the United States and may not be offered or sold within the United States. The Ordinary Shares are only being offered and sold outside the United States in reliance of Regulation S under the Securities Act. By accepting delivery of this document, each offeree purchasing Ordinary Shares will be deemed to have represented and agreed that: (a) it is aware that the Ordinary Shares have not been and will not be registered under the Securities Act or with any regulatory authority in any state or other jurisdiction in the United States; and (b) it is purchasing the Ordinary Shares in an offshore transaction meeting the requirements of Regulation S, further details of which are set out in Part IX: “Details of the Placing”.

The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offer of Ordinary Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

#### **Forward-Looking Statements**

This document includes statements that are, or may be deemed to be, “forward-looking statements”. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes”, “estimates”, “anticipates”, “expects”, “intends”, “may”, “will” or “should” or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Company and the Directors concerning, amongst other things, strategy, results of operations, financial condition, liquidity, prospects and dividend policy of the Company. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company’s actual

investment performance, results of operations, financial condition, liquidity, dividend policy may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the results of operations, financial condition, liquidity and dividend policy of the Company are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause these differences include, but are not limited to, the factors set out in Part II: “Risk Factors”.

Prospective investors are advised to read, in addition to Part II: “Risk Factors”, the information set out in Part VII: “Business Overview”, for a discussion of the factors that could affect the Company’s future performance. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

These forward-looking statements speak only as at the date of this document. Subject to its legal and regulatory obligations (including under the AIM Rules), the Company expressly disclaims any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Information or other statements presented in this document regarding market growth, market size, development of the market and other industry data pertaining to the relevant markets and the Company’s business consist of estimates based on data and reports compiled by industry professionals or organisations and analysts and the Company’s knowledge of such markets.

The Company takes responsibility for compiling and extracting, but has not independently verified, market data provided by third parties or industry or general publications and takes no further responsibility for such data. The Company confirms the information contained in this document that has been sourced from third parties has been accurately reproduced and as far as the Company is aware and is able to ascertain from information published by the relevant third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Presentation of Financial Information**

Unless otherwise indicated, the financial information in this document has been prepared in accordance with IFRS, a body of accounting principles that may differ materially from UK GAAP. The Company has not quantified the impact of these differences. In making an investment decision, prospective investors must rely on their own examination of the Group, the terms of the Placing and the financial information in this document. Prospective investors should consult their own professional advisers for an understanding of the difference between IFRS and UK GAAP.

All references to “£” or “pounds sterling” are to the lawful currency of the United Kingdom.

All references to “\$” or “US dollars” are to the lawful currency of the United States.

The following table sets forth, for the periods indicated, the average, high, low and period-end daily noon-buying exchange rate in US dollars as published by Federal Reserve Bank of New York expressed in US dollars per £1.00:

<u>Period</u>	<u>Period end</u>	<u>Average<sup>(1)</sup></u>	<u>High</u>	<u>Low</u>
Year ended 31 December 2004 . . . . .	1.916	1.833	1.948	1.754
Year ended 31 December 2005 . . . . .	1.719	1.820	1.929	1.714
Year ended 31 December 2006 . . . . .	1.959	1.843	1.979	1.726
January 2007 . . . . .	1.961	1.959	1.985	1.931
February 2007 . . . . .	1.961	1.959	1.970	1.944
March 2007 . . . . .	1.969	1.947	1.969	1.924
April 2007 . . . . .	2.000	1.989	2.006	1.961

(1) The average of the exchange rates over all business days of the relevant period.

Save as otherwise expressly provided, all amounts denominated in £ have been converted using the prevailing £/US dollar exchange rate on 30 April 2007 of \$2.000 to each £1.00.

**References to Defined Terms**

Certain terms used in this document, including capitalised terms and certain technical terms, are defined and explained in Part XIII: “Definitions” and Part XIV: “Glossary of Technical Terms”.

**Third Party Information**

The Company takes responsibility for compiling and extracting, but has not independently verified, market data provided by third parties or industry or general publications and takes no further responsibility for such data.

**Copies of this document**

Copies of this document, which is dated 22 May 2007, will be available free of charge to the public during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the registered office of the Company and from the offices of Citigroup Global Markets U.K. Equity Limited, Citigroup Centre, Canary Wharf, London E14 5LB on the date of First Admission and for not less than one month from First Admission.



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**PART I**  
**SUMMARY**

*The following summary should be read as an introduction to the full text of this document. Any investment decision relating to Ordinary Shares should be based on the consideration of this document as a whole. Prospective investors should pay particular attention to Part II: "Risk Factors".*

**1. OVERVIEW OF BLINKX**

Through its exclusive licence to use the patented video and audio analysis technology of Autonomy Corporation plc ("**Autonomy**") for Consumer Use, Blinkx has been able to index over 13 million hours of video content from thousands of diverse sources, including content from over 130 content partners. This, according to management estimates, makes Blinkx the world's largest video search engine in terms of indexed hours of content.

The Blinkx business was founded in 2004, bringing Autonomy's video and audio analysis technology into the consumer internet space. Blinkx's focus on consumer applications is distinct from Autonomy's focus on enterprise software applications.

Blinkx's initial focus is on providing video search services in the consumer internet sector. Online video is expected to be one of the next major markets to be exploited on the internet. It is anticipated that the wider availability of broadband and the growth in multi-media content will increase the need for consumers to be able to effectively and efficiently access, search and manage online video content. The Company believes that it has the leading navigation tool to do this and intends to derive revenues from its video search service, primarily from video advertising streamed as part of the video content.

In addition, Blinkx is developing several innovative services using Autonomy's patented video and audio analysis technology, the most advanced of which are "Broadband TV" and "Transaction Hijacking". The combination of the Blinkx and Autonomy technology allows the Company to provide high quality TV over broadband, allowing any number of channels to be offered to consumers over the internet. This service, expected to be launched by the end of 2007, is expected to generate revenues through both advertising (streamed with the content) and subscriptions. The Company's Transaction Hijacking service, expected to be launched during 2008, involves an automated e-commerce price comparison service provided to consumers via a free software download. The software monitors the consumer's e-commerce transactions and, at the point of sale, compares the terms of that sale to those available elsewhere on the internet. If the transaction terms can be beaten by a reasonable margin, the consumer is alerted. If the consumer chooses to transact with the alternate provider, the transaction has been "hijacked". Blinkx is expected to generate revenue from payments received from vendors for transactions generated.

**2. KEY STRENGTHS**

- (a) *Leadership in video search:* Through Blinkx's exclusive licence to use Autonomy's IDOL technology platform for Consumer Use and its relationships with over 130 content partners (including HBO, MTV, A&E and YouTube), Blinkx has indexed over 13 million hours of video content from thousands of diverse sources. This, according to management estimates, makes Blinkx the world's leading video search engine in terms of indexed hours of content.
- (b) *Superior technology:* Blinkx's video search solution using Autonomy's IDOL technology platform was built for the task of analysing and understanding video content. Unlike other video search engines that rely solely on searching meta-tags, Blinkx uses a combination of Autonomy patented conceptual search, speech recognition and video analysis software, as well as meta-tag analysis, to efficiently and automatically find and index the content of a video.
- (c) *Well positioned in a large and rapidly growing market:* The volume of video content, both user-generated and professional, is growing at a fast rate and this video content is hosted on many different sites across the internet. The Company believes that there is an ever-increasing need for video search engines that can understand the vast quantities of audio and video data available on the internet and provide users with accurate search results. The Company further believes that the technology licensed from Autonomy gives it a significant advantage over its competitors in meeting this growing need.

- (d) *Multiple uses for core technology and opportunities for revenue generation:* Although Blinkx is currently focusing on video search, a number of other applications for its licensed technology have been developed. The most advanced of these applications are Broadband TV and Transaction Hijacking.
- (e) *Dynamic management team backed by proven technology entrepreneurs:* The Blinkx management team is a dynamic group of industry leaders, entrepreneurs and experienced individuals, backed by non-executive directors with significant industry experience who are proven technology entrepreneurs.

### **3. STRATEGY**

Blinkx's objectives are to consolidate and strengthen its position in the video search engine market, to generate and maximise revenues, achieve profitability and further develop new services through market leading technology. Blinkx is currently focusing its efforts primarily on the US and the UK markets.

The key elements to its strategy are:

- (a) *Leverage technology and high quality content:* Blinkx intends to invest in the continued development of the technology so as to offer a video search engine that provides the most accurate and relevant results.
- (b) *Leverage strategic relationships with distribution partners and internet sites:* In addition to its relationships with content providers, Blinkx has strategic relationships with a diverse set of partners, including distribution partners and high-traffic internet sites such as internet service providers, portals and search engines.
- (c) *Increase brand recognition as a leading video search engine:* Blinkx intends to promote, advertise and increase recognition of its brand through a variety of marketing and promotional campaigns.
- (d) *Launch of new services:* The Company believes that it will be able to generate revenues through the launch of innovative, value added services.

### **4. RISK FACTORS**

Prior to making an investment decision in relation to Ordinary Shares, prospective investors should consider, together with the other information contained in this document, the factors and risks attaching to an investment in Blinkx. The most important of these are set out in Part II, "Risk Factors", and include, amongst others, the following risks:

- (a) *Risks relating to Blinkx's business*
- Blinkx's small size presents operational risks.
  - Blinkx has no significant revenues and may never become profitable.
  - Blinkx is reliant on a technology licence from Autonomy Systems Limited.
  - Blinkx operates in an emerging and rapidly evolving market. This makes it difficult to evaluate Blinkx's future prospects and may increase the risk that Blinkx will not be successful.
  - Blinkx's business depends on a strong brand.
  - If Blinkx loses its key personnel or cannot recruit additional personnel Blinkx's business may suffer.
  - Blinkx has a short operating history and a relatively new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate Blinkx's future prospects and may increase the risk that Blinkx will not be successful.
  - Blinkx's success depends on providing products and services that people use.
  - Blinkx has limited experience with respect to its pricing model and if the prices it charges for its services are unacceptable to its customers, its revenues and operating results will be harmed.
  - Blinkx's business and future operating results may also be adversely affected by unfavourable economic and market conditions and other events outside of its control.
  - If Blinkx fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, shareholders could lose confidence in Blinkx's financial reporting, which would harm its business and the price of the Ordinary Shares.

- Blinkx faces significant competition from Google Video, Yahoo! Video and AOL Video and from other internet service companies, including internet access providers and destination websites.
- Failure to adequately protect Blinkx’s intellectual property would result in significant harm to its business.
- Claims by others that Blinkx infringes on their intellectual property rights could be extremely costly to defend, could require Blinkx to pay significant damages and could limit Blinkx’s ability to use certain technologies in the future.
- Blinkx’s brand name is difficult to protect and may infringe on the intellectual property rights of third parties.

(b) *Risks relating to the Demerger*

- General uncertainty related to the Demerger could harm Blinkx.
- The historical operating and financial information included in this document is not indicative of Blinkx’s future results.
- The interests of Autonomy may conflict with Blinkx as well as those of other shareholders.

(c) *Risks relating to the Ordinary Shares*

- There has been no prior public market for Ordinary Shares, and an active trading market may not develop or be sustained in the future.

## 5. FINANCIAL INFORMATION

The unaudited pro-forma statement of net assets for the Group provided below in respect of the Company has been extracted without material adjustment from Section C of Part X: “Financial Information”. This statement should be read in conjunction with the notes set out on page 68 which explain both the basis upon which the pro-forma statement is prepared and the nature of the adjustments.

	Blinkx Plc as at 4 May 2007	Adjustments			Pro-forma net assets of Blinkx Plc
		Contribution from Autonomy	Asset transfer	Net proceeds of Placing	
	\$000’s	\$000’s	\$000’s	\$000’s	\$000’s
<b>Fixed assets</b>					
Tangible fixed assets . . . . .	—	—	366	—	366
	—	—	366	—	366
<b>Current assets</b>					
Cash at bank and in hand . . . . .	—	98	—	44,400	44,498
	—	98	—	44,400	44,498
<b>Current liabilities</b>					
Trade and other payables . . . . .	—	—	(366)	—	(366)
	—	—	(366)	—	(366)
<b>Net assets</b> . . . . .	—	98	—	44,400	44,498

## 6. THE PLACING AND THE ISSUE

The Company is offering the Placing Shares for subscription pursuant to the terms of the Placing at a price of £0.45 per Placing Share. The Company expects to raise approximately £22.1 million by the sale of the Placing Shares, net of expenses payable by the Company of approximately £3.3 million. The Placing is conditional on, *inter alia*, Further Admission. The Placing will be fully underwritten by Citi in accordance with the terms of the Placing Agreement, further details of which are set out in Part IX: “Details of the Placing”.

Pursuant to the terms of the Demerger Agreement, and conditional on Further Admission, the Company will on Further Admission issue 21,931,383 further Ordinary Shares to Autonomy such that Autonomy’s holding in the Company following Further Admission (and prior to the Placing) will equate to

approximately 10% of the issued share capital of Blinkx. The consideration for the issue of these shares is the transfer by Autonomy to the Company of ten Ordinary Shares of Blinkx UK Limited. Following this transfer, Blinkx will own 100% of Blinkx UK Limited.

Immediately following Further Admission, 277,470,635 Ordinary Shares will be in issue including 56,444,444 Placing Shares and 21,931,383 Issue Shares. The Placing Shares will rank in full for dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares in issue on Further Admission.

The Placing is being made by means of an offer of Placing Shares to certain institutional and other sophisticated investors outside the United States.

## **7. DIVIDEND POLICY**

### **Dividend Policy**

The Company intends to retain any future profits available for distribution in the development and expansion of the Blinkx business and does not expect to pay any cash dividends on the Ordinary Shares in the foreseeable future.

In any event, declaration and payment of dividends by the Company will be dependent upon the Company's financial position, cash requirements, its future prospects, profit available for distribution and other factors regarded by the Directors as relevant at the time.

### **Impact on Earnings**

The Company believes that the Demerger will impact earnings in that, amongst other matters outlined in Part II of this document: "Risk Factors", the Company may experience increased costs from operating as an independent company.

## **8. SHARE OPTION PLANS**

The Company has four option plans. The four plans are the Blinkx 2007 Enterprise Management Incentive Plan, the Blinkx 2007 US Share Option Plan, the Blinkx Autonomy Employee Discretionary Share Option Plan 2007 and the Blinkx 2007 Autonomy Employee US Share Option Plan. Under the terms of these plans, options are granted with exercise prices not less than the nominal value of the Company's shares, become exercisable as established by the Board and generally expire ten years from the date of grant. Under these arrangements it is expected that as at First Admission options over approximately 7.8% of the issued ordinary share capital following First Admission and the Issue, but prior to the Placing will have been allocated.

It is intended that the Blinkx 2007 US Share Option Plan will be used for the grant of options to US employees of the Company whilst the Blinkx 2007 Enterprise Management Incentive Plan will be used to grant options to employees in the UK, and potentially other jurisdictions. It is expected that as at First Admission, options will have been allocated under these two plans, representing approximately 5.4% of the issued ordinary share capital of the Company following First Admission and the Issue, but prior to the Placing. It is currently anticipated that two types of special grant under the Blinkx 2007 US Share Option Plan and the Blinkx 2007 Enterprise Management Incentive Plan will be made. First, a special one off grant will be made which is fully vested at grant with an exercise price equal to the nominal value of the Ordinary Shares. The second special grant will again have an exercise price equal to the nominal value. However, vesting will be over three years with a six month cliff.

Under the Blinkx Autonomy Employee Discretionary Share Option Plan 2007 and the Blinkx 2007 Autonomy Employee US Share Option Plan, it is anticipated that options over Ordinary Shares will be granted to employees who remain employed by Autonomy and who hold vested Autonomy options. The number of Ordinary Shares to be allocated under these two schemes is expected to be approximately 2.4% of the issued ordinary share capital of the Company following First Admission and the Issue, but prior to the Placing. The exact form of these grants is subject to adjustment to take into account applicable tax and securities laws. The Blinkx 2007 Autonomy Employee US Share Option Plan was originally established by Blinkx UK Limited, at that time a subsidiary of Autonomy, and is a special one-off arrangement to facilitate the grant of options over Ordinary Shares to certain Autonomy employees. Blinkx will automatically assume this plan and all options granted on First Admission.

The number of Ordinary Shares allocated under the Blinkx 2007 Enterprise Management Incentive Plan may not on any date, when aggregated with the number of Ordinary Shares already allocated under the Blinkx 2007 Enterprise Management Incentive Plan, the Blinkx 2007 US Share Option Plan or any other employee share plan of the Company exceed 10% of the issued share capital of the Company on that date. This excludes pre-float allocations and all options granted under the Blinkx Autonomy Employee Discretionary Share Option Plan 2007 and the Blinkx 2007 Autonomy Employee US Share Option Plan.

## **9. ADMISSION**

Application will be made to the London Stock Exchange for the entire issued and to be issued share capital of Blinkx to be admitted to trading on AIM. It is expected that First Admission will become effective and that dealings in the Demerger Shares will commence at 8.00 a.m., on 22 May 2007 and that Further Admission will become effective and dealings in the Placing Shares will commence at 8.00 a.m. on 23 May 2007.

## PART II

### RISK FACTORS

*The following risks and uncertainties should be carefully considered in addition to the other information set out in this document. If any of the following risks actually materialises, Blinkx's business, financial condition or operating or financial results could be materially adversely affected and the value of Ordinary Shares could decline. The risks and uncertainties described below are not the only ones Blinkx faces. Additional risks and uncertainties not presently known to Blinkx or that Blinkx currently deems immaterial may also have a material adverse effect on Blinkx's business, financial condition or operating or financial results and could negatively affect the value of Blinkx and/or the Ordinary Shares.*

#### **RISKS RELATING TO BLINKX'S BUSINESS**

***Blinkx's small size presents operational risks.***

Following the Demerger, Blinkx will encounter risks and difficulties as an early-stage company, with the challenges inherent in efficiently managing a business without the backing of a larger group. Blinkx may not be able to successfully address these risks, difficulties and challenges, which could materially harm Blinkx's business and operating results.

Because of Blinkx's limited operating history, it is difficult to make predictions regarding Blinkx's future operating results. Investors in Ordinary Shares should consider the risks and difficulties that Blinkx faces as a young company.

***Blinkx has no significant revenues and may never become profitable.***

Neither Blinkx nor the business comprising the Autonomy consumer unit has generated significant revenues to date and there is no reliable historic basis for analysing the costs associated with Blinkx's business in the future. There can be no assurance that the Company will be able to generate revenues in the near future as monetisation of services is still unproven and it might take longer than expected by the management. It is possible that Blinkx will incur substantial operating losses in the current and future financial years as it establishes itself as an independent entity.

Furthermore, there can be no assurance that Blinkx will ever earn significant revenues or achieve profitability, which could impair the Group's ability to sustain operations or obtain any required additional funds and could result in investors losing all or a part of their investment in the Ordinary Shares. Blinkx expects to continue to incur significant losses in the near term. After that, depending upon competitive conditions and the dynamics of the industry, Blinkx may continue to pursue a strategy that emphasises strength of market share and market presence at the expense of profitability.

Blinkx may require access to additional funding in the future, and if the Company fails to obtain such funding, the Group may need to delay, scale back or eliminate the development and commercialisation of some of its services.

The amount and timing of any expenditures needed to implement the Group's development and commercialisation strategy will depend on numerous factors, some of which are outside Blinkx's control. Additional funds may be necessary due to a number of factors, which could include:

- higher costs and slower progress than expected to develop services and bring them on-stream;
- lower advertising revenues than expected from commercialised services;
- costs incurred to file, enforce or protect patents or other intellectual property rights; and
- costs incurred to sustain technological and market developments, scale-up manufacturing and effectively commercialise the Group's products.

The Group is currently not generating sufficient revenues to finance its development and commercialisation strategies and other operations, and there can be no assurance that it will do so in the future. If the proceeds of the Placing, together with future revenues, are not sufficient to finance the Group's development and commercialisation strategies, additional funds would be required. There can be no assurance that additional funds will be available on a timely basis, on favourable terms, or at all, or that such funds, if raised, would be sufficient to enable the Group to continue to implement its business strategy.

If Blinkx is unable to raise additional funds through equity or debt financing, it may need to delay, scale back or eliminate expenditures for some of its development and commercialisation strategies. The Group's

inability to obtain additional funds necessary to operate its business could materially and adversely affect the market price of the Ordinary Shares and all or part of an investment in the Ordinary Shares could be lost. In addition, to the extent the Company raises capital by issuing additional shares, shareholders' equity interests would be diluted.

***Blinkx is reliant on a technology licence from Autonomy Systems Limited.***

Blinkx UK Limited has entered into a licence agreement with Autonomy Systems Limited (further details of which are set forth in paragraph 9 of Part VII and paragraph 12(f) of Part XII). Pursuant to the Licence, Autonomy Systems Limited grants Blinkx UK Limited a licence to use Autonomy's IDOL technology platform for Consumer Use and Consumer Content Production Use. Blinkx relies on this technology to provide its services and develop its technology. The Licence is exclusive for a period of five years for Consumer Use (which becomes non-exclusive after expiry of five years) and non-exclusive in relation to Consumer Content Production Use. The Licence contains no entitlement to damages in the event of breach by Autonomy Systems Limited, including breach of the exclusivity provisions or warranties. If the Licence is terminated or breached by Autonomy Systems Limited or if it is held to be unenforceable, Blinkx's business would be seriously, adversely affected and Blinkx may not be able to carry on its business or seek recourse from Autonomy. The Company expects that it will be dependent on the Licence for the foreseeable future. In addition, if Blinkx has not established itself within the market at the end of the five-year exclusivity period for Consumer Use, its business may be seriously, adversely affected.

Under the terms of the Licence, in the event that either an offer is made for the entire issued share capital of Blinkx, or either Blinkx or Blinkx UK Limited enters into an agreement to sell all or substantially all of the shares or assets of it or its affiliates, in each case without Autonomy Systems Limited's consent prior to the first anniversary of First Admission, Blinkx will be required to pay a fee of \$50 million to Autonomy Systems Limited upon consummation of such transaction (which can be waived at Autonomy Systems Limited's discretion). If Blinkx UK Limited is required to pay this fee to Autonomy Systems Limited, Blinkx's business may be seriously, adversely affected. In addition, a requirement that Blinkx UK Limited pay this fee may prevent Blinkx, Blinkx UK Limited or its affiliates from entering into a transaction that may otherwise be beneficial to them. It may also serve to deter a potential acquirer from launching a takeover offer for Blinkx to the potential detriment of its shareholders. Failure to pay would constitute a breach of the Licence and entitle Autonomy Systems Limited to terminate the Licence.

Autonomy Systems Limited is required under the terms of the Licence to provide technical support and assistance to Blinkx UK Limited free of charge for a period of three years, and technical support and assistance is available to Blinkx UK Limited thereafter at Autonomy Systems Limited's then-prevailing standard rates. Blinkx UK Limited relies on Autonomy to provide these services. If Autonomy Systems Limited is unable or unwilling to provide these services to Blinkx UK Limited, Blinkx's business could be seriously, adversely affected.

Although the Licence is exclusive to Blinkx UK Limited's core business, it is non-exclusive with respect to certain ancillary businesses. As a result, Autonomy could compete with Blinkx in relation to these businesses.

The terms of the Licence prohibit Blinkx UK Limited from using the Autonomy technology for services in the Cantonese or Mandarin dialects. As a result, Blinkx's operations will be severely limited in these dialects.

***Blinkx provides warranties and indemnities to third parties concerning Autonomy technology in third party agreements which are more onerous than the warranties and indemnities it receives from Autonomy Systems Limited under the Licence.***

Autonomy does not warrant the performance, functionality, fitness for purpose and non-infringement of third parties intellectual property rights of the IDOL technology platform under the terms of the Licence.

However, Blinkx has entered into many agreements with distribution partners, content partners and syndication partners under which it warrants and provides indemnities concerning the performance, functionality, fitness for purpose and non-infringement of third party rights of the IDOL technology platform.

Blinkx may be subject to claims by such parties under the terms of such warranties and indemnities. Such claims, whether or not valid, would require Blinkx to spend significant sums in litigation, pay damages, re-engineer Blinkx's services, distract management attention from the business or acquire licences to third party intellectual property. As such claims may relate to the IDOL technology platform. Blinkx's ability to

defend such claims may be adversely affected if Autonomy does not provide assistance and Blinkx does not have any rights under the Licence to compel that such assistance be offered or to recover damages from Autonomy Systems Limited for breach of any terms of the Licence.

***Blinkx operates in an emerging and rapidly evolving market. This makes it difficult to evaluate Blinkx's future prospects and may increase the risk that Blinkx will not be successful.***

Blinkx's services are new and evolving and it is difficult to predict the future growth rates, if any, and size of these markets. Blinkx cannot provide any assurances that the markets for its services will develop or that its services will be adopted in the market. If the markets do not develop, develop more slowly than expected or become saturated with competitors, or if Blinkx's services do not achieve market acceptance, Blinkx's business, operating results and financial condition could be adversely affected.

Because of the rapid evolution of Blinkx's markets it is difficult to make predictions regarding Blinkx's future operating results. Investors in Ordinary Shares should consider the risks and difficulties that Blinkx faces as a young company in a new and rapidly evolving market.

***If Blinkx does not diversify, continue to innovate and provide services that are useful to users and which generate significant traffic to its website and the websites of its search partners, it may not remain competitive or generate revenues.***

Blinkx has limited experience in operating its own search service compared with some of its competitors. Internet search is characterised by rapidly changing technology, significant competition, evolving industry standards and frequent product and service enhancements. Blinkx must continually invest in improving its users' experience and in providing services that people use for a high quality internet experience, including search relevance, speed and services responsive to their needs and preferences, to continue to attract, retain and expand its user base. If it is unable to provide search technologies and other services which generate significant traffic to its websites or the websites of its search partners, its business could be harmed, causing its revenues to decline.

Blinkx's competitors are constantly developing innovations in web search, online advertising and providing information to internet users. As a result, Blinkx must continue to invest resources in order to diversify its service offerings and to enhance its web search technology and existing services and in the future introduce new high quality services that people will use.

If Blinkx is unable to predict user preferences or industry changes, or if its is unable to modify its services on a timely basis, it may lose users, licensees, partners and/or advertisers. Blinkx's operating results would also suffer if its innovations are not responsive to the needs of its users, advertisers, partners and licensees, are not appropriately timed with market opportunity or are not effectively brought to market. As search technology continues to develop, Blinkx's competitors may be able to offer search results that are, or that are perceived to be, substantially similar or better than those generated by Blinkx's search services. This may force Blinkx to compete on bases in addition to quality of search results and to expend significant resources in order to remain competitive.

***Blinkx needs to be able to access or to be granted access to continually updated content in order for its business to sustain and keep growing and content providers may make their content available to Blinkx's competitors.***

Blinkx's licensed search technologies allow end users to find a variety of rich media and video content. In order to be continually relevant to customers, the content searchable by the end users has to include new, varied, and interesting content. Certain of Blinkx's content is provided through Blinkx's content partners, and other content is available on publicly-available internet sites with which Blinkx has no written agreement. Blinkx has non-exclusive agreements with over 130 content providers who have agreed to make their content searchable by Blinkx's search services. If Blinkx cannot provide access to up-to-date and varied content, then Blinkx's search portal customers and end user consumers may find the search results less valuable, and may not continue to use Blinkx's services. In addition, Blinkx needs to continually create new relationships and enter into agreements with new content providers based on changing trends in the marketplace and demands for various types of content. If Blinkx is unable to maintain and grow relationships for the provision of new, varied, and interesting content, or if such content is not generally available on the internet, Blinkx's business may be adversely affected. In addition, if a significant number of Blinkx's content partners stopped providing content to Blinkx, Blinkx's business would be seriously, adversely affected.

***Blinkx's business depends on a strong brand.***

Maintaining and enhancing the Blinkx brand is critical to Blinkx's ability to expand its user base and revenues. Maintaining and enhancing the Blinkx brand may require Blinkx to make substantial investments and these investments may not be successful. If Blinkx fails to promote and maintain the Blinkx brand, or if Blinkx incurs excessive expenses in this effort, Blinkx's business, operating results and financial position will be materially and adversely affected. Maintaining and enhancing the Blinkx brand will depend largely on Blinkx's ability to be a technology leader and to provide high quality products and services, which it may not do successfully. To date, Blinkx has engaged in relatively little direct brand promotion activities. This enhances the risk that Blinkx may not successfully implement brand enhancement activities in the future.

***If Blinkx loses its key personnel or cannot recruit additional personnel Blinkx's business may suffer.***

Blinkx's success depends, to a significant extent, upon the continued service of a number of key management, sales, marketing and technical employees, particularly its executive officers, Suranga Chandratillake, Matthew Service, Matthew Scheybeler, Federico Grosso and Frances Smith. The loss of any of these employees could materially adversely affect Blinkx's business, financial condition and results of operations. Blinkx currently has employment agreements with all of its executive officers. However, any of Blinkx's executive officers and other employees could terminate his or her relationship with Blinkx at any time.

While Blinkx expects post-Admission to grant additional share options based on merit to management personnel and other key employees to provide additional incentives to remain employed by Blinkx, such grants may not meet the individuals' expectations. Employees may be more likely to leave Blinkx after any option grant fully vests, especially if the shares underlying the options have significantly appreciated in value relative to the option exercise price or if the underlying shares have not appreciated in value at all. If any members of Blinkx's senior management team leave Blinkx, Blinkx's ability to successfully operate its business could be impaired. Blinkx also may have to incur significant costs in identifying, hiring, training and retaining replacements for departing employees.

The loss of the services of Blinkx's executive officers or other key personnel, particularly if lost to competitors, could materially and adversely affect Blinkx's business.

Blinkx's success greatly depends on its ability to hire, train, retain and motivate qualified personnel, particularly in sales, marketing, research and development, service and support. There can be no assurance that Blinkx will be able to successfully recruit and integrate new employees. Blinkx faces significant competition for individuals with the skills required to perform the services Blinkx offers. If Blinkx is unable to attract, integrate and retain qualified personnel or if it experiences high personnel turnover, it could be prevented from effectively managing and expanding its business.

Moreover, companies in technology industries whose employees accept positions with competitors have in the past claimed that their competitors have engaged in unfair competition or hiring practices. If Blinkx received such claims in the future as it seeks to hire qualified personnel, it could lead to material litigation. Blinkx could incur substantial costs in defending against any such claims, regardless of their merits.

Blinkx's future success depends in a large part upon the continued services of key members of the senior management team. In particular, Suranga Chandratillake is critical to the overall management of Blinkx as well as the development of its technology and strategic direction. Blinkx does not maintain any key-person life insurance policies. The loss of any of Blinkx's management or key personnel could seriously harm the business.

Suranga Chandratillake's employment contract is governed by California law. Under California law, restrictive covenants of a type usually found in English law employment contracts may not be enforceable. His employment contract does not contain any such restrictive covenants and he is therefore not prohibited at any time following termination of his service contract from competing with Blinkx. Any such competition could seriously harm Blinkx's business.

***If Blinkx fails to manage future growth effectively, its business and operating results would be harmed.***

Blinkx's growth may place increasing and significant demands on its management, operational and financial systems, infrastructure and other resources. If Blinkx does not effectively manage its growth, the quality of its services could suffer, which could harm its business, operating results and financial condition. In order to manage future growth, Blinkx will need to hire, integrate and retain highly skilled and motivated employees. Blinkx will also be required to continue to improve its existing systems for

operational and financial management, including its reporting systems, procedures and controls. Blinkx will also need to continue to enter into agreements with internet search providers to integrate Blinkx's search technology into those sites, and into content agreements pursuant to which Blinkx will have the ability to offer more content to users of its technology. Blinkx may not be successful in managing or expanding its operations or in maintaining adequate financial and operating systems and controls. If Blinkx does not successfully implement improvements in these areas, its business, operating results and financial condition will be harmed.

***Blinkx's immediate term objective is to generate revenue substantially from advertising, and the reduction in spending by or loss of advertisers could seriously harm its business.***

Blinkx has not yet derived any significant revenue from advertisers and may never generate any such revenue. As more people spend increasing amounts of time accessing internet content at the expense of other, traditional media sources, advertising budgets continue to shift towards online spending. However, such trends may not continue. In addition, advertisers will not do business with Blinkx if their investment in advertising with Blinkx does not generate sales leads, and ultimately customers, or if Blinkx does not deliver their advertisements in an appropriate and effective manner. If Blinkx is unable to remain competitive and provide value to its advertisers, they may stop placing advertisements with Blinkx, which would negatively affect its revenues and business.

***Blinkx has a short operating history and a relatively new business model in an emerging and rapidly evolving market. This makes it difficult to evaluate Blinkx's future prospects and may increase the risk that Blinkx will not be successful.***

Blinkx expects to begin deriving revenue from licensing its online search technology in 2007. Blinkx has no operating history as an independent company to aid in assessing its future prospects. Blinkx will encounter risks and difficulties as an early-stage company in a new and rapidly evolving market. Blinkx may not be able to successfully address these risks and difficulties, which could materially harm Blinkx's business and operating results.

***Blinkx's success depends on providing products and services that people use.***

Blinkx's competitors are constantly developing innovations in web search, online advertising and providing content to end users. As a result, Blinkx must invest significant resources in research, development and marketing in order to enhance its video search technology and its existing products and services, and to introduce new high quality products and services that people will use. If Blinkx is unable to predict user preferences or industry changes, or if it is unable to modify its products and services on a timely basis, Blinkx may lose users, advertisers and content partners. Blinkx's operating results could suffer if its innovations (such as Broadband TV and Transaction Hijacking) are not responsive to the needs of its users, advertisers and content partners, are not appropriately aligned with market opportunity or are not effectively brought to market. As search technology continues to develop, Blinkx's competitors may be able to offer search results that are, or that are perceived to be, substantially similar to or better than those generated by Blinkx's search services. This may force Blinkx to compete on bases in addition to quality of search results and to expend significant resources in order to remain competitive.

***Blinkx has limited experience with respect to its pricing model and if the prices it charges for its services are unacceptable to its customers, its revenues and operating results will be harmed.***

Blinkx has limited experience determining the appropriate prices for its services that its existing and potential customers will find acceptable. As the market for Blinkx's services matures, or as new competitors introduce new services or services that compete with Blinkx's, Blinkx may be unable to renew its agreements with existing customers or attract new customers at the same price or based on the same pricing model as it has used historically. As a result, in the future it is possible that competitive dynamics in Blinkx's market may require it to change its pricing model or reduce its prices, which could have a material adverse effect on its revenues, gross margin and operating results.

***Blinkx may not be able to generate substantial revenues from its alliances with internet search portals.***

Blinkx has non-exclusive arrangements in place pursuant to which it may receive revenue from its internet search partners. Blinkx's technology is typically integrated into the search partner's web interface and such arrangements are dependent on the volume of end-users' use of Blinkx's technology on its search partners' websites. These arrangements provide that the revenue which Blinkx is entitled to receive may be adjusted

downwards if Blinkx fails to meet certain technical availability requirements set forth in the contracts with its search partners. In the event that usage levels are not as high as Blinkx anticipates, or if Blinkx is not able to meet its availability requirements under these agreements, the resultant reduction in revenues receivable under such arrangements could be materially lower than anticipated. As such alliances are non-exclusive and do not restrict the right of the search partners to enter into agreements with Blinkx's competitors, search partners may take their business to Blinkx's competitors instead of using Blinkx.

In addition, Blinkx may not be able to retain the alliances with its existing internet search partners or to obtain new alliances with internet search partners on terms that are reasonable. These internet search partners compete with many large companies such as Google, AOL and Yahoo! and other established internet search portals. In certain of these cases, their competition may have substantially greater market presence (including an existing user base) and greater financial, technical, marketing or other resources. As a result of these and other competitive factors, the internet search portals with which Blinkx has formed alliances may not be able to attract, grow or retain their customer bases and drive traffic to use Blinkx's technology, which would negatively impact the number of users of Blinkx's search technology on its partners' websites and, in turn, reduce its anticipated revenues from these alliances.

***Blinkx may experience capacity constraints that could reduce its revenue.***

Blinkx's future success depends in part on the efficient performance of its software and technologies, as well as the efficient performance of the systems of third-parties. As the numbers of web pages and internet users increase, Blinkx's services and infrastructure may not be able to grow to meet the demand. A sudden and unexpected increase in the volume of rich media content delivered through Blinkx's servers could strain the capacity of the software or hardware that Blinkx has deployed. Any capacity constraints Blinkx experiences could lead to slower response times or system failures and adversely affect the availability of search results, which would harm Blinkx's revenue. To the extent that Blinkx does not effectively address capacity constraints or system failures, its business, results of operations and financial condition could be harmed substantially. Blinkx also depends on ISPs that provide consumers with access to the websites on which Blinkx's search results appear. Internet users have occasionally experienced difficulties connecting to the web due to failures of their ISPs' systems. Any disruption in internet access provided by ISPs or failures by ISPs to handle the higher volumes of traffic expected in the future could materially and adversely affect Blinkx's revenue.

***Blinkx relies on bandwidth providers, data centres, electricity providers and others in providing products and services to its users and search partners, and any failure or interruption in the products and services provided by these third parties could harm Blinkx's ability to operate its business and damage its reputation.***

Blinkx relies on vendors, including data centre and bandwidth providers. Any disruption in the network access or other services provided by these providers or any failure of these providers to handle current or higher volumes of use could significantly harm Blinkx's business. Any financial or other difficulties Blinkx's providers face may have negative effects on its business. Blinkx exercises little control over these vendors, which increases its vulnerability to problems with the services they provide. Blinkx licenses technology and related databases to facilitate aspects of its data centre and connectivity operations including internet traffic management services. Blinkx has experienced and expects to continue to experience interruptions and delays in service and availability for such elements. Any errors, failures, interruptions or delays in connection with these technologies and information services could harm Blinkx's relationship with users, adversely affect its brand and expose it to liabilities.

Bandwidth is a significant element in the determination of Blinkx's cost of sales. An increase in the price of bandwidth could have an adverse effect on gross margins because Blinkx may not be able to increase its prices to compensate.

Blinkx's business, results of operations and financial condition could be materially and adversely affected by any systems damage or failure that impacts data integrity or interrupts or delays its operations. Blinkx's data centre operations are located in leased facilities in San Francisco and London. If Blinkx experiences a system failure, loss of data or disruption for any reason, including in connection with changes in its data centre location or infrastructure, the performance of its website would be harmed and its service could shut down. In addition, any loss in data could result in loss of customers and subject Blinkx to potential liability. Blinkx's database and systems are vulnerable to damage or interruption from human error, earthquakes, fire, floods, power loss, telecommunications failures, physical or electronic break-ins, computer viruses, other attempts to harm Blinkx's systems and similar events. Blinkx's operations are particularly vulnerable to earthquakes in the San Francisco Bay area. The scope and amount of its insurance coverage may not be

sufficient to cover its losses resulting from system failures or other disruptions to its online operations. Any system failure or disruption and any resulting losses that are not recoverable under its insurance policies may materially harm its business, operating results and financial condition. Moreover, despite network security measures, Blinkx's servers are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Despite the precautions taken, unanticipated problems affecting Blinkx's systems could cause interruptions in the delivery of its solutions in the future and its ability to provide a record of past results.

Blinkx's systems are also heavily reliant on the availability of electricity. If Blinkx were to experience a major power outage, it would have to rely on back-up generators. These back-up generators may not operate properly and their fuel supply could be inadequate during a major power outage. This could result in a disruption of Blinkx's business.

***Blinkx's business and future operating results may also be adversely affected by unfavourable economic and market conditions and other events outside of its control.***

Adverse economic conditions worldwide could result in reduced demand for Blinkx's services as a result of decreased spending on advertising and higher overhead costs as a percentage of revenues. Decreased demand for Blinkx's services would result in decreased revenues, which could harm Blinkx's operating results and cause the price of Ordinary Shares to fall.

In addition, advertising spending has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns. Also, user traffic tends to be seasonal.

***If Blinkx fails to maintain an effective system of internal controls, it may not be able to accurately report its financial results or prevent fraud. As a result, shareholders could lose confidence in Blinkx's financial reporting, which would harm its business and the price of the Ordinary Shares.***

Effective internal controls are necessary for Blinkx to provide reliable financial reports and effectively prevent fraud. If Blinkx cannot provide reliable financial reports or prevent fraud, its brand and operating results could be harmed. Blinkx has never operated as an independent company and has never prepared financial accounts. Financial reporting systems are being put in place ahead of First Admission and the Company is in the process of implementing an internal reporting structure. These systems, and structures are not proven and it cannot be certain that the current measures being taken will ensure that the Company implements and maintains adequate controls over its financial processes and reporting in the future.

***Blinkx faces significant competition from Google Video, Yahoo! Video and AOL Video and from other internet service companies, including internet access providers and destination websites.***

Blinkx faces formidable competition in every aspect of its business, and particularly from other companies that provide the ability to search the internet for video content. Currently, Blinkx considers its primary competitors to be AOL Video, Yahoo! Video, Pixsy, Google Video, ClipBlast!, Ask, Microsoft and SearchForVideo.com, although Blinkx faces competition from third parties not yet known to it. Blinkx's primary competitors have significantly superior financial and engineering resources, cash resources, more employees, longer operating histories and more established relationships with customers and end users. They can use their experience and resources against Blinkx in a variety of competitive ways, including by making acquisitions, investing more aggressively in research and development (including developing technology that competes with Blinkx's video search technology) and competing more aggressively for advertisers and websites. Each of these companies may also have a greater ability to attract and retain users than Blinkx does because they operate internet portals with a broad range of content products and services. If any of these companies provides similar or better web search results without using Blinkx's video search technology, provides more relevant advertisements or leverages their platforms or services to make their web search or advertising services easier to access, a significant decline in user traffic to the sites that employ Blinkx's technology could occur. Any such decline could negatively affect Blinkx's revenues.

Blinkx and its search partners also compete for customers, users and advertisers with many other providers of online services, including destination websites and social media and networking sites. Some of these competitors may have more expertise in a particular segment of the market, and within such segment, have longer operating histories, larger advertiser or user bases, and more brand recognition or technological features than Blinkx or its search partners offer. To the extent that Blinkx's search partners are unable to

drive user traffic to the portion of their websites implementing Blinkx's search technology, Blinkx's revenues could decline.

In the future, competitors may acquire additional competitive offerings, and if Blinkx is unable to complete strategic acquisitions or investments, its business could become less competitive. Further, competitors may consolidate with each other to become more competitive, and new competitors may enter the market. If Blinkx's competitors are more successful than it is in developing compelling services or attracting and retaining users, advertisers or customers, then its revenues and growth rates could decline.

***Blinkx also faces significant competition from its content providers as well as traditional media companies which could adversely affect its future operating results.***

Blinkx's content providers may decide to provide competing searchable content through their own website instead of through the Blinkx search engine.

Blinkx also competes with traditional media companies for advertising. Most advertisers currently spend only a small portion of their advertising budgets on internet advertising. If Blinkx fails to persuade new advertisers to spend a portion of their budget on advertising with it, its future operating results could be adversely affected.

***Failure to adequately protect Blinkx's intellectual property would result in significant harm to its business.***

Blinkx's future success will depend in part on its ability to protect its proprietary and licensed rights and the technologies used in Blinkx's principal services. Disputes concerning the ownership or rights to use intellectual property could be costly and time consuming, may distract management from other tasks related to Blinkx's business and may result in Blinkx's loss of significant rights or the loss of Blinkx's right to operate its business.

Blinkx's means of protecting its proprietary and licensed rights in the UK or abroad may not be adequate or competitors may independently develop similar technologies. Effective patent, copyright, trademark and trade secret protection may be unavailable or limited in some jurisdictions. Obtaining trademark protection for Blinkx's name or logo may face opposition in certain countries and may result in Blinkx's inability to register or use its name or logo in such countries. Currently, both of Blinkx's trademark applications in the US have been suspended and there is no guarantee that such trademark applications will be granted to Blinkx. Policing unauthorised use of Blinkx's services is difficult. The steps Blinkx takes to protect its intellectual property may not prevent misappropriation of Blinkx's technology and its licences and other agreements may not be enforceable. Despite Blinkx's efforts to protect its proprietary rights and technologies, unauthorised parties may attempt to copy aspects of Blinkx's services or to obtain and use trade secrets or other information that Blinkx regards as proprietary.

Blinkx's video search technology and other services depend on proprietary technology and technology licensed from Autonomy. There can be no assurance that Blinkx will be successful in protecting its intellectual property rights. If Autonomy does not protect and enforce its rights in and to the IDOL technology platform licensed to Blinkx, this may also have an adverse effect on Blinkx's business.

Although Autonomy has over 110 patents granted in connection with the technology licensed to Blinkx, Blinkx currently does not have any granted patent on its core technology that would preclude or inhibit competitors from entering Blinkx's markets. Blinkx cannot be certain that any pending or future patent applications will be granted, that any patent or future patent will not be challenged, invalidated or circumvented, or that rights granted under any patent that may be issued will provide Blinkx with any competitive advantages.

Blinkx enters into confidentiality and/or licence agreements with its employees, consultants, vendors and customers. Blinkx cannot, however, provide any assurances that contractual provisions Blinkx put in place will prevent the misuse of Blinkx's proprietary information or the infringement of Blinkx's intellectual property rights.

Legal proceedings to enforce Blinkx's intellectual property rights could be burdensome and expensive and could involve a high degree of uncertainty. These legal proceedings may also divert management's attention from growing Blinkx's business. In addition, the laws of some foreign countries do not protect Blinkx's proprietary rights as fully as do the laws of the UK and the US. If Blinkx does not enforce and protect its intellectual property, Blinkx's business will suffer substantial harm.

Blinkx cannot provide any assurances that it will prevail in enforcing any of Blinkx's intellectual property rights such as patents or trademarks or that any of Blinkx's applications or registrations will not be challenged or that Blinkx will be able to continue using its relevant marks in these jurisdictions. Blinkx cannot provide any assurances that there has not been any prior use of Blinkx's marks by an unrelated party with respect to the same or similar services or services as those offered by Blinkx which may give rise to priority rights.

***Claims by others that Blinkx infringes on their intellectual property rights could be extremely costly to defend, could require Blinkx to pay significant damages and could limit Blinkx's ability to use certain technologies in the future.***

Companies in the internet, technology and media industries own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. Further, many of these companies and other parties are actively developing or purchasing search, indexing, and other internet-related technologies, as well as a variety of online business models and methods. The Company believes that technology developers will continue to take steps to protect these technologies, including, but not limited to, seeking patent protection.

Blinkx may be subject to claims by others that Blinkx's services or brands infringe on or misappropriate their intellectual property or other property rights. Such claims, whether or not valid, could require Blinkx to spend significant sums in litigation, pay damages, delay or cancel product shipments, re-brand or re-engineer Blinkx's services, acquire licences to third party intellectual property, or distract management attention from the business. Blinkx expects that it will increasingly be subject to infringement claims as the number of services and competitors in Blinkx's markets grow and the functionality of services overlap.

In addition, media companies and other content providers have historically aggressively asserted copyright and other claims to protect content from being accessed and used through third party technologies and services. Blinkx has received, and may in the future receive, notices that claim Blinkx has misappropriated or misused other parties' copyrights, and, to the extent Blinkx gains greater visibility, it faces a higher risk of being the subject of intellectual property infringement claims. Copyright infringement claims could be brought by content owners who believe that Blinkx's licensed technology accesses, displays, reproduces or otherwise infringes such parties' rights.

Any intellectual property claim against Blinkx, with or without merit, could be time consuming, expensive to settle or litigate and could divert Blinkx's management's attention and other resources. These claims could also subject Blinkx to significant liability for damages and could result in Blinkx having to stop using technology or accessing and displaying content found to be in violation of a third party's rights. Blinkx might be required to seek a licence for third-party intellectual property, which may not be available on reasonable terms or at all. Even if a licence is available, Blinkx could be required to pay significant royalties, which would increase operating expenses. Blinkx may also be required to develop alternative non-infringing technology, or to exclude access to certain types or providers of content, which could require significant effort and expense. If Blinkx cannot licence or develop technology for any infringing aspect of its business, it would be forced to limit its service and may be unable to compete effectively. Any of these results would harm Blinkx's business, operating results and financial condition. Any legal liability, regulatory penalties, or negative publicity for the information on Blinkx's website or that Blinkx distributes will likely harm Blinkx's business and operating results.

***Blinkx's brand name is difficult to protect and may infringe on the intellectual property rights of third parties.***

Blinkx is aware of other companies using trademarks that are similar to the trademark Blinkx. The users of these or similar marks may have prior rights if they were to ever assert a claim against Blinkx for trademark infringement. If an infringement suit were instituted against Blinkx, significant litigation expenses could result. If such suit were successful, Blinkx could be forced to cease using the Blinkx mark and/or pay damages. Blinkx's business could be materially and adversely affected as a result.

***Blinkx's business may be adversely affected by malicious applications that interfere with, or exploit security flaws in, its services.***

Blinkx's business may be adversely affected by malicious applications that make changes to its users' computers and interfere with users' ability to use Blinkx's search technology. These applications may attempt to change users' internet experience, including hijacking queries to Blinkx's search engine, whether on Blinkx's website or on a the website of one of Blinkx's search partners, altering or replacing

Blinkx search results, or otherwise interfering with Blinkx's ability to provide its technology to users. The interference often occurs without disclosure to or consent from users, resulting in a negative experience that users may associate with Blinkx. These applications may be difficult or impossible to uninstall or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. In addition, Blinkx may, in the future, offer a number of services including services that users download to their computers or that they rely on to store information and transmit information to others over the internet. These services are subject to attack by viruses, worms and other malicious software programs, which could jeopardise the security of information stored in a user's computer or in Blinkx's computer systems and networks. The ability to reach users and provide them with a superior experience is critical to Blinkx's success. If Blinkx's efforts to combat these malicious applications are unsuccessful, or if Blinkx's services have actual or perceived vulnerabilities, Blinkx's reputation may be harmed and its user traffic could decline, which would damage its business.

New technologies could also block Blinkx's search technology, Transaction Hijacking and/or advertisements. As most of Blinkx's revenues are expected to be initially derived from fees paid to it by advertisers in connection with the display of advertisements on web pages, ad-blocking technology could adversely affect Blinkx's operating results.

***Proprietary file formats may limit the effectiveness of Blinkx's search technology by preventing its technology from accessing the content of files in such formats, which could limit the effectiveness of Blinkx's products and services.***

A large amount of content on the internet is provided in proprietary file formats or with content protection mechanisms. The providers of the software applications used to create these files could engineer the file format to prevent or interfere with Blinkx's ability to access files' contents with its search technology. This would mean that the file's contents would not be included in Blinkx's search results even if the contents were directly relevant to a search. The software providers may also seek to require Blinkx to pay them royalties in exchange for giving Blinkx the ability to search documents in their format. If the software provider also competes with Blinkx in the search business, they may give their search technology a preferential ability to search files that are in their proprietary format or otherwise protected. Any of these results could harm Blinkx's brand and Blinkx's operating results.

***Blinkx may occasionally become subject to commercial disputes that could harm its business by distracting its management from the operation of its business, by increasing its expenses and, if Blinkx does not prevail, by subjecting it to potential monetary damages and other remedies.***

From time to time Blinkx may be engaged in disputes regarding its commercial transactions. These disputes could result in monetary damages or other remedies that could adversely impact Blinkx's financial position or operations. Even if Blinkx prevails in these disputes, they may distract its management from operating the business and the cost of defending these disputes would reduce operating results.

***Blinkx may not be able to secure additional financing.***

Blinkx may require additional capital to respond to business opportunities, challenges, acquisitions or unforeseen circumstances and may determine to engage in equity or debt financings or enter into credit facilities for other reasons. Blinkx may not be able to secure additional debt or equity financing in a timely manner, or at all.

If Blinkx raises additional capital through further issues of equity or convertible debt securities, its existing shareholders could suffer significant dilution in their percentage ownership of Blinkx. Any debt financing secured by Blinkx in the future could involve restrictive covenants relating to its capital raising activities and other financial and operational matters, which may make it more difficult for Blinkx to obtain additional financing and to pursue business opportunities, including potential acquisitions.

***Minimum-revenue advertising relationships may require Blinkx to enter into loss-making content relationships.***

As part of its business activities, Blinkx will continue to enter into content agreements that allow it to play content owned by other organisations on its own properties. These agreements may be based on a share of advertising revenues and may include minimum monthly and annual payments. If Blinkx is unable to drive sufficient audience to this content, these minimum payments may be in excess of the revenue Blinkx generates from the advertising in the content, resulting in a relationship that is loss-making.

## **RISKS RELATING TO THE DEMERGER**

### ***General uncertainty related to the Demerger could harm Blinkx.***

Blinkx is party to a number of contracts that contain provisions relating to a change of control or which as a result of the Demerger, may require renegotiation. There is a risk that, as a result of the Demerger, counterparties to such contracts may seek to invoke such change of control provisions or use the Demerger to attempt to renegotiate terms to the detriment of Blinkx. In addition, Blinkx's current and prospective partners may, in response to the Demerger, delay or defer their decisions to progress or enter into a commercial relationship with Blinkx or current partners attempt to regulate or revoke existing agreements. If Blinkx's current and prospective partners delay or defer their decisions or content partners attempt to renegotiate or revoke existing agreements, the revenues of Blinkx could materially decline or any anticipated increases in revenue could be lower than expected.

### ***Blinkx's business will be adversely affected if it cannot manage operations as a relatively small company without the same historical support of Autonomy.***

As a result of the Demerger, Blinkx will face challenges inherent in efficiently managing a business without the continued support of a larger group. If Blinkx is unable to manage the scope of its operations effectively, the cost and quality of its services may suffer and Blinkx may be unable to develop and market new services.

### ***Blinkx plc has no history operating as an independent company and will experience increased costs after the Demerger which could adversely affect overall profitability.***

Historically, Autonomy performed and provided support for all important corporate functions for Blinkx's operations, including treasury, accounting, insurance, finance and tax administration, human resources, legal, public relations and strategic development functions. Blinkx will need to replicate certain facilities, systems, infrastructure and personnel to which it may no longer have access after the Demerger. Blinkx will incur costs associated with developing and implementing its own support functions in these areas. In addition, there may be an operational impact on Blinkx's business as a result of the significant time of the Directors, Senior Management and other employees and internal resources that will need to be dedicated to building these capabilities during the first few years following the Demerger that otherwise would be available for other business initiatives and opportunities. If Blinkx does not have in place adequate systems and business functions, or obtain them from other providers, Blinkx may not be able to operate effectively and profitability may be affected as a consequence.

### ***The historical operating and financial information included in this document is not indicative of Blinkx future results.***

The historical operating and financial information contained in this document has been prepared for illustrative purposes only. Due to its nature, such information is unaudited and addresses a hypothetical situation. Accordingly, it does not reflect what Blinkx plc's results of operations and financial position would have been had Blinkx's been an independent company during the period presented, or be indicative of what Blinkx's results of operations, financial position and cash flows may be when Blinkx is an independent company.

This is primarily a result of the following factors:

- the historical operating and financial information reflects allocations for services historically provided by Autonomy and it is expected that these allocations will be different from the costs incurred for these services in the future as an independent company, including with respect to services provided by Autonomy under the Office Services Agreements. The Directors expect that, in some instances, the costs incurred for these services as an independent company will be higher than the share of total Autonomy expenses allocated to Blinkx; and
- the historical operating and financial information does not reflect the increased costs associated with being an independent company, including changes that are expected in the cost structure, financing and operations of Blinkx as a result of the Demerger and from reduced economies of scale.

In addition, the Directors expect Blinkx's results of operations to be cyclical and seasonal. Internet advertising spending has historically been cyclical in nature, reflecting overall economic conditions as well as budgeting and buying patterns. Also, internet user traffic tends to be seasonal.

*The interests of Autonomy may conflict with Blinkx as well as those of other shareholders.*

Following Further Admission, Autonomy is expected to beneficially own approximately 10% of the issued Ordinary Shares. Accordingly, Autonomy will potentially possess sufficient voting power to have significant influence on matters requiring shareholder approval. Blinkx is also reliant on the Licence granted by Autonomy. The interests of Autonomy may not always be aligned with those of Blinkx or with those of other holders of Ordinary Shares.

*If Blinkx were to make a chargeable payment, a significant tax liability could arise.*

There is a risk that if Blinkx were to make a payment that is a “chargeable payment” for the purposes of the Income and Corporation Taxes Act 1988, a significant tax liability could arise. In certain circumstances, where a company involved in a statutory demerger makes a payment other than for bona fide commercial reasons in the five years following a demerger, this payment could constitute a “chargeable payment”. A mechanism is available to obtain clearance from HM Revenue & Customs before a payment is made. If clearance is not obtained and HM Revenue & Customs consider payment to fall within the definition of a “chargeable payment”, a significant tax liability could arise to Blinkx.

## **RISKS RELATING TO THE REGULATORY ENVIRONMENT**

*Blinkx’s business is subject to a variety of UK, US and foreign laws that could subject Blinkx to claims or other remedies based on the nature and content of the information searched or displayed by Blinkx’s technology.*

A number of US federal laws, including those referenced below, could impact Blinkx’s business. The Digital Millennium Copyright Act (“DMCA”) is intended, in part, to limit the liability of eligible online service providers for listing or linking to third-party websites that include materials that infringe copyrights or other rights of others. Portions of the US Communications Decency Act (“CDA”) are intended to provide statutory protections to online service providers who distribute third party content. In the future, Blinkx may rely on the protections provided by both the DMCA and CDA in conducting its business. Any changes in these laws or judicial interpretations narrowing their protections will subject Blinkx to greater risk of liability and may increase Blinkx’s costs of compliance with these regulations or limit Blinkx’s ability to operate certain lines of business. The US Children’s Online Protection Act of 1998 and the US Children’s Online Privacy Protection Act of 1998 are intended to restrict the distribution of certain materials deemed harmful to children and impose additional restrictions on the ability of online services to collect user information from minors. In addition, the US Protection of Children From Sexual Predators Act of 1998 requires online service providers to report evidence of violations of federal child pornography laws under certain circumstances. Similar laws exist in the UK and Europe, including but not limited to the Copyright, Designs and Patents Act 1988 in the UK and the European Copyright Directive 2001. The costs of compliance with these regulations may increase in the future as a result of changes in the regulations or the interpretation of them. Further, any failures on Blinkx’s part to comply with these regulations may subject Blinkx to significant liabilities.

*Changes in regulations or user concerns regarding privacy and protection of user data could adversely affect Blinkx’s business.*

UK, US and other international laws and regulations may govern the collection, use, retention, sharing and security of data that Blinkx receives from its users and partners. In addition, Blinkx posts on its website its privacy policy and practices concerning the collection, use and disclosure of user data. Any failure, or perceived failure, by Blinkx to comply with its posted privacy policies or with any data-related consent orders, US Federal Trade Commission requirements or other UK, US or other international privacy-related laws and regulations could result in proceedings or actions against Blinkx by governmental entities or others, which could potentially have an adverse effect on Blinkx’s business.

Further, failure or perceived failure to comply with Blinkx’s policies or applicable requirements related to the collection, use, sharing or security of personal information or other privacy-related matters could result in a loss of user confidence in Blinkx, damage to the Blinkx brand, and ultimately in a loss of users, partners or advertisers, which could adversely affect Blinkx’s business.

***Blinkx cannot predict which new laws and regulations of the internet will come into being, and its failure to prepare for them could harm its business.***

The laws governing the use of search technology on the internet remain unsettled and it may take years to fully determine whether and how existing laws such as those governing intellectual property, privacy and taxation apply to the internet. Any new laws or regulations or new interpretations of existing laws or regulations relating to the internet could harm Blinkx's business and Blinkx could be forced to incur substantial costs in order to comply with them, which would harm Blinkx's business, operating results and financial condition.

However, due to the continuing increased popularity and use of the internet and online services, new laws and regulations will continue to be adopted with respect to the internet or online services. Blinkx cannot predict which new laws or regulations will be passed, so Blinkx may be unprepared for them. Changes to existing laws or the passage of new laws intended to address how content is accessed online could directly affect the way Blinkx does business or could create uncertainty in the marketplace. This could reduce demand for Blinkx's services, increase the cost of doing business as a result of litigation costs or increased service delivery costs, or otherwise harm Blinkx's business.

For example, although the broadband internet services industry has largely remained unregulated, there has been legislative and regulatory interest in adopting so-called "net neutrality" principles that could, among other things, prohibit service providers from slowing or blocking access to certain content, applications, or services available on the internet and otherwise limit their ability to manage their networks efficiently and develop new products and services. If some form of net neutrality legislation or regulations were adopted, it could impair Blinkx's ability to provide high bandwidth, rich media content to users through its search technology because of the potential that providers of such content would be subject to additional costs related to posting such content, which could deter providers from posting the content as much or at all.

In addition, the interpretation and application of user data protection laws are in a state of flux. These laws may be interpreted and applied inconsistently from country to country and inconsistently with Blinkx's current data protection policies and practices. Complying with these varying international requirements could cause Blinkx to incur substantial costs or require Blinkx to change its business practices in a manner adverse to its business.

***New legislation or regulation and/or the application of laws and regulations from jurisdictions whose laws do not currently apply to Blinkx's business, or the application of existing laws and regulations to the internet and other online services could have a material adverse effect on the business, results of operations and financial condition of Blinkx.***

Due to the global nature of the internet, it is possible that, although transmissions by Blinkx over the internet originate primarily in the United Kingdom and the United States, the governments of other countries might attempt to regulate Blinkx's transmissions or prosecute Blinkx for violating their laws. As Blinkx's video search service is available over the internet in most countries around the world, these jurisdictions may claim that Blinkx is required to qualify to do business as a foreign corporation in that country or that Blinkx is required to notify certain authorities of its activities. Blinkx is qualified to do business only in the United States and the United Kingdom, and failure by Blinkx to qualify as a foreign corporation in a jurisdiction where it is required to do so could subject Blinkx to taxes and penalties and could result in Blinkx's inability to enforce contracts in such jurisdictions.

***Blinkx may be liable for directing users to illegal or copyrighted content.***

Blinkx's technology enables its software to watch and listen to the video content, creating a detailed, objective, scalable index. This technology is automated and therefore Blinkx does not always know the exact content of the video that has been indexed.

Legal action could be taken against Blinkx if a user were to be directed to illegal content or to content where copyright is owned by a third party. Although, Blinkx only hosts content after being given permission and receiving the content from the content owner, Blinkx has to date received a number of letters threatening action (although no action has subsequently been taken) for directing users to copyrighted information. If a copyright holder were able to successfully claim against Blinkx, it could materially and adversely affect Blinkx's revenues and results of operation. In addition, Blinkx may incur significant monitoring or legal costs. These risks also could limit Blinkx's ability to provide competitive content,

features and tools. If Blinkx is unable to provide a wide variety of compelling content through content arrangements, the search results provided by Blinkx's software may be diminished and Blinkx's business could be adversely affected.

*Use of content by users may give rise to unexpected liability for Blinkx's content providers and search partners who as a consequence may become unwilling or unable to continue to provide content to Blinkx or unwilling or unable to continue to partner with Blinkx to integrate its search technology into their websites.*

Blinkx's content providers and search partners that publish or distribute content over the internet may be subject to legal liability. Some of these companies may be subject to legal claims relating to the content on their websites, or the downloading and distribution of this content. Claims could involve matters such as defamation, invasion of privacy and copyright infringement. Providers of internet products and services have been sued in the past, sometimes successfully, based on the content of material. In addition, some of the content provided by Blinkx's search partners on their websites may be drawn from data compiled by other parties, including governmental and commercial sources. This data may have errors. If any of these companies' website content is improperly used or if any of these companies supply incorrect information an unexpected liability could result. Any of these companies that incur this type of unexpected liability may not have insurance to cover the claim or its insurance may not provide sufficient coverage. If any of these companies incur substantial cost because of this type of unexpected liability, these companies may become unwilling or unable to continue to provide content to Blinkx or unwilling or unable to continue to partner with Blinkx to integrate its search technology into their websites.

*Increased regulation of the internet may adversely affect Blinkx's business.*

If the internet becomes more strongly regulated, a significant portion of Blinkx's operating business may be adversely affected. For example, there is increased pressure to adopt laws and regulations relating to internet unsolicited advertisements, privacy, pricing, taxation and content. The enactment of any additional laws or regulations may impede the growth of the internet and Blinkx's business.

## **RISKS RELATED TO THE INTERNET AND ELECTRONIC COMMERCE**

*Blinkx's business will suffer if the internet infrastructure cannot support the demands placed on it.*

Blinkx's future revenue and profits, if any, depend upon the widespread acceptance and use of the internet as an effective medium of business and communication by its customers. Rapid growth in the use of, and interest in, the internet has placed increased demands on its infrastructure. Blinkx's success will depend, in large part, on the acceptance of the internet in the commercial marketplace and on the ability of third parties to provide a reliable internet infrastructure network with the speed, data capacity, security and hardware necessary for reliable internet access and services. To the extent that the internet continues to experience increased numbers of users, increased frequency of use or increased bandwidth requirements, the internet infrastructure may not be able to support the demands placed on it and the performance or reliability of the internet could suffer.

*Blinkx depends on receipt of timely feeds from its content providers and end users depend upon third-party service providers to access Blinkx's website, the websites of Blinkx's search partners and the websites hosting users' search results. Blinkx's business and operating results could be harmed as a result of technical difficulties experienced by these service providers.*

A significant portion of Blinkx's operations depend on receipt of timely feeds from its content providers, and any failure or delay in the transmission or receipt of such feeds could disrupt Blinkx's operations. End users accessing Blinkx's website, its search partners' websites and the websites hosting users' search results depend upon internet, online and other service providers for access. Many of these service providers have experienced significant outages, delays and other difficulties in the past and could experience them in the future. Any significant interruption in access to any of these websites or increase in any of these websites' response time as a result of these difficulties could damage Blinkx's relationship with its search partners and end users and could harm Blinkx's business, operating results and financial condition.

*More individuals are using non-PC devices to access the internet and versions of Blinkx's web search technology developed for these devices may not be widely adopted by users of these devices.*

The number of people who access the internet through devices other than personal computers, including mobile telephones, hand-held calendaring and email assistants and television set-top devices, has increased

dramatically in the past few years. The lower resolution, functionality and memory associated with alternative devices make the use of Blinkx's products and services through such devices more difficult. If Blinkx is unable to attract and retain a substantial number of alternative device users to its web search services or if Blinkx is slow to develop services and technologies that are more compatible with non-PC communications devices, Blinkx may fail to capture a significant share of an increasingly important portion of the market for online services.

## **RISKS RELATING TO THE ORDINARY SHARES**

*There has been no prior public market for Ordinary Shares and an active trading market may not develop or be sustained in the future.*

Prior to First Admission there has been no public market for Ordinary Shares. Blinkx cannot predict the extent to which an active market for Ordinary Shares will develop or be sustained after Admission, or how the development of such a market might affect the market price of the Ordinary Shares. An illiquid market for Ordinary Shares may result in lower trading prices and increased volatility, which could adversely affect the value of an investment in Ordinary Shares.

*The Company's share price may be volatile following Admission.*

The share prices of publicly traded companies can be highly volatile. The price at which Ordinary Shares may be quoted and the price which Shareholders may realise for their Ordinary Shares will be influenced by a large number of factors, some specific to Blinkx and its operations and some which may affect the internet as a whole, or quoted companies generally. These factors include those referred to in this Part II: "Risk Factors", as well as Blinkx's financial performance, stock market fluctuations and general economic conditions.

In addition, stock markets have from time to time experienced extreme price and volume volatility which could adversely affect the market price of the Ordinary Shares. To optimise returns, investors may need to hold the Ordinary Shares for a relatively long period. Admission should not be taken as implying that there will be a liquid market for the Ordinary Shares. Prior to First Admission, there has been no public market for the Ordinary Shares and there is no guarantee that an active market will develop or be sustained after Admission. Even if an active trading market develops, the market price for the Ordinary Shares may fall below the Placing Price.

*Blinkx may not be able to pay dividends.*

Although Blinkx has no intention of paying dividends in the foreseeable future, in any event it can only pay dividends if it has distributable reserves available. As Blinkx is a holding company, with no independent operations it is dependent upon the level of distributions, if any, it receives from its operating subsidiaries and the level of cash balances.

*Future share issues and sales of Ordinary Shares by Blinkx may have an adverse effect on the market price of Ordinary Shares.*

Blinkx has no current plans for a subsequent offering of shares. However, it is possible that Blinkx may decide to issue additional shares in the future, for example, through a capital increase undertaken by Blinkx to fund an acquisition or for another purpose. An issue or sale of a substantial number of Ordinary Shares, or the perception that such issues or sales could occur, could materially and adversely affect the market price of Ordinary Shares and could also impede Blinkx's ability to raise capital through the issue of equity securities in the future.

*Exercise of outstanding share options will dilute the ownership of holders of Ordinary Shares.*

As at First Admission Blinkx has four share option plans in place, that provide for the issue of options over Ordinary Shares to certain Blinkx and Autonomy employees. As at First Admission approximately 11.4 million options have been allocated under the Blinkx Share Plans at an exercise price equal to the nominal value of Ordinary Shares, of which approximately 5.7 million are vested with the balance to vest over a three year period, representing 5.4% of Blinkx's outstanding shares following First Admission and the Issue but prior to the Placing. In addition, as at First Admission under the plans granting options to those employees who remain employed by Autonomy and who hold vested Autonomy options, approximately 5.1 million share options have been allocated (the maximum permitted under the plans) at a

per share exercise price equal to the Placing Price, all of which will vest over a three year period. Under these plans it is expected that following First Admission and the Issue but prior to the Placing options over approximately 2.4% of the issued ordinary share capital will have been allocated. Under the Blinkx Share Plans the maximum number of shares permitted to be allocated may not on any date, when aggregated with the number of shares already allocated under the Blinkx Share Plans or any other employee share plan of the Company exceed 10% of the Company's issued share capital on that date. This excludes pre-float allocations of options and all options granted under the plans granting options to Autonomy employees. Holders of Ordinary Shares will experience dilution as set forth above upon the exercise of such options.

***US and other non-UK holders of Ordinary Shares may not be able to participate in future equity offerings.***

In the event of an increase in Blinkx's share capital, holders of Ordinary Shares are generally entitled to certain pre-emption rights unless these rights are disappplied by shareholder resolution.

US holders of Ordinary Shares may not be able to exercise pre-emption rights unless a registration statement under the Securities Act is declared effective with respect to Ordinary Shares issuable upon exercise of such rights or an exemption from the registration requirements is available. Blinkx has no current intention to file any such registration statement, and it cannot assure prospective investors that any exemption from the registration requirements would be available to enable US or other overseas Shareholders to exercise such pre-emption rights or, if available, that it will use any such exemption.

***Investment in securities traded on AIM.***

The Ordinary Shares will be admitted to AIM. An investment in shares quoted on AIM may be less liquid and may carry a higher risk than an investment in shares quoted on the main market of the London Stock Exchange. An investment in Ordinary Shares may be difficult to sell. Prospective investors should be aware that the price of Ordinary Shares may go down as well as up and that the market price of Ordinary Shares may not reflect the underlying value of the Company. Shareholders may therefore realise less than, or lose all of, their investment in Ordinary Shares.

***The market price of Ordinary Shares may fluctuate widely in response to different factors.***

The market price of Ordinary Shares may not reflect the value of the underlying assets of the Company, but may be subject to wide fluctuations in response to many factors, some of which are beyond the Company's control.

***Blinkx will incur increased costs as a result of being a public company.***

As a public company, Blinkx will incur significant legal, accounting and other expenses that Blinkx did not incur as a private company. Blinkx will incur costs associated with its public company reporting requirements. Blinkx also anticipate that Blinkx will incur costs associated with corporate governance requirements as well as rules implemented by the London Stock Exchange. Blinkx expect these rules and regulations to increase Blinkx's legal and financial compliance costs and to make some activities more time-consuming and costly. Being a public company has made it more expensive for Blinkx to obtain director and officer liability insurance, and Blinkx may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. Blinkx cannot predict or estimate the amount of additional costs Blinkx may incur or the timing of such costs. Any of these expenses could harm Blinkx's business, operating results and financial condition.

***Securities traded on AIM are subject to limited regulatory control.***

The holders of Ordinary Shares will not enjoy any protections or rights other than those reflected in the Articles and those rights conferred by law. Although, neither the Listing Rules of the FSA nor the Combined Code on Corporate Governance will apply to the Company, the Company recognises the importance of good corporate governance and to this end, the Company intends to take appropriate measures to ensure that the Company complies with the principles of the Combined Code on Corporate Governance so far as is practical for a company of Blinkx's size, as further detailed in Part VIII: "Directors, Senior Management and Corporate Governance".

### **PART III**

#### **DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS**

##### **DIRECTORS**

Anthony Bettencourt	(Non-executive Chairman)
Suranga Chandratillake	(Chief Executive Officer)
Dr Michael Lynch	(Non-executive Director)
Mark Opzoomer	(Non-executive Director)

##### **COMPANY SECRETARY**

Frances Smith

##### **REGISTERED OFFICE**

Autonomy House  
Cambridge Business Park  
Cowley Road  
Cambridge CB4 0WZ

##### **GLOBAL CO-ORDINATOR, NOMINATED ADVISER AND BOOKRUNNER**

Citigroup Global Markets U.K. Equity Limited  
Citigroup Centre  
33 Canada Square  
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**PART IV**  
**EXPECTED TIMETABLE OF PRINCIPAL EVENTS**

*All references to time in this document are to the time in London unless otherwise stated. Each of the times and dates in the table below are indicative only and may be subject to change.*

<b>Event</b>	<b>Date</b>
Admission and commencement of unconditional dealings in Demerger Shares on AIM . . . . .	8.00 a.m. on 22 May 2007
Admission and commencement of unconditional dealings in Placing Shares on AIM . . . . .	8.00 a.m. on 23 May 2007
Admission and commencement of unconditional dealings in Issue Shares on AIM . . . . .	8.00 a.m. on 23 May 2007
Crediting of stock accounts in CREST with Demerger Shares (where applicable) . . . . .	by 22 May 2007
Crediting of stock accounts in CREST with Placing Shares and Issue Shares (where applicable) . . . . .	by 23 May 2007
Despatch of definitive share certificates in respect of Demerger Shares (where applicable) . . . . .	by 29 May 2007
Despatch of definitive share certificates in respect of Placing Shares and Issue Shares (where applicable) . . . . .	by 29 May 2007

**PART V**  
**PLACING AND ISSUE STATISTICS**

*The Placing and Issue are conditional, inter alia, on Further Admission.*

Placing Price . . . . .	£0.45
Number of Issue Shares being issued . . . . .	21,931,383
Number of Placing Shares being issued . . . . .	56,444,444
Number of Ordinary Shares in issue immediately following the Placing and the Issue	277,470,635
Market capitalisation at the Placing Price . . . . .	£124,861,786
Gross proceeds of the Placing . . . . .	£25,400,000
Net Proceeds . . . . .	£22,100,000
AIM symbol . . . . .	BLNX

## PART VI

### INDUSTRY BACKGROUND AND REGULATION

The rapid growth of the internet over recent years has continued, with the number of internet users in North America alone, reaching approximately 233 million in March 2007, having grown by approximately 116% since 2000.<sup>(1)</sup> In Europe the number of internet users grew to approximately 314 million in March 2007, having grown by approximately 199% since 2000.<sup>(1)</sup> Major Asian markets have grown at an even greater rate, achieving a total growth rate of approximately 249% since 2000, with the total number of users reaching some 398 million internet users in March 2007.<sup>(1)</sup>

Significantly, broadband internet is the fastest growing segment of the internet. In February 2007 US broadband penetration rose to more than 80% of active internet users.<sup>(2)</sup> Other major world markets have experienced a similar increase in penetration, for example, penetration of broadband in UK households with internet reached approximately 69% by 2006.<sup>(3)</sup>

#### *Multi-media content*

Currently the “language” of the internet is text. Users read and write emails in text and surf a text web, reading and posting text content. As this text web is a large and disorganised place, tools have been designed to navigate it. Today, the de facto instrument of navigation on this text web is the text search engine. Services such as those provided by Google and Yahoo! trawl the text web widely and deeply, working to discover what words appear where on the internet so that a user’s interests can be translated into a destination where that interest might be satisfied.

The availability of cheaper networks coupled with the increasing number of users accessing the internet through higher-bandwidth broadband connections has created a high-level of consumer demand for internet distributed rich multi-media content. Advertisers and content producers are diverting focus from text to multimedia, audio and video content.

Broadband allows internet users to receive high quality multi-media video content continuously as it is delivered by the provider. This process, known as streaming, is a similar delivery method to radio and television. However, unlike traditional broadcast television, where physical transmission restraints limit how many channels a user may choose from, video on the internet is not so constrained as it can be accessed by anyone, from anywhere in the world and at any time. Users have the ability to watch what they want, when they want. This type of service is proving very popular with broadband internet users; in 2006 more than 85% of US broadband users streamed or downloaded a video.<sup>(4)</sup>

Higher-bandwidth broadband connections also provide users with the opportunity to create rich multi-media, user-generated content. So-called Podcasting (user-generated, RSS encapsulated audio content) grew 17-fold in the six months ending April 2006 and the video-sharing site, YouTube, currently claims approximately 65,000 new video uploads per day. This new content is not just being created, it is also being watched. In August 2006, 110 million users in the US watched video online, streaming approximately 7 billion videos per month<sup>(5)</sup>.

Online video has wide appeal and is not limited to a younger audience. Research shows that the average adult who downloads or streams online videos is 39.4 years old.<sup>(6)</sup> The younger audience still remains a key group as they more actively participate in the uploading and sharing of video online rather than just watching video content.

#### *Video search*

As with the text web, the video web that is being created is a large and disorganised place. Millions of videos on thousands of topics exist on thousands of websites. This volume of content is increasing daily as

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(1) Internet World Statistics, 10 March 2007.

(2) Website Optimization’s Bandwidth Report, March 2007.

(3) National Statistics Online, 23 August 2006.

(4) eMarketer, Internet Video Audience, December 2006.

(5) comScore’s US video Metrix Rankings, October 2006.

(6) Internet Video Audience David Hallerman eMarketer December 2006.

corporations such as the BBC and CNN move their content libraries online and individual users upload more user-generated content.

In the case of the text web, searching is a critical activity that serves as a binding force between other services and sites. On the internet, looking for information as a discreet activity via search engines continues to be an essential online activity for millions of users. Approximately 90% of internet users navigate the world wide web via search engines, making search sites second only to email providers as the most popular category of website.<sup>(7)</sup>

The Company believes that the continued growth of video content and, moreover, the continued growth of the number of video content sources has led to the need for an accurate, efficient method of navigation through this content, which requires an advanced video search function. Video content is today navigated primarily through manually generated meta-tag based 'search' technologies. Meta-tags are the traditional source of information identifying videos for search engine spiders to determine the relevance of a particular file to the end user's search query. Meta-tags allow content providers and end users to manually input information regarding the content of a video. Such information is often unreliable and inherently incomplete because it relies on the accuracy and completeness of information provided by end users. In addition, some end users choose to tag videos with key words or phrases that are unrelated to the content of the video in order to drive internet traffic to that video. The Company believes it is unlikely that these inherently manual approaches will scale to meet the growth of the underlying data and therefore an automated solution to rich media content search is required.

### *Broadband TV*

In the past, television has only been distributed via cable, satellite and terrestrial systems. Today, with the increase in internet connection speeds, advances in technology, the increase of the total number of people online and the decrease in connection costs in recent years, it has become increasingly common to find traditional television content accessible freely over the internet. In addition to this, new internet-only television content has appeared which is not distributed via cable, satellite, or terrestrial systems.

The availability of television and other long-form, high quality content online further increases the advertising opportunity associated with online video. According to eMarketer, the current market rate for video advertising is between \$30–\$60 CPM.<sup>(8)</sup> Broadband TV advertising provides the opportunity to combine the emotive nature of traditional TV advertising with the interactive abilities of the internet to create a high value proposition for which advertisers are expected to pay a premium. In addition to this, high quality television content available online will draw advertisers who have traditionally exclusively spent their advertising budget on television advertising over to the online medium.

Long-form content also offers more advertising opportunities per video than short-form content such as user generated videos. By example, in the US it is standard practice to insert 16 thirty second advertisements into every 30 minute television show, or 8 minutes of advertising for every 22 minutes of programming.

In 2006, US television networks started to offer some or all of their shows free online, supported by advertising. Although most of the current revenue from full-length TV programming is derived from subscription services or downloads, income from advertising-supported content has the potential to rival paid-for content.

In addition to the advertising opportunities that Broadband TV represents it also supports a growing market for subscription and pay per view supported programming. International Data Group ("IDC") reports that the US market for pay per view and subscription online video was approximately \$340 million in 2006, but is projected to grow at a CAGR of 29%, reaching a value of approximately \$950 million by 2010. This projected increase is driven by the fact that high quality television and other long-form content will continue to proliferate online.<sup>(9)</sup>

Broadband TV can come in many forms. For instance, it can be watched on a regular TV (via a set-top box), on a computer, on a portable device (such as a mobile phone), show a channel "live" (like regular TV), or allow the viewer to select a show to watch on demand ("**Video-on-Demand**"). Broadband TV content can involve any budget, from home camcorder productions to expensive professional productions.

(7) PEW, Internet & American Life Project and comScore Media Metrix Report November 2005.

(8) CBS Market Watch, Video Ads Go Viral, 20 June 2006.

(9) IDC, "U.S. Internet Video 2006–2010 Forecast and Analysis: Ready, Set, Watch", March 2006.

The content can be free or paid for, and may be supported by advertisements. The content can be presented in an interactive or passive medium.

### *Advertising*

As more people spend more time accessing internet content, advertising budgets for the internet are increasing. At the end of 2005, US online advertising grew to become a \$12.5 billion industry.<sup>(10)</sup> International levels are lower than the US, but growing at faster rates.<sup>(11)</sup>

Within the online advertising market, two of the fastest growing segments are paid search advertising and full-motion video advertising. The market for online video advertising in 2006 was relatively small at just \$410 million, although this represented an increase of 82% over 2005.<sup>(12)</sup> This market is expected to grow very rapidly, with the market reaching a total value of \$2.9 billion by 2010.<sup>(12)</sup> Despite this rapid growth, in 2010 the online video advertising market is expected to account for only 12% of the total US online advertising market and just 3% of the television advertising market.<sup>(12)</sup>

Paid search advertising uses search as a mechanism to suggest relevant text ads to users based on the keywords entered. Paid search is currently the fastest growing type of online advertising. Online video advertising is a particularly effective and compelling form of televisual advertising. It can be targeted at a specific audience, it can be emotive and engaging and, unlike television, offers the potential for the consumer to take immediate action when following the advertisement, for example by placing an order online.

Video search advertising represents a combination of the paid search internet model and the traditional television advertising model. It brings together the targeted, engaging nature of the internet with the emotive, high impact nature of television. Accordingly, the Company believes that internet video has the potential to command a higher price than other forms of online advertising.

### **THE ONLINE VIDEO ECOSYSTEM**

The online video ecosystem consists of a number of technologies and companies which provide complimentary services in order to allow the ecosystem as a whole to function. The key services are depicted in the diagram shown above. Each is described here:

- *Content Publishers and Owners*—These are the entities or individuals who actually own content or the licence to transmit that content on the internet. There are both amateur content owners (private individuals who publish their home videos, typically for consumption by friends and family) and professional content owners (larger organisations that typically seek to profit from the viewing of their content online).
- *Content Delivery Networks*—These services allow for the transportation of content from one point on the internet to another.
- *Hosting Services*—These services provide a home for online content. The content publishers and owners can use these services to store their content and share it with others who have internet access. Both amateur and professional services exist targeting, respectively, amateur and professional content owners and publishers.
- *Live Streaming*—These services allow content owners to publish content on a network that streams content live to a web page or other destination client. This content is often streamed live and so is used for “breaking” content like news or sports.
- *On-Demand E-Commerce*—These services allow content publishers and owners to publish their content on a locked system which only allows users access to the content if they pay for it.
- *Video Search*—Video search is a service that encompasses all of these video access services, providing the user with a single, one-stop entry point to all available content, however or wherever it is hosted.

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(10) PricewaterhouseCoopers IAB Internet Advertising Revenue Report, April 2006.

(11) Piper Jaffray, The User Revolution, February 2007.

(12) eMarketer, Internet Video: Advertising Experiments and Exploding Content, November 2006.

## **REGULATION OF INTERNET AND OF CONTENT DISTRIBUTED ONLINE**

Much activity on the internet is governed by local, state and federal laws in various jurisdictions without specific reference to the internet. The applicability to the internet of existing laws, which govern issues such as intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, consumer protection, employment, contract and personal privacy, is uncertain and developing. In particular, these laws often pertain to the content of websites, such as personal information, images and video. The prevalence of the internet in every aspect of daily life has continued to expand the realm of laws applicable to actions and content online.

A key issue with respect to the regulation of online content relates to the treatment of copyright, both with respect to generally applicable laws (such as in the UK, the Copyright, Designs and Patents Act 1988) and those enacted for the purpose of governing online content (such as in the US, the Digital Millennium Copyright Act 1998 (“**DMCA**”). Under certain provisions of the DMCA, copyright owners may utilise an expedited procedure to have allegedly infringing material removed from a website. The DMCA permits eligible online service providers to avail themselves of a safe-harbour for listing or linking to third-party websites that include materials that infringe copyright rights of others when certain statutory conditions are met, including lack of knowledge that the material in question infringed another’s copyright and immediate removal of the content when notified of such alleged infringement. Those parties hosting or linking to copyrighted content often rely on this DMCA safe harbour as a defence to copyright infringement actions by content owners.

Additionally, digital rights management (“**DRM**”) software has increasingly been used throughout the world by content owners to protect their copyrights. DRM is used in varying formats, generally developed by individual content owners to prevent the unauthorised copying of their content. In the music industry, some content owners have recently willingly eliminated the use of DRM in their content due to a combination of consumer reaction and commercial reasons. Some owners of video content have used DRM to protect from unauthorised copying, particularly video distributed in DVD format. DRM is not yet generally used to protect content originating in traditional television format, although some such content is distributed directly from content owners (such as network programming and music videos) with DRM. In the future, DRM may be used to protect content distributed through digital television formats.

Content owners have vigorously enforced copyright protection throughout the advancement of technology, from the controversies surrounding early commercially available recording media such as cassette and VHS tapes, to digital video recorder (“**DVR**”) technology, to current debates regarding online distribution of media content. Equally, through technology advancements such as DRM and enforcement of copyright laws, content owners have found ways to protect such content. While the evolving technological and regulatory landscape will continue to present challenges to content owners, content owners will continue to be able to, and will continue to, enforce their copyrights in the future through a combination of legal and technological means.

## PART VII BUSINESS OVERVIEW

### 1. OVERVIEW OF BLINKX

Through its exclusive licence to use Autonomy's patented video and audio analysis technology for Consumer Use, Blinkx has been able to index over 13 million hours of video content from thousands of diverse sources, including content from over 130 content partners. This, according to management estimates, makes Blinkx the world's largest video search engine in terms of indexed hours of content.

The Blinkx business was founded in 2004, bringing Autonomy's video and audio analysis technology into the consumer internet space. Blinkx's focus on consumer applications is distinct from Autonomy's focus on enterprise software applications.

Blinkx's initial focus is on providing video search services in the consumer internet sector. Online video is expected to be one of the next major markets to be exploited on the internet. It is anticipated that the wider availability of broadband and the growth in multi-media content will increase the need for consumers to be able to effectively and efficiently access, search and manage online video content. The Company believes that it has the leading navigation tool to do this and intends to derive revenues from its video search service, primarily from video advertising streamed as part of the video content. Unlike other video search engines, which apply solely meta-tag search technology, Blinkx uses a combination of Autonomy patented conceptual search, speech recognition and video analysis technology, the ability to understand content through intelligent Cluster Query Focus technology, together with meta-tag analysis, to efficiently and automatically find and index video content. Through Blinkx.com and its distribution customers, the Company believes that Blinkx provides users with access to more video from more sources through a single gateway than any other search engine. Just as text search has proved a valuable compass in navigating the text web, the Company believes that Blinkx's advanced video search will become the tool of choice in finding video content online.

In addition, Blinkx is developing several innovative services using Autonomy's patented video and audio analysis technology, the most advanced of which are "Broadband TV" and "Transaction Hijacking". The combination of the Blinkx and Autonomy technology allows the Company to provide high quality TV over broadband, allowing any number of channels to be offered to consumers over the internet. This service, expected to be launched by the end of 2007, is expected to generate revenues through both advertising (streamed with the content) and subscriptions. The Company's Transaction Hijacking service, expected to be launched during 2008, involves an automated e-commerce price comparison service provided to consumers via a free software download. The software monitors the consumer's e-commerce transactions and, at the point of sale, compares the terms of that sale to those available elsewhere on the internet. If the transaction terms can be beaten by a reasonable margin, the consumer is alerted. If the consumer chooses to transact with the alternate provider, the transaction has been "hijacked". Blinkx is expected to generate revenue from payments received from vendors for transactions generated.

Blinkx together with Autonomy's consumer unit has no independent operating history and has not been separately audited. No revenues or costs attributable to the consumer operations of Autonomy have historically been separately recorded or reported. The Company has undertaken, for the purpose of this document, an analysis of Autonomy revenues derived from consumer operations in order to estimate those attributable to video search in the consumer sector.

For the three years ended 31 December 2006, those revenues were approximately \$0.3 million, \$1.2 million and \$3.8 million, respectively. Such estimates have not been audited and may not be indicative of what Blinkx's results of operations, financial position and cash flows would have been or will be post-Demerger. This is for a number of reasons, including the fact that such revenues were generated by the operations of Autonomy which has a much larger group and sales force than will be available to Blinkx post-Demerger.

Autonomy is a global leader in providing infrastructure software for the enterprise. Autonomy has, over the last 11 years, invested over \$150 million in developing the IDOL technology platform. This platform is licensed to Blinkx for consumer applications and is protected by over 110 patents. The Licence, further details of which are set out in paragraph 9 of this Part VII and paragraph 12(f) of Part XII: "Additional Information", is exclusive for five years. The Autonomy consumer technology and Blinkx brand and technology have received a cumulative investment to date in excess of \$14 million.

## 2. KEY STRENGTHS OF BLINKX

### *Leadership in video search*

Through Blinkx's exclusive licence to use Autonomy's IDOL technology platform for Consumer Use and its relationships with over 130 content partners (including HBO, MTV, A&E and YouTube), Blinkx has indexed over 13 million hours of video content from thousands of diverse sources. This, according to management estimates, makes Blinkx the world's leading video search engine in terms of indexed hours of content. Through the Blinkx.com website and a growing list of distribution partners, including Lycos, Looksmart and Infospace, the Company believes that Blinkx is able to provide users with access to more video content from more sources through a single gateway. Currently, approximately 42% of search results using Blinkx's search engine return results that include content from one of Blinkx's content partners. In March 2007, approximately 1.1 million searches were conducted through the Blinkx video search engine each day, including approximately 710,000 through Blinkx's distribution partners.

Blinkx's leadership in video search is supported by positive press reports and reviews and a number of prestigious awards and certificates for its technology and services. Recent awards include Time Magazine's 50 Coolest Web Sites, BusinessWeek's Best of the Web, a DEMO God award at the DEMO '07 conference and WebUser's Gold Award for Video Search.

### *Superior technology*

Blinkx's video search solution using Autonomy's IDOL technology platform was built for the task of analysing and understanding video content. Unlike other video search engines that rely solely on searching meta-tags, Blinkx uses a combination of Autonomy patented conceptual search, speech recognition and video analysis software, as well as meta-tag analysis, to efficiently and automatically find and index the content of a video. Blinkx thereby has the ability to produce considerably more accurate and relevant search results than search engines which solely conduct a meta-tag search.

Blinkx UK Limited has entered into a licence with Autonomy Systems Limited, which permits Blinkx to use Autonomy's IDOL technology platform for Consumer Use and Consumer Content Production Use (the "Licence"). The Licence is worldwide and royalty-free, is exclusive to Blinkx UK Limited with respect to Consumer Use for a period of five years and non-exclusive for Consumer Use in perpetuity thereafter, is non-exclusive in perpetuity with respect to Consumer Content Production Use and covers all languages supported by Autonomy (other than the Mandarin and Cantonese dialects). Further details of the Licence, including certain limits on Blinkx UK Limited's rights thereunder, are set out on in paragraph 9 of this Part VII and in paragraph 12(f) of Part XII: "Additional Information".

### *Well positioned in a large and rapidly growing market*

The volume of video content, both user-generated and professional, is growing at a fast rate and this video content is hosted on many different sites across the internet. The amount of video content being watched online is also growing rapidly. Industry analysts eMarketer estimate that more than 85% of US broadband users streamed or downloaded video in 2006.<sup>(4)</sup> Today's growing online video audience has a vast amount of content to watch but is unsure of the best place to watch it. Blinkx offers a solution to this challenge by providing a single gateway to millions of hours of video content from thousands of diverse sources.

The rapidly growing volume of, and demand for, video content on the internet is expected to be supported by equally rapid growth in the online video advertising industry. According to eMarketer, the current market CPM rate for video advertising is between \$30—\$60, which compares well with other forms of internet and traditional advertising.<sup>(8)</sup> eMarketer estimates that the online video advertising market was worth approximately \$410 million in 2006 and will grow at a compound annual rate of approximately 63% for the next four years, reaching approximately \$2.9 billion in 2010.<sup>(12)</sup>

The Company believes that all of these factors indicate that there is an ever-increasing need for video search engines that can understand the vast quantities of audio and video data available on the internet and provide users with accurate search results. The Company further believes the technology licensed from Autonomy gives it a significant advantage over its competitors in meeting this growing need.

### ***Multiple uses for core technology and opportunities for revenue generation***

Although Blinkx is currently focusing on video search, a number of other applications for its licensed technology have been developed. The most advanced of these applications are Broadband TV and Transaction Hijacking.

Blinkx has technology that allows users to watch high quality, full screen television and movie content on their computer using software that is downloaded for free. Users can choose to either stream and watch this content over a standard broadband link or download DVD quality programming to their computer, making it available to be watched offline. The Company expects to generate revenues from Broadband TV through both advertising (streamed with the content) and subscription. The Company intends that this service be offered only for licensed content and the Company expects this service to be launched by the end of 2007.

Blinkx also has technology that is able to identify the moment a consumer is about to execute an e-commerce transaction. Known as Transaction Hijacking, this service, expected to be launched during 2008, involves an automated e-commerce price comparison service provided to consumers via a free software download. The software monitors the consumer's e-commerce transactions and, at the point of sale, compares the terms of that sale to those available elsewhere on the internet. If the transaction terms can be beaten by a reasonable margin, the consumer is alerted. If the consumer chooses to transact with the alternate provider, the transaction has been "hijacked". Blinkx would receive revenue from vendors for transactions referred to them.

### ***Dynamic management team backed by proven technology entrepreneurs***

The Blinkx management team is a dynamic group of industry leaders, entrepreneurs and experienced individuals, backed by non-executive directors with significant industry experience who are proven technology entrepreneurs.

Suranga Chandratillake, the co-founder and Chief Executive Officer of Blinkx, was formerly US Chief Technology Officer of Autonomy and is widely recognised as a visionary leader in the video search industry. Mr Chandratillake founded Blinkx in 2004. The Company's Chief Financial Officer, Matthew Service, was previously a Principal of Regent Pacific Management Corporation where he worked on a number of engagements for a variety of technology companies. The development of Blinkx's industry leading technology is overseen by Matthew Scheybeler, Chief Technology Officer. Mr Scheybeler previously worked for Autonomy and later founded his own consultancy firm specialising in the mobile and enterprise search sectors. Blinkx's business development has been led since its foundation by Federico Grosso, who has 10 years international experience in digital media including responsibility for the start-up of Yahoo! Italia and the launch of Yahoo!'s European Commercial Team.

The Blinkx management team is supported by a team of non-executive directors who have founded and/or led technology companies collectively worth billions of dollars. Anthony Bettencourt is a Silicon Valley veteran, currently serving as an Entrepreneur-in-Residence at US Venture Partners in Menlo Park, California, and formerly the Chief Executive Officer of Verity Inc., which was sold to Autonomy in 2005 for approximately \$500 million. Dr Michael Lynch OBE is the founder and Chief Executive Officer of Autonomy. Mark Opzoomer is the Chief Executive Officer of Rambler Media, an integrated media company focusing on the global Russian-speaking community, and serves on the board of a number of global internet and technology companies. Mr Opzoomer previously served as European Managing Director and Regional Vice-President of Yahoo! Europe.

## **3. STRATEGY**

Blinkx's objectives are to consolidate and strengthen its position in the video search engine market, to generate and maximise revenues, achieve profitability and further develop new services through market leading technology. Blinkx is currently focusing its efforts primarily on the US and the UK markets.

The key elements to its strategy are:

### ***Leverage technology and high quality content***

Blinkx intends to invest in the continued development of the technology so as to offer a video search engine that provides the most accurate and relevant results.

The Company believes that one of the keys to Blinkx's success will be content quality. Consumers will use the Blinkx search engine because it helps them find the right videos. Blinkx therefore needs to be able to offer content that meets this requirement. To achieve this, Blinkx takes a two tiered approach to content acquisition. Blinkx's spiders use Autonomy's IDOL technology platform to automatically crawl the web, seeking out and indexing the video content. In addition Blinkx intends to proactively seek out and partner with leading content providers from traditional media, new IP-ready sources (such as USA Today and Reuters) and the "Long Tail" (such as YouTube and Google Video). The Company believes that by combining its licensed technology and high quality content it will be able to consolidate its leading position in the video search sector.

#### *Leverage strategic relationships with distribution partners and internet sites*

In addition to its relationships with content providers, Blinkx has strategic relationships with a diverse set of partners, including distribution partners and high-traffic internet sites such as internet service providers, portals and search engines. Blinkx's distribution partners are key to producing large volumes of search traffic. Blinkx has signed several large distribution partners that are either producing large volumes of traffic or are expected to in the near future. These distribution partners include Lycos, Infospace and Looksmart. The Company believes that its ability to retain its current distribution partners and its agreements with high traffic internet sites will be crucial to increasing search traffic and to Blinkx's ability to generate revenue through the placement of advertisements on its distribution partners' websites.

#### *Increase brand recognition as a leading video search engine*

The Company believes that building greater awareness of the Blinkx brand initially in the US and the UK, but also internationally, is critical to expanding the number of users of Blinkx.com and the number of content and distribution partners. Blinkx intends to promote, advertise and increase recognition of its brand through a variety of marketing and promotional campaigns. This is expected to include marketing agreements with companies with significant online presence and advertising through traditional media, such as radio and print, as well as through leading websites and other media. The Company believes that further enhancing its brand recognition as a leading video search engine will be crucial to attracting more users, increasing the number of searches and ultimately to its ability to generate revenue.

#### *Launch of new services*

The Company believes that it will be able to generate revenues through the launch of innovative, value added services. Blinkx is currently developing several new services, the most advanced of which are "Broadband TV" and "Transaction Hijacking". Broadband TV is expected to be launched by the end of 2007 and Transaction Hijacking is expected to be launched during 2008.

## **4. SERVICES AND REVENUE GENERATION**

### *Video search (Blinkx.com)*

Blinkx.com, the website, was launched in January 2005. The site uses Autonomy's patented and award-winning video and audio analysis technology to spider and index video content on the free internet. Trawling automatically through millions of websites and portals, the software listens, watches and reads video content in real time, inferring and recording meaning, and building a rich index that can quickly locate specific segments within the video content, allowing it to be searched in greater detail. A user's intent, expressed as a search query, can then be matched to relevant video content with consistently high levels of accuracy.

The video search revenue model is based on advertising revenue generated when an individual consumer views an advertisement online. This business model is not proven and so far the revenues generated by the demerged business from that model are not significant. Blinkx maintains relationships with certain content partners (such as Reuters and Independent Television News) that are expected to enable it in the medium term to earn a share of advertising revenues earned by the content owner when a video—found using the Blinkx video search engine—is viewed. No significant revenues have been earned to date, however management believes that the opportunity to generate a share of advertising revenues in this way will grow as the market for on-line video develops.

In addition, it is Blinkx's intention is to stream advertisements into videos provided by content partners and to pay the content partner a share of the revenue. Blinkx currently has relationships with more than

130 content partners, although most of these agreements do not currently permit revenue generation by Blinkx in this way. It is a key focus of the Company to convert these partnerships into revenue generating relationships.

To increase the volume of traffic using the Blinkx search engine, Blinkx has relationships with a number of other website operators. These distribution partners are able to offer video search capabilities on their websites using the technology. When a consumer searches for a video on a distribution partner's site the search is undertaken by the Blinkx engine, reviewing the same index of content as if the search had been carried out on Blinkx.com. Blinkx's relationships with its distribution partners are mutually beneficial. Each distribution partner benefits by being able to offer advanced video search on its website, while Blinkx benefits from increased usage of the search engine and therefore increased potential to generate advertising revenues.

Blinkx's licensed technology can also be used on internet sites and services operated by others in order to assist those sites to better provide navigation of video content—whether that content resides on the site in question or in the wider Blinkx video search index. These sites typically generate revenue by using Blinkx's technology to increase their own ability to monetise their video assets, typically through supporting advertising. In these cases, Blinkx is paid for these services through a form of advertising revenue share where Blinkx receives income proportional to the value generated by its technology. No significant revenues have been generated to date.

### ***Broadband TV***

The internet's flexibility and cost-effectiveness is driving the extension of online video beyond the watching of short clips towards the viewing of full length programmes similar to those shown on broadcast TV. The increasing connectivity of devices other than traditional computers means users are on the verge of being able to access IP-delivered content in their living rooms, on their televisions and also on a multitude of mobile devices through mobile cellular video content distribution.

Blinkx's Broadband TV offering, expected to be launched by the end of 2007, is expected to offer full-screen, high quality playback direct to a user's computer. It is a peer to peer web-based IPTV platform with the capability to deliver television and DVD quality content. To enable the service, a piece of software must be downloaded to a user's computer. Such software would either be downloaded directly from the Blinkx.com website or bundled with a partner's software which may in turn be downloaded to the user's computer. Blinkx's Broadband TV Freeview service is expected to stream full screen, television quality content, be free to the user, supported by advertising and include only copyright-cleared material. Blinkx's Broadband TV pay per view service is expected to work in conjunction with the freeview product and offer DVD quality drip download of video. This will allow users to download higher quality content over time at speeds that will utilise available bandwidth while not impacting other activities, making the content available to be viewed offline at anytime.

### ***Transaction Hijacking***

The "Transaction Hijacking" service requires that a piece of software is downloaded to a user's computer. Such software would either be downloaded directly from the Blinkx website or bundled with a partner's software which is in turn downloaded to the user's computer.

The Transaction Hijacking service, which is expected to be launched during 2008, is able to identify the moment when a consumer is about to execute an e-commerce transaction. At the point of sale the Transaction Hijacking software compares the terms of the transaction to those available elsewhere on the internet. If the transaction terms can be beaten by a reasonable margin, it is advertised directly to the user in the form of a visual alert, potentially "*hijacking the transaction*". If the user chooses to transact with the alternative vendor, the transaction is said to have been hijacked. Blinkx would generate revenues from this software from payments received from vendors for lead generation.

### ***Ancillary revenue streams***

Blinkx will also seek to monetise video search through non-video advertising. This generally involves the use of banner advertisements (graphical advertising units that are paid for on a "per impression" basis) and/or the use of search advertisements (typically textual ads that are paid for on a performance basis).

In addition to revenue from this advertising, Blinkx is also able to charge customers and partners for use of its search index, normally on a per-search cost basis.

## 5. MARKETING

A key to the Company's success is continuing to build brand awareness and commanding recognition of Blinkx's leadership in the marketplace. The Company intends to employ a number of marketing vehicles to promote its brand, including advertising, its "Powered by Blinkx" co-branding programme, participation in market research studies, industry analyst products and strategy updates, trade shows and industry seminars. Key facets of the marketing programme are likely to be:

- *Public Relations*—Blinkx has already built a brand through the use of both traditional and blogosphere public relations. Blinkx will continue to do this, extending its use of public relations firms both in the US and Europe in order to ensure that opinion makers and formers—whether journalists, analysts or online bloggers are aware of Blinkx's product and its position within the marketplace.
- *Trade Shows and Industry Seminars*—Blinkx will increase involvement in and sponsorship of trade shows, seminars and other events that collect different members of the internet, TV and broadband TV industries. In addition to fielding attendees from Blinkx's sales and marketing team, Blinkx will use speaking opportunities to broaden its exposure within this target audience and will also sponsor activities during these events in order to propagate its brand within the industry. Sponsoring booths and areas within these events also serves as a lead-generation activity for Blinkx's sales team.

In addition to these core areas, Blinkx is also likely to pursue traditional online (traffic acquisition, banner advertising of relevant industry sites and search marketing) and offline (physical advertising such as billboards or placement of advertising in key industry journals and press) marketing, as well as embarking on an industry analyst programme and undertaking market research studies.

## 6. COMPETITION

The video search engine market is new and rapidly evolving. Unlike other video search engines, which solely employ meta-tag driven search, Blinkx's licensed technology is focused on understanding video using advanced speech recognition, visual analysis, and understanding content through intelligent Cluster Query Focus technology, in addition to using meta-tag analysis, in order to efficiently and automatically find and index online video content. By indexing content through automated spiders crawling the web which are capable of analysing web pages and content, Blinkx is able to deliver more accurate and relevant search results.

Blinkx currently or potentially directly competes with:

- *AOL Video Search*—video search site powered by technology acquired from Truveo. The technology provides functionality to crawl the web and index meta-tags from video content including dynamic web pages;
- *Pixsy*—video search site which also licences its technology to power private label photo and video search engines for websites. Video is aggregated from RSS feeds in the form of thumbnail still images. Search capability is meta-tag driven and allows for search of videos by relevance, category, provider, media type, and freshness. Mamma is a video search site that uses Pixsy technology to add video search functionality to its site;
- *Yahoo! Video*—video search site focused on allowing users to upload and share their videos. Search capability is driven by meta-tags that can be added by any user to any video. Additional content comes from other video sites that add their content via participation in Yahoo!'s content acquisition program;
- *ClipBlast!*—video search site that indexes video content from RSS feeds and uses meta-tags to provide search capabilities;
- *SearchForVideo.com*—video search site that offers drop-down search service that enables users to select individual online video publishers from a drop-down menu and perform keyword searches restricted to online video titles from a particular publisher;
- *Lycos*—general search site that uses Blinkx's technology to add video search functionality to its site; and
- *Infospace*—general search site operated by Infospace that uses Blinkx's technology to add video search functionality to its site.

Google runs a video service known as Google Video. Despite Google's focus on search technology in the text internet, Google Video is primarily a video hosting service. Google Video does have a search function but it is based on a meta-tag indexing approach and searches only content from Google Video itself and

YouTube.com (a Google property). Google Video therefore pursues a different strategy from Blinkx and other video search services, aiming to encourage those who own content to upload that content to the site, rather than spider other sites looking for content from a variety of sources. Blinkx indexes Google Video as it does other video hosting sites. Therefore, Blinkx's own index is a superset of Google Video's. By definition, anything that can be found on Google Video can be found by using the Blinkx search engine. The converse is not, however, the case.

Blinkx is not aware of any products available today that offer the full range of features or functionality that would be offered by Blinkx Broadband TV or Transaction Hijacking and, as such, the Company believes that there are no direct competitors; although other services exist that attempt to address similar problems and offer users similar experiences, delivering one or more of the features that the Blinkx products offer.

Transaction Hijacking is designed to ensure that the consumer gets a better deal when buying a product online. Today this function is primarily met by shopping comparison sites such as www.shopping.com and www.kelkoo.co.uk. These sites work by amassing retail data from competing e-commerce sites. A user can then specify what product they are interested in and see what offers exist across this network of sites. A disadvantage of the shopping comparison approach is that it requires a user to be aware of the service and then to navigate through a shopping comparison process before they can find an offer. In comparison, Transaction Hijacking is intended to be an entirely automated experience that takes the responsibility of finding the terms offered by alternative vendors out of the hands of the user. Instead, a user merely proceeds in their normal purchasing process and Blinkx's technology is able to automatically infer the likelihood of a purchase occurring and then use that potential transaction in order to automatically inform the user of better deals, offering the alternative vendor the ability to "hijack" the transaction.

Blinkx Broadband TV aims to deliver streaming television-quality video content to end users through a combined peer-to-peer and server-to-client distribution technology. The Company is not aware of any directly comparable live sites that offer this service to the general public.

## 7. HISTORICAL OPERATING AND FINANCIAL INFORMATION

### Historical trading—consumer operations of Autonomy group

The revenues attributable to the consumer operations of Autonomy have not historically been reported separately. For the purposes of the Demerger, the Company has prepared an analysis of Autonomy revenues which have been derived from its consumer operations.

The amounts shown below represent estimated historic revenues and commission expenses derived from the consumer operations of Autonomy.

	Year ended 31 December		
	2004	2005	2006
	\$'000	\$'000	\$'000
<b>Autonomy Consumer Operations</b>			
Revenue . . . . .	294	1,221	3,759
Commission expense . . . . .	(26)	(107)	(334)

Under the terms of the Licence, Blinkx will have an exclusive right for five years to use Autonomy's IDOL technology platform for Consumer Use and a non-exclusive right to use such for Consumer Content Production Use.

It should be noted that historic revenues achieved by the consumer operations division of Autonomy may not be achievable by Blinkx as a newly established stand alone entity.

The revenues shown above were generated by Autonomy sales people who are not transferring to the Blinkx business as part of the Demerger.

### Historical costs associated with business being demerged

The business being transferred from Autonomy to Blinkx consists primarily of: (a) the personnel referred to in the section headed "Management and Employees" below; (b) technical IP developed specifically by the Blinkx staff; (c) marketing associated with the Blinkx brand; and (d) servers used specifically for holding indexed content.

For the period from 2004 to 2006 the direct costs in the table below have been incurred by the Autonomy group in relation to the business being transferred. The table below includes only those costs which can be directly attributed and therefore does not reflect the total cost base of the business being demerged. In addition, these costs may differ significantly from the level of costs which are required for the business going forward operating as a stand alone entity.

	<u>Year ended 31 December</u>		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<b>Directly attributable costs</b>			
Staff costs (excluding options) . . . . .	794	1,796	2,018
Co-location costs (server hosting) . . . . .	435	729	804
Marketing . . . . .	907	1,305	1,888
Consultants . . . . .	105	206	7
Depreciation . . . . .	147	356	365
<b>Total directly attributable costs</b> . . . . .	<u><b>2,388</b></u>	<u><b>4,392</b></u>	<u><b>5,082</b></u>

Staff costs presented are only the directly attributable salary costs of the employees who are transferring across to Blinkx at the time of the Demerger.

Co-location costs represent the fees associated with housing the Blinkx servers in secure “co-location” sites and the associated bandwidth rentals. In the future, these costs are likely to increase if there is an increase in the number of servers and the supporting bandwidth required to support the business.

Marketing and consultants costs presented above are those costs incurred directly on the Blinkx branded products. Once the Demerger has occurred, management is focused on building the brand and expects to increase the marketing spend significantly from historic levels.

Depreciation costs represent the annual depreciation costs of the servers based on an estimated useful economic life of three years. In the event that further hardware is required in order to handle increased searches then these costs will increase accordingly.

**Other costs**

Since the business has not been controlled separately in the past, it should be noted that the above costs do not include a number of costs that are associated with a standalone business for which management do not consider there is any reasonable basis for allocation from the Autonomy group.

In addition, any historic allocation would not provide meaningful information about the expected future cost base of the demerged business operating as a stand alone entity.

These costs would principally include:

- Facilities costs (including rent, rates and utilities);
- Employee travel and expenses;
- Finance, administrative support, legal, recruitment and HR costs—provided by Autonomy group during periods above;
- Public company reporting costs—investor relations, audit and printing;
- Costs of developing IP not separately identifiable above; and
- Share option costs (expected to represent a significant non-cash cost of the business).

**8. THE DEMERGER, THE ISSUE AND THE PLACING**

Following the Demerger Blinkx intends to focus on consumer-directed search services. This differs materially from Autonomy’s focus on enterprise software applications and as a result the companies address different markets and clients. As an independent company, Blinkx will be better positioned to focus its resources. In addition, public company status will aid Blinkx in establishing its brand and identity. Blinkx will seek to increase its profile with its content partners and distribution partners, as well as raise the profile of Blinkx.com with end users. Public company status is expected to help Blinkx to attract and retain the employees best suited for the Company.

The Demerger, which will be effective as at First Admission, is effected by the payment of a dividend in specie of Ordinary Shares to the shareholders of Autonomy in the proportion of one Ordinary Share for each one ordinary share in Autonomy.

Pursuant to the terms of the Demerger Agreement, and conditional on Further Admission, the Company will on Further Admission issue 21,931,383 further Ordinary Shares to Autonomy such that Autonomy's holding in the Company following Further Admission (and prior to the Placing) will equate to approximately 10% of the issued share capital of Blinkx; the consideration for the issue of these shares is the transfer by Autonomy to the Company of ten Ordinary Shares of Blinkx UK Limited. Following this transfer, Blinkx will own 100% of Blinkx UK Limited.

The Company expects to raise approximately £22.1 million by the sale of the Placing Shares, net of expenses payable by the Company of approximately £3.3 million. It is expected that Autonomy will participate in the Placing, so as to maintain its 10% holding in the issued share capital of Blinkx. The Placing is conditional, *inter alia*, on Further Admission. Further details of the Placing are set out in Part IX of this document.

## 9. ONGOING RELATIONSHIP WITH THE AUTONOMY GROUP

Autonomy and Blinkx have entered into a demerger agreement (the "Demerger Agreement") which sets out, *inter alia*, the terms of the transfer of assets and technology. Further details of the Demerger Agreement are set out in paragraph 12(e) of Part XII.

Autonomy and Blinkx UK Limited have also entered into the Licence pursuant to which Blinkx UK Limited has been granted the right to use Autonomy's IDOL technology platform for Consumer Use and Consumer Content Production Use in all available Autonomy languages (other than the Mandarin and Cantonese dialects) (the "**Licensed Technology**"). Under the terms of the Licence, Blinkx UK Limited has the exclusive right to use the Licensed Technology for five years for Consumer Use (becoming a non-exclusive right to use the Licensed Technology in perpetuity thereafter, subject to termination rights) and a non-exclusive right to use the Licensed Technology for Consumer Content Production Use. The Licence contains no entitlement to damages in the event of a breach by Autonomy.

Autonomy has agreed to provide, without charge for the first three years of the Licence (and thereafter on its standard commercial terms), technical support and assistance for the Licensed Technology. Autonomy retains the right to licence the Licensed Technology to third parties, including content owners, in certain situations, provided that such licencees are not permitted to make content created with the Licensed Technology available to the general public. Under the terms of the Licence, in the event that either an offer is made for the entire issued share capital of the Company, or either the Company or Blinkx UK Limited enters into an agreement to sell all or substantially all of the assets of it or its affiliates, in each case without Autonomy's consent prior to the first anniversary of Admission, Blinkx is required to pay a fee of \$50 million to Autonomy upon consummation of such transaction (which can be waived at Autonomy's discretion). Failure to do so will constitute a breach and entitle Autonomy to terminate the Licence.

Each of Autonomy and Blinkx, and Autonomy, Inc. and Blinkx, Inc., have entered into office services agreements which set out arrangements for use by Blinkx of a small portion of Autonomy's offices at Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ and at One Market Plaza, San Francisco, California 94105. Further details of the Office Services Agreements are set out in paragraph 12(g) of Part XII.

Following the Demerger, Blinkx and Autonomy will operate independently of each other as separately listed companies.

Immediately following the Placing, Autonomy is expected to own approximately 10% of the issued share capital of Blinkx. Shares in Blinkx held by Autonomy, the Directors, Senior Management and certain Autonomy employees will be subject to a lockup restriction pursuant to which no such shares may be sold until after the twelve month anniversary of Further Admission.

## 10. INTELLECTUAL PROPERTY

Blinkx has the right to use the Licensed Technology pursuant to the Licence (further details of which are set out in paragraph 9 of this Part VII and paragraph 12(f) of Part XII). Autonomy's IDOL technology platform has received over \$150 million of investment from Arsenal over the last 11 years and is protected

by over 110 patents. Blinkx has additionally applied for two US patents to protect the search technology it has developed using the IDOL technology platform.

Blinkx has applied for or registered trademarks for “Blinkx” and a stylised B in most major markets or potential markets throughout the world, including the US, UK and all other European Union member states, Russia, and many others. Whilst not all of these applications have proceeded to registration, including the US applications, the Company believes that its brand and identity are closely tied to its trademarks, and so will vigorously strive to protect its trademarked name and logo worldwide.

Blinkx is currently pursuing a wide-ranging IP protection policy with regard to all potentially unique, in-house technology.

## **11. TECHNOLOGY**

### **Video Search**

Audio and video search on the internet is a complex task. Firstly, audio and video content often exists on dynamic web, which is content that changes each time it is viewed. Unlike textual content that typically exists on static web in a structured form, with individual website pages representing individual topics or articles, video content often resides inside dynamic players powered by newer technologies such as JavaScript and Macromedia Flash, making them extremely difficult to locate. Secondly, even once discovered, it is difficult to “describe” the content. Searching text is relatively straightforward because computers can read text easily and make it searchable based on the words that appear in each piece of content. In comparison, audio and video content is not definitive and there is no direct way for a computer to readily understand the meaning contained within a piece of audio or video. Finally, even if found and understood, video is not the same as text as representing results, allowing a user to navigate through multiple possible choices efficiently and allowing users to share content found are all tasks that, due to the visual and temporal nature of video have to be treated differently from text content.

As Blinkx’s video search technology encompasses a number of different search mechanisms—from standard keyword search, through conceptual search and also including, for example, automated hyperlinking and implicit query—it is sometimes referred to as Advanced Video Search. Blinkx uses the Autonomy IDOL technology platform and a number of in-house technologies to address these issues, identifying and pursuing a three-part strategy to video search: Find, Watch and Share.

#### ***Find***

Blinkx uses Autonomy’s IDOL Connector Architecture to create a multi-node service that automatically spiders the internet in search of video content. Self-replicating in order to circumvent failure and capable of automatic resource allocation, this system automatically follows links across the internet, biasing towards likely sources of video content.

In addition Blinkx has built a dynamic spider module that is capable of analysing dynamic web languages (primarily JavaScript/AJAX and Flash) and using variable substitution and code pre-compiling techniques to infer content that is hidden in dynamically generated pages.

#### ***Watch***

Existing methods of making audio and video searchable rely on either textual meta-tags (added by either a professional editor or end-users as part of a user generated taxonomy) or on textual closed-caption data that is added by humans during the television production process. Both of these approaches suffer from significant flaws.

Metadata is a description in the eye of the (original) beholder and editors can miss aspects of a video that may be of interest or importance to others and, when opened to a community, tagging is prone to spamming with users falsely applying descriptors to content in order to subvert the search process.

Closed-captioning is flawed because it is subject to inherent human error and is rare on the internet.

In the area of video indexing, Blinkx primarily uses Autonomy’s video analysis technology. While the Blinkx engine does extract and use metadata and closed-captioning if they exist, these are merely the first two steps in the indexing process. In addition, the technology combines advanced speech recognition techniques, with intelligent Cluster Query Focus and synchronisation technologies to analyse and

understand the actual content (spoken words) of an audio/video file, delivering automation, accuracy and access to video content from the web.

The output of these analytical sub-processes are stored as further metadata tracks to be used in conjunction with the digitally encoded content itself. This means that Blinkx can identify not only what was said but also when it was said.

Blinkx's audio analysis technology uses advanced statistical methods to deal with all aspects of processing the digital audio signal from an audio or video stream. It employs a wide range of recognition technologies, from keyword and phrase spotting to small and large vocabulary continuous speech recognition, speaker recognition and language recognition. In order to analyse the spoken words of an audio or video stream, audio analysis techniques based on neural network technology and "Hidden Markov Models" are used to construct a highly efficient acoustic model, which is able to provide a fast and accurate solution within variable and rapidly changing acoustic environments such as radio and television. The system is based around decomposing digitised speech into its phonetic constructs. The phonetic sequence is then analysed in conjunction with acoustic model and statistical probabilities to calculate which the most probable sequence of phonemes and, hence words and utterances.

The major benefits of Blinkx's approach to speech processing and recognition are as follows:

#### *Large vocabulary recognition*

The speech analyser is able to provide the benefits of a large vocabulary speech recognition system without the overhead of a vast search space when considering sample audio. Rather than just relying on the metadata that exists to describe an audio or video clip, Blinkx is able to provide the ability to retrieve a wide range of video content based on the spoken words that were actually said in the television or radio clip.

#### *Inter-speaker independence*

Transcription of speech and segmentation by speaker requires no initial per-speaker training. Whereas many other approaches to speech processing and recognition require training data from specific speakers to realise their full potential, Blinkx performs consistently well across a wide variety of previously unrecognised speech sources. This is because the underlying technology was initially developed to maintain inter-speaker independence and not as a single user transcription tool.

#### *Non-dictated speech*

Information feeds, such as news broadcasts and radio, are often intrinsically difficult to transcribe due to noisy conditions and less than perfect articulation. Blinkx's signal processing and statistical techniques enable the transcription engine to filter out extraneous noise, compensate for low volume levels and predict intended dialogue.

#### *Share*

Once an index of video content has been assembled, it can be searched by users. The most significant challenge in providing search functionality is relevance. It is often the case that many videos will match a single search term, so it is critical to display results in a form that allows the users to quickly and effectively decide which is of most relevance to them.

While text web search has developed sophisticated solutions to both of these problems, many of the assumptions that apply with text simply do not translate to video content. In both of these areas, therefore, Blinkx has developed and used Autonomy technology to provide solutions that are relevant within the context of video search.

#### *Relevance in video search*

Text web search relies primarily on what is known as link-analysis to provide relevance in results. Briefly, this approach considers the extent to which a given web page is linked to by other, independent pages and sites and uses this as a measure of how important or reliable a source of content the initial page is. Link analysis is useful because it provides context. When, as is usually the case, a user provides just one or two words with which to search for content, there are often a number of contexts within which those words may be used and it is impossible to infer which of those contexts is the most relevant one. Link analysis works by

suggesting the most popular (and therefore most likely) context and providing results that are relevant to it.

Link-based understanding of relative importance and context cannot be applied to the video web as there is no inter-linking between videos on the web. Instead, web video content exists as individual files, often not connected in any obvious way to other, unbiased sources.

Blinkx seeks to capture relevance using an Autonomy function known as Cluster Query Focus. Cluster Query Focus depends on Autonomy's Meaning Based Computing approach to understanding information. This approach looks beyond simple keywords and automatically infers concepts and ideas from pieces of content, revealing the actual meaning of the information that the words merely represent. By indexing all of its content in this way Blinkx knows which keywords are relevant to which videos but also what contexts those words appear in. As the index is large, Blinkx is also aware of which of these contexts appears more often than others. Blinkx is therefore able to identify what the different meanings of a keyword can be and which of those meanings are more popular than others. When a user searches using an ambiguous term, this understanding can be used to present a user with results that are relevant to the most prevalent context.

#### *Display of video search results*

Text web search results are displayed as text. As the final content itself is text, a textual title and summary of where a search term appears in the final piece of content prove to be accurate representations of the target content. While many pieces of video content also have titles and metadata describing the video which could be used to provide relevance summaries, these can be far removed representations of the content itself.

In order to facilitate more efficient user appraisal of results, Blinkx has built a patent-pending approach to summarising videos known as Moving Thumbnail Generation.

Blinkx's Moving Thumbnail Generation technology analyses every incoming video file and creates a number of visual thumbnails which are short, compressed segments of video that represent different points in time of a given video. Thumbnails are generated either arbitrarily (e.g. every minute, every 10 seconds, at the start and end) or, more typically, based on specific, identified events within the video (e.g. the utterance of certain words or the appearance of a famous face in the video). Later, when a video is listed as relevant to a user's search, Blinkx returns not just a textual summary and title of the relevant video but also the Moving Thumbnail that most closely demonstrates why a given video is relevant to the search. In the case, for example, of a longer form video that covers more than one topic, a Thumbnail that shows the relevant, searched-for topic will be shown. A user is thus able to assess how a given video is considered relevant to the search and select it if the context is indeed the one the search was intended for.

#### **Broadband TV**

Blinkx's proprietary technology provides an infrastructure capable of supporting a extensive amount of programming and channels and also a large number of users. In addition, it protects content owners by providing a medium that while providing a high quality user experience protects their content from being illegally copied or re-purposed. Key technology features of Blinkx Broadband TV include:

- *Peer to peer distribution*—Blinkx Broadband TV can optionally use a peer-to-peer distribution technology. In this mode, the content that is played at a given user's computer is actually sourced from multiple nodes, thus reducing the streaming load on centralised, Blinkx operated servers. This mode requires a large number of users to have Blinkx Broadband TV installed.
- *Client-server distribution*—Blinkx Broadband TV also supports client-server distribution. In this mode, centralised servers that are owned or operated by Blinkx stream content directly to the end-user's computer.
- *Variable rate, full-screen playback of content*—Blinkx Broadband TV modifies the rate at which it streams content to a user based on the speed of their connection. Those with a high-speed broadband connection will receive high-quality content, those with a slower connection will receive content of a lower quality. This allows Blinkx Broadband TV to ensure that all users with a broadband connection are able to watch content at a continuous rate. This playback occurs in a full-screen mode where the entire screen is used to display the content, creating an experience that is reminiscent of watching television.

- *Windows DRM*—All content within Blinkx Broadband TV is packaged within the Microsoft Windows DRM framework. This industry standard technology ensures the content is delivered only to those users that have access to it.

### **Transaction Hijacking**

With the Transaction Hijacking technology, Autonomy's Implicit Query technology uses its awareness of a user's context to await the moment in a user's activity stream when the user is about to execute a transaction, for example the last page on an e-commerce site before the sale is confirmed. At this point, the Implicit Query technology is able to perform a transaction bid comparison whereby other vendors who carry the same product as the one that is about to be purchased are notified of the sale that is about to occur. If they are able to better the offer by a reasonable margin, it is advertised directly to the user in the form of a visual alert, potentially "*hijacking the transaction*".

Implicit Query is an Autonomy technology operation that is based on the Meaning Based Computing approach to understanding unstructured information. Under this approach, Autonomy's technology is able to read and understand the content contained within arbitrary documents such as web pages, word processing documents, emails or video files. The approach involves a combination of Bayesian Inference and Shannon's Information Theory to infer relationships between words and phrases found in those documents. This approach allows Autonomy's technology to create a mathematical fingerprint that represents the information contained in each document. These fingerprints can then be compared to each other, allowing the technology to match similar ones together. Transaction Hijacking uses this technology to compare a user's current webpage (that, in the case of an e-commerce site may be one that describes a particular product) to all other matching e-commerce product pages from a range of other websites. If the tool discovers a page that matches (i.e., is of the same product) but that has an alternative vendor, the Transaction Hijacking opportunity is presented to the user.

## **12. MANAGEMENT AND EMPLOYEES**

Suranga Chandratillake has led the Blinkx management team since the Blinkx business was founded in 2004 and has been directly responsible for the recent development and growth of Blinkx. The Senior Management together have nearly 30 years' experience in the technology and internet industry.

It is anticipated that following First Admission, Blinkx will have approximately 28 employees.

Further details of management and employees are contained in Part VIII: "Directors, Senior Management and Corporate Governance".

## **13. SHARE OPTION SCHEMES**

The provision of equity incentives to employees of Blinkx is considered critical to the success of Blinkx. As a result Blinkx has established the Blinkx 2007 Enterprise Management Incentive Plan (the "**EMI Scheme**") and the Blinkx 2007 US Share Option Plan (the "**US Plan**"). It is intended that the US Plan will be used to grant options to US employees whilst the EMI Scheme will be used to grant options to employees in the UK and, potentially, other jurisdictions. It is anticipated that options to be granted to UK employees will, where possible, be granted as tax efficient enterprise management incentive (EMI) options. It is expected that options will have been allocated under these two plans, representing approximately 5.4% of the issued ordinary share capital of the Company following First Admission and the Issue, but prior to the Placing.

The number of options which may be granted post-First Admission under these two plans and any other of the Company's employee share schemes may not exceed such number of shares as represents 10% of the issued ordinary share capital of the Company from time to time. This excludes pre-float allocations and all options granted under the Blinkx Autonomy Plans.

The board recognises the significant past and future contribution to the Blinkx business of employees who will remain employed by Autonomy. As a result, the Blinkx Autonomy Employee Discretionary Share Option Plan 2007 and the Blinkx 2007 Autonomy Employee US Share Option Plan (together, the "**Blinkx Autonomy Plans**") have been established. It is expected that options over Ordinary Shares will be granted under these plans to Autonomy employees who are remaining with Autonomy and have vested Autonomy options. This will represent approximately 2.4% of the issued ordinary share capital of the Company following First Admission and the Issue, but prior to the Placing. The exercise price of such options is intended to be at least equal to the Placing Price. No further grants will be made under these plans.

These arrangements are subject to adjustment to take into account applicable laws, including tax and securities laws.

None of the non-executive Directors will take part in these schemes, other than Dr Michael Lynch who will receive a single option grant under the Blinkx Autonomy Employee Discretionary Share Option Scheme 2007 in his capacity as an Autonomy optionholder, as described above and on the same basis as all other Autonomy optionholders.

As part of the transaction, it is expected that immediately prior to Further Admission Suranga Chandratillake (Chief Executive Officer of the Company), Federico Grosso (Head of Sales of the Company) and Matthew Scheybeler (Chief Technology Officer of the Company) will exercise options over Ordinary Shares representing up to 25% of their share option holdings. The Ordinary Shares resulting from the exercise of these options are expected to be sold to Autonomy at the time of the Placing at the Placing Price, provided, however that such sale will be conditional on Further Admission.

#### **14. CURRENT TRADING AND PROSPECTS**

The Company is trading in line with the Directors' expectations. The Directors have confidence in the Company's prospects for the current financial year.

#### **15. DIVIDEND POLICY AND IMPACT ON EARNINGS**

##### **Dividend Policy**

The Company intends to retain any future profits available for distribution in the development and expansion of the Blinkx business and does not expect to pay any cash dividends on the Ordinary Shares in the foreseeable future.

In any event, declaration and payment of dividends by the Company will be dependent upon the Company's financial position, cash requirements, its future prospects, profit available for distribution and other factors regarded by the Directors as relevant at the time.

The Company has not paid any dividends on the Ordinary Shares since its incorporation.

##### **Impact on Earnings**

The Company believes that the Demerger will impact earnings in that, amongst other matters outlined in Part II: "Risk Factors", the Company may experience increased costs from operating as an independent company.

#### **16. THE PLACING AND USE OF PROCEEDS**

The Company expects to raise approximately £25.4 million by the sale of the Placing Shares and expects Net Proceeds to be approximately £22.1 million. The Company intends to use such amount for expansion of the workforce, increased marketing, and general corporate purposes.

Further details of Placing, which is conditional *inter alia* on Further Admission, are contained in Part IX: "Details of the Placing".

#### **17. FINANCIAL INFORMATION AND SHAREHOLDER REPORTING**

The Company has only recently been incorporated and consequently it has not published any financial information. An Accountants' Report on the Company is set out in Section A of Part X: "Financial Information".

An unaudited pro-forma statement on the net assets of the Group showing the effect on the net assets of the Group and of the Demerger and the Placing is set out in Section C of Part X: "Financial Information".

The Company's annual report and consolidated accounts will be prepared up to 31 March in each year. The first annual report covering the period from incorporation to 31 March 2008 will be dispatched to Shareholders before the end of September 2008. Shareholders will also receive an unaudited interim report covering the six-month period to the end September in each year. The first such report will cover the six-month period to 30 September 2007. In addition, Shareholders will be sent updated reports on the Group's activities as and when appropriate.

## **18. ACCOUNTING POLICY**

The audited accounts of the Group will be prepared under IFRS and its reporting currency will be the US dollar. Under IFRS, the Group will prepare an income statement which, unlike a statement of total return, does not differentiate between revenue and capital and also includes net realised and unrealised investment gains. The Company's management and administration fees, finance costs (including interests on any bank facility) and all other expenses will be charged through the income statement.

Further details on the Company's significant proposed accounting policies are set out in Section B of Part X: "Financial Information".

## **19. TAXATION**

Information regarding UK taxation is set out in Part XI: "Taxation".

**A prospective investor who is in any doubt as to his or her tax position, or is subject to tax in a jurisdiction other than the UK, should consult his or her independent financial adviser and/or other professional advisers immediately.**

## **20. RISK FACTORS**

The attention of potential investors is drawn to Part II: "Risk Factors".

## **21. ADDITIONAL INFORMATION**

The attention of potential investors is drawn to Part XII: "Additional Information".

## PART VIII

### DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

#### 1. DIRECTORS AND SENIOR MANAGEMENT

##### 1.1 Directors

The directors of Blinkx are set out below:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Anthony Bettencourt . . . . .	46	Non-executive Chairman
Suranga Chandratillake . . . . .	29	Chief Executive Officer
Dr Michael Lynch . . . . .	41	Non-executive Director
Mark Opzoomer . . . . .	49	Non-executive Director

The management expertise and experience of each of the Directors is set out below. Each will be a director of Blinkx and will assume his respective position on First Admission becoming effective.

##### **Anthony Bettencourt, Non-executive Chairman**

Anthony Bettencourt is currently serving as an Entrepreneur-in-Residence at US Venture Partners in Menlo Park, California. Previously, Mr Bettencourt served as the Chief Executive Officer of Verity Inc., a firm specialising in enterprise software that helps organisations maximise the return on their intellectual capital investment, where he was responsible for growing the business from \$15 million in annual revenues to more than \$140 million from 1995 to 2005. A veteran of the enterprise search market, Mr Bettencourt led the team that set the strategic direction and execution characteristics of Verity, resulting in the company being acquired for more than \$500 million at the end of 2005. Also in 2005, Mr Bettencourt was awarded the prestigious Ernst & Young Entrepreneur of the Year award for software and technology in Silicon Valley. Anthony serves as a judge for Silicon Valley's Tech Awards, is a mentor for Santa Clara University's Global Social Benefit Incubator Program, and is an honorary committee member of The Silicon Valley Challenge Summit. He has served on the Board of Directors of Avolent, a company specialising in eBilling enterprise software, as well as on the Board of Directors of the non-profit Alameda County Meals on Wheels. Mr Bettencourt attended Santa Clara University.

##### **Suranga Chandratillake, Chief Executive Officer**

Suranga Chandratillake is the co-founder and Chief Executive Officer of Blinkx. Mr Chandratillake is a technology innovator with over seven years' frontline experience. Mr Chandratillake established the Blinkx business in 2004 after serving in various positions with Autonomy Corporation from 2001 to 2004, including as US Chief Technology Officer from 2003 to 2004. Prior to Autonomy, from 1999 to 2000, Mr Chandratillake held several positions with Anodesign, a small start-up technology firm based in Cambridge. During 1999, Mr Chandratillake was a software developer for Morgan Stanley, creating global risk resolution systems and during 2001, Mr Chandratillake worked on developing next-generation voice recognition technologies at Netdecisions, an IT consultancy group. Mr Chandratillake received his MA in computer science from Cambridge University, specialising in distributed processing architectures.

##### **Dr Michael Lynch, Non-executive Director**

Dr Michael Lynch OBE founded Autonomy in 1996 and is currently Autonomy's Managing Director and Chief Executive Officer. Dr Lynch is also a non-executive director of the BBC and Isabel Healthcare Limited. Dr Lynch founded his first company, Neurodynamics, in 1990, and Autonomy was spun off from Neurodynamics and founded in 1996. At Neurodynamics, Dr Lynch developed much of Autonomy's early proprietary technology. Dr Lynch holds an MA in electrical and information sciences and a Ph.D. in adaptive techniques in signal processing and connectionist models from Cambridge University, and held a research fellowship in adaptive pattern recognition there. Dr Lynch was named Technology Entrepreneur of the Year at the UK Technology Innovation and Growth Forum in March 2007, was awarded the Institute of Electrical Engineers' medal for outstanding achievement and was named the Confederation of British Industry's Entrepreneur of the Year. Dr Lynch is also a Lady Margaret Beaufort Fellow of Christ's College, Cambridge, and the author of a number of academic papers on the subject of Pattern Recognition and Signal Processing.

## **Mark Opzoomer, Non-executive Director**

Mark Opzoomer is currently the Chief Executive Officer of Rambler Media Limited, an integrated media company focusing on the global Russian-speaking community. Since 2003, Mr Opzoomer has been a private consultant and non-executive director on the boards of several companies including Newbay Software Limited, Oxigen II Limited, Web Reservations International Limited, MIVA, Inc and Entertainment One Ltd. In addition, Mr Opzoomer served as Chairman of the audit committee of Autonomy Corporation plc from October 2003 to October 2004, and has been Chairman of the audit committee and a non-executive director of Rambler Media Limited since 2005. From July 2001 to December 2003, Mr Opzoomer served as European Managing Director & Regional Vice-President of Yahoo! Europe. In 2000 and 2001, Mr Opzoomer served in various positions with several wireless data start-ups, including serving as Chairman of Xtempus Limited. From 1995 to 1999, Mr Opzoomer was Deputy Chief Executive of Hodder Headline plc, an international consumer and educational book publishing company listed on the London Stock Exchange. From 1988 to 1994, Mr Opzoomer served as Commercial and Finance Director of Sega Europe Ltd and Commercial Director of Virgin Communications Ltd. Mr Opzoomer received an MBA from IMD, Lausanne, Switzerland, and earned a Bachelor of Commerce, Honours, from Queen's University, Ontario, Canada. In 1995, Mr Opzoomer completed the London and Wharton Business Schools Directors Forum, a program for public company directors. Mr Opzoomer qualified as a chartered accountant with PricewaterhouseCoopers (Coopers & Lybrand) in 1981, where he spent seven years in audit and business investigation services.

## **1.2 Senior Management**

Members of Senior Management (who are not directors of Blinkx) will be:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Federico Grosso . . . . .	34	Head of Sales
Matthew Scheybeler . . . . .	31	Chief Technology Officer
Matthew Service . . . . .	32	Chief Financial Officer
Frances Smith . . . . .	42	Finance Director

The principal functions, management expertise and experience of each of the above members of Senior Management are set out below:

### **Federico Grosso, Head of Sales**

Federico Grosso currently serves as Blinkx's Head of Global Sales and Business Development. He is directly responsible for Blinkx's revenue generation efforts as well as the day-to-day operations of the company's sales organisation. Since joining the Blinkx business in December 2004, Mr Grosso and his team have established over 130 media partnerships with companies including Reuters, MTV Networks, The New York Times Company and Lycos.com. Mr Grosso has 10 years international experience in digital media. From 1997 to 2004, he held several positions within Yahoo!, including the start-up of Yahoo! Italia and the launch of the European Commercial Team. In 1996, Mr Grosso received his BA in Political Sciences from the University of Torino, specialising in Communication and Digital Media Publishing. He completed the Emerging Leaders Programme in General Management at the London Business School in 2004.

### **Matthew Scheybeler, Chief Technology Officer**

Matthew Scheybeler joined the Blinkx business as Technical Director in 2004 and was promoted to Chief Technical Officer in 2007. Prior to joining Blinkx, Mr Scheybeler founded Automatic Software, a consultancy firm specialising in the mobile and enterprise search sectors. From 1998 to 2001, Mr Scheybeler served as a programmer and as a team leader with Autonomy Systems Ltd. Mr Scheybeler received a BEng. Honours in Software Engineering and Artificial Intelligence from Edinburgh University in 1998.

### **Matthew Service, Chief Financial Officer**

Matthew Service joined the Blinkx business in October 2006. Prior to joining Blinkx, from September 1998 to October 2006, Mr Service was a Principal of Regent Pacific Management Corporation. During this time Mr Service worked on 34 engagements in a variety of roles for software and technology companies, including Director of Client Services and Operations for MicroEdge, Inc, a division of Advent Software; Chief Operating Officer and Chief Financial Officer of KTEH, a public television station; Director of IT

for Clarent Corporation, a technology firm that offers enterprise and carrier class IP telephony network solutions; and Director of IT for Auspex Systems, a company specialising in enterprise class network attached storage servers. From April 1996 to September 1998 Mr Service was Operations Manager for NZGS, an importer and exporter of specialty produce. Mr Service received a BA in Business Economics from University of California, Los Angeles in 1995.

**Frances Smith, Finance Director**

Frances Smith joined Blinkx in 2007. Prior to joining Blinkx, she served as VP Corporate Affairs of Autonomy from October 2005 to the end of 2006. Ms Smith previously held the role of Financial Director at a number of early stage venture backed technology companies, including Neurodynamics Ltd and Nholdings Ltd. Ms Smith served in the corporate finance department of PricewaterhouseCoopers (Coopers & Lybrand) from 1992 to 1996 after completing her training as a chartered accountant there in 1991.

**2. CORPORATE GOVERNANCE**

The Directors support high standards of corporate governance and intend to take appropriate measures to ensure that the Company complies with the principles of the Combined Code on Corporate Governance so far as is practical for a company of Blinkx’s size.

The Company expects that the Board will generally meet at least four times per year and may meet at other times at the request of any Director.

**2.1 Committees of Directors**

The Board will establish three principal committees: the Audit Committee, the Remuneration Committee and the Nomination Committee, each of which will operate within written terms of reference approved by the Board, which are summarised below.

Following First Admission becoming effective the members of each committee will be as follows:

<b>Committee</b>	<b>Chair</b>	<b>Other members</b>
Audit Committee . . . . .	Mark Opzoomer	Dr Michael Lynch Anthony Bettencourt
Remuneration Committee . . . . .	Anthony Bettencourt	Mark Opzoomer Dr Michael Lynch
Nomination Committee . . . . .	Dr Michael Lynch	Suranga Chandratillake Anthony Bettencourt

**The Audit Committee**

The Audit Committee will consist of not less than three members, at least one of whom will have recent and relevant financial experience, and the quorum for meetings of the Audit Committee will be two members. Each of the members of the Audit Committee shall be a non-executive director. The chairman of the Audit Committee shall not be the chairman of the Company. The Audit Committee will meet as necessary and at least three times a year.

The Audit Committee’s responsibilities will include monitoring the integrity and clarity of Blinkx’s results and financial statements; reviewing the effectiveness of Blinkx’s internal audit function in the context of Blinkx’s overall risk management systems; and assessing the independence and objectivity of the external auditors.

**Remuneration Committee**

The Remuneration Committee will consist of not less than three members and the quorum for meetings of the Remuneration Committee will be two members. Each of the members of the Remuneration Committee shall be a non-executive director. The Remuneration Committee will meet at such times as may be necessary and not less than twice a year.

The Remuneration Committee will be responsible for determining and agreeing with the Board the framework and broad policy for the remuneration (including benefits, pension arrangements and termination payments) of the chairman, executive directors and senior management of the Company.

### **Nomination Committee**

The Nomination Committee will consist of not less than three members appointed by the Board. A majority of members of the Nomination Committee will be non-executive directors. The quorum for meetings of the Nomination Committee will be two members. The chairman of the Nomination Committee will be the chairman of the Company or a non-executive director, as appointed by the board of directors of the Company, but the chairman of the Company will not chair the Nomination Committee when it is dealing with the appointment of a successor to the chairmanship of the Company. The Nomination Committee will meet at such times as may be necessary and not less than once a year.

The Nomination Committee's responsibilities include regular reviews of the structure, size and composition of the Board; giving full consideration to succession planning; and evaluating the balance of skills, knowledge and experience of the Board.

The identities of each of the chairmen of the committees referred to above will be reviewed on an annual basis. The membership of these committees and their terms of reference will also be kept under review.

### **2.2 Board review and share dealing**

The Board will annually review and agree the level of Directors' fees. Consideration will be given by the Board to future succession plans for Board members as well as to consideration as to whether the Board has the skills required to effectively manage the Company.

The Company will take all reasonable steps to ensure compliance by the Directors and any future employees with the provisions of the AIM Rules relating to dealings in securities of the Company and will adopt a share dealing code for this purpose.

**PART IX**  
**DETAILS OF THE PLACING**

**1. DESCRIPTION OF THE PLACING**

The Company is offering the Placing Shares for subscription pursuant to the terms of the Placing at a price of £0.45 per Placing Share. The Company expects to raise approximately £22.1 million by the sale of the Placing Shares, net of expenses payable by the Company of approximately £3.3 million. The Placing is conditional, *inter alia*, on Further Admission. The Placing will be fully underwritten by Citi in accordance with the terms of the Placing Agreement, further details of which are set out in paragraph 12(a) of Part XII: “Additional Information”.

Immediately following Further Admission, 277,470,635 Ordinary Shares will be in issue including 56,444,444 Placing Shares and 21,931,383 Issue Shares. The Placing Shares will rank in full for dividends or other distributions hereafter declared, made or paid on the ordinary share capital of the Company and will rank *pari passu* in all respects with all other Ordinary Shares which will be in issue on Further Admission.

The Placing is being made by means of an offer of Placing Shares to certain institutional and other sophisticated investors outside the United States.

When admitted to trading, the Ordinary Shares will be registered with ISIN number GB00B1WBW239 and SEDOL number B1WBW23.

**2. APPLICATION AND ALLOCATION OF SHARES**

Citi will notify prospective investors of the procedure to follow to apply for Placing Shares.

Allocations of Placing Shares will be determined and notified to investors prior to First Admission by Citi in its absolute discretion (after consultation with the Company) after indications of interest from prospective investors have been received.

The Company and Citi reserve the right jointly to determine, at any time prior to Further Admission, not to proceed with the Placing without prior consultation with prospective investors.

**3. TERMS AND CONDITIONS OF THE PLACING**

**3.1 Introduction**

These terms and conditions apply to persons making an offer to subscribe for Placing Shares under the Placing.

Each person to whom these conditions apply, as described above, who confirms his agreement to Citi, the Registrar and the Company to subscribe for Placing Shares under the Placing (an “investor”) hereby agrees with Citi, the Registrar and the Company to be bound by these terms and conditions as being the terms and conditions upon which Ordinary Shares will be issued under the Placing. An investor shall, without limitation, become so bound if Citi confirms to such investor: (i) the Placing Price, and (ii) its allocation; and (b) notifies, on behalf of the Company, the name of the investor to the Registrar.

**3.2 Agreement to acquire Placing Shares**

Conditional, *inter alia*, on: (a) Further Admission occurring and becoming effective by 8.00 a.m. on or prior to 23 May 2007 (or such later time and/or as the Company and Citi may agree); (b) the Placing Agreement not having been terminated; and (c) the confirmation mentioned in paragraph 3.1 above, an investor agrees to become a member of the Company and agrees to subscribe for Placing Shares at the Placing Price. The number of Placing Shares issued to such investor under the Placing shall be in accordance with the arrangements described above. To the fullest extent permitted by law, each investor acknowledges and agrees that it will not be entitled to exercise any remedy of rescission at any time. This does not affect any other rights such investor may have.

**3.3 Payment for Placing Shares**

Each investor undertakes to pay the Placing Price for the Placing Shares issued to such investor in such manner as shall be directed by Citi.

In the event of any failure by an investor to pay as so directed by Citi, the relevant investor shall be deemed hereby to have appointed Citi or any nominee of Citi to sell (in one or more transactions) any or all of the Placing Shares in respect of which payment shall not have been made as so directed and to have agreed to indemnify on demand Citi in respect of any liability for stamp duty and/or SDRT and all other transfer taxes, duties or imports arising in respect of any such sale or sales.

### **3.4 Representations and warranties**

By receiving this document, each investor and in the case of paragraphs 3.4(d) and (e) below, any person confirming his agreement to subscribe for Placing Shares on behalf of an investor or authorising Citi to notify an investor's name to the Registrar, is deemed to represent and warrant to Citi, the Registrar and the Company that:

- (a) if the investor is a natural person, such investor is not under the age of majority (18 years of age in the United Kingdom) on the date of such investor's agreement to subscribe for Placing Shares under the Placing and will not be any such person on the date any such offer is accepted;
- (b) in agreeing to purchase Placing Shares under the Placing, the investor is relying on this document or any supplementary document (as the case may be) or any regulatory announcement issued by the Company, and not on any other information or representation concerning the Company or the Placing. Such investor agrees that none of the Company, the Registrar, Citi nor any of their respective officers or directors will have any liability for any such other information or representation;
- (c) if the laws of any place outside the United Kingdom are applicable to the investor's agreement to purchase Placing Shares and/or acceptance thereof, such investor has complied with all such laws and none of the parties mentioned under paragraph 3.1 above will infringe any laws outside the United Kingdom as a result of such investor's agreement to subscribe for Placing Shares and/or acceptance thereof or any actions arising from such investor's rights and obligations under the investor's agreement to subscribe for Placing Shares and/or acceptance thereof or under the Articles;
- (d) in the case of a person who confirms to Citi on behalf of an investor an agreement to subscribe for Placing Shares and/or who authorises Citi to notify the investor's name to the Registrar as mentioned under paragraph 3.1 above, that person represents and warrants that he has authority to do so on behalf of the investor as provided under paragraph 3.1 above;
- (e) in the case of a person who confirms to Citi on behalf of an investor which is an entity other than a natural person an agreement to subscribe for Placing Shares and/or who authorises the notification of such investor's name to the Registrar, that person warrants that he has authority to do so on behalf of the investor.

### **3.5 Supply and disclosure of information**

If Citi, the Registrar or the Company or any of their agents request any information about an investor's agreement to subscribe for Placing Shares, such investor must promptly disclose it to them.

### **3.6 Miscellaneous**

The rights and remedies of Citi, the Registrar and the Company under these terms and conditions are in addition to any rights and remedies which would otherwise be available to each of them and the exercise or partial exercise of one will not prevent the exercise of others.

On application, each investor may be asked to disclose, in writing or orally to Citi:

- (a) if he is an individual, his nationality; or
- (b) if he is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

All documents will be sent at the investor's risk. They may be sent by post to such investor at an address notified to Citi.

Each investor agrees to be bound by the Articles (as amended from time to time) once the Placing Shares which such investor has agreed to purchase have been issued to such investor.

The contract to subscribe for Placing Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, the laws of England and Wales. For the exclusive benefit of Citi, the Registrar and the Company, each investor irrevocably submits to the exclusive

jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an investor in any other jurisdiction.

In the case of a joint agreement to subscribe for Placing Shares, references to an “investor” in these terms and conditions are to each of such investors and such investors’ liability is joint and several.

Each of Citi and the Company expressly reserves the right to modify the Placing (including without limitation, its timetable and settlement) at any time before allocations are determined.

### **3.7 Placing**

The Company, Citi and the Directors have entered into the Placing Agreement, pursuant to which Citi expects, subject to certain conditions, to procure subscribers for, or to itself subscribe for Placing Shares at the Placing Price, subject to *inter alia* Further Admission occurring and becoming effective by 8.00 a.m. (London time) on 23 May 2007 or such later time or date as may be determined in accordance with the Placing Agreement. Certain conditions are not capable of waiver. Further details of the terms of the Placing Agreement are set out in paragraph 12(a) of Part XII: “Additional Information”.

### **3.8 Dealings**

The Placing is subject to the satisfaction of conditions contained in the Placing Agreement, including Further Admission occurring and becoming effective by 8.00 a.m. (London time) on 23 May 2007 or such later time and/or date as the Company and Citi may agree.

Application has been made for the Placing Shares to be admitted to AIM. It is expected that Further Admission will become effective and that unconditional dealings in the Placing Shares will commence on 23 May 2007. It is expected that CREST accounts will be credited with Placing Shares on 23 May 2007 and, if applicable, definitive share certificates for the Placing Shares will be despatched by 29 May 2007. No temporary documents of title will be issued. Pending the despatch by post of definitive share certificates where applicable, transfers will be certified against the register held by the Registrar.

It is expected that dealings in the Placing Shares will commence on an unconditional basis on AIM on Further Admission.

It is expected that Ordinary Shares allocated to investors in the Placing will be delivered in uncertificated form and settlement will take place through CREST on Further Admission.

Dealings in the Placing Shares in advance of the crediting of the relevant CREST stock account or the dispatch of the relevant share certificates shall be at the risk of the person concerned. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles permit the holding of Placing Shares under the CREST system. The Company has applied for the Placing Shares to be admitted to CREST with effect from Further Admission. Accordingly, settlement of transactions in the Placing Shares following Further Admission may take place within the CREST system if any Shareholder so wishes.

CREST is a voluntary system and holders of Placing Shares who wish to receive and retain share certificates will be able to do so. Investors applying for Placing Shares under the Placing may, however, elect to receive Ordinary Shares in uncertificated form if they are a system member as defined in the CREST Regulations.

### **3.9 Lock-Up Arrangements**

Each of the Company, the Directors, the Senior Management, Autonomy and certain Autonomy employees have agreed, subject to certain exceptions, not to offer or sell Ordinary Shares (or any interest therein) for a period of one year from Further Admission.

### **3.10 Selling Restrictions**

The distribution of this document and the offer of the Ordinary Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions, including those in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

## **United Kingdom**

This document is being distributed only to, and is directed only at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the FPO and persons falling within Article 49(2)(a) to (d) of the FPO, and (ii) to whom it may otherwise lawfully be communicated.

## **European Economic Area**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a “**relevant member state**”), an offer to the public of any Ordinary Shares which are the subject of the Placing may not be made in that relevant member state except that an offer to the public in that relevant member state of any Ordinary Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that relevant member state:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR43,000,000; and (iii) an annual turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (d) in any other circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication by the Company or by Citi of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this paragraph the expression an “offer to the public” in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer of any Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Ordinary Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state.

Save as otherwise provided, each subscriber of Ordinary Shares located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

The Company has not authorised and does not authorise the making of any offer of Ordinary Shares through any financial intermediary on its behalf, other than offers by a financial intermediary with the consent of Citi and offers made by Citi with a view to the final placement of the Ordinary Shares as contemplated by this document. Accordingly, no purchaser of the Ordinary Shares, other than Citi, is authorised to make any further offer of the Ordinary Shares on behalf of the Company or Citi.

## **U.S.**

The distribution of this document and the offer of the Ordinary Shares have not been and will not be registered under the Securities Act or with any securities authority of any state or any other jurisdiction of the United States and may not be offered or sold within the United States. The Ordinary Shares are only being offered and sold outside the United States in reliance of Regulation S under the Securities Act.

The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offer of Ordinary Shares or the accuracy or adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

In addition, until the expiry of 40 days after the commencement of the Placing, an offer or sale of Ordinary Shares within the United States by a dealer (whether or not it is participating in the Placing) may violate the registration requirements of the Securities Act unless made pursuant to Rule 144A or another exemption from the registration requirements of the Securities Act.

### *Regulation S Ordinary Shares*

Each purchaser of Ordinary Shares offered outside the United States pursuant to Regulation S will be deemed to have represented, agreed and acknowledged that it has received a copy of this document, and such other information as it deems necessary to make an investment decision and that:

- (a) it is authorised to consummate the purchase of the Ordinary Shares in compliance with all applicable laws and regulations;
- (b) it acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that the Ordinary Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States;
- (c) it is purchasing the Ordinary Shares in an offshore transaction meeting the requirements of Regulation S;
- (d) it will not offer, sell, pledge or transfer any Ordinary Shares, except in accordance with the Securities Act and any applicable laws of any state of the United States and any other jurisdiction; and
- (e) the Company, and Citi and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of such acknowledgements, representations or agreements deemed to have been made by virtue of its purchase of Ordinary Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any Ordinary Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

### **Canada**

The Ordinary Shares may not be offered, issued or sold to any Canadian person and this document is not for delivery to any Canadian person other than with the prior approval of Citi on a basis exempt from the requirement that the Company prepare and file a prospectus with the securities regulatory authorities in each province or territory in Canada where trades of Ordinary Shares are effected.

### **Australia**

This document does not constitute a disclosure document under Part 6D.2 of the Corporations Act 2001 of the Commonwealth of Australia (the “**Corporations Act**”) and will not be lodged with the Australian Securities and Investments Commission. The Ordinary Shares will be offered to persons who receive offers in Australia only to the extent that such offers of Ordinary Shares for issue or sale do not need disclosure to investors under Part 6D.2 of the Corporations Act. Any offer of Ordinary Shares received in Australia is void to the extent that it needs disclosure to investors under the Corporations Act. In particular, offers for the issue or sale of Ordinary Shares will only be made in Australia in reliance on various exemptions from such disclosure to investors provided by Section 708 of the Corporations Act. Any person to whom Ordinary Shares are issued or sold pursuant to an exemption provided by Section 708 of the Corporations Act must not (within 12 months after the issue or sale) offer those Ordinary Shares in Australia unless that offer is itself made in reliance on an exemption from disclosure provided by that section.

### **Japan**

The Ordinary Shares have not been and will not be registered under the Securities and Exchange Law of Japan. The Ordinary Shares may not be offered, issued or sold and this document is not for delivery to any persons in Japan other than with the prior approval of Citi in circumstances which have not resulted and will not result in an offer to the public in Japan.

**PART X**  
**FINANCIAL INFORMATION**

**Section A**

**Accountants' Report on the Company for the period from incorporation on 23 April 2007 to 4 May 2007**

The Board of Directors on behalf of Blinkx plc  
Cambridge Business Park  
Cowley Road  
Cambridge  
CB4 0WZ

Citigroup Global Markets U.K. Equity Limited  
Citigroup Centre  
Canada Square  
London  
E14 5LB

22 May 2007

Dear Sirs

**Blinkx plc**

We report on the financial information set out in Part X Section B of the AIM admission document dated 22 May 2007 of Blinkx plc (the "Company") (the "Admission Document"). This financial information has been prepared for inclusion in the Admission Document on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that requirement and for no other purpose.

**Responsibilities**

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with International Financial Reporting Standards ("IFRS").

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Admission Document, and to report our opinion to you.

Save for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex 1 item 23.1 of the Prospectus Directive Regulation as applied by Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

**Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

Our work has, where appropriate, been conducted in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the

United Kingdom, including the United States, and accordingly should not be relied upon as if it has been carried out in accordance with those standards and practices.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the financial information gives, for the purposes of the Admission Document, a true and fair view of the state of affairs of the Group as at the date stated in accordance with the basis of preparation set out in note 2 and in accordance with IFRS as described in note 2.

### **Declaration**

For the purposes of Prospectus Rule 5.5.3R(2)(f) as applied by paragraph a of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

Deloitte & Touche LLP  
Chartered Accountants  
Cambridge, United Kingdom

*Deloitte & Touche LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu (“DTT”), a Swiss Verein whose member firms are separate and independent legal entities. Neither DTT nor any of its member firms has any liability for each other’s acts or omissions. Services are provided by member firms or their subsidiaries and not by DTT.*

**PART X**  
**FINANCIAL INFORMATION**

**Section B**

**Financial Information on the Company for the period from incorporation on 23 April 2007 to 4 May 2007**

**BALANCE SHEET**

	Note	As at 4 May 2007
		\$
<b>Current assets</b>		
Trade and other receivables . . . . .	3	4
<b>Net Assets</b> . . . . .		4
<b>Equity</b>		
Called up share capital . . . . .	4	4
<b>Shareholders' Equity</b> . . . . .		4

**Notes to the Financial Information**

**1. General information**

The Company was incorporated in the United Kingdom under the Companies Act 1985 on 23 April 2007 as a public limited company. The address of the registered office is Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ.

The Company has not traded prior to 4 May 2007 and no dividends have been declared or paid. Accordingly no profit and loss account or cash flow statement is presented. The principal activity of Blinkx will be to act as a holding company.

These financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Group is expected to operate post-Demerger. This balance sheet has been translated from sterling to dollars at an exchange rate of \$1.9625:£1.

**2. Summary of significant accounting policies**

In addition to the significant accounting policies set out in notes 2(a) and 2(b), the significant accounting policies to be employed by the Group post-demerger are set out below.

*(a) Basis of accounting*

The financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS"). The financial information has been prepared under the historical cost convention.

*(b) Basis of preparation*

The financial information has been prepared on a going concern basis.

*(c) Basis of consolidation*

This financial information is not consolidated as the Company has no subsidiaries as at 4 May 2007.

Post-Demerger the Company will prepare consolidated financial statements which incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) *Revenue recognition*

The revenue recognition policies for each of the Group's key expected revenue streams are set out below:

Video search advertising and paid placement involves customers utilising Blinkx technology to retrieve relevant video content. Advertising revenue will be generated when consumers watch that video content in relation to adverts that are played or through banner advertising on the site displaying the video.

*Cost per mille*

If sales values are based on the volume of searches (cost per mille) then revenue will be based on an agreed amount per thousand searches. This revenue will be recognised as the volumes are reported by the Group's customers.

*Share of advertising revenues*

Where customers use the Blinkx technology to retrieve their own content, contractual arrangements may provide for Blinkx to receive a share of the customer's advertising revenues. The amount of revenue will be dependent upon the amount paid per clip or per advert shown. This revenue will be recognised as reported by the Group's customers.

*Transaction Hijacking*

The Group may generate revenues from e-commerce partners when an e-commerce transaction is referred to the partner from another vendor. Revenues will be recognised upon completion of the transaction.

*Upfront licence payment and related revenues*

In certain cases customers will enter into a licence agreement to license the right to use the Blinkx technology. The revenue will be in the form of an up-front non-refundable receipt with all future advertising revenues accruing directly to the customer.

Revenues from software licence agreements will be recognised where there is persuasive evidence of an agreement with a customer (a signed contract and/or binding purchase order), delivery of the software has taken place, collectability is probable and the fee is fixed and determinable.

Revenue from subscription based services will be recognised rateably over the contract term beginning on the commencement date of each contract.

Revenues from customer support services will be recognised rateably over the term of the support period. If customer support services are included free or at a discount in a licence agreement, these amounts will be allocated out of the licence fee at their fair market value based on the value established by independent sale of the customer support services to customers.

(e) *Leasing*

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

(f) *Foreign currencies*

Transactions in currencies other than the functional currency of the entity concerned are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated into US dollars at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(g) *Profit from operations*

Profit from operations is stated before investment income and finance costs.

(h) *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the group intends to settle its current tax assets and liabilities on a net basis.

(i) *Property, plant and equipment*

Leasehold improvements, fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Leasehold improvements	Over shorter of economic useful life and lease term
Fixtures and equipment	Over 3-5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

(j) *Internally-generated intangible assets—research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably; and
- the product from which the asset arises meets the Group's criteria for technical feasibility.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, which is 3 years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

(k) *Other intangible assets excluding goodwill*

Other intangible assets excluding goodwill are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, on the following bases:

Patents and trademarks	3 years
Software licences	3 years
Purchased intangibles	3-12 years.

(l) *Impairment of tangible and intangible assets excluding goodwill*

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(m) *Financial instruments*

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(n) *Trade receivables*

Trade receivables do not carry any interest and are stated at their nominal value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

(o) *Financial liability and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(p) *Trade payables*

Trade payables are not interest bearing and are stated at their nominal value.

(q) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(r) *Provisions*

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

(s) *Share-based payments*

The Company intends to issues equity-settled share-based payments to certain employees.

The Group applies the requirements of IFRS 2 Share Based Payments. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a Black Scholes model.

### 3. Trade and other receivables

Trade and other receivables represent share capital not yet paid up.

### 4. Called up share capital

	As at 4 May 2007	
	No. of Ordinary Shares	\$
Authorised . . . . .	50,000	98,125
Issued . . . . .	2	4

The Company was incorporated on 23 April 2007. On incorporation, 2 ordinary shares of £1 each were issued. These shares are not yet paid up.

### 5. Controlling party

In the opinion of the directors of the Company, there was no single controlling party.

### 6. Post balance sheet events

On 8 May 2007, the Company issued one redeemable preference share of £49,998 each. This share was redeemed at par on 22 May 2007.

On 21 May 2007, Autonomy Corporation plc made a contribution to the Company in cash of \$98,125.

On 21 May 2007, certain assets and trade from other Autonomy subsidiaries were transferred to Blinkx UK Limited. Following this transfer, on 22 May 2007, Autonomy transferred 90% of the issued share capital of Blinkx UK Limited to the Company. In exchange for this transfer, the Company issued 197,232,443 Ordinary Shares to the shareholders of Autonomy.

The Company and Autonomy have entered into the Facility Letter dated 22 May 2007, pursuant to which Autonomy has agreed to make available to the Company a facility of up to £25 million. The facility, which is secured by a debenture entered into between the Company and Autonomy, can be drawn down in one tranche, on five business days notice.

Following First Admission, the Company will issue 21,931,383 million further Ordinary Shares to Autonomy in exchange for the remaining 10% of the issued share capital of Blinkx UK Limited.

On 21 May 2007, the Company approved a grant of options over its ordinary share capital to members of senior management of Blinkx. These options represent approximately 2.7% of the share capital issued by the Company following First Admission and the Issue but prior to the Placing. The exercise price of these options is 1 pence and these share options vest immediately.

Also on 21 May 2007, the Company approved a second grant of options over its ordinary share capital to members of senior management of Blinkx. These options represent approximately 2.7% of the share capital issued by the Company following First Admission and the Issue but prior to the Placing. The exercise price of these options is 1 pence and these options vest over a period of three years.

On the same date, the Company approved a grant of options over its ordinary share capital to the holders of vested Autonomy share options. These options represent approximately 2.4% of the share capital issued by the Company following First Admission and the Issue but prior to the Placing. The exercise price of these options is the Placing Price of the ordinary shares of the Company at the date of First Admission and these options vest over a period of three years.

**PART X**  
**FINANCIAL INFORMATION**

**Section C**

**Unaudited Pro-Forma Statement of Net Assets**

The unaudited pro-forma statement of net assets of the Group set out below has been prepared to illustrate the effect on the net assets of the Group of the Demerger and the Placing as if they had occurred on 4 May 2007.

The unaudited pro-forma statement of net assets set out below has been prepared for illustrative purposes and on the basis of the notes set out below. Due to its nature, the unaudited pro-forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. The pro-forma statement of net assets takes no account of any trading activity or other transactions since 4 May 2007.

	Blinkx Plc as at 4 May 2007 (Note 1)	Adjustments			Pro-forma net assets of Blinkx Plc
		Contribution from Autonomy (Note 2)	Asset transfer (Note 3)	Net proceeds of Placing (Note 4)	
	\$000's		\$000's	\$000's	\$000's
<b>Fixed assets</b>					
Tangible fixed assets . . . . .	—	—	366	—	366
	—	—	366	—	366
<b>Current assets</b>					
Cash at bank and in hand . . . . .	—	98	—	44,400	44,498
	—	98	—	44,400	44,498
<b>Current liabilities</b>					
Trade and other payables . . . . .	—	—	(366)	—	(366)
	—	—	(366)	—	(366)
<b>Net assets</b> . . . . .	—	98	—	44,400	44,498

**Notes to the unaudited pro-forma statement of net assets**

1. The consolidated balance sheet of Blinkx Plc as at 4 May 2007 is extracted from the Financial Information Report shown in Section B of this Part X.
2. An adjustment has been made to reflect a contribution of \$98,125 made to Blinkx plc by Autonomy Corporation plc on 22 May 2007. See note 6 to the Financial Information contained in Part X, section B for details.
3. A pro-forma adjustment has been recognised to reflect the transfer of the assets and liabilities as part of the demerger at their estimated carrying values from Autonomy Corporation Plc Group into Blinkx Plc Group. See note 6 to the Financial Information contained in Part X, section B for details.
4. An adjustment has been made to reflect the proceeds of the placing of \$44.4 million, net of associated costs of approximately \$5.6 million.
5. An exchange rate of £1; \$1.9625 has been used for all amounts translated into US dollars from pounds Sterling.

## PART XI TAXATION

### 1. GENERAL

The comments below are of a general and non-exhaustive nature based on the Directors' understanding of the current law and HM Revenue & Customs practice in the United Kingdom as at the date of this document, which is subject to change possibly with retrospective effect. The following summary does not therefore constitute legal or tax advice and applies only to persons beneficially holding Ordinary Shares as an investment.

An investment in the Company involves a number of complex tax considerations. Changes in tax legislation in any of the countries in which the Company will have investments (or in any country in which a subsidiary of the Company through which investments are made, is located), or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Company to investors.

**Prospective investors should consult their professional advisers on the potential tax consequences of subscribing for, purchasing, holding, converting or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence.**

### 2. UNITED KINGDOM TAXATION

The statements set out below are intended only as a general guide to current UK tax law and practice and apply only to certain categories of persons resident, and/or, where applicable, ordinarily resident, in the UK for tax purposes (UK Residents). The summary does not purport to be a complete analysis or listing of all the potential tax consequences of holding Ordinary Shares and does not address the position of persons who are not UK Residents unless specifically referred to. This summary is based upon UK law and HM Revenue & Customs published practice all as in effect as of the date of this document which may be subject to change, perhaps with retrospective effect. The statements do not cover all aspects of UK taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Ordinary Shares by particular investors. The statements are not applicable to all categories of Shareholders, and in particular are not addressed to: (i) Shareholders who do not hold their Ordinary Shares as capital assets; (ii) Shareholders who are not the beneficial owners of the Ordinary Shares; (iii) special classes of Shareholders such as dealers in securities, broker-dealers, investment companies, or collective investment schemes or tax-exempt organisations; (iv) Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment, or (v) Shareholders who hold Ordinary Shares in connection with a trade, profession or vocation carried on in the UK (whether through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment).

Prospective purchasers of Ordinary Shares are advised to consult their own tax advisers concerning the consequences under UK tax laws of the acquisition, ownership and disposition of Ordinary Shares. No representation with respect to the tax consequences to any particular Shareholder is made below.

#### (a) Taxation of dividends and distributions

Under current UK taxation legislation, the Company will not be required to withhold tax at source when paying a dividend.

Subject to certain exceptions, a corporate Shareholder which is a UK Resident and which receives a dividend paid by the Company will not generally have to pay corporation tax in respect of it.

An individual who is resident in the United Kingdom for tax purposes and who receives a dividend from the Company will generally be entitled to a tax credit in respect of the dividend received. The value of the tax credit is currently one ninth of the dividend received (or 10% of the aggregate of the amount of the dividend and the tax credit). Such an individual will be liable to income tax on an amount equal to the aggregate of the dividend and tax credit (the "gross dividend"), which will be regarded as the top slice of his income for tax purposes and will be subject to UK income tax at the special dividend rate of tax as described below.

Individuals who are not higher rate taxpayers will be liable to tax on the gross dividend at 10%. This means that the tax credit will satisfy such individual's liability to pay income tax in respect of the gross dividend and there will be no further tax to pay.

In the case of individuals who are liable to income tax at the higher rate, tax will be payable on dividends at the “dividend upper rate” (currently 32.5%). The 10% tax credit will be set against this liability to tax in respect of the gross dividend. Therefore, the individual will have to pay additional tax equal to 22.5% of the gross dividend (25% of the net dividend received), to the extent that the gross dividend, when treated as the top slice of income, falls above the threshold for higher rate income tax.

#### **(b) Taxation of capital gains**

##### *UK Resident individual Shareholders*

A disposal of Ordinary Shares by a Shareholder who is an individual and who is a UK Resident for tax purposes may (subject to the availability of exemptions and reliefs) give rise to a gain (or loss) for the purposes of taxation of capital gains.

A gain on a disposal of Ordinary Shares, together with other gains less allowable losses in a fiscal year, is subject to tax at the individual’s marginal tax rate to the extent that it exceeds the annual exempt amount.

Taper relief may be available to reduce the amount of any gain chargeable to tax. The availability of the relief depends on the period the investment is held, and whether the investment is a “business” or a “non-business” asset for taper relief purposes. Note that the admission of the Ordinary Shares to AIM will not in itself result in the Company being a listed company for these purposes. However, the admission of any other securities of the Company to any other exchange may result in the Company being treated as listed. As well as taper relief each individual has an annual exemption to CGT. The annual exemption reduces chargeable gains, after taking into account taper relief.

##### *UK Resident corporate Shareholders*

A disposal of Ordinary Shares by a corporate Shareholder which is a UK Resident may give rise to a gain (or loss) for the purposes of corporation tax on capital gains, subject to any available reliefs or exemptions. Indexation allowance may be available to reduce the amount of any gain. No taper relief is available to corporate shareholders.

##### *Shareholders who are temporarily non-UK Resident in the United Kingdom*

A Shareholder who is an individual and who is only temporarily non-UK Resident, may, under anti-avoidance legislation, still be liable to UK tax on any capital gain realised (subject to any available exemption or relief). Such Shareholder may also be subject to taxation on any gain under local law.

##### *Non-UK Resident Shareholders*

Shareholders who are not UK Resident will not (subject to the anti-avoidance provisions referred to above) be liable for UK tax on capital gains realised on the disposal of their Ordinary Shares unless such Ordinary Shares are used, held or acquired for the purposes of a trade, profession or vocation carried on in the UK through a branch or agency or, in the case of a corporate Shareholder, through a permanent establishment. Such Shareholders may be subject to taxation on any gain under local law.

#### **(c) UK stamp duty and stamp duty reserve tax (“SDRT”)**

The following comments are intended as a guide to the general United Kingdom Stamp Duty and SDRT position. Certain categories of person, including market makers, brokers, dealers and persons connected with depository arrangements and clearance services, may not be liable to stamp duty or SDRT or be liable at a higher rate or, although not primarily liable for the tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

No United Kingdom stamp duty or SDRT will be payable on the allotment of, or on the issue of definitive share certificates in respect of, the Ordinary Shares being issued by the Company under the Placing.

United Kingdom Stamp Duty (at the ad valorem rate of 0.5% rounded up where necessary to the next £5 of the amount or value of the consideration for the transfer) will generally be payable on any instrument of transfer of Ordinary Shares for value.

An agreement to sell such Ordinary Shares will also give rise to SDRT at 0.5% of the consideration payable, although any liability to SDRT will be cancelled and any SDRT already paid will be repaid,

generally with interest, where an instrument of transfer is executed and stamp duty is paid on that instrument within six years of the date on which the liability to SDRT arises.

Under the CREST system for paperless share transfers, no stamp duty or SDRT will arise on a transfer of Ordinary Shares into the system, unless the transfer into CREST is itself for money or money's worth, in which case a liability to SDRT will arise, usually at the rate of 0.5% of the amount or value of consideration given. Transfers of Ordinary Shares within CREST will generally be liable to SDRT (at a rate of 0.5% of the consideration paid) rather than ad valorem stamp duty, and SDRT on relevant transactions settled within the system or reported through it for regulatory purposes will be collected and accounted for to HM Revenue & Customs by CRESTCo.

**THE STATEMENTS IN THESE PARAGRAPHS SUMMARISE THE CURRENT POSITION AND ARE INTENDED AS A GENERAL GUIDE ONLY. IF YOU ARE IN ANY DOUBT AS TO YOUR TAX POSITION YOU SHOULD CONSULT AN ADVISER IMMEDIATELY.**

**PART XII**  
**ADDITIONAL INFORMATION**

**1. RESPONSIBILITY AND CONSENTS**

- (a) The Company and the Directors, whose names appear on page 29 of this document, accept responsibility for the information contained in this document. To the best knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure such is the case) the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.
- (b) Deloitte & Touche LLP of City House, 126-130 Hills Road, Cambridge CB2 1RY, has given and not withdrawn its written consent to the inclusion of the Accountants' Report on the Company in Section A of Part X: "Financial Information" and the references thereto and to its name in the form and context in which they are included in this document. Deloitte & Touche LLP has no material interest in the Company.
- (c) Citi has given and has not withdrawn its written consent to the inclusion in this document of its name and references to it in the form and context in which they appear.

**2. THE COMPANY**

- (a) The Company was incorporated under the name XYZABC plc on 23 April 2007 as a public limited company under the laws of England and Wales, with registered number 6223359. The Company changed its name to Blinkx plc on 10 May 2007. The principal legislation under which the Company operates is the Act.
- (b) The Company's registered office and principal place of business is located at Cambridge Business Park, Cowley Road, Cambridge CB4 0WZ. The Company's telephone number is +44 1223 448 000.
- (c) The liability of the shareholders of the Company is limited.
- (d) Save for its entry into the material contracts summarised in paragraph 12 of this Part XII: "Additional Information", since its incorporation, the Company has not commenced business, has no loan capital (including term loans) outstanding or created but unissued, nor any outstanding mortgages, charges or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, guarantees or other contingent liabilities, and no dividends have been declared and other than the financial information set out in this document, no accounts of the Company have been made up.

**3. ORGANISATIONAL STRUCTURE**

Blinkx is the ultimate holding company of the Group.

Blinkx's subsidiaries are as follows and there are no associated undertakings which are considered by Blinkx to be likely to have a significant effect on the assessment of the assets and liabilities, the financial position and/or the profits and losses of the Group:

Name of subsidiary undertaking <sup>(1)</sup>	Country of incorporation	Proportion of voting rights held <sup>(2)</sup>	Nature of business
Blinkx UK Limited . . . . .	England and Wales	100%	Development, marketing and sales
Blinkx, Inc. . . . .	California, USA	100%	Development, marketing and sales

(1) Blinkx UK Limited is wholly owned by Blinkx and Blinkx, Inc. is wholly owned by Blinkx UK Limited.

(2) Blinkx's economic interest in each of its subsidiary and associated undertakings is the same as its voting interest.

#### 4. SHARE CAPITAL OF THE COMPANY

- (a) The Company was incorporated on 23 April 2007 with an authorised share capital of £50,000 divided into 50,000 ordinary shares of £1 each, of which two shares were issued to the subscribers at par. On 23 April 2007, these shares were transferred to Andrew Kanter and Peter Menell.
- (b) On 8 May 2007, the shareholders resolved that:
- (i) each authorised and issued ordinary share of £1 be subdivided into ten ordinary shares of £0.10 each;
  - (ii) the Directors were authorised, pursuant to section 80 of the Act, to allot one Redeemable Preference Share (as defined below), such authority to expire at the end of the next annual general meeting of the Company or the date falling 15 months after the date on which the resolution was passed, whichever is the earlier;
  - (iii) the 49,998 authorised but unissued ordinary shares of £1 each be consolidated and re-designated as one redeemable preference share of £49,998 (the “**Redeemable Preference Share**”); and
  - (iv) pursuant to section 95 of the Act, the Directors be empowered to allot one Redeemable Preference Share for cash pursuant to the authorities referred to in paragraph (ii) above as if section 89(1) of the Act did not apply to the allotment, such authority to expire at the end of the next annual general meeting of the Company or the date falling 15 months after the date on which the resolution was passed, whichever is the earlier.
- (c) On 8 May 2007, the Redeemable Preference Share was issued to Andrew Kanter and was paid in full.
- (d) On 21 May 2007, the shareholders resolved, amongst other things, that:
- (i) each authorised and issued ordinary share of £0.10 each be subdivided into ten ordinary shares of £0.01 each;
  - (ii) the Company increase its share capital by the addition of £4,950,000 divided into 495,000,000 ordinary shares of £0.01 each;
  - (iii) subject to First Admission, the Redeemable Preference Share be sub-divided and re-designated as 4,999,800 ordinary shares of £0.01 each;
  - (iv) the Directors were authorised, pursuant to section 80 of the Act, to allot:
    - (A) the Demerger Shares;
    - (B) the Issue Shares;
    - (C) up to 56,444,444 Ordinary Shares in the Placing; and
    - (D) a further number of Ordinary Shares, up to a nominal value of £925,779,
such authority to expire at the end of the next annual general meeting of the Company or the date falling 15 months after the date on which the resolution was passed, whichever is the earlier;
  - (v) pursuant to section 95 of the Act, the Directors be empowered to allot equity securities (as defined in section 94 of the Act) for cash pursuant to the authorities referred to in paragraph (iii) above as if section 89(1) of the Act did not apply to the allotment, provided that the aggregate nominal amount of the equity securities allotted for cash under such authority shall not (other than in connection with a rights issue or other pre-emptive offer) exceed £138,867, such authority to expire at the end of the next annual general meeting of the Company or the date falling 15 months after the date on which the resolution was passed, whichever is the earlier; and
  - (vi) subject to First Admission, the Company adopt the Articles.
- (e) On First Admission, the Redeemable Preference Share was redeemed at par.
- (f) The authorised, issued and fully paid share capital of the Company at the date of this document is as follows:

	<u>Number of Ordinary Shares</u>	<u>Nominal value</u>
Authorised share capital . . . . .	500,000,000	£5,000,000
Issued and fully paid up share capital . . . . .	197,232,443	1,972,324.43

- (g) Immediately following Further Admission, the authorised, issued and fully paid share capital of the Company is expected to be as follows:

	<u>Number of Ordinary Shares</u>	<u>Nominal value</u>
Authorised share capital . . . . .	500,000,000	£5,000,000.00
Issued and fully paid up share capital . . . . .	277,470,635	£2,774,706.35

- (h) Other than in respect of the Demerger Shares, the Issue Shares and the Placing Shares, since the date of its incorporation no share or loan capital of the Company has been issued or agreed to be issued, or is now proposed to be issued for cash or any other consideration and no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any such capital.

## 5. MEMORANDUM OF ASSOCIATION AND ARTICLES

### (a) Memorandum of Association

The memorandum of association of the Company provides, amongst other things, that its objects are to carry on the business of a holding company. The objects of the Company are set out in full in clause 4 of its memorandum of association.

### (b) Articles

The Articles contain, amongst other things (and subject to relevant provisions of general English law and of the AIM Rules):

#### *Alteration of share capital; Allotment of shares*

The Company may, by ordinary resolution:

- increase the Company's share capital by a sum to be divided into shares of such amounts as the resolution prescribes;
- consolidate and divide all or any of the Company's share capital into shares of a larger nominal amount than the Company's existing shares;
- cancel any shares that, at the date of the resolution, have not been issued, or agreed to be issued, to any person and reduce the Company's share capital by the amount of the shares so cancelled; and
- subdivide the Company's shares into shares of a smaller nominal amount than is fixed by the Company's memorandum of association. Any shares so subdivided may, as compared with the others, have any preferred, deferred or other special rights or be subject to any such restrictions, as the Company has power to attach to unissued or new shares.

Subject to the provisions of applicable English law, the Company may purchase, or may enter into a contract under which the Company will or may purchase, any of the Company's own shares of any class, including any redeemable shares.

Subject to the rights of the holders of shares set out in the Articles, and the provisions of the Act, the Company may, by special resolution, reduce the Company's authorised and issued share capital or any capital redemption reserve, share premium account or other undistributable reserve in any manner.

#### *Meetings of shareholders*

The Articles require that an annual general meeting be held once in every year, within not more than 15 months after the preceding annual general meeting, at a time and place determined by the Board. All other general meetings are deemed extraordinary general meetings. Extraordinary general meetings are held at the request of the Board or Shareholders representing at least one tenth of the Company's paid-up share capital entitled to vote at general meetings.

#### *Voting rights*

Voting at any general meeting of Shareholders is by a show of hands unless a poll, which is a written vote, is duly demanded. On a show of hands, every Shareholder who is present in person at a general meeting has

one vote regardless of the number of shares held. On a poll, every Shareholder who is present in person or by proxy has one vote per share held by that Shareholder. A poll may be demanded by any of the following:

- the chairman of the meeting;
- at least five Shareholders who are present in person or by proxy and entitled to vote at the meeting;
- any Shareholder or Shareholders present in person or by proxy, representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders entitled to vote at the meeting; or
- any Shareholder or Shareholders present in person or by proxy, holding shares conferring a right to vote at the meeting on which there have been paid-up sums in the aggregate equal to not less than one-tenth of the total sum paid on all the shares conferring that right.

A proxy form will be treated as giving the proxy the authority to demand a poll, or to join others in demanding one.

The necessary quorum for the Company's general meetings is two persons holding or representing by proxy issued shares carrying a right to vote.

Matters are transacted at the Company's general meetings by the proposing and passing of resolutions, of which there are three kinds:

- an ordinary resolution, which includes resolutions for the election of directors, the approval of financial statements, the cumulative annual payment of dividends, the appointment of auditors, the increase of authorised share capital or the grant of authority to allot shares;
- a special resolution, which includes resolutions amending the Company's memorandum of association or its Articles or changing the Company's name; and
- an extraordinary resolution, there are required for certain matters which include modifying the rights of any class of the Company's shares at a meeting of the holders of such class or the liquidation of Blinkx.

An ordinary resolution requires the affirmative vote of a majority of the votes of those persons voting at a meeting at which there is a quorum. Special and extraordinary resolutions require the affirmative vote of not less than three-fourths of the persons voting at a meeting at which there is a quorum. In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting is not entitled to cast the deciding vote in addition to any other vote he or she may have. Extraordinary general meetings are generally convened upon advance notice of 21 clear days for the passing of a special resolution and 14 clear days for any other resolution, depending on the nature of the business to be transacted. The days of delivery or receipt of the notice itself need to be taken into account.

#### ***Board action and powers***

Under the Articles, the Board must comprise at least two Directors but shall not be subject to any maximum. Vacancies on the Board and newly created directorships may be filled either by the Shareholders by ordinary resolution or by the Board. Each Director chosen by the Board shall hold office for a term expiring on the dissolution of the next following annual general meeting of Shareholders. Unless the Directors decide otherwise, two Directors are required for a quorum. Any resolution required or permitted to be taken by the Board or any committee thereof, may be taken without a meeting if all members of the Board or a committee, as the case may be, by a resolution in writing signed by all the Directors entitled to receive notice of a Board meeting (or committee, as the case may be).

Except as otherwise required by applicable law, Shareholders may by ordinary resolution remove any director.

Subject to applicable law, the memorandum of association and the Articles, the Directors shall manage the Company's business and exercise all of the powers of the Company.

A Director cannot vote on any contract, any arrangement or any other kind of proposal in which he or a person connected with him has a material interest. This restriction does not apply to a Director in respect of a resolution:

- where the Company or any of its subsidiary undertaking is offering securities in which the Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-writing of which the Director is to participate;
- relating to the giving of any security, guarantee or indemnity in respect of any money which the Director or that other person has lent or for any liability which he or that other person has incurred at the request, or for the benefit, of the Company or any of its subsidiaries;
- relating to the giving of any security, guarantee or indemnity to any other person for a debt or obligation owed by the Company, or any of its subsidiaries, to that person, if the Director has taken responsibility, either alone or jointly, for some or all of that debt or those obligations;
- relating to another company in which the Director and persons connected with him have a direct or indirect interest of any kind (including holding any position in that company or being a shareholder of that company) unless the Director and persons connected with him hold an interest in shares representing 1% or more of the equity share capital or voting rights in that company;
- relating to any arrangement for the benefit of the employees of the Company or of any of its subsidiaries, which gives the Director only privileges or benefits which are also generally given to the employees to whom the arrangement relates; and
- relating to any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of the Directors or for the benefit of a group of people which includes the Directors.

The Board may delegate any of its powers, authorities and discretions to any Director holding executive office (including a managing director) or any committee consisting of one or more Directors and one or more persons, provided that a majority of the members of the Committee are Directors.

#### ***Retirement of Directors***

At every annual general meeting, one-third of the Directors who are subject to retirement by rotation shall retire from office. The Directors to retire by rotation shall include Directors who wish to retire and not be offered for re-election and the Directors longest in office since their last appointment or reappointment. A Director retiring by rotation may be re-elected at any general meeting.

#### ***Pre-emptive rights***

The Act confers upon shareholders, to the extent not disappplied, rights of pre-emption in respect of the allotment of equity securities (which term includes Ordinary Shares) that are or are to be paid up wholly in cash. These provisions may, be disappplied by a special resolution of the Shareholders, either generally or specifically.

#### ***Dividends***

Subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the Shareholders, provided that no dividend shall exceed the amount recommended by the Board.

Subject to the Act, the Board may pay Shareholders such interim dividends as appear to them to be justified by the Company's financial position. If authorised by an ordinary resolution of the Shareholders, the Board may also offer Shareholders the right to elect to receive share dividends by way of scrip dividend instead of cash.

Any dividend unclaimed after 12 years from the date the dividend was declared, or became due for payment, will be forfeited and will revert to the Company.

#### ***Variation of rights***

If, at any time, the Company's share capital is divided into different classes of shares, the rights attached to any class may be varied, subject to the provisions of the Act, upon either the consent of at least three-fourths of the nominal amount of the issued shares of that class or upon the adoption of an extraordinary resolution passed at a separate meeting of such holders. At every such separate meeting, the quorum is to

be two persons present in person or by proxy who hold or represent by proxy not less than one-third in nominal value of the issued shares of the class.

**Transfer of shares**

The Ordinary Shares can be transferred. If the shares are in certificated form the transfer must be in writing of any usual form or any form approved by the Board. If the shares are in uncertificated form the transfer must be made by means of a relevant system. There is no fee payable to the Company for transferring shares. The transferor shall be treated as continuing to be the shareholder until the name of the transferee is put on the register for that share.

The Directors can refuse to register a transfer of any shares which are not fully paid or it is not duly stamped (if required) without giving any reason for so refusing.

**6. DIRECTORS' AND OTHER INTERESTS**

The interests of the Directors in the share capital of the Company are expected to be:

(a) immediately following First Admission:

	Ordinary Shares	%	Share options	%	Total Ordinary Shares	Total %
Anthony Bettencourt . . . . .	—	—	—	—	—	—
Suranga Chandratillake <sup>(1)</sup> . . . . .	—	—	4,670,094	2.37%	4,670,094	2.37%
Dr Michael Lynch . . . . .	21,714,846	11.01%	35,248	0.02%	21,750,094	11.03%
Mark Opzoomer . . . . .	—	—	—	—	—	—

(1) The figures for Mr Chandratillake do not take account of the proposed exercise of options over Ordinary Shares and subsequent sale of Ordinary Shares referred to paragraph 13 of Part VII: “Business Overview”.

(b) immediately following Further Admission:

	Ordinary Shares	%	Share options	%	Total Ordinary Shares	Total %
Anthony Bettencourt <sup>(1)</sup> . . . . .	50,000	0.02	—	—	50,000	0.02
Suranga Chandratillake . . . . .	—	—	3,502,751	1.26	3,502,751	1.26
Dr Michael Lynch <sup>(1)(2)</sup> . . . . .	24,022,399	8.65	35,248	0.01	24,057,647	8.66
Mark Opzoomer <sup>(1)</sup> . . . . .	175,000	0.06	—	—	175,000	0.06

(1) Mr Bettencourt, Dr Lynch and Mr Opzoomer will each be issued 50,000 Ordinary Shares on Further Admission as detailed in paragraph 8(b) of this Part XII: “Additional Information”.

(2) Dr Lynch intends to apply for Ordinary Shares in the Placing such that his percentage holding in the Company as at First Admission, and taking account of the Issue, is maintained and such application is expected to be met in full.

(c) Save as disclosed in this paragraph 6 none of the Directors has any interest in the share capital of the Company.

(d) Save as disclosed in paragraph 8 below, the Company has not entered into any contract with any Directors with respect to such Director’s position as a Director of the Company. The Articles provide that Directors may be reimbursed their expenses of attending meetings of the Board.

## 7. ADDITIONAL INFORMATION ON THE BOARD

- (a) Other than their directorships of members of the Group, the current directorships and partnerships of the Directors and directorships and partnerships held by them in the 5 years preceding the date of this document are as follows:

<u>Directors</u>	<u>Current Directorships/Partnerships</u>	<u>Past Directorships/Partnerships</u>
Anthony Bettencourt . . .	Avolent, Inc. National Banana, Inc. Rocking Cat, Inc.	Verity, Inc
Suranga Chandratillake .	None	None
Dr Michael Lynch . . . . .	Autonomy Corporation plc British Broadcasting Corporation Isabel Healthcare, Inc.	Avocet Capital Limited Brumaire Limited Cambridge Neurodynamics Limited Name Swap Job Limited Neurodynamics Limited Paradigm Media Investments plc Talkcast Corporation plc Tobyview Limited
Mark Opzoomer . . . . .	Bond Capital Partners Bond Capital Partners (UK) Limited Entertainment One Limited Hilvern Management Limited MIVA, Inc. Newbay Software Limited Oxygen II Limited Rambler Media Limited WRI Holdings	Autonomy Corporation plc

- (b) In the five years ending on the date of this document, none of the Directors has:
- (i) any unspent convictions in relation to indictable offences (including fraudulent offences);
  - (ii) had any bankruptcy order made against him or entered into any voluntary arrangements (or any analogous proceedings in any jurisdiction);
  - (iii) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, or administration, or been subject to a voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors (or any analogous proceedings in any jurisdiction) whilst he was a director of that company or within the 12 months after he ceased to be a director of that company;
  - (iv) been a partner in any partnership which has been placed in compulsory liquidation, or administration (or any analogous proceedings in any jurisdiction), or been the subject of a partnership voluntary arrangement (or any analogous proceedings in any jurisdiction) whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (v) been the owner of any assets or a partner in any partnership which has been placed in receivership (or any analogous proceedings in any jurisdiction) whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
  - (vi) received any official public incrimination and/or sanction by any statutory or regulatory authority (including recognised professional bodies); or
  - (vii) been disqualified by a court from acting as a director of any company or from acting in the management or conduct of affairs of a company.

## **8. DIRECTORS' TERMS OF APPOINTMENTS**

### **(a) Executive Director**

Suranga Chandratillake entered into a service agreement with the Company on 22 May 2007. The service agreement is governed by California law and deals both with Mr Chandratillake's employment role as the Company's Chief Executive Officer and also, separately, with his role as a director of the Company. Mr Chandratillake's salary as Chief Executive Officer is \$230,000 per annum and there are no additional fees payable in connection with his role as director of the Company. Mr Chandratillake is entitled to an annual bonus of up to \$100,000, in the sole discretion of Board and to the current benefits generally made available to all employees.

Mr Chandratillake's employment as Chief Executive Officer agreement has no fixed term and is expressed to be "at will" save that either party may terminate his employment (in the Company's case, without cause) only upon provision of twelve (12) months written notice to the other party. Termination without notice by the Company is permitted in the case of: (i) gross misconduct or material breach of the terms of employment, such as a breach of confidentiality, discipline or security, or (ii) upon payment of basic salary (less taxes) in lieu of notice. The agreement also specifies that Mr Chandratillake can be required to stay away from work during any part of the notice period. Mr Chandratillake's agreement does not contain restrictive covenants. This agreement is governed by California law. Under California law, restrictive covenants of a type usually found in English law employment contracts may not be enforceable.

Mr Chandratillake's role as director of the Company, as distinct from his role as Chief Executive Officer, is terminable on three months' notice and automatically terminates upon takeover of the Company, disqualification as a director, a requirement to vacate office under the Articles, appointment not being confirmed at the next annual general meeting of the Company or removal by shareholder resolution. The appointment as a director is also subject to resignation/re-election by rotation. Termination of Mr Chandratillake's role as director of the Company would not necessarily have the effect of terminating his role as Chief Executive Officer.

Save as set out above there are no specific provisions in the service agreement providing for benefits on termination of employment or office as director.

### **(b) Non-executive Directors**

Each of the non-executive Directors have each entered into a letter of appointment with the Company, the terms of which are as follows.

The terms of any appointment and any re-appointment of the non-executive Directors are subject to the Articles.

The appointments of Anthony Bettencourt, Dr Michael Lynch and Mark Opzoomer as non-executive directors took effect on 22 May 2007. The appointments of all the non-executive Directors are conditional upon First Admission.

Each of the non-executive Directors is appointed subject to termination upon three months' notice from either party. No initial term of appointment is specified. The appointments are also subject to the provisions of the Articles regarding appointment, retirement, disqualification and removal of directors but will in any event terminate forthwith without any entitlement to compensation if:

- (i) the non-executive Director's appointment is not confirmed at the Company's next annual general meeting;
- (ii) the non-executive Director is not re-elected at an annual general meeting of the Company at which he retires and offers himself for re-election in accordance with the Articles;
- (iii) the non-executive Director is required to vacate office for any reason pursuant to any of the provisions of the Articles;
- (iv) the non-executive Director is removed by a resolution of the Shareholders; or
- (v) the non-executive Director is removed as a director or otherwise required to vacate office under any applicable law.

Each of the non-executive Directors will receive an annual fee, as follows:

Anthony Bettencourt	£35,000
Dr Michael Lynch	£35,000
Mark Opzoomer	£35,000

The fees of the non-executive Directors are subject to review from time to time.

In addition to the fees referred to above, the Company will reimburse all travelling expenses reasonably incurred by each of the non-executive Directors in the proper performance of his obligations by virtue of his appointment as a non-executive Director. Other expenses are subject to prior clearance by the Finance Director of the Company.

None of the non-executive Directors will be eligible for the grant of options under any of the Blinkx Share Plans as part of their remuneration or to participate in any other incentive plan or pension scheme or benefit in kind arrangement of the Company other than Dr Michael Lynch who will receive a single option grant under the Autonomy Discretionary Scheme as an Autonomy optionholder as described in paragraph 13 of Part VII: “Business Overview” on the same basis as all other Autonomy optionholders. However, each of the non-executive Directors will be issued with Ordinary Shares as at Further Admission, as follows:

Anthony Bettencourt	50,000 Ordinary Shares
Dr Michael Lynch	50,000 Ordinary Shares
Mark Opzoomer	50,000 Ordinary Shares

The non-executive Directors are not required to devote any particular time commitment to the Company. However, each letter of appointment specifies that the non-executive Director will be expected to attend period Board meetings (normally four per year) and to devote appropriate preparation time ahead of such meetings.

The Company has in place directors’ and officers’ liability insurance cover.

Save as set out above, there are no existing or proposed letters of appointment between any of the non-executive Directors and the Company or member of the Group.

### (c) Directors’ indemnity

All of the Directors have been granted indemnities by the Company to the maximum extent permitted by sections 309A and 309B of the Act (including the right to recover costs on an “as incurred” basis), save that such indemnities will not apply to the extent that any recovery is made under any policy of insurance or if the relevant Director or Directors is or are in breach of obligations in relation to the conduct of claims or if the Company determines that the liability arises out of the Director’s fraud or wilful default.

## 9. EMPLOYEE SHARE SCHEMES

As at First Admission, the Company will have adopted or assumed the following schemes under which those employees and directors who are eligible may obtain share options:

- the Blinkx 2007 Enterprise Management Incentive Plan (the “**EMI Scheme**”);
- the Blinkx 2007 US Share Option Plan (the “**US Plan**”);
- the Blinkx Autonomy Employee Discretionary Share Option Scheme 2007 (the “**Autonomy Discretionary Scheme**”); and
- the Blinkx 2007 Autonomy Employee US Share Option Plan (the “**Autonomy US Plan**”),

together, these plans are referred to as the “**Blinkx Share Plans**”.

The EMI Scheme and the US Plan allow for the grant of options over Ordinary Shares to employees of the Company and its subsidiaries. It is currently envisaged that two types of special grant under the EMI Scheme and the US Plan will be made. First, a special one off grant will be made which is fully vested at grant with an exercise price equal to the nominal value of the Ordinary Shares. The second special grant will again have an exercise price equal to the nominal value. However, vesting will be over three years with a six month cliff.

To the extent that the Company qualifies so as to grant tax qualified enterprise management incentive options it will do so in favour of qualifying employees. Confirmation of the Company's qualifying status from HM Revenue & Customs has been sought.

The Autonomy Discretionary Scheme and the Autonomy US Plan are special one-off arrangements to facilitate the grant of options over the Company's shares to certain Autonomy employees who are remaining with Autonomy and have vested Autonomy options. The exact design of these arrangements are subject to adjustment to meet tax and securities laws.

The Autonomy US Plan was originally established by Blinkx UK Limited, then a subsidiary of Autonomy, and is a special one-off arrangement to facilitate the grant of options over Ordinary Shares to certain Autonomy employees who are remaining with Autonomy and have vested Autonomy options. Blinkx will automatically assume this plan and all options granted on First Admission.

The main features of the Blinkx Share Plans are summarised below.

### **9.1 The EMI Scheme**

The EMI Scheme was adopted by the Board on 21 May 2007. The Board has complete discretion to determine which eligible individuals receive option grants, the time or times when the grants are to be made, the number of Ordinary Shares subject to each grant, the vesting schedule to be in effect for the grant and the maximum term for which each option grant may remain outstanding. The number of Ordinary Shares allocated under the EMI Scheme may not on any date, when aggregated with the number of Ordinary Shares allocated under the EMI Scheme, the US Plan or any other employee share scheme of the Company, exceed 10% of the issued share capital of the Company on that date. This excludes pre-float allocations and options granted under the Autonomy plans.

The exercise price for each granted option is determined by the Board at the time of the grant. No option grant may have a term in excess of ten years. The option vests in one or more instalments over the optionholder's period of employment. The option will be able to be exercised for a short period following termination of employment where such termination is by reason of death, injury, disability, the optionholder's employing company ceasing to be within the Group, or at the discretion of the Board of directors of the Company on the optionholder in question leaving employment for any other reason.

Cessation of employment for any of these reasons (other than on death), means the options must be exercised, if at all, before the expiry of the period which is no later than 40 days from the date of cessation of employment. Cessation of employment by reason of death means the options are exercisable within three months or such later time as may be determined by the Board in its absolute discretion not to exceed twelve months by the optionholder's personal representatives following the date of the optionholder's death.

In each of these situations, the extent to which options can be exercised will be determined by reference to the extent the options have vested. If the option is subject to performance conditions regard must be given to the extent that any such conditions set by the Board or other conditions applicable to the option have been met. The Board may waive or change a performance condition following the grant of an option provided that the Board reasonably considers that the changed performance condition would be a fairer measure of performance and would not be substantially more or less difficult to satisfy than when first imposed.

If an optionholder's employment is terminated for any other reason then options lapse immediately.

In the event the Company is acquired or undergoes a change in control, each outstanding option may be exercised to the extent permitted or, with the acquirer's agreement, be exchanged for a new option which is the economic equivalent of the Blinkx option but which relates to shares of the successor corporation or other affiliated entity. Any options which are not so exercised or exchanged will terminate at the end of the period of 40 days commencing on the consummation of the transaction.

The Board may amend or modify the EMI Scheme at any time. The Board may also terminate the EMI Scheme at any time, provided such termination does not adversely affect the rights of outstanding optionholders, in which case, consent of the optionholder is required.

### **9.2 The US Plan**

The US Plan was adopted by the Board on 21 May 2007 and was approved by the Shareholders on 21 May 2007 in order to provide equity incentives through option grants to employees of the Company residing in

the United States. The number of Ordinary Shares allocated under the US Plan may not on any date, when aggregated with the number of Ordinary Shares allocated under the US Plan, the EMI Scheme or any other employee share option plan of the Company, exceed 10% of the issued share capital of the Company from time to time. This excludes pre-float allocations and options granted under the Autonomy plans.

The US Plan currently is administered by the Board, but the Board may delegate its role as plan administrator to a committee of the Board. The plan administrator determines which eligible individuals are to receive option grants, the time or times when the grants are to be made, the number of shares subject to each grant, the status of any granted option as either an incentive stock option or a non-statutory stock option under the US tax laws and the vesting schedule to be in effect for the option grant or stock issuance.

Options granted under the US Plan may have a term of up to ten years and must have an exercise price which is not less than the nominal price of the Company's shares. Options are exercisable in one or more instalments over the optionholder's period of employment with at least 20% of the total number of Option shares becoming exercisable per year and are subject to earlier termination in connection with the optionholder's cessation of employment. Where cessation of employment is for any reason other than death, disability or misconduct, the option is exercisable only for a period of 30 days following the date of such cessation. Cessation of employment by reason of disability means the options are exercisable for at least six months following the date of such cessation. Cessation of employment by reason of death means the options are exercisable for one year by the optionholder's personal representatives following the date of the optionholders' death. All outstanding options held by an optionholder shall immediately terminate in connection with the optionholder's cessation of employment due to misconduct. The exercise price for Ordinary Shares purchased under the US Plan may be paid in cash, by cheque or by the optionholder delivering a full recourse, interest bearing promissory note secured by the acquiring shares.

The plan administrator has the authority, with the consent of affected optionholders, to cancel outstanding options under the US Plan in return for the grant of new options for the same or a different number of option shares with an exercise price per share based upon the fair market value of the Ordinary Shares on the new grant date.

In the event that the Company is acquired or undergoes a change in control, each outstanding option may be exchanged for a new option which is the economic equivalent of the exchanged option but which relates to shares of the successor corporation or other affiliated entity. Options which are not so exchanged will terminate. The plan administrator has the discretion to accelerate the vesting of outstanding options under the US Plan in connection with changes in control, whether or not those options are to be exchanged in the transaction. The plan administrator has discretion to accelerate options on the event of a change of control.

The plan administrator may amend or modify the US Plan at any time, subject to Shareholder approval. The US Plan will terminate no later than 2017.

### **9.3 The Autonomy Plans**

The Autonomy plans were established to provide equity incentives through option grants over shares in the Company to employees who remain employed by Autonomy and who have vested Autonomy options. The exact structure of such grants is subject to change in order to ensure compliance with tax and securities laws.

The Autonomy Discretionary Scheme, which largely mirrors the terms of the EMI Scheme, was adopted by the Company on 21 May 2007.

The Autonomy US Plan, which largely mirrors the terms of the US Plan, was adopted by Blinkx UK Limited on 21 May 2007. This plan and all options granted under this plan will be assumed by Blinkx on First Admission.

The aggregate number of Ordinary Shares allocated under the Autonomy plans may not, on any date, exceed 4.7 million Ordinary Shares.

Options granted under the Autonomy plans vest over a period of three years from grant and are subject to a six month cliff and quarterly thereafter. The exercise price shall be at least equal to the Admission price.

In the event the Company undergoes a change of control within the period of twelve months immediately following Admission, then all options under the Autonomy plans shall automatically accelerate in full.

## 10. SIGNIFICANT SHAREHOLDERS

- (a) As at 18 May 2007, being the latest practicable date prior to publication of this document, save as set out below, the Directors were not aware of any persons, who, immediately following First Admission will be interested in 3% or more of the issued share capital of the Company:

<u>Shareholder</u>	<u>Percentage</u>
Dr Michael Lynch . . . . .	11.1%
Capital Research & Management . . . . .	7.6%
Fidelity Management & Research . . . . .	7.1%
Baillie Gifford . . . . .	5.7%
Schroder Investment Management . . . . .	5.0%
Fidelity Investments International . . . . .	4.8%
Oppenheimer Funds . . . . .	4.3%
Legal & General Investments . . . . .	3.2%

- (b) None of the Company's major shareholders have voting rights different to any other shareholders in the Company.

## 11. RELATED PARTY TRANSACTIONS

The following related party transactions are transactions which, as a single transaction or in their entirety, are or may be material to the Company and have been entered into by the Company or any other member of the Group within the period commencing on the incorporation of the Company and terminating immediately prior to the date of this document.

- (a) *Demerger Agreement*

Autonomy and Blinkx have entered into the Demerger Agreement dated 21 May 2007 under which the terms of the Demerger and the Issue are set out. Further details of the Demerger Agreement are set out in paragraph 12(e) below.

- (b) *Licence*

Autonomy Systems Limited and Blinkx UK Limited have entered into the Licence dated 22 May 2007 pursuant to which Blinkx will be granted the right to use Autonomy's Licensed Technology. Further details of the Licence are set out in paragraph 12(f) below.

- (c) *Office Services Agreements*

Each of Autonomy Systems Limited and Blinkx UK Limited, and Autonomy, Inc. and Blinkx, Inc., have entered into office services agreements dated 22 May 2007 which set out arrangements for use by Blinkx of a small portion of Autonomy's offices. Further details of the Office Services Agreements are set out in paragraph 12(g) below.

- (d) *Facility Letter and Debenture*

Autonomy and Blinkx have entered into the Facility Letter dated 22 May 2007, under which Autonomy has made available to Blinkx a facility of £25 million. Blinkx's obligations under the Facility Letter have been secured by the Debenture, also dated 22 May 2007. Further details of the Facility Letter and the Debenture are set out in paragraph 12(d) below.

- (e) *Tax Deed*

Autonomy and Blinkx have entered into the Tax Deed dated 22 May 2007 under which Autonomy agreed to meet certain tax liabilities relating to the Demerger. Further details of the Tax Deed are set out in paragraph 12(h) below.

In the opinion of the Directors, each of the related party transactions described in (a)-(e) above was concluded at arm's length.

## 12. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) are all of the contracts which have been entered into by members of the Group: (a) since incorporation, and which are or may be material; or (b) contain provisions under which any member of the Group has any obligation or entitlement which is or may be material to the Group at the date of this document:

### (a) *Placing Agreement*

The Company, the Directors and Citi have entered into the Placing Agreement dated 22 May 2007, pursuant to which:

- (i) Citi has agreed, subject to certain conditions, to procure subscribers for, or failing which to subscribe itself at the Placing Shares to be issued and sold pursuant to the Placing at the Placing Price;
- (ii) the obligations of the Company to issue the Placing Shares and of Citi to procure subscribers for, or failing which, to subscribe itself, the Placing Shares will be subject to certain conditions (including, amongst others, that Further Admission occurs by no later than 8.00 a.m. on 23 May 2007 or such later time and/or date as may be agreed in accordance with the Placing Agreement). Citi has the right to terminate the Placing Agreement in certain circumstances that are typical for an agreement of this nature, exercisable prior to the expected date of Further Admission. These circumstances include, amongst others, the occurrence of certain significant changes in the condition, financial, operational, legal or otherwise or in the business prospects or earnings of the Company and certain changes in financial, political or economic conditions;
- (iii) the Company has agreed to pay (together with any related value added tax) certain costs, charges, fees and expenses in connection with, or incidental to, amongst others, the Placing, Further Admission or the other arrangements contemplated by the Placing Agreement, including (but not limited to) their own legal fees and expenses, the legal fees and expenses of the Company, the costs and expenses of the Registrar and any other advisers' fees and expenses;
- (iv) the Directors have agreed subject to certain exceptions, for a period of one year from the date of Further Admission not to offer, issue, sell or contract to sell, issue options in respect of, pledge or otherwise dispose of (or enter into any transaction which is designed to, or might reasonably be expected to, result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by such Director or any person connected with such Director), directly or indirectly, or announce the offer of, any shares or any securities of the Company that are substantially similar to the shares, including without limitation any share options, any securities convertible into, or exchangeable for, or that represent the right to receive shares or any such securities of the Company, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing; and
- (v) the Company and the Directors have given certain representations, warranties and undertakings to Citi and the Company has given certain indemnities to Citi, in each case that are typical for an agreement of this nature. The liabilities of the Company are not limited as to time and amount however the liabilities of the Directors are.

### (b) *Lock-up Agreement*

Each of the Company, Citi, Autonomy, Senior Management and certain Autonomy employees have entered into the Lock-up Agreement dated 22 May 2007, pursuant to which Autonomy, the Senior Management and certain Autonomy employees have undertaken to Citi, subject to certain exceptions *inter alia*, not, without the written consent of Citi, whether directly or indirectly, to issue, offer, pledge, sell, contract to issue or sell, issue or sell any option or contract to purchase or subscribe, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, deposit into any depositary receipt facility or otherwise transfer or dispose of (or publicly announce any such issue, pledge, sale, grant, deposit, transfer or disposal) any Ordinary Shares or any securities convertible into or exercisable or exchangeable for Ordinary Shares or enter into any swap or other agreement that transfers, in whole or in part, directly or indirectly, any of the economic consequences of the ownership of Ordinary Shares until the first anniversary of the date of Further Admission.

(c) *Nominated Adviser and Broker Agreement*

The Company, the Directors and Citi have entered into the Nominated Adviser and Broker Agreement dated 22 May 2007, pursuant to which Citi has agreed to act as nominated adviser and broker to the Company following Admission as required under the AIM Rules. Under the agreement, Citi shall provide, *inter alia*, advice and guidance to the Directors as they may require from time to time as regards their obligations to ensure compliance by the Company on a ongoing basis with the AIM Rules. The agreement has an initial term of 12 months from First Admission and is thereafter terminable on three months' notice given by either by Citi or the Company. Citi is entitled to be paid an annual fee of £75,000 per annum (plus VAT). The agreement contains provisions for early termination in certain circumstances and certain undertakings and indemnities given by the Company to Citi in relation to, *inter alia*, compliance with applicable laws and regulations.

(d) *Facility Letter and Debenture*

The Company and Autonomy have entered into the Facility Letter dated 22 May 2007, pursuant to which Autonomy has agreed to make available to the Company a facility of up to £25 million. The facility, which is secured by a debenture entered into between the Company and Autonomy, can be drawn down in one tranche, on five business days notice. Interest on the principal amount of the facility outstanding from time to time is payable at the rate of 4% per annum above the base rate of Barclays Bank plc from time to time and is repayable in five equal half-yearly instalments of principle commencing on the later of: (a) the date falling six months after drawdown; or (b) the first anniversary of the date of the Facility Letter, and half-yearly thereafter until paid in full. The Facility Letter contains usual events of default and conditions precedent to drawdown.

(e) *Demerger Agreement*

Autonomy and the Company entered into the Demerger Agreement on 21 May 2007. Under the terms of the Demerger Agreement, Autonomy agreed to procure that Autonomy Systems Limited and Autonomy, Inc. transferred the business operated by them in each case under the name of "Blinkx", relating to the provision of internet services or software applications for Consumer Use and Consumer Content Protection Use (the "**Business**") to Blinkx UK Limited and Blinkx, Inc., respectively, for a total consideration of \$366,000, such consideration to be left outstanding and to be paid by Blinkx on completion of the Placing. The assets of the Business and the employees employed by Autonomy Systems Limited and Autonomy, Inc. who are assigned to the Business shall be transferred without the benefit of any representations or warranties except to the extent required by law.

The Demerger Dividend shall be satisfied upon First Admission by the issue of one Ordinary Share for every Autonomy ordinary share held by a holder of Autonomy ordinary shares on the register of members of Autonomy at the Record Time. As consideration for the Demerger Dividend, Autonomy shall, on First Admission, transfer 90 Blinkx UK Limited ordinary shares to Blinkx. In consideration of Blinkx issuing the Issue Shares to Autonomy, Autonomy shall, on Further Admission, transfer 10 Blinkx UK Limited ordinary shares to Blinkx.

Under the Demerger Agreement, Autonomy agrees to indemnify Blinkx UK Limited and Blinkx, Inc. against all liabilities arising out of or in connection with carrying out the Business prior to the completion of the sale of the Business. Blinkx agrees to indemnify Autonomy against all liabilities arising out of or in connection with the carrying on of the Business after the completion of the sale of the Business.

(f) *Licence Agreement*

Autonomy Systems Limited and Blinkx UK Limited entered into the Licence on 22 May 2007. The Licence, amongst other things, grants Blinkx the right to use Autonomy's IDOL technology platform for Consumer Use and Consumer Content Production Use in all available Autonomy languages (other than the Mandarin and Cantonese dialects) (the "**Licensed Technology**"). The Licence contains, amongst other provisions, the following terms:

- (i) Blinkx will have the exclusive right to use the Licensed Technology for five years for Consumer Use (becoming a non-exclusive right to use the Licensed Technology in perpetuity thereafter, subject to termination rights) and a non-exclusive right to use the Licensed Technology for Consumer Content Production Use;
- (ii) the Licence contains no entitlement to damages for Blinkx in the event of a breach by Autonomy of any of the terms;

- (iii) Autonomy Systems Limited is required to provide, without charge for the first three years of the Licence (and thereafter on its standard commercial terms), technical support and assistance for the Licensed Technology;
- (iv) Autonomy Systems Limited will retain the right to licence the Licensed Technology to third parties, including content owners, in certain situations, provided that such licencees are not permitted to make content created with the Licensed Technology available to the general public; and
- (v) in the event that either an offer is made for the entire issued share capital of the Company, or either the Company or Blinkx UK Limited enters into an agreement to sell all or substantially all of its assets, in each case without Autonomy Systems Limited's consent prior to the first anniversary of First Admission, Blinkx UK Limited will be required to pay a fee of \$50 million to Autonomy Systems Limited upon consummation of such transaction (which can be modified or waived at Autonomy Systems Limited's discretion). Failure to do so will constitute a breach and entitle Autonomy Systems Limited to terminate the Licence.

(g) *Office Services Agreements*

Autonomy Systems Limited and Blinkx UK Limited, and Autonomy, Inc. and Blinkx, Inc., each entered into office services agreements on 22 May 2007, each of which set out arrangements for use by Blinkx of a small portion of Autonomy's offices in the UK and the US respectively. The agreements provide for, amongst others, the following provisions:

- (i) the exclusive use by Blinkx of segregated office facilities and personal workstations in Autonomy's Cambridge and San Francisco offices at a charge of \$1,666 per month per workstation as contracted;
- (ii) Blinkx may only use the premises exclusively as an office;
- (iii) Blinkx may not sublease, assign or encumber the premises;
- (iv) Blinkx will not, during the term of the applicable agreement, or within one year afterward, hire any person who has been an employee of Autonomy. If Blinkx violates such obligations, it will be liable to Autonomy for liquidated damages in an amount equal to six month's gross wages of the employee, at the rate last paid to that employee by Autonomy;
- (v) Autonomy is not liable for any loss or damage to personal property owned by Blinkx, its guests, customers, clients, invitees or visitors, unless the loss or damage is caused by Autonomy's own gross negligence, or that of its employees; and
- (vi) the agreements contain usual events of default.

(h) *Tax Deed*

Autonomy and the Company entered into the Tax Deed on 22 May 2007. Under the Tax Deed, Autonomy covenants with Blinkx to pay Blinkx an amount equal to: (i) any Liability for Tax (as defined in the Tax Deed) of a Group company: (x) arising in respect of, by reference to or in consequence of any Event in connection with the Demerger; and (y) arising directly or indirectly as a consequence of information provided to HM Revenue & Customs in obtaining clearances in connection with the Demerger being inaccurate or misleading or a failure to supply information relevant to the application for clearance; and (ii) all costs, expenses, disbursements and professional fees reasonably incurred by a Group Company in connection with (i). Notice of liability under the Tax Deed must be delivered to Autonomy prior to the seventh anniversary of the date of the agreement. Autonomy is required to prepare tax returns of each Group company and deal with all matters related to tax which concern or affect any Group company for all accounting periods ending on or before the date of the Tax Deed. Blinkx is required to accept comments from Autonomy with respect to accounting periods current as of the date of the Tax Deed.

For purposes of the Tax Deed, tax includes (without limitation):

- (i) advance corporation tax, capital gains tax, climate change levy, corporation tax, customs and excise duties, income tax (including PAYE), inheritance tax, insurance premium tax, national insurance contributions, rates and council tax, stamp duty, stamp duty land tax, stamp duty reserve tax and VAT;
- (ii) all former and foreign taxes;

- (iii) all other levies, import duties, charges or withholdings in the nature of taxes imposed by any tax authority and any amount of tax which is the subject of or results in a charge, security or right to sell imposed by, or provided by statute to, a Tax Authority over any of the assets of a Group company;
- (iv) any payment which a Group company may be or become bound to make to any person in respect of any tax or as a result of any enactment relating to any tax including any obligation to make any payment for, or to repay any payment received for surrender of group relief, advance corporation tax, eligible unrelieved foreign tax, refunds of tax or overpayments of instalments of corporation tax or any balancing payment as referred to in paragraph 7A of Schedule 28AA Income and Corporation Taxes Act 1988; and
- (v) all interest, penalties, surcharges, fines and other charges relating to any of the above or to a failure to make any return, comply with any reporting requirements or supply any information in connection with any of the above and the cost of removing any charge or other encumbrance imposed by a tax authority.

### **13. ESTIMATED AMOUNT OF PROCEEDS**

The estimated proceeds of the Placing are £25.4 million which will be applied as follows:

- (a) preliminary expenses of the Placing payable by the Company, organisational expenses payable by the Company and any commission payable to any person in consideration for his agreeing to subscribe for, or his procuring to agree to procure subscriptions for any Ordinary Shares—£3.3 million;
- (b) funding investments in accordance with the investment policy and strategy outlined in this document and for general corporate purposes; and
- (c) pending investment in investee companies, the Company intends to invest the Net Proceeds in investment grade, interest-bearing instruments.

### **14. WORKING CAPITAL**

In the opinion of the Directors, having made due and careful enquiry and having regard to the Net Proceeds and the facility available under the Facility Letter, the working capital available to the Company and the Group will be sufficient for their present requirements, that is for at least 12 months following Further Admission.

### **15. NO SIGNIFICANT CHANGE**

Save for the effects of and matters contemplated by the Demerger and the Placing, there has been no significant change in the position of the Company since 4 May 2007, being the date of the balance sheet contained in Section B of Part X: “Financial Information”.

### **16. MISCELLANEOUS**

- (a) The Demerger Shares are in registered form and will upon First Admission be capable of being held in uncertificated form. The Placing Shares and Issue Shares are in registered form and will upon Further Admission be capable of being held in uncertificated form. No temporary documents of title will be issued.
- (b) No member of the Group is engaged in, nor (so far as the Directors are aware) has pending or threatened against it, any governmental, legal or arbitration proceedings which may have or have had during the 12 months immediately preceding the date of this document, a significant effect on the financial position or profitability of the Company or the Group.
- (c) No shares have been marketed or are available in whole or in part to the public in conjunction with the applications for admission of the Ordinary Shares to AIM.
- (d) Except as detailed below or in this document, no person (excluding professional advisers as stated in this document and trade suppliers) has received directly or indirectly, from the Group within the twelve months preceding the date of this document and no persons have entered into contractual arrangements to receive, directly or indirectly, from the Group on or after First Admission:
  - (i) fees totalling £10,000 or more;

- (ii) securities in the Company with a value of £10,000 or more calculated by reference to the Placing Price on Further Admission; or
  - (iii) any other benefit with a value of £10,000 or more at the date of First Admission.
- (e) Save as disclosed in this document, the Company is not dependent on any patents or other intellectual property rights, licences or particular contracts.
  - (f) Save as disclosed in this document, the Directors are not aware of any persons who, directly or indirectly jointly or severally, either at the date of this document or immediately following First Admission exercises or could exercise control over the Company.
  - (g) The total costs and expenses of, and incidental to, the Placing payable by the Company are estimated to amount to £3.3 million.

**PART XIII**  
**DEFINITIONS**

The following definitions apply throughout this document, unless the context requires otherwise:

“Act”	the Companies Act 1985 (as amended)
“Admission”	where the context requires, the First Admission and/or the Further Admission
“AIM”	the AIM market of the London Stock Exchange
“AIM Rules”	the AIM Rules for Companies and AIM Rules for Nominated Advisers published by the London Stock Exchange governing admission to, and the operation of, AIM
“Articles”	the articles of association adopted by the Company on 22 May 2007
“Autonomy”	Autonomy Corporation Plc, a public company incorporated in England and Wales with registered with number 03175909
“Autonomy Discretionary Scheme”	the Blinkx Autonomy Employee Discretionary Share Option Scheme 2007
“Autonomy US Plan”	the Blinkx 2007 Autonomy Employee US Share Option Plan
“Blinkx” or the “Company”	Blinkx plc, a public company incorporated in England and Wales with registered number 6223359 and/or the business being demerged in the Demerger, as the context requires
“Blinkx, Inc.”	Blinkx, Inc., a private company incorporated in California
“Blinkx Share Plans”	the EMI Scheme, the US Plan, the Autonomy Discretionary Scheme and the Autonomy US Plan
“Blinkx UK Limited”	Blinkx UK Limited, a private company incorporated in England and Wales with registered number 5167103
“Board”	together, the board of directors of the Company whose names are set out under “Directors, Senior Management and Corporate Governance” above
“Citi”	Citigroup Global Markets U.K. Equity Limited
“Code”	the City Code on Takeovers and Mergers
“Consumer Content Production Use”	the use of the software, provided by Autonomy to Blinkx, from time to time, pursuant to the Licence, by organisations whose primary business is consumer use of their proprietary content for the purpose of production of that content
“Consumer Use”	the provision of services to enable direct navigation of general content by consumers
“CREST”	the relevant system (as defined in the CREST Regulations) for the paperless settlement of share transfers and the holding of shares in Uncertificated Form in respect of which CRESTCo is the Operator (as defined in the CREST Regulations)
“CRESTCo”	CRESTCo Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (as amended)

“Demerger”	the demerger of the Blinkx business from Autonomy effected by means of the payment of the Demerger Dividend (summarised in paragraph 8 of Part VII: “Business Overview”) and the transfer by Autonomy to Blinkx of 90% of the issued share capital of Blinkx UK Limited
“Demerger Agreement”	the agreement entered into between Autonomy and Blinkx as described in paragraph 12(e) of Part XII: “Additional Information”
“Demerger Dividend”	the dividend in specie to be declared by Autonomy pursuant to the terms of the Demerger Agreement
“Demerger Shares”	Ordinary Shares to be issued to Autonomy shareholders by Blinkx pursuant to the terms of the Demerger Agreement
“Directors”	the directors of the Company
“EMI Scheme”	Blinkx 2007 Enterprise Management Incentive Plan
“First Admission”	admission of the Demerger Shares to trading on AIM becoming effective in accordance with the AIM Rules
“FSA”	the Financial Services Authority of the United Kingdom
“FSMA”	the Financial Services and Markets Act 2000, as amended
“Further Admission”	admission of the Placing Shares and the Issue Shares to trading on AIM becoming effective in accordance with the AIM Rules
“Group”	the Company and its subsidiaries from time to time
“Historical Financial Information”	together the UK GAAP Historical Financial Information and IFRS Historical Financial Information set out in Part X: “Financial Information”
“IAS”	International Accounting Standards
“IFRS”	International Financial Reporting Standards
“IR Code”	the United States Internal Revenue Code of 1986, as amended
“Issue”	the issue of Ordinary Shares to Autonomy in consideration for the transfer of 10% of the issued share capital of Blinkx UK Limited to Blinkx
“Issue Shares”	the 21,931,383 Ordinary Shares to be issued by the Company pursuant to the Issue
“Licence”	the licence agreement described in paragraph 12(f) of Part XII: “Additional Information”
“London Stock Exchange”	London Stock Exchange plc
“Net Proceeds”	the gross proceeds of the Placing less commissions, estimated fees and expenses payable by the Company in connection with the Placing and organisational expenses
“Nominated Adviser”	Citigroup Global Markets U.K. Equity Limited
“Office Services Agreements”	the office services agreements described in paragraph 12(g) of Part XII: “Additional Information”
“Ordinary Shares”	ordinary shares of £0.01 in the capital of the Company

“Placing”	the offer, conditional on Further Admission, of the Placing Shares at the Placing Price pursuant to the terms set out in this document and the Placing Agreement
“Placing Agreement”	the placing agreement between the Company, the Directors and Citi dated 22 May 2007, a summary of which is set out in paragraph 12(a) of Part XII: “Additional Information”
“Placing Price”	£0.45 per Placing Share
“Placing Shares”	the 56,444,444 new Ordinary Shares to be issued by the Company pursuant to the Placing
“Prospectus Directive”	Directive 2003/71/EC of the European Parliament
“Prospectus Rules”	the Prospectus Rules made by the Financial Services Authority with effect from 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004
“Record Time”	6:00 p.m. on 21 May 2007 (or such other time and date as the directors of Autonomy (or any duly authorised committee of them) may determine, being the date on which shareholders in Autonomy are required to be on the register of Autonomy in order to be entitled to the Demerger Dividend
“Registrar”	Computershare Investor Services PLC
“Securities Act”	the United States Securities Act 1933, as amended
“Senior Management”	Federico Grosso, Matthew Scheybeler, Matthew Service and Frances Smith
“Shareholder”	a holder of Ordinary Shares
“Tax Deed”	the tax deed entered into between the Company and Autonomy on 22 May 2007, described in paragraph 12(h) of Part XII: “Additional Information”
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US GAAP”	accounting principles generally accepted in the United States
“US Plan”	the Blinkx 2007 US Share Option Plan
“Website”	the website of Blinkx at <a href="http://www.blinkx.com">www.blinkx.com</a>

**PART XIV**  
**GLOSSARY OF TECHNICAL TERMS**

The following definitions apply throughout this document, unless the context requires otherwise:

“bandwidth”	the amount of data that can be transmitted in a fixed amount of time
“Bayesian Inference”	mathematical probability theory derived from the work of Thomas Bayes
“blog”	web log; a frequently-updated web page written in the style of a personal journal
“blogosphere”	collective term encompassing all blogs
“broadband”	a high data-transmission rate internet connection
“closed caption data”	printed textual audio script attached to video content for the purpose of assisting hearing-impaired individuals
“Cluster Query Focus” or “CQF”	a function based on Autonomy’s Meaning Based Computing approach to understanding information that allows Blinkx to know which keywords are relevant to which videos but also the context in which those words appear
“code pre-compiling”	a process whereby Blinkx’s video spider is able to read the programming language snippets often included in web pages (also referred to as “code” and “scripts”) and follow the logic contained within these snippets in order to understand how the webpage will be affected by these snippets
“CPM”	cost per mille, a metric generally used to measure the amount paid per 1,000 impressions of an advertisement, regardless of the viewer’s response to such advertisement
“DRM”	digital rights management, or any technology used to protect the interests of owners of content and services (such as copyright owners)
“DVD quality”	high resolution, high definition video quality
“DVR”	digital video recorder, or a high capacity hard drive that is embedded in a set-top box, which records video programming from a television set
“e-commerce”	electronic commerce
“end-user”	the final or ultimate user of a computer system, including a website
“HD”	high definition
“Hidden Markov Models” or “HMM”	a statistical model in which the system being modeled is assumed to be a Markov process with unknown parameters, and the challenge is to determine the hidden parameters from the observable parameters
“host”	a computer that is connected to a TCP/IP network, including the internet
“IDOL”	Autonomy Intelligent Data Operating Layer software which acts as a complete infrastructure layer for all forms of unstructured

	information, analysing the information and then automatically performing operations on this information
“index” or “indexing”	the collection, parsing and storage of data to facilitate fast and accurate retrieval
“index spamming”	includes various methods used to manipulate the relevancy or prominence of resources indexed by a search engine in a manner inconsistent with the purpose of the indexing system
“internet”	a decentralised, global network of computers
“IPTV”	Internet Protocol Television
“ISP”	Internet Service Provider
“Long Tail”	the theory that the aggregate of very high distribution of a high number of low demand products can collectively make up a market share that rivals or exceeds the relatively few current bestsellers and blockbusters
“metadata”	data about data, often describing how, when and by whom a particular set of data was collected, and how the data is formatted
“meta-tag”	indicator of metadata attached to a particular file, often used by search engines to identify the relevance of the file to a search query
“P2P” or “peer to peer”	computer network that relies on computing power at the edges (ends) of a connection rather than in the network itself. P2P networks are used for sharing content like audio, video, data or anything in digital format
“paid search”	a type of contextual advertising where web site owners pay an advertising fee, usually based on click-throughs or ad views to have their Web site search results shown in top placement on search engine result pages
“PC”	personal computer
“podcasting”	a method of publishing audio files to the internet, allowing users to subscribe to a feed and receive new files automatically by subscription, usually at no cost
“Rich Media Management”	management of media that uses multiple forms of information content and information processing (e.g. text, audio, graphics, animation, video, interactivity) to inform or entertain the user
“RDF”	Resource Description Framework: a general framework for describing a website’s metadata
“RSS”	RDF Site Summary or Rich Site Summary, which is an XML format for syndicating Web content
“search engine”	a program that searches the world wide web for specified information and returns a list of the documents where the information was found
“search portal”	a website or service that offers a broad array of resources and services, such as e-mail, forums, search engines, and shopping
“Shannon’s Information Theory”	a mathematical theory based on the work of Claude Shannon

“spider”	a program that automatically fetches Web pages. Spiders are used to feed pages to search engines
“TCP/IP”	the basic communication language (or protocol) of the internet
“thumbnail”	a miniature display of an image
“uninstall”	to remove an application from a computer
“website”	a location on the world wide web
“world wide web” or “web”	a system of internet servers that support specially formatted documents. The documents are formatted in a markup language called HTML (HyperText Markup Language) that supports links to other documents, as well as graphics, audio, and video files
“XML”	an open standard for exchanging structured documents and data over the internet which allows website designers to create their own customised tags, enabling the definition, transmission, validation, and interpretation of data between applications and between organisations



