cellcast

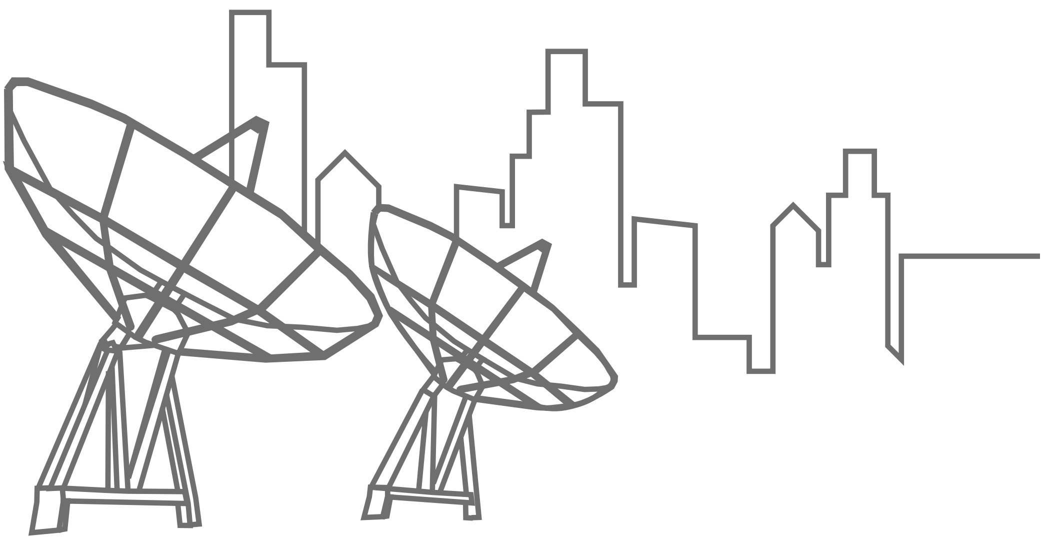
Cellcast plc Annual report and accounts

for the year ended 31 December 2006

a proven innovator in interactive media

Company Registration No. 5342662 (England and Wales)

Contents



01 Chairman’s Statement

In 2006, the Group achieved a fourth year of uninterrupted revenue growth but faced an exceptional challenge to its UK business. As a result of changes introduced by Sky to its Electronic Program Guide (EPG), the Group had to secure additional bandwidth to provide dedicated channels for each category of its diverse programme output on the Sky Digital satellite platform. The increased cost base led to a significant erosion of the Group's margins, added to which the Group faced a reduction in revenues as Sky limited interactive programming on General Entertainment channels to three hours per day. Management took immediate steps to reduce the fixed costs of its UK operations and its channel production overheads. At the same time, the Group accelerated its international distribution, which resulted in substantial revenue gains in the last quarter. The 2006 interim results statement, and various trading statements since then, have flagged the steps taken by management to adapt the UK cost base to meet the changed circumstances, which include a rationalisation of the headcount and a reorganisation of channels and bandwidth. Implementation of these measures took time, as a result of which operating losses continued into the second half of 2006.

2006 Results

Overall, the Group sustained a loss at the EBITDA level before the share option expense for the year ended 31 December 2006 of £3 million (2005: £327,000) and an operating loss before interest and tax of £3.9 million (2005: £728,000). These results take into account depreciation and amortisation charges of £575,000 (2005: £401,000) and an FRS20 option charge of £299,000 (2005: nil). However, there were significant changes in the turnover mix between 2005 and 2006 which are a pointer for the current year. In 2005, 97% of the Group's turnover of £13.2 million came from its UK operations, almost entirely based on telco revenue sharing arrangements. In 2006, UK revenues accounted for 59% of the Group's turnover of £21.9 million. In 2007, as a result of the rapid growth of the Group's international operations, UK revenues are expected to account for about one-third of total turnover.

In 2006, the majority of the overseas revenue came from Europe and South America, which together with Asia are markets with strong revenue and earnings potential in 2007.

The Group continues to develop its new multi-platform user-generated content network, launched as Sumo.TV in October, and in which the Group had invested £440,000 at 31 December 2006. These launch costs were all expensed in 2006 and the Group continues to invest around £80,000 per month, which will also be expensed. The Sumo website (www.sumo.tv) attracted over 2 million unique visitors per month in the first quarter of 2007, and a priority for the Group is to build early revenues from this innovative venture.

A full review of operations in 2006 is set out on pages 3 to 5 of this report.

Funding

The losses experienced during 2006 meant that the Group experienced significant cash outflows which exhausted the cash balances at the start of the year and required additional equity funding of some £1.2 million after expenses in August 2006. In addition, in December 2006, the Group sought further funding for its international expansion and negotiated a convertible loan facility of £1 million, which has been fully drawn down. The Directors believe that the combination of the additional equity and the loan facility is sufficient for the Group's foreseeable requirements.

Outlook

In the first quarter of 2007, the Group saw significant increased revenues and profitability in its South American operations. The UK operations (before taking into account Sumo development costs) are now profitable after taking into account all direct costs. Nevertheless, the Group continues to pursue appropriate cost control measures. The growth and profitability of our Asian operations, particularly in India, remains a priority for 2007. International revenues currently account for over 60% of the total Group's total revenues, and we expect that to continue for the remainder of 2007.

The Group's continued investment in its multi-platform technology and its associated and growing portfolio of TV formats remain a key competitive differentiator. Expanded international distribution based on a growing network of relationships with broadcasters and telecommunication companies should increase economies of scale in respect of both the development and the deployment of the Group's programme assets, and set us on the path to sustainable profitability.

Julian Paul
Chairman

25 May 2007

03 Review of Operations

United Kingdom

In 2006 the Group sought to consolidate its position as a leading provider of participation television programming in the United Kingdom and to build on its strong audience base. However, early in the year the Group suffered an erosion of its margins and a radically changed marketplace following the decision by Sky Digital to reorganise its Electronic Program Guide and introduce new limits on interactive programming.

The changes introduced by Sky in February 2006 re-categorised the diverse group of channels within 'General Entertainment' into more defined sub-sections. Until this time the Group had six channels in the General Entertainment section offering varied 24/7 programming. No longer able to offer a diverse broadcasting schedule for discrete audiences across different dayparts on each of these channels, the Group was forced to assume the cost of additional bandwidth to provide dedicated channels for each component of its diverse programming output. In addition to this increased cost base, the Group also faced reduced revenues from its single remaining channel in the General Entertainment section following Sky's decision to limit General Entertainment channels to three hours of interactive television per day.

Encouragingly, the number of viewers and the traffic generated from their participation in the Group's interactive channels did not fall.

Once the implications of Sky's EPG re-organisation became apparent, the Group took immediate steps to rationalise operating expenses, renegotiate main supplier contracts, and introduce improved cost control management systems. By the end of the year, the UK operations (before Sumo development costs) had returned to profitability after taking into account all direct costs, but before allocation of Group central overheads.

Although the Group has significantly expanded its geographical reach, with international revenues growing from 3% of the Group's revenues in 2005 to 41% in 2006, the UK remains an important component of the Group's growth strategy. It is one of the world's most competitive digital television markets, and from here the Group continues to identify, develop and test profitable new interactive applications and formats for worldwide distribution. Having a substantial portfolio of proven programming lowers the cost of entering new territories and creates the foundation for the Group's continued global expansion.

Sumo.TV

In the second half of 2006, the Group marshalled its expertise in developing multi-platform applications to incubate a new user-generated content (UGC) venture, Sumo.TV, which was soft launched in November. Sumo.TV is the world's first media network to take user-generated content and seamlessly integrate it into TV programming, websites and mobile services. Initially launched on the Sky platform and online in the UK, Sumo.TV has been designed to enable broadcasters around the world to meet the challenges of an environment no longer dominated by television, in which audiences are increasingly switching their viewing time and loyalties to media that deliver community and social networking.

Sumo.TV has attracted strong international interest from broadcasters and mobile operators. It brings together a compelling consumer proposition and a timely solution for broadcasters whose existing business model is under attack. Sumo.TV facilitates user-to-user experiences that extend participation outside television transmission times. Interactive episodic content specially formatted for mobile phones provides further incremental 24/7 revenue opportunities. Short-form video is widely recognised as the digital media content with the highest growth potential over the next five years, and the long-term strategy for Sumo.TV is for the service to become a significant clearing-house and distribution interface for both user-generated and professional short-form multimedia.

Key technologies and discrete applications behind Sumo.TV are already expanding the range of applications and formats that the Group is able to offer to broadcasters. With the Sumo website (www.sumo.tv) attracting over two million visitors per month by the first quarter of 2007, surpassing the web traffic of Channel 5, and the combined traffic of all the MTV brands in the UK, the Group expects to build early revenues from this innovative venture.

International

International operations as a percentage of total revenues grew significantly through 2006. Margins also improved dramatically. Even allowing for the cost of ongoing investment into key new markets, this resulted in the Group's international operations being profitable by the end of the year, before the allocation of Group central overheads.

The Group's international strategy has two strands. The first is the straightforward purchase of airtime from TV broadcasters. In this case, the Group meets the costs of production and airtime, and retains 100% of the income received from the mobile and fixed line operators. The second is based on the Group partnering with broadcasters to co-produce localised versions of our programme formats, with revenue shared between the Group and the broadcaster after the deduction of production costs.

The rapid growth of the Group's international business at relatively low cost is a demonstration of the scalability of its business model, the versatility and simplicity of its technologies, and the ease of localizing its TV formats and applications.

In 2006 the Group focussed on the major developing mobile and broadcast markets of India, South America, South East Asia and China, where the broadcast, telecoms and regulatory environments variously favour both immediate and long-term returns.

India is one of the fastest growing mobile markets in the world and is set to become one of the largest. Over 6 million people buy their first mobile phone every month, but it is a complex environment with significant barriers to entry, not the least of which are the country's 40 principal languages. Cellcast Interactive India was established in November 2005. The company successfully launched its first programme Bid2Win in mid-2006 and continues to trial applications and formats localised in ten languages for the multiple domestic markets. Profitability will be achieved through increasing the number of languages and the expanded distribution opportunities resulting from this. On the back of the successful launch of its Indian subsidiary, the Group entered into partnership in Q4 2006 with Derana TV, one of Sri Lanka's largest terrestrial broadcasters.

South America has always been considered an area with major opportunities for the Group because of the continued rapid growth in mobile penetration coupled with relatively low production and media costs. The Group was the first company to launch interactive services on Telefé, the leading Spanish-language broadcaster in the region, giving it considerable credibility with broadcasters across the continent. The investment in resources and regional relationships through 2006 has started to pay dividends, with the Group seeing significant increased revenues and profitability in its South American operations in the first quarter of 2007.

Early in the year the Group entered into a partnership arrangement with mTouche, a leading South-East Asian mobile entertainment company listed on the Malaysian Stock Exchange. The success of the venture's first participation-TV format on Malaysia's TV3 network led to strong interest from other regional broadcasters, paving the way for future launches in Indonesia and Thailand. Further programmes are in development, and in November 2006 mTouche acquired a 7.26% strategic stake in Cellcast plc.

China is the world's largest mobile phone market and continues to offer revenue opportunities for the Group's applications and programming, within a media environment subject to uncertain regulatory changes. In 2006 the Group entered into partnership with Shenzhen New Power Technology Limited to develop and distribute interactive television entertainment for the Chinese market, particularly in Guangdong Province and in Shanghai. Overall, the Group is concentrating its resources on supporting the expansion of digital cable networks across China and is looking to syndicate its output to broadcasters and mobile operators.

Proprietary technology

The Group continues to build on its reputation as a pioneer of innovative new multi-platform formats and as a leading developer of interactive and participation media.

In 2006 the technology arm of the Group completed the design and architecture of its proprietary Media Delivery Platform (MDP), and designed and built the Cellcast Content Management System to support content delivery across television, mobile phones and the Internet.

In step with the worldwide growth of 3G deployments, the Group completed the integration of inbound 3G mobile calls into its proprietary Interactive Platform (CIP) and added a 3G3D module that enables 3G videos to be mapped directly onto 3D avatars in the live environment. This will usher in a new style of participation television formats where the user not only interacts from home but appears within the show itself.

The Group's multi-platform gaming proposition, based on the delivery of its programmes to machine terminals in pubs across the UK, successfully completed technical trials in 2006. Gamestech and Inspired Gaming, who together control a majority of UK sites, have approved distribution of the first of a range of the Group's interactive programmes.

The Group's immediate technology-related goals include the merging and consolidation of its delivery platforms (CIP, MDP, Sumo), and the utilisation of fibre ring for channel delivery over satellite and broadband/IPTV. The Group is also realising new ways of monetising its investment in its proprietary technology outside its own broadcast operations and is reviewing opportunities to license its multi-media platforms and applications as white label broadcast solutions.

Outlook for 2007

Having moved quickly to reorganise and restore the returns from its Sky channels, the Group is confident that its UK operations are now on the path to sustainable profitability. In 2007 the focus is on building brands with the Group's TV channels, on broadening the revenue base through leveraging new content distribution opportunities such as 3G, and offering a wider range of payment options for our customers. In this context it is worth noting that the recent introduction of credit card billing across a range of services is already generating significant incremental business.

Our considerable experience of integrating new technologies and new communication channels, together with our expertise in the provision of micro-billing solutions, ensure that the Group will continue to develop new products and services that capture opportunities arising from the growth of 3G, IPTV, enhanced broadband, video mobile and wireless broadband services worldwide.

With the Group's UK operations now stabilised, and international operations generating a majority of revenues on the back of strategic investments in high growth media markets, the Group looks forward to 2007 with renewed confidence in the efficacy of its business model.

Andrew Wilson
Cheif Executive Officer

25 May 2007

Bertrand Folliet
Cheif Operating Officer

25 May 2007

Directors and Advisers 06

Julian Paul FCA
Non-Executive Chairman

Julian Paul (62) is a chartered accountant who subsequently spent nearly 20 years as a commercial and merchant banker. Since 1991 he has held several senior positions with companies in the media and entertainment sector, including Castle Communications plc and Tele-Cine Cell Group plc. He is currently deputy chairman of Eagle Rock Entertainment Limited, of which he was a founder shareholder. He is also a non-executive director of Entertainment Rights plc, Inspired Gaming Group plc, Pilat Media Global plc, Stagecoach Theatre Arts plc, Ekay plc and Edge Performance VCT plc.

Andrew Wilson
Chief Executive Offficer

Andrew Wilson (46) co-founded Cellcast in 2002. With 20 years experience in the telecoms and information industries, he enjoys a proven track record of building innovative international businesses in related telecoms, broadcasting and new media sectors. Most recently, he has played a leading industry role in driving the global success of value-added services such as SMS and the monetization of digital content. Before co-founding Cellcast, he served as an executive director of the Tokyo based Jasdaq-listed e-Lux Corporation, and was chief executive officer of the publicly listed Hong Kong company e-New Media. Prior to this he was a director of the international telemedia services provider VISL, and joint managing director of Marketing Solutions, a subsidiary of DDB Needham.

Bertrand Folliet
Chief Operating Officer

Bertrand Folliet (41) co-founded Cellcast in 2002. He has many years experience in the telecoms, digital content and multimedia industries, and a successful record of building profitable businesses providing value-added billing and distribution services in the international telecom sector. Before co-founding Cellcast, he served as an executive director of the Tokyo based Jasdaq-listed e-Lux Corporation and was the chief operating officer of e-Lux Corporation's key operating subsidiary in Hong Kong. Prior to this he was president of the publicly listed Hong Kong company e-New Media. He also served as managing director of e-New Media subsidiary New Media Corporation and was director of operations of company's predecessor, VISL. Before joining VISL, he was senior vice president of Matra-Hachette Multimedia On-line. Bertrand Folliet holds a PhD in Management.

Emmanuelle Guicharnaud
Chief Financial Officer and Company Secretary

Emmanuelle Guicharnaud (34) spent four years as a management consultant for Pricewaterhouse Coopers. In 1999 she joined a privately held chain of hotels with the responsibility of evaluating new acquisitions. In 2000 she relocated to the UK and took up a position as the financial controller of m-Quest, a telecoms company providing value added telephony and SMS solutions that was subsequently acquired by Monstermob plc. She joined Cellcast as financial controller in 2002. Emmanuelle holds a DECF (Accountancy and Finance Diploma) from an International Business School (ESC).

Mike Neville
Non-Executive Director

Michael Neville (52) has extensive experience in capital markets and is a director of a number of public and private companies. He is currently chairman of Minmet plc, an AIM company. His background is in the telecommunications, technology and media arena, where he has worked for the last 17 years specialising in strategy, mergers and acquisitions, and turn around situations. He has worked for companies such as Cable & Wireless, United Utilities, Ozemail Interline Pty and OnCue Telecommunications Limited, where he has been involved in large and small scale fund raisings as well as numerous merger and acquisitions transactions in various parts of the world.

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5342882

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07 Corporate Governance

The company is committed to high standards of corporate governance. The board is accountable to the company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the company.

The workings of the board and its committees

The Board

The board currently comprises the non-executive chairman, the chief executive officer, the chief operating officer, the chief financial officer, and one other independent non-executive director. Concerns relating to the executive management of the company or the performance of the other non-executive director may be raised with the non-executive chairman. Their biographies appear on page 6. These demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct, which is vital to the success of the company. The board is responsible to the shareholders for the proper management of the company. A statement of the directors' responsibilities in respect of the accounts is set out on page 11 and a statement of going concern is given on page 10.

All directors have access to the advice and services of the company secretary, who is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The appointment and removal of the company secretary is a matter for the board as a whole.

The board meets regularly, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy and examining major acquisitions and possibilities. The non-executive directors have a particular responsibility to ensure that the strategies proposed by the executive directors are fully considered. To enable the board to discharge its duties, all directors receive appropriate and timely information. Briefing papers are distributed by the company secretary to all directors in advance of board meetings. The chairman ensures that the directors take independent professional advice as required.

The following committees deal with the specific aspects of the company's affairs:

Nomination committee

The nomination committee comprises Julian Paul and Mike Neville, and is chaired by Julian Paul. The committee is responsible for proposing candidates for appointment to the board, having regard to the balance and structure of the board. In appropriate cases, recruitment consultants may be used to assist the process.

Remuneration committee

The remuneration committee comprises Julian Paul and Mike Neville, and is chaired by Julian Paul. It is responsible for making recommendations to the board, within agreed terms of reference, on the company's framework of executive directors' remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the executive directors, including share options, pension rights and compensation payments. The board itself determines the remuneration of the non-executive directors.

Audit committee

The audit committee comprises Julian Paul and Mike Neville, and is chaired by Julian Paul. The committee meets not less than twice annually. The committee provides a forum for reporting by the company's external auditors. Meetings are also attended, by invitation, by the chief executive officer or the chief financial officer. The audit committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the board and monitoring the controls which are in force to ensure integrity of the information reported to the shareholders. The audit committee advises the board on the appointment of external auditors and their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors. A formal statement of Independence is received from the external auditors each year.

Relations with shareholders

The board recognises the importance of communications with shareholders. The Chairman's Statement and Review of Operations include a detailed review of the business and future developments. There is a regular dialogue with institutional shareholders including presentations after the company's preliminary announcement of the year end results and at the half year.

The board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation.

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Management structure
The board has overall responsibility for the company. Each director has been given responsibility for specific aspects of the company's affairs. The executive directors meet with senior executives and divisional management regularly, to discuss day-to-day operational matters.

Finance and accounting principles
The directors and senior accounts staff are well aware of the financial and accounting policies and procedures applied throughout the company. The directors seek to comply with best practice when selecting accounting policies and preparing the accounts. The impact of new accounting policies is reviewed when they are introduced and discussed with external financial advisers, if neccessary, in order to obtain a fuller understanding.

Quality and integrity of personnel
The integrity and competence of personnel is ensured through high recruitment standards and subsequent training. High quality personnel are seen as an essential part of the control environment and the ethical standards expected are communicated through the corporate culture

Identification of business risks
The board is responsible for identifying the major business risks faced by the company and for determining the appropriate course of action to manage those risks.

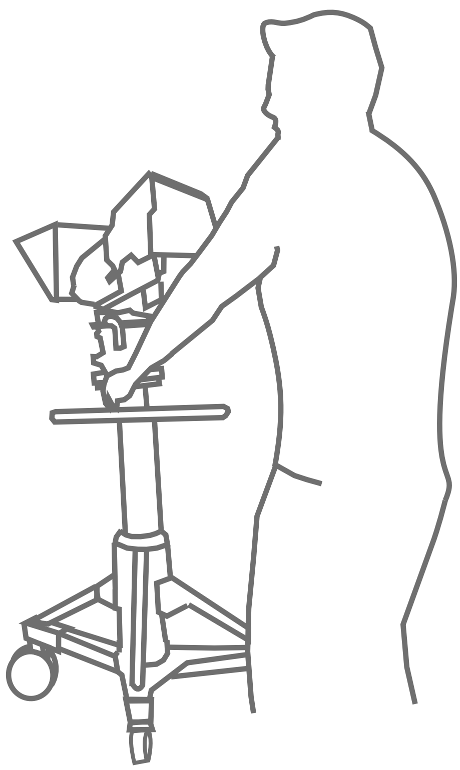
Budgetary process
Each year the board approves the annual budget. Key areas are identified. Performance is monitored and relevant action is taken throughout the year through the monthly reporting to the board of variances from the budget, together with updated forecasts for the year and information on the key risk areas.

Investment appraisal
Capital expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels detailed written proposals have to be submitted to the board. Reviews are carried out after an acquisition is complete, and for some projects, during the acquisition period, expenditure is monitored and major overruns investigated.

Due diligence work is carried out if a business is to be acquired.

Internal audit
Given the size of the company, the relative simplicity of the systems and the close involvement of senior management, the board considers that there is no current requirement for an internal audit function. This will be kept under review.

Going concern
Having made appropriate enquiries and having examined the major areas which could affect the company's financial position, the directors are satisfied that the company has adequate resources to continue in operation for the foreseeable future. Accordingly they consider it appropriate to adopt the going concern basis in preparing the financial statements.



09

Directors' Report

for the year ended 31 December 2006

The directors present their report and consolidated financial statements for the year ended 31 December 2006.

Directors

The following directors have held office since 1 January 2006:

Julian Paul FCA (Chairman)
Andrew Wilson
Bertrand Folliet
Mike Neville
Emmanuelle Guicharnaud

Principal activities and review of the business

The principal activity of the group was that of the provision of services in the telecommunications industry.

The review of the group's activities and performance for the year and its prospects for 2007 is contained in the Chairman's Statement on pages 1 - 2 and the Review of Operations on pages 3 - 5. These deal with the business risks facing the company.

Results and dividends

The consolidated profit and loss account for the year is set out on page 13. No dividend is proposed (2005: Nil).

Key performance indicators

The directors monitor the performance of the business through various key performance indicators (KPIs), of which the principal ones are profitability by programme and by territory, gross profit margins by programme and by territory, and overall group profitability at the EBITDA and operating profit level.

Group research and development activities

During the year the group concentrated its development activities on programme format and platform development.

Post balance sheet events

In January 2007, the company entered into a convertible loan agreement of up to £1 million with the Headstart Funds. The facility was available for a term of two years, with interest payable at a rate of 8 per cent per annum. Headstart has the option to convert any part of the loan which is outstanding into equity at any time for a period of 360 days from the date that the relevant tranche of the loan was made available. Headstart has been issued with five year warrants in respect of 1,000,000 Ordinary Shares of 3 pence each at an exercise price of 8 pence per share.

The company has also issued 355,555 new Ordinary Shares of 3 pence each to Headstart at a price of 8 pence per share as part of the agreement.

By 16 May 2007, the company had fully drawn down the £1 million facility.

Directors' interests

The directors' interests in the shares of the company and other group companies were as stated below:

Cellcast plc		Ordinary shares of 3p each
	31 December 2006	1 January 2006
Andrew Wilson	2,897,997	2,875,497
Bertrand Folliet	2,897,997	2,875,497
Mike Neville	-	-
Emmanuelle Guicharnaud	357,403	349,903
Julian Paul	-	-

Substantial shareholdings

Other than the directors' interests shown above, the company has been notified of the following substantial interests as at 10 May 2007.

	Shareholding %	Ordinary shares of 3p each as at 10 May 2007
SMS Media Limited	15.62	9,680,062
Atlas Group of Companies Limited	13.95	8,645,635
Neil Craven	10.89	6,748,014
mTouche Technology Berhad	7.26	4,500,000
Hoodless Brennan Market Maker	4.67	2,896,460
Hoodless Brennan & Partners	4.29	2,659,800
Sardik Limited	3.22	1,992,662

Share Capital

Details of share capital are given in note 18 to the financial statements.

Share Options

The following EMI options, save those granted to Mike Neville, Julian Paul and Bertrand Folliet which are Unapproved Options, over the Ordinary shares of 3 pence each have been granted to the directors.

Directors share options	Option price £	Number granted	Date of grant
Andrew Wilson	0.710	56,338	15 September 2005
Bertrand Pierre Folliet	0.715	56,338	15 September 2005
Emmanuelle Guichamaud	0.710	98,591	15 September 2005
Julian Paul	0.715	70,423	15 September 2005
Michael Neville	0.715	7,042	15 September 2005

There have been no changes in the number of options held by the directors since they were granted.

Directors Insurance

Directors’ and officers’ liability insurance is held by the group.

Creditor payment policy

The company policy is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment policy whereby all outstanding trade accounts are settled within the term agreed with the supplier at the time of the supply or otherwise 30 days from receipt of the relevant invoice. Trade creditor days based on creditors at 31 December 2006 were 77 days (2005: 55 days).

Going concern

Having made appropriate enquiries and having examined the major areas which could affect the company's financial position, the directors are satisfied that the company has adequate resources to continue in operation for the foreseeable future. Accordingly they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Directors' Report

continued

for the year ended 31 December 2006

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the annual report includes information required by the AIM rules.

The directors are responsible for the maintenance and integrity of the Cellcast plc website. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure to Auditor

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

By order of the board

Emmanuelle Guicharnaud
Secretary

25 May 2007

Independent Auditors' Report

To the Shareholders of Cellcast plc

We have audited the group and company financial statements of Cellcast plc for the year ended 31 December 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Company's Balance Sheet, the Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, whether the financial statements are properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 December 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Baker Tilly UK Audit LLP

Baker Tilly UK Audit LLP
Chartered Accountants
Registered Auditors

25 May 2007
2 Bloomsbury Street
London WC1B 3ST

Consolidated Profit and Loss Account

for the year ended 31 December 2006

	Notes	2006 £	2005 £
Turnover	2	21,977,972	13,186,663
Cost of Sales		(18,211,533)	(11,361,484)
Gross profit		3,766,439	1,825,179
Administrative expenses		(6,817,914)	(2,152,528)
Depreciation & amortisation		(575,159)	(400,908)
		(7,393,073)	(2,553,436)
Other operating income		31,209	-
FRS 20 charge - share option expense		(298,895)	-
Operating loss	3	(3,894,320)	(728,257)
Loss on disposal of subsidiaries		-	(35,726)
Loss on ordinary activities before interest		(3,894,320)	(763,983)
Other interest receivable and similar income		32,217	42,226
Interest payable and similar charges	4	(6,872)	(2,683)
Loss on ordinary activities before taxation		(3,868,975)	(724,440)
Tax on loss on ordinary activities	6	64,798	-
Loss on ordinary activities after taxation		(3,804,177)	(724,440)
Loss attributable to minority interests		30,684	-
Loss for the financial year	7	(3,773,493)	(724,440)
Loss per share			
Basic and diluted	5	(11.6)p	(3.2)p

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

Balance Sheets

as at 31 December 2006

	Notes	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Fixed assets					
Intangible assets	8	656,050	611,695	-	-
Tangible assets	9	1,108,507	858,458	-	-
Investments	10	4,933	4,933	639,087	639,087
		1,769,490	1,475,086	639,087	639,087
Current assets					
Stock and work in progress	11	38,984	-	-	-
Debtors	12	7,081,715	2,778,267	5,491,007	1,958,217
Cash at bank and in hand		135,677	2,696,180	581	2,328,393
		7,256,376	5,474,447	5,491,588	4,286,610
Creditors: amounts falling due within one year	13	(7,267,559)	(2,852,147)	-	-
Net current (liabilities)/assets		(11,183)	2,622,300	5,491,588	4,286,610
Total assets less current liabilities		1,758,307	4,097,386	6,130,675	4,925,697
Creditors: amounts falling due after more than one year	14	(70,202)	(122,278)	-	-
		1,688,105	3,975,108	6,130,675	4,925,697
Capital and reserves					
Called up share capital	18	1,331,619	850,407	1,331,619	850,407
Share premium account	19	4,775,743	4,038,676	4,775,743	4,038,676
Merger reserve	19	1,300,395	1,300,395	-	-
Profit and loss account	19	(5,688,968)	(2,214,370)	23,313	36,614
Shareholders' funds - equity interests	21	1,718,789	3,975,108	6,130,675	4,925,697
Minority interests	20	(30,684)	-	-	-
		1,688,105	3,975,108	6,130,675	4,925,697

The financial statements were approved and authorised for issue by the board on 25 May 2007.

Julian Paul
Director

Bertrand Folliet
Director

15 Consolidated Cash Flow Statement

for the year ended 31 December 2006

	2006		2005	
	£	£	£	£
Net cash outflow from operating activities		(3,317,735)		(669,985)
Returns on investments and servicing of finance				
Interest received	32,217		42,226	
Interest paid	(6,872)		(2,683)	
Net cash inflow for returns on investments and servicing of finance		25,345		39,543
Taxation		70,097		(7,053)
Capital Expenditure				
Payments to acquire intangible assets	(138,393)		(294,674)	
Payments to acquire tangible assets	(563,451)		(804,384)	
Net cash outflow for capital expenditure		(701,844)		(1,099,058)
Acquisitions and disposals				
Proceeds on disposal of subsidiary undertaking	-		2	
Cash on disposal of subsidiary undertaking	-		(212,548)	
Net cash outflow for acquistions and disposals		-		(212,546)
Net cash outflow before management of liquid resources and financing		(3,924,137)		(1,949,099)
Financing				
Issue of ordinary share capital	1,283,220		5,001,248	
Cost of share issue	(64,940)		(751,244)	
Issue of shares	1,218,280		4,250,004	
Capital element of hire purchase contracts	(43,799)		(15,364)	
Decrease in debt	(43,799)		(15,364)	
Net cash inflow from financing		1,174,481		4,234,640
(Decrease)/ increase in cash in the year		(2,749,656)		2,285,541

1 Reconciliation of operating loss to net cash outflow from operating activities

	2006 £	2005 £
Operating loss	(3,894,320)	(728,257)
Depreciation of tangible assets	479,306	331,262
Amortisation of intangible assets	95,853	69,646
Loss on disposal of fixed assets	-	6,638
Share-based payments charge	298,895	-
(Increase)/decrease in stocks	(38,984)	-
Increase in debtors	(4,218,750)	(2,386,412)
Increase in creditors	3,960,265	2,037,138
Net cash outflow from operating activities	(3,317,735)	(669,985)

2 Analysis of net (debt)/funds

	1 January 2006 £	Cash flow £	Other non-cash changes £	31 December 2006 £
Net cash:				
Cash at bank and in hand	2,696,180	(2,560,503)	-	135,677
Bank Overdrafts	-	(189,153)	-	(189,153)
	2,696,180	(2,749,656)	-	(53,476)
Finance leases	(8,744)	43,798	(167,719)	(132,665)
Net funds/(debt)	2,687,436	(2,705,858)	(167,719)	(186,141)

3 Reconciliation of net cash flow to movement in net debt

	2006 £	2005 £
(Decrease)/increase in cash in the year	(2,749,656)	2,285,541
Finance lease	43,798	15,364
Change in net debt resulting from cash flows	(2,705,858)	2,300,905
New Finance lease	(167,719)	-
Movement in net (debt)/funds in the year	(2,873,577)	2,300,905
Opening net funds	2,687,436	386,531
Closing net (debt)/funds	(186,141)	2,687,436

Notes to the Consolidated Financial Statements

for the year ended 31 December 2006

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The accounts have been prepared on a going concern basis. The directors have considered the business projections, which include detailed cash flow forecasts for 2007 and 2008 and are confident that the group has adequate resources to continue in operational existence for the foreseeable future.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards.

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2006.

Acquisitions of subsidiaries are dealt with by the acquisition method of accounting except for those qualifying as group reconstructions where merger accounting is permitted.

1.4 Revenue recognition

Revenue is measured at the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

1.5 Licences

Licence costs are capitalised and amortised over their relevant finite licence period on a straight line basis.

1.6 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is capitalised and amortised over the five year period.

1.7 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

- Broadcasting equipment 20% to 50% straight line
- Computers, fixtures and fittings 20% to 50% straight line

1.8 Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

1.9 Investments

Fixed asset investments are stated at cost less provision for diminution in value.

1.10 Stock and work in progress

Stock and work in progress is valued at the lower of cost and net realisable value.

1.11 Pensions

The Group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

1 Accounting policies *continued*

1.12 Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that resulted in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains or losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

1.13 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

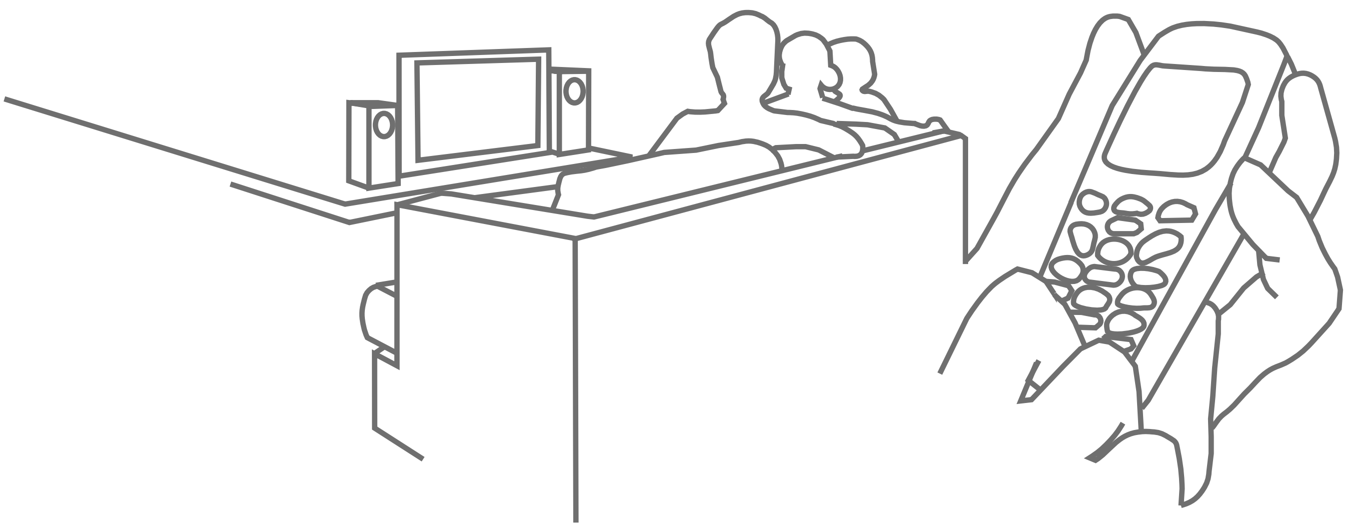
Financial statements of overseas subsidiaries are translated at the rate ruling at the balance sheet date. Exchange differences are dealt with through reserves.

1.14 Share based payments

The group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The expense is recognised as a staff cost and the associated credit entry is made against equity.

1.15 Borrowing costs

Borrowing costs are recognised as an expense in the period when they are incurred.



2 Turnover

The total turnover of the group for the year has been derived from its principle activity.

Segmental analysis geographical area

	2006 £	2005 £
Geographical segment		
UK	12,900,563	12,818,587
Continental Europe	6,889,485	14,255
Indian Sub-continent	748,883	23,628
Asia	270,746	-
South America	1,168,295	330,193
	21,977,972	13,186,663

All turnover arose from the rendering of services.

Loss before interest and taxation

	2006 £	2005 £
Geographical segment		
UK	(3,414,667)	552,283
Continental Europe	141,765	24,412
Indian Sub-continent	(241,743)	198,104
Asia	(367,497)	-
South America	(12,178)	(10,814)
	(3,894,320)	763,985

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Net assets

	2006 £	2005 £
Geographical segment		
UK	603,489	2,622,300
Continental Europe	130,426	-
Indian Sub-continent	(596,501)	-
Asia	(38,317)	-
South America	(110,280)	-
	(11,183)	2,622,300

3 Operating loss

	2006 £	2005 £
Operating loss is stated after charging:		
Amortisation	95,853	69,646
Depreciation of tangible assets - owned assets	434,798	315,033
Depreciation of assets held under finance lease or hire purchase contracts	44,508	16,229
Loss on disposal of tangible assets	-	6,638
Loss on foreign exchange transactions	5,828	2,639
Research and development	921,312	-
Auditors' remuneration (company and associates audit services)	30,000	20,000
Remuneration of auditors for services in relation to corporate finance transactions	31,000	-

Included within auditors' remuneration for audit services is £16,000 (2005: £11,000) relating to subsidiaries of the company

4 Interest Payable

	2006 £	2005 £
On bank loans and overdrafts	2	-
Hire purchase interest	6,870	2,683
	6,872	2,683

5 Earnings per share

The calculation of the basic loss per share is based on the loss attributable to ordinary equity shareholders of £3,773,493 (2005: £724,440) divided by the weighted average of 32,609,687 (2005:22,891,724) ordinary shares in issue.

Due to the loss incurred in the year, there is no dilution effect from the issued share options.

6 Taxation

	2006 £	2005 £
Foreign corporation tax		
Foreign corporation tax	19,900	-
Current tax charge	19,900	-
Deferred tax		
Origination and reversal of timing differences	(84,698)	-
	(64,798)	-

Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(3,868,975)	(724,440)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2005: 30:00%)	(1,160,693)	(217,332)
Effects of:		
Non deductible expenses	23,884	(18,431)
Depreciation add back	154,212	-
Capital allowances in excess of depreciation	(2,685)	(2,307)
Tax losses carried forward	796,434	238,071
Foreign tax adjustments	167,196	-
Share-based payments charge	89,669	-
Other tax adjustments	(48,118)	-
	1,180,592	217,333
Current tax charge	19,900	-

The company has estimated losses of £ 3,810,000 (2005: £ 1,785,000) available for carry forward against future trading profits.

No provision has been made for deferred tax assets as there is no certainty that future profits will be available to offset these losses.

7 Loss for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The loss for the financial year is made up as follows:

	2006 £	2005 £
Holding company's (loss)/ profit for the financial year	(13,301)	36,614

8 Intangible assets

Group

	Licences £	Development Costs £	Total £
Cost			
At 1 January 2006	594,674	100,000	694,674
Additions	120,851	19,357	140,208
As at 31 December 2006	715,525	119,357	834,882
Amortisation			
At 1 January 2006	49,646	33,333	82,979
Charge for the year	70,902	24,951	95,853
As at 31 December 2006	120,548	58,284	178,832
Net book value			
At 31 December 2006	594,977	61,073	656,050
At 31 December 2005	545,028	66,667	611,695

9 Tangible fixed assets

Group

	Computing £	Broadcasting Equipment £	Fixtures, fittings & equipment £	Total £
Cost				
At 1 January 2006	109,495	1,225,267	-	1,334,762
Additions	64,575	625,847	38,815	729,237
As at 31 December 2006	174,070	1,851,114	38,815	2,063,999
Depreciation				
At 1 January 2006	47,563	428,741	-	476,304
Charge for the year	12,934	460,874	5,380	479,188
As at 31 December 2006	60,497	889,615	5,380	955,492
Net book value				
At 31 December 2006	113,573	961,499	33,435	1,108,507
At 31 December 2005	61,932	796,526	-	858,458

Incuded above are assets held under finance leases or hire purchase contracts as follows:

	Fixtures, fittings & equipment £	Total £
Net book values		
As at 31 December 2006	214,861	214,861
As at 31 December 2005	25,694	25,694
Depreciation charge for the year		
As at 31 December 2006	44,508	44,508
As at 31 December 2005	16,229	16,229

10 Financial assets - investments

Group

	Shares in group and related undertakings
Cost	
At 1 January 2006 & at 31 December 2006	4,933

Company

	Shares in group and related undertakings
Cost	
At 1 January 2006 & at 31 December 2006	639,087

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

At 31 December 2006 Cellcast plc owned 100% of the issued share capital in Cellcast UK Limited, a company incorporated in the UK.

At 31 December 2006 Cellcast UK Limited owned the following interests in related companies:

Company		Shares held	
Subsidiary undertakings	Country of registration or incorporation	Class	%
Start TV Limited	UK	Ordinary	100
Cellcast TV SA	Argentina	Ordinary	51
Cellcast Television China Limited	UK	Ordinary	80
Cellcast India Holdings Limited	Mauritius	Ordinary	100
TOV Cellcast Ukraine	Ukraine	Ordinary	85
Cellcast Brasil Communicação Ltda	Brazil	Ordinary	51
Cellcast Mobilité SEP	France	Ordinary	51
Cellcast International Limited	UK	Ordinary	100
Gamecast UK Limited	UK	Ordinary	100
TV You! Limited	UK	Ordinary	100
Cellcast France	France	Ordinary	20

10 Fixed asset investments

The principal activity of these undertakings for the last relevant financial year was as follows:

Start TV Limited	Television broadcasting activities
Cellcast TV SA	Television broadcasting activities
Cellcast Television China Limited	Television broadcasting activities
Cellcast India Holdings Limited	Television broadcasting activities
TOV Cellcast Ukraine	Television broadcasting activities
Cellcast Brasil Communicação Ltda	Television broadcasting activities
Cellcast Mobilité SEP	Television broadcasting activities
Cellcast International Limited	Television broadcasting activities
Gamecast UK Limited	Television broadcasting activities
TV You! Limited	In liquidation
Cellcast France	Television broadcasting activities

In addition, Cellcast India Holdings Limited owned 100% of the issued ordinary share capital of Cellcast Interactive India Private Limited, a company incorporated in India whose principal activity is television broadcasting activities.

Cellcast Television China Limited owned 100% of the issued ordinary share capital of Cellcast China Limited, a company incorporated in Hong Kong whose principal activity is television broadcasting activities.

Cellcast International Limited owned 51% of the issued ordinary share capital of Cellcast SEA Limited, a company incorporated in Hong Kong whose principal activity is television broadcasting activities.

11 Stock and work in progress

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Work in progress	38,984	-	-	-

12 Debtors

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Trade debtors	5,212,104	1,541,593	-	-
Amounts owed by group undertakings	-	-	-	1,951,991
Other debtors	526,812	106,029	5,484,781	-
Prepayments and accrued income	1,258,101	1,130,645	6,226	6,226
Deferred tax asset (see note 15)	84,698	-	-	-
	7,081,715	2,778,267	5,491,007	1,958,217

Amounts falling due after more than one year and included in the debtors above are:

	2006 £	2005 £	2006 £	2005 £
Deferred tax asset	84,698	-	84,698	-

13 Creditors: amounts falling due within one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Bank overdraft	189,153	-	-	-
Net obligations under hire purchase	62,463	8,744	-	-
Trade creditors	5,778,883	2,552,602	-	-
Corporation tax	89,997	-	-	-
Other taxes and social security costs	512,281	260,288	-	-
Other creditors	106,880	-	-	-
Accruals and deferred income	527,902	30,513	-	-
	7,267,559	2,852,147	-	-

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Net obligations under finance leases and hire purchase agreements	70,202	-	-	-
Other creditors	-	122,278	-	-
	70,202	122,278	-	-

Amounts due under hire purchase agreements are secured on related assets.

Net obligations under finance leases and hire purchase contracts

Repayable within one year	62,463	8,744	-	-
Repayable between one and five years	70,202	-	-	-
	132,665	8,744	-	-
Included in liabilities falling due within one year	(62,463)	(8,744)	-	-
	70,202	-	-	-

15 Provisions for liabilities and charges

The deferred tax asset (included in the debtors, note 12) is made up as follows:

	Group	Company
	2006 £	2006 £
Profit and loss account	(84,698)	-

	Group		Company	
	2006 £	2005 £	2006 £	2005 £
Decelerated capital allowances	(84,698)	-	-	-

16 Pension costs

Defined contribution

	2006 £	2005 £
Contributions payable by the group for the year	29,340	2,229

17 Share-based payment transactions

Group and company

During the year ended 31 December 2006 the company had share-based payment arrangements which are described below.

EMI share option plan

Date of grant	10/10/2005	15/05/2006	10/10/2006
Number granted	1,142,238	69,999	774,999
Contractual life	10 years	10 years	10 years
Estimated fair value per option -Tranche 1	£0.26	£0.29	£0.04
Estimated fair value per option -Tranche 2	£0.29	£0.34	£0.04
Estimated fair value per option -Tranche 3	£0.32	£0.38	£0.05
Vesting conditions	None	None	None

General share option plan

Date of grant	15/09/2005	04/04/2006	15/05/2006	10/10/2006
Number granted	535,206	17,391	110,000	324,999
Contractual life	10 years	10 years	10 years	10 years
Estimated fair value per option -Tranche 1	£0.31	£0.44	£0.35	£0.04
Estimated fair value per option -Tranche 2	£0.36	£0.51	£0.40	£0.05
Estimated fair value per option -Tranche 3	£0.39	£0.56	£0.40	£0.05
Vesting conditions	None	None	None	None

The estimated fair values were calculated by applying a binomial option pricing model. The model inputs were:

EMI share option plan

Date of grant	10/10/2005	15/05/2006	10/10/2006
Share price at grant date	£0.71	£0.685	£0.08
Exercise price	£0.71	£0.685	£0.08
Contractual life	10 years	10 years	10 years
Expected volatility	80%	80%	80%
Expected dividends	Nil	Nil	Nil
Risk-free interest rate	4.22%	4.62%	4.53%
Sub-optimal coefficient	1.7	1.7	1.7
Forfeiture rate	27% and 30%	15%	10%

General share option plan

Date of grant	15/09/2005	04/04/2006	15/05/2006	10/10/2006
Share price at grant date	£0.715	£0.8625	£0.685	£0.08
Exercise price	£0.715	£0.8625	£0.685	£0.08
Contractual life	10 years	10 years	10 years	10 years
Expected volatility	80%	80%	80%	80%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.16%	4.37%	4.62%	4.53%
Sub-optimal coefficient	1.7	1.7	1.7	1.7
Forfeiture rate	15%	0	0% and 10%	0%

The assumed volatility rate was based on an average of comparable listed companies over a period commensurate to the terms of the options.

Further details of share options in issue during the year are as follows:

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January 2006	1,677,444	0.71	-	-
Granted during the year	1,297,389	0.17	1,705,614	0.71
Forteited during the year	342,386	0.71	28,170	0.71
Exercised during the year	-	-	-	-
Outstanding at 31 December 2006	2,632,447	0.45	1,677,444	0.71
Exercisable at 31 December 2006	448,352	0.71	-	-

The share options outstanding at the end of the year have an exercise price of between £0.08 and £0.8625, with a weighted average remaining contractual life of 9.9 years.

The total expense arising from share-based payment transactions is as follows:

	2006 £	2005 £
Equity-settled share-based payment transactions	298,895	-

18 Share capital

Authorised

	2006 £	2005 £
50,000,000 Ordinary shares of 3p each	1,500,000	1,000,000

Allotted, called up and fully paid

	2006 £	2005 £
44,387,300 Ordinary shares of 3p each	1,331,619	850,407

On 25 September 2006 the company issued 16,040,384 Ordinary shares of 3 pence each for cash consideration of 8 pence each to raise additional working capital.

Share option schemes
The company has established five share option schemes in the current year, three Share Option Plans and two EMI Schemes. Under the rules of the schemes the number of shares under option at any one time will not exceed more than 10% of the company's issued share capital from time to time.

EMI Options and Unapproved Options (together the "Options") have been granted over 1,592,453 ordinary shares in aggregate to directors, staff, consultants and independent contractors under the schemes exercisable at the placing and representing approximately 6% of the enlarged issued share capital. There are no performance conditions required for the exercise of the options in respect of the grants referred to in this paragraph.

On 4 April 2006 the company granted 17,391 share options under the Share Option Plan exercisable at 86.25 pence each.

On 15 May 2006 the company granted 70,000 share options under the EMI Scheme exercisable at 68.5 pence each and also granted 110,000 share options under the Share Option Plan also exercisable at 68.5 pence each.

On 10 October 2006 the company granted 775,000 share options under the EMI Scheme exercisable at 8 pence each and 324,999 share options under the Share Option Plan also exercisable at 8 pence.

All shares issued on exercise of option shall rank pari passu in all respects with the company's existing shares, save that the shares issued will not rank for any dividends or other distributions declared or recommended prior to the date when the option is exercised.

The options will each vest and thereby become exercisable in respect of one third of the total number of ordinary shares under option on each of the first, second and third anniversaries of the date of grant, at the placing price, with no performance conditions a requirement of the exercise. All options will lapse on the tenth anniversary of grant.

19 Statement of movements on reserves

Group

	Share premium account £	Merger reserve £	Profit and Loss account £
Balance at 1 January 2006	4,038,676	1,300,395	(2,214,370)
Retained loss for the year	-	-	(3,773,493)
Share-based payments charge	-	-	298,895
Premium on shares issued during the year	802,007	-	-
Share premium - other movements	(64,940)	-	-
Balance at 31 December 2006	4,775,743	1,300,395	(5,688,968)

Company

	Share premium account £	Profit and Loss account £
Balance at 1 January 2006	4,038,676	36,614
Retained loss for the year	-	(13,301)
Premium on shares issued during the year	802,007	-
Share premium - other movements	(64,940)	-
Balance at 31 December 2006	4,775,743	23,313

20 Minority Interests

	2006 £	2005 £
Minority interests' share of net assets and liabilities in subsidiary undertakings	(£30,684)	-

21 Reconciliation of movement in shareholders' funds
Group

	2006 £	2005 £
Loss for financial year	(3,773,493)	(724,440)
Proceeds from issue of shares	1,283,220	5,001,240
Conversions of loans to share capital	-	163,000
Cost of share issue written off to share premium account	(64,940)	(751,244)
Share-based payments charge	298,895	-
Net (depletion in)/addition to shareholders' funds	(2,256,318)	3,688,556
Opening shareholders' funds	3,975,108	286,552
Closing shareholders' funds	1,718,789	3,975,108

Company

	2006 £	2005 £
(Loss)/profit for the financial year	(13,301)	36,614
Proceeds from issue of shares	1,283,219	5,001,240
Arising on share restructure with Cellcast UK Limited	-	639,087
Cost of share issue written off to share premium account	(64,940)	(751,244)
Net addition to shareholders' funds	1,204,978	4,925,697
Opening shareholders' funds	4,925,697	-
Closing shareholders' funds	6,130,675	4,925,697

22 Directors' emoluments

	2006 £	2005 £
Emoluments for qualifying services	332,330	134,199
Pension contributions	18,920	180
	351,250	134,379

The number of directors for whom retirement benefits are accruing under money purchase pension schemes amounted to 2 (2005:2)

	2006 £	2005 £
Highest paid director - Emoluments	100,000	100,000
Pension contributions	11,000	180
	111,000	100,180

23 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2006 £	2005 £
	97	41

Employment costs

	2006 £	2005 £
Wages and Salaries	2,121,895	1,346,997
Social security costs	218,430	146,824
Other pension costs	29,340	2,229
Share option expenses	298,895	-
	2,668,560	1,496,050

24 Financial instruments

The group's financial instruments comprise cash and various other financial instruments such as trade debtors and trade creditors. As all of the group's financial instruments, other than cash, arise directly from its operations, they have not been included in the following disclosures.

The main risks arising from the group's financial instruments are interest rate risk and liquidity risk.

The policies for managing these risks are regularly reviewed and agreed by the board.

Foreign exchange risk

The functional currencies of the group are Sterling, Euro, US Dollars, Ukraine hryvnias, Argentine pesos, Hong Kong dollars, Indian rupees and Brazilian reals. The group does not hedge against the effects of movements in exchange rates. The risks are monitored on a regular basis.

Interest rate risk

The group's policy on interest rate management is agreed at board level and is reviewed on an ongoing basis.

Interest rate profile of financial assets

The interest rate risk profile of the group’s financial assets as at 31 December 2006 was:

	Fixed rate £	Floating rate £	Total £
Sterling	-	73,477	73,477
US Dollar	-	25,709	25,709
Euro	-	-	-
Other	-	36,491	36,491
	-	135,677	135,677
Of which:			
Cash at bank and in hand	-	135,677	135,677

The interest rate risk profile of the group's financial assets as at 31 December 2005 was:

	Fixed rate £	Floating rate £	Total £
Sterling	-	2,634,985	2,634,985
US Dollar	-	12,434	12,434
Euro	-	48,761	48,761
Other	-	-	-
	-	2,696,180	2,696,180
Of which:			
Cash at bank and in hand	-	2,696,180	2,696,180

Interest rate profile of financial liabilities
The interest rate risk profile of the group's financial liabilities as at 31 December 2006 was:

	Fixed rate £	Floating rate £	Total £
Sterling	-	(119,046)	(119,046)
US Dollar	-	-	-
Euro	-	(70,107)	(70,107)
Other	-	-	-
	-	(189,153)	(189,153)
Of which:			
Bank overdraft	-	(189,153)	(189,153)

The group has no relevant financial liabilities as at 31 December 2005.

Liquidity risk
It is the group's policy to finance its business by means of internally generated funds and external share capital.

Facility
The group currently has an overdraft facility of £150,000, bearing interest of 2% over base rate up to £50,000 and 3% over base rate above this amount.

Fair value
There is no material difference between the fair value of financial assets and their book value at the balance sheet date.

25 Related party transactions

Group

SMS Media Limited

Sales and management charges to SMS Media Limited amounted to £270,890 (2005: £183,003). At the year end £16,371 (2005: £122,208) was owed from SMS Media Limited. During the year loans amounting to £Nil (2005: £67,156) were converted into share capital. SMS Media Limited has common directors and beneficial shareholders in Bertrand Folliet and Andrew Wilson.

Sky Telemedia (UK) Limited

During the year recharges from Sky Telemedia (UK) Limited amount to £809,493 (2005: £725,165). Sales to Sky Telemedia (UK) Limited amounted to £10,629 (2005: £442,904). At the year end £36,690 (2005: £30,862) was owed by Sky Telemedia (UK) Limited. Sky Telemedia (UK) Limited is a wholly owned subsidiary of SMS Media Limited.

Sardik Limited

During the year loans amounting £Nil (2005: £14,344) were converted into share capital. Loan interest of £42 (2005: £41) has been charged on outstanding loans. At the year end £4,298 (2005: £6,860) was owed to Sardik Limited. SMS Media Limited owns 50.1% of Sardik Limited.

Asian Interactive Broadcasting Limited

During the year expenses and management charges amounted to £Nil (2005: 36,842) were charged by Asian Interactive Broadcasting Limited. At the year end £Nil (2005: £Nil) was owed to Asian Interactive Broadcasting Limited. Asian Interactive Broadcasting Limited is a wholly owned subsidiary of SMS Media Limited.

Atlas Telecom Holdings (Bermuda) Limited

During the year the company received a loan of £Nil (2005: £100,000) from a shareholder, Atlas Telecom Holdings (Bermuda) Limited. Interest charged on the loan amounted to £Nil (2005: £254). During the year loans amounting to £Nil (2005: £81,500) were converted into share capital. During the year Cellcast UK Limited repaid £15,626 to Atlas Telecom Holdings (Bermuda). At the year end Cellcast UK Limited owed £46,874 (2005: £62,500) to Atlas Telecom Holdings (Bermuda) Limited.

Cellcast Television China Limited

During the year the company transferred funds amounting to £344,900 to Cellcast Television China Limited. During the year there were recharges to Cellcast Television China Limited of £27,720. At the year end £395,100 (2005: £22,480) was owed to Cellcast UK Limited. Cellcast UK Limited owns 80% of Cellcast Television China Limited.

Cellcast India Holdings Limited

During the year the company transferred £552,787 to Cellcast India Holdings Limited. During the year there were recharges to Cellcast India Holdings Limited of £32,581. At the year end £608,996 (2005:£23,628) was owed to Cellcast UK Limited. Cellcast UK Limited owns 100% of Cellcast India Holdings Limited.

Cellcast Ukraine Limited

During the year the company transferred funds amounting to £33,267 to Cellcast Ukraine Limited. At the year end £47,522 (2005: £14,255) was owed to Cellcast UK Limited. Cellcast UK Limited owned 85% of Cellcast Ukraine Limited.

Cellcast Brasil Communicação Ltda

During the year the company transferred funds amounting to £343,000 to Cellcast Brasil Communicação Ltda. At the year end £343,000 was owed to Cellcast UK Limited on which interest has been accrued of £101,767. Cellcast UK Limited owns 51% of Cellcast Brasil Communicação Ltda.

Cellcast Lebanon SAL

During the year recharges from Cellcast Lebanon amounted to £Nil (2005: £Nil). At the year end £31,814 (2005: £31,814) was owed to Cellcast UK Limited. Cellcast UK Limited has a beneficial 27% interest in Cellcast Television Lebanon SAL.

Transactions with parent company and subsidiaries which are greater than 90% owned by Cellcast UK Limited are not disclosed as consolidated financial statements of the parent company are publicly available.

26 Post Balance Sheet Events

In January 2007, the company entered into a convertible loan agreement of up to £1 million with the Headstart Funds. The facility was available for a term of two years, with interest payable at a rate of 8 per cent per annum. Headstart has the option to convert any part of the loan which is outstanding into equity at any time for a period of 360 days from the date that the relevant tranche of the loan was made available. Headstart has been issued with five year warrants in respect of 1,000,000 Ordinary Shares of 3 pence each at an exercise price of 8 pence per share.

The company has also issued 355,555 new Ordinary Shares of 3 pence each to Headstart at a price of 8 pence per share as part of the arrangement.

By 16 May 2007, the company had fully drawn down the £1 million facility.

cellcast

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