cellcast

a proven innovator in interactive media

Cellcast plc Annual Report and Accounts

for the year ended 31 December 2008

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Cellcast plc Annual report and accounts for the year ended 31 December 2008

Chairman's Statement

2008 Results

Following the discontinuation in 2007 of several overseas activities, all our 2008 revenues arose in the UK and we effectively ceased operations in virtually every other overseas territory, apart from our retained minority interest in India. Our UK revenues were substantially from our seven Sky channels, with significant additional revenues in the fourth quarter from various Freeview channels and other media exploitation, which accounts for the strong second-half performance. We continued with our programme of aggressive cost-cutting, mainly in the personnel area and we monetised our investment in two Sky channels by selling them to Discovery, as was reported in the 2008 interim results statement.

Revenue from continuing operations increased significantly to £16 million, up 33% on 2007's £12 million. Gross profit at £1.4 million was 8.6% compared to 7.4% in 2007. The cost-cutting programme outlined below resulted in general and administrative expenses of £1.37m in 2008 compared to £2.1m in 2007, a reduction of 33%. After a £1.2 million profit on sale of the Sky channels, Cellcast's 37.5% share of the losses in Cellcast Asia and a Research and Development tax credit, profit after tax for the year was £0.3m compared to a loss in 2007 of £2.2 million.

This represents earnings per share of 0.4p (2007 – (3.8p)). No dividend is proposed.

A fuller description of the group's operations and technological developments is set out in the Review of Operations on pages 4 and 5.

Cost reductions

The cost reduction programme reported on in both the 2007 Annual Report and 30 June 2008 interim statement is now complete. The major reduction has been in staffing costs. The group now employs only 23 people, and on the basis of the group's present operations, there is no scope for further reductions. The other principal cost is premises. In January 2009, we vacated the head office premises in Bolsover Street, and moved our central office operation into the main studio operation in Great Portland Street. As a result of these initiatives, our monthly run-rate for overheads is currently about £80,000 per month, down from some £100,000 in January 2008.

SUMO.tv

As indicated in the 2008 interim report, there have been no further capitalised SUMO costs in the second half of 2008. At 31 December 2008, the SUMO capitalised costs (net of amortisation) were £2.1 million. The directors have assessed the carrying value of the SUMO costs and have concluded that the recent earnings history and future earnings expectations support this carrying value. From 1 July 2008 onwards, the costs are being amortised over a five year period.

Cellcast Asia Holdings

The group continues to have a 37.5% shareholding in its Asian affiliate, Cellcast Asia Holdings (CAH). Since reducing its stake in August 2007 to an associate, Cellcast has not had and will not have any further funding requirement in respect of this entity. During 2008, Cellcast Asia continued to incur operating losses, of which Cellcast's minority share was £342,000. This has the effect of reducing the carrying value of Cellcast's shareholding in Cellcast Asia to a net £255,000 at 31 December 2008, which the board believes to be a sustainable value. CAH posted a profit both in March and April 2009 and we hope that it will trade profitably from now on.

Funding

As previously reported, the money received from the Sky channel sales enabled us to repay our short-term debts, and to renegotiate the terms of the Headstart convertible loan facilities. The Headstart obligations are due to be paid off completely by the end of June 2009. At the date of this report there was only £70,000 outstanding, including interest. Apart from this facility, the group has a combination of bank overdraft and debt factoring arrangements aggregating £600,000, as set out in note 14 to the accounts.

The directors have considered whether or not it is appropriate to adopt the going concern basis in preparing the 2008 financial statements. Following the substantial cost-cutting programme in 2007 and 2008, the group has seen the UK operations return to profitability in the last quarter of 2008. The group's detailed cash forecasts indicate that the credit facilities currently available are sufficient for the foreseeable future. Accordingly, the directors believe the going concern basis to be appropriate.

Outlook

Clearly, in the current economic climate, it is appropriate to be cautious about the future. The group was profitable in the first quarter of 2009, but margins have been under pressure and there is increased competition in our sector. Also, the Ofcom review of the UK participation TV sector, which was expected to have been concluded in May 2008, will not now be concluded until the end of 2009 or early 2010. However, with our technological expertise and innovative solutions, and working from a reduced cost base, we are confident of the group's ability to prosper in this climate.

Julian Paul

Chairman

9th June 2009

Review of Operations

Group overview

Following the reappraisal of the group's operations in 2007 and the consequent reduction in costs and spending, our primary focus remained the United Kingdom market and achieving sustainable profitability through rationalisation and vigorous cost controls.

Throughout the year, opportunities for expansion in the UK continued to be constrained by regulatory challenges, specifically Ofcom's ongoing review of the Participation-TV sector. The industry-wide consultation that was due to be completed in May 2008 is still underway, and we do not expect it to be concluded until the end of 2009 or early 2010.

The group's extensive portfolio of applications, formats and programmes continued to serve it well despite the accelerating economic downturn in the second half of the year. Consumer demand for user generated content (UGC) and interactive formats remained strong throughout 2008, which in turn led to renewed interest among broadcasters and platform providers in the group's technology and formats.

UK operations

The major effort in 2008 was to maintain the margins and profitability of the UK operations in the face of increased competition across all business sectors. This was achieved through ongoing cost reduction measures, combined with enhancements to the Group's portfolio of products and services delivered across television, the internet and mobile phone platforms.

The group remains a leading provider of participation television programming in the United Kingdom, with a strong audience base. It continues to produce over 600 hours of live interactive television per week, which is distributed across seven channels on the Sky Digital platform and is syndicated to a further four digital channels. Revenues continue to be derived from audience participation in the television programmes, and increasingly via the web and mobile services, providing users with access 24-hours a day.

In 2008, the group's now curtailed investment in the UGC venture SUMO.tv produced a significant windfall of £1.2 million, from the sale of the channel's position in the Sky Electronic Program Guide to Discovery Networks. The group also continued to benefit from the deployment of proprietary technology and UGC applications developed by SUMO, to capture new opportunities arising from the growth of 3G, IPTV, enhanced broadband, video mobile and wireless broadband services in the UK.

International operations

Following the formation of Cellcast Asia in 2007, as a minority shareholder the group no longer consolidates revenues from India and Sri Lanka, nor funds any operations in these markets.

In the Middle East, the group continued to offer premium telephony billing services to regional broadcasters, and maintained fourteen direct agreements with GSM operators. With over 370 free-to-air TV channels available in the region, Cellcast ME continued to expand its relationships with broadcasters, and introduced new services including mobile marketing and bulk SMS, SMS news alert services (primarily in Lebanon), and a new interactive TV production service drawing on the expertise and capacity of the UK operations.

Technology Division

The group continued to build on its reputation as a pioneer of innovative new multi-platform formats and UGC applications. In 2008, every component of Cellcast's proprietary Interactive Platform (the Network Attached Storage System (NAS), Transcoding Subsystem, Content Management System (CMS), Digital Asset Management System (DAMS), Rendering Engine, Website Kernel and 3G Subsystem) was further developed and improved to support existing formats and to facilitate new areas of product development.

During the year, the division delivered the first full product line to use the content management and media delivery systems. Each aspect of content delivery, from mobile and web to television broadcast, was deployed using the CMS and MDS frameworks. In the first quarter of 2008, all of the group's content and applications began migration to the new architecture, and in the second quarter a new suite of websites was deployed on the platform.

Throughout 2008, the group worked on several new areas of research and innovation. The first of three key development projects was "Eagle Eye", a system enabling format production to be monitored and varied according to the direct response of viewers. SatCast, the second major development, provides a new means by which the output of each television channel can be monitored in a more cost effective way. The evolution plan for SatCast will link it to the transcoding system so that all output will be automatically generated and streamed in real time for web and mobile. The third key project, Mailcast, is an online viral interactive storyboarding system utilising an innovative e-card process.

Outlook for 2009

The UK's unprecedented economic contraction is expected to impact consumer spending on Cellcast's services throughout the year, albeit less than is forecast for many other media sectors. Nevertheless, the combination of reduced consumer response rates and increased competition on the Sky platform has led to declining margins on the Sky platform in the first quarter of 2009. To address this, the group has redoubled its efforts to expand distribution of its Sky output on cable and other satellite TV platforms, and via the internet. The implementation of this strategy is already benefiting margins by effectively amortising production costs across multiple distribution platforms.

At the same time the group will continue with its stated focus on developing innovative products and services to capitalise on the increasing uptake of 3G, IPTV, and video mobile services in the UK, all of which require compelling content to drive subscriptions. These innovations, coupled with our expertise in this sector, are beginning to generate new revenues and represent a potentially significant growth opportunity for the group going forward.

Andrew Wilson

Chief Executive Officer

9th June 2009

Bertrand Folliet

Chief Operating Officer

9th June 2009

Directors and advisers

Julian Paul FCA
Non-Executive Chairman

Julian Paul 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 was also deputy chairman of Eagle Rock Entertainment Limited, of which he was a founder shareholder. He is currently a non-executive director of Inspired Gaming Group plc, Pilat Media Global plc, Stagecoach Theatre Arts plc and Edge Performance VCT plc.

Andrew Wilson
Chief Executive Officer

Andrew Wilson co-founded Cellcast in 2002. With over 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 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 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 has extensive experience in capital markets and is a director of a number of public and private companies. He is currently chairman of Telephonetics, an AIM company specialising in speech solutions in the corporate sector. His background is in the telecommunications, technology and media arena, where he has worked for the last 18 years specialising in strategy, mergers and acquisitions, and turn around situations. He has worked for companies such as Cable & Wireless, United Utilities, where he has been involved in large and small scale fundraising as well as numerous merger and acquisition transactions in various parts of the world.

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05342662

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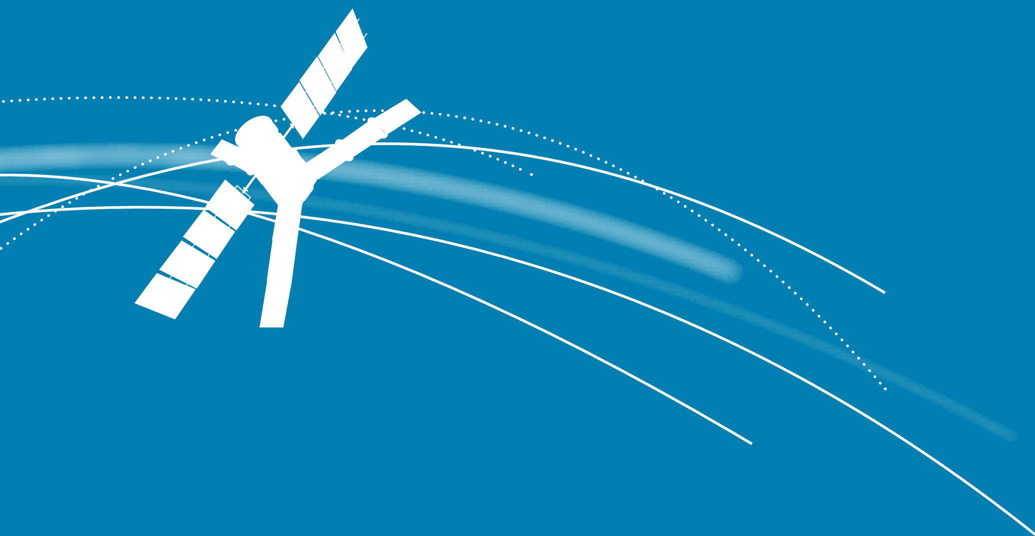

Corporate governance

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 12 and a statement of going concern is given on page 21.

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:

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 auditor. 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 the external auditor and their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with the external auditor. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the external auditor. A formal statement of independence is received from the external auditor each year.

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.

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.

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.

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 necessary, 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.

Directors' Report
for the year ended 31 December 2008

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

Directors
The following directors have held office since 1 January 2008:

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 2009 is contained in the Chairman's Statement on pages 2 and 3 and the Review of Operations on pages 4 and 5. These deal with the business risks facing the company.

Results and dividends
The consolidated income statement for the year is set out on page 16. No dividend is proposed (2007: 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.

Financial instruments
The risk exposure for the group and how the group addresses these issues are dealt with in note 17 of the financial statements.

Political and charitable donations
During the year group made no political or charitable donations.

Related party transactions
Transactions with related parties are disclosed in note 23.

Substantial shareholdings
The company has been notified of the following substantial interests as at 29 May 2009.

	Shareholding %	Ordinary shares of 3p each
Neil Craven	18.92%	14,287,391
SMS Media Limited (note 1)	14.14%	10,680,062
Atlas Group of Companies Limited	11.45%	8,645,635
Harkness Trading Limited (note 2)	8.86%	6,687,500
mTouche Technology Berhad	5.96%	4,500,000

Note 1: Controlled by Harkness Trading Limited. SMS Media Limited also has a 50.1% holding in Sardik Limited which in turn holds 1,992,662 shares in Cellcast plc.
Note 2: Controlled by Andrew Wilson and Bertrand Folliet

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

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

Credit or 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 2008 were 48 days (2007: 58 days).

Going concern
The directors have considered whether or not it is appropriate to adopt the going concern basis in preparing the 2008 financial statements. Following the substantial cost-cutting programme in 2007 and 2008, the group has seen the UK operations return to profitability in the last quarter of 2008. As at the date of this report, the group had available credit facilities totalling £600,000 (£450,000 factoring facility and £150,000 bank overdraft) and the group's detailed cash forecast indicates that these facilities are sufficient for the foreseeable future. Accordingly, the directors believe the going concern basis to be appropriate.

Directors' responsibilities

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

UK Company law requires the directors to prepare group and company financial statements for each financial year. Under that law the directors are required to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the company financial statements in accordance United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The company financial statements are required by law to give a true and fair view of the state of affairs of the company.

In preparing each of the group and company financial statements, the directors are required to:

a select suitable accounting policies and then apply them consistently;

b make judgements and estimates that are reasonable and prudent;

c for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU; and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company 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 the maintenance and integrity of the corporate and financial information included on the company's website.

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

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed that, so far as they are aware, there is no relevant audit information of which the auditor is 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.

Auditor

A resolution to reappoint Baker Tilly UK Audit LLP, Chartered Accountants, as auditor will be put to the members at the annual general meeting.

By order of the board

Emmanuelle Guicharnaud
Secretary

9th June 2009

Independent auditor's report to the members of Cellcast plc

We have audited the group and parent company financial statements on pages 16 to 54.

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

The directors' responsibilities for preparing the Annual Report, and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also report to you whether in our opinion the information given in the Directors' Report includes that specific information presented in the Review of Operations and the Chairman's statement that is cross referenced from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report (state those that apply, Chairman's Statement, the Operating and Financial Review, the Corporate Governance Statement, specify any others). We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We planned and 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2008;
- 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

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the accounting policies on pages 20 - 25 of 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 group was unable to continue as a going concern.

Because of the absence of appropriate financial statements or management information in respect of the year ended 31 December 2007 in relation to the former Indian subsidiary and the dilution of the group's interest which resulted in Cellcast Interactive India Pvt Limited becoming an associate during 2007, we were unable to satisfy ourselves regarding the opening position as at the date of dilution of the net assets of the associate of £741,784. Since the position enters into the determination of the results of the operations, we were unable to determine whether adjustments to the results of operations might be necessary for the year ended 31 December 2007. Our audit report on the financial statement for the year ended 31 December 2007 was modified accordingly.

Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

9th June 2009

Consolidated income statement

	Note	2008 £	2007 £
		Year ended 31 December	
Continuing operations			
Revenue		15,994,412	12,008,998
Cost of sales		(14,619,887)	(11,119,565)
Gross profit		1,374,525	889,433
Operating costs and expenses:			
General and administrative		(1,369,172)	(2,061,806)
Share option expense		(56,619)	(150,665)
Amortisation and depreciation		(516,587)	(489,200)
Total operating costs and expenses		(1,942,378)	(2,701,671)
Operating loss	4	(567,853)	(1,812,238)
Profit on disposal of channels		1,207,275	-
Interest receivable & similar income	5	2,914	4,898
Interest payable & similar charges	6	(120,023)	(168,586)
Share of loss in associates	12	(342,498)	(180,567)
Profit / (loss) before tax		179,815	(2,156,493)
R & D tax credit		153,313	-
Deferred taxation		-	(84,698)
Total taxation	7	153,313	(84,698)
Profit / (loss) after tax for continuing operations		333,128	(2,241,191)
Discontinued operations			
Profit for the year from discontinued operations	12	-	18,591
Total profit / (loss) for the year		333,128	(2,222,600)
Profit attributable to minority interests		-	30,684
Profit / (loss) for the year attributable to equity holders of the parent		333,128	(2,253,284)
Total profit / (loss) for the year		333,128	(2,222,600)
Profit / (loss) per share			
Basic & diluted – continuing	8	0.4p	(3.8p)
Basic & diluted – continuing and discontinued	8	0.4p	(3.7p)

Consolidated balance sheet

	Note	As at 31 December 2008 £	2007 £
Assets			
Non-current assets			
Intangible assets	9	2,460,596	2,212,605
Property, plant and equipment	10	327,068	511,096
Investments in associates	12	254,795	561,217
		3,042,459	3,284,918
Current assets			
Trade and other receivables	13	2,999,339	2,270,027
Cash and cash equivalents		-	7,533
		2,999,339	2,277,560
Total Assets		6,041,798	5,562,478
Capital and reserves			
Called up share capital	18	2,265,398	2,265,398
Share premium account		5,498,626	5,498,626
Merger reserve		1,300,395	1,300,395
Cumulative translation reserve		36,075	(5,159)
Retained earnings		(6,808,186)	(7,197,933)
Equity attributable to equity holders of the parent		2,292,308	1,861,327
Liabilities			
Current liabilities			
Trade and other payables	14	3,502,193	3,219,042
Borrowings	16	247,297	482,109
Total liabilities		3,749,490	3,701,151
Total equity and liabilities		6,041,798	5,562,478

The financial statements were approved and authorised for issue by the board on 9th June 2009.

Emmanuelle Guicharnaud
Secretary

9th June 2009

Andrew Wilson
Chief Executive Officer

9th June 2009

Consolidated statement of changes in equity

Consolidated statement of changes in equity for the year ended 31 December 2008

	Amounts attributable to the equity holders of the parent undertaking							
	Share Capital	Share Premium	Merger Reserve	Cumulative Translation Reserve	Retained Earnings	Total	Minority Interest	Total
	£	£	£	£	£	£	£	£
As at 31 December 2008								
Balance at 1 January 2008	2,265,398	5,498,626	1,300,395	(5,159)	(7,197,933)	1,861,327	-	1,861,327
Profit for the year	-	-	-	-	333,128	333,128	-	333,128
Exchange translation				41,234		41,234	-	41,234
Total recognised income and expenditure for the year	-	-	-	41,234	333,128	374,362	-	374,362
Share-based payment charge	-	-	-	-	56,619	56,619	-	56,619
Balance at 31 December 2008	2,265,398	5,498,626	1,300,395	36,075	(6,808,186)	2,292,308	-	2,292,308

Consolidated statement of changes in equity for the year ended 31 December 2007

	Amounts attributable to the equity holders of the parent undertaking							
	Share Capital	Share Premium	Merger Reserve	Cumulative Translation Reserve	Retained Earnings	Total	Minority Interest	Total
	£	£	£	£	£	£	£	£
As at 31 December 2007								
Balance at 1 January 2007	1,331,619	4,775,743	1,300,395	24,995	(5,245,614)	2,187,138	(30,684)	2,156,454
Profit / (loss) for the year	-	-	-	-	(2,253,284)	(2,253,284)	30,684	(2,222,600)
Exchange translation	-	-	-	(30,154)	-	(30,154)	-	(30,154)
Total recognised income / (expense) for the year	-	-	-	(30,154)	(2,253,284)	(2,283,438)	30,684	(2,252,754)
Share-based payment charge	-	-	-	-	150,665	150,665	-	150,665
Proceeds of share issue	933,779	722,883	-	-	-	1,656,662	-	1,656,662
Warrant issue charge	-	-	-	-	150,300	150,300	-	150,300
Balance at 31 December 2007	2,265,398	5,498,626	1,300,395	(5,159)	(7,197,933)	1,861,327	-	1,861,327

Consolidated cash flow statement

Net increase/(decrease) in cash and cash equivalents		Year ended 31 December 2008 £	2007 £
Net cash outflow from operations	20a	(424,740)	(432,743)
Income taxes		153,313	-
Interest received		2,914	4,898
Net cash outflow from operating activities		(268,513)	(427,845)
Net cash inflow/(outflow) from investing activities	20b	601,942	(1,207,154)
Net cash (used in)/generated from financing activities	20c	(450,918)	1,705,029
Net (decrease) / increase in cash and cash equivalents		(117,489)	70,030
Cash and cash equivalents at beginning of period		7,533	(53,476)
Exchange gains/(losses)		41,234	(9,021)
Cash and cash equivalents at end of period		(68,722)	7,533

Notes to the consolidated financial statements

Accounting policies

The consolidated financial statements have been prepared under the historical cost convention in accordance with applicable International Financial Reporting Standards as adopted by the European Union (IFRS)

The group has taken the following optional exemptions contained in IFRS 1 'First-time Adoption of International Financial Reporting Standards':

- Cumulative translation differences - The cumulative translation differences for all foreign subsidiaries have been set to zero as at 1 January 2006 and exchange differences arising prior to this date will not be recycled to the income statement on disposal of the subsidiaries.
- Business combinations - The group elected not to apply IFRS-3 Business Combinations retrospectively to past business combinations (business combinations that occurred before 1 January 2006)

Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations, which are issued but not yet effective, have not been applied:

Standards issued but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations, which are issued but not yet effective, have not been applied:

IFRS 1	Revised IFRS 1 First-time adoption of IFRS
IFRS 2	Share-based payments – Amendment, vesting conditions and cancellations
IFRS 3	Business combinations – Comprehensive revision on applying the acquisition method
IFRS 7	Financial Instruments: Disclosures – Amendment; Reclassification of Financial Assets
IFRS 8	Operating segments
IAS 1	Presentation of Financial Statements – comprehensive revision including requiring a statement of comprehensive income
IAS 23	Borrowing Costs – Comprehensive revision to prohibit immediate expensing
IAS 27	Consolidated and Separate Financial Statements – Amendments arising from IFRS 3
IAS 27	Consolidated and Separate Financial Statements – Amendment; Cost of an investment in a subsidiary, jointly controlled entity or associate
IAS 28	Investment in Associates – Consequential amendments arising from IFRS 3
IAS 39	Financial Instruments: Recognition and Measurement – Amendment; Reclassification of Financial Assets
IAS 39	Financial Instruments: Recognition and Measurement – Amendment; Eligible hedged items Amendments to IFRSs arising from Annual Improvements Projects
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors

Notes to the consolidated financial statements

IAS 10	Events after the Reporting Period
IAS 16	Property, Plant and Equipment
IAS 18	Revenue
IAS 23	Borrowing Costs
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investment in Associates
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

The directors anticipate that the adoption of these Standards and Interpretations as appropriate in future periods will have no material impact on the financial statements of the Group when the relevant standards come into effect for periods commencing after 1 January 2009.

Going concern

The directors have considered whether or not it is appropriate to adopt the going concern basis in preparing the 2008 financial statements. As indicated in the Chairman's statement, following the substantial cost-cutting programme in 2007 and 2008, the company has seen the UK operations return to profitability in the last quarter of 2008. As at the date of this report, the company had available credit facilities totalling £600,000 (£450,000 factoring facility and £150,000 bank overdraft) and the company's detailed cash forecast indicates that these facilities are sufficient for the foreseeable future. Accordingly, the directors believe the going concern basis to be appropriate.

Basis of consolidation

Subsidiaries are entities over which the group has the power to govern the financial and operating policies to obtain economic benefit to the group. Subsidiaries are fully consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.
Prior to the transition date to IFRS, the group performed a group reconstruction under merger accounting resulting in a merger reserve being retained.

Associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.
The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investment in associates are carried in the balance sheet at cost, adjusted by post-acquisition changes in the group's share of the net assets of the associates, less any impairment.

Intangible assets

Research and development

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 development process is recognised only if all of the following conditions are met:

- It is probable that the asset created will generate future economic benefits;
- The development cost of the asset can be measured reliably;
- Technical feasibility of completing the intangible asset can be demonstrated;
- There is the ability to use or sell the asset; and
- Adequate technical, financial and other resources to complete the development and to use or sell the asset are available.

Development costs meeting these criteria are capitalised and amortised on a straight-line basis over their useful lives of 5 years once the related product is available for use.

Licences

Licences are purchased separately, capitalised at cost and amortised over their useful economic life of 10 years.

Property, plant and equipment and depreciation

Property, plant and equipment 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

Leases

Leases that confer rights and obligations similar to those that attach to owned assets are classified as finance leases. Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Inventories and work in progress

Inventories and work in progress is valued at the lower of cost and net realisable value on a first in first out basis.

Convertible loan notes

The convertible loan notes issued by the company are accounted for in accordance with the substance of the contractual arrangement. The convertible loan notes are recognised initially at fair value and subsequently at amortised cost using the effective interest rate method. Issue costs in relation to these convertible loan notes are accounted for within the initial recognition of the financial liability.

Impairment of property, plant and equipment and intangible assets excluding goodwill

At each balance sheet date, the group reviews the carrying amounts of its property, plant and equipment 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.

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 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 their 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.

Cash and cash equivalents

For the purpose of preparation of the cash flow statement, cash and cash equivalents includes cash at bank and in hand, and short term deposits with an original maturity period of three months or less, and the bank overdraft.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently at amortised cost less an allowance for any uncollectible amounts. Allowance is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The group's trade and other receivables are non-interest bearing.

Trade payables

Trade payables and other short term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which 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, 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.

Notes to the consolidated financial statements

Deferred tax is calculated at the tax rate that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Share option expenses

The group has applied the requirements of IFRS 2 Share-based Payment. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The group issues equity-settled share-based payment transactions to certain employees. Equity-settled share-based payment transactions are measured at fair value at the date of grant. The fair value determined at the grant date of 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 binominal model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Foreign currencies

Transactions in currencies other than the functional currency of entities of the group, 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 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 the income statement for the period, except for exchange differences on non-monetary assets and liabilities, which are recognised directly in equity, 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 into sterling at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. 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.

The most important currency for the group is £ Sterling, the group's functional currency. The relevant exchange rates for the foreign currencies to sterling were:

Currency	31 December 2008	31 December 2007
Euro	1.0499	1.3571
Indian Rupee	71.0011	78.7639

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.

Accounting estimates and judgements

The directors consider the critical accounting estimates and judgments used in the financial statements and concluded that the main areas of judgments are:

- Going concern;
- Valuation of share-based payments;
- Realisable amount of intangible assets;
- Realisable amount of investment in associates;
- Likelihood of exercise of put option by Canaan Partners (note 22)

These estimates are based on historical experience and various other assumptions that management and the board of directors believe are reasonable under the circumstances and are discussed in more detail in their respective notes. The group also makes estimates and judgments concerning the future and the resulting estimate may, by definition, vary from the related actual results.

1) Segmental reporting

The group operates in one business; that (which is considered to be the primary analysis) of television and broadcasting. The segmental analysis by region is presented below.

	Year ended 31 December	
	2008	2007
	£	£
Revenue		
UK	15,994,412	11,871,761
Asia	-	137,237
Total	15,994,412	12,008,998
Cost of sales		
UK	14,619,887	10,959,797
Asia	-	159,768
Total	14,619,887	11,119,565
Gross profit		
UK	1,374,525	911,964
Asia	-	(22,531)
Total	1,374,525	889,433
Operating loss from continuing operations		
UK	(1,141,059)	(1,009,397)
Asia	-	(162,976)
Segmental operating loss	(1,141,059)	(1,172,373)
Non Segmental		
Amortisation and depreciation	(516,587)	(489,200)
Share option expense	(56,619)	(150,665)
Operating loss	(567,853)	(1,812,238)

Notes to the consolidated financial statements

	Year ended 31 December	
	2008	2007
Total Assets	£	£
UK	6,041,798	5,471,589
Rest of Europe	-	65,970
Asia	-	24,919
Total	6,041,798	5,562,478

Total Liabilities		
UK	3,502,193	3,141,728
Rest of Europe	-	65,970
Asia	-	11,344
Non Segmental		
Borrowings	247,297	482,109
Total	3,749,490	3,701,151

Capital expenditure - intangible		
UK	753,982	1,194,919
Total	753,982	1,194,919

Capital expenditure - tangible		
UK	44,076	12,235
Total	44,076	12,235

Amortisation and depreciation		
UK	516,587	483,268
Asia	-	5,932
Total	516,587	489,200

Discontinued operations		
Revenue	-	2,896,865
Cost of sales	-	(3,339,917)
Gross loss	-	(443,052)
Administrative expenses	-	(725,513)
Finance cost	-	(65)
Gain on disposal of subsidiary	-	1,187,221
Profit for the year from discontinued operations	-	18,591

Notes to the consolidated financial statements

2) Staff Costs

	2008 £	2007 £
Wages and salaries	1,011,206	1,316,754
Social security costs	105,224	145,386
Other pension costs	13,832	22,799
Share option expenses	56,619	150,665
	1,186,881	1,635,604

Included in the above staff costs is £120,500 (2007: £442,000) in relation to development costs that were capitalised in accordance with IAS 38 Intangible assets. The remaining staff costs are included within General and administrative expenses.

Average monthly number of employees by activity (including directors)	2008	2007
Production	4	35
Technical	14	16
Management	4	9
Administration	6	12
	28	72

Key management	2008 £	2007 £
Salaries and other short-term employee benefits	546,100	613,439
Post employment benefits	12,760	22,799
Share option expense	56,619	150,665
	615,479	786,903

The key management personnel of the group are considered to be the directors of the company.

3) Directors' emoluments

	2008 £	2007 £
Aggregate emoluments for qualifying services	346,450	342,689
Company's pension contributions to money purchase schemes	10,600	17,200
	357,050	359,889

	£	£
Emoluments for highest paid director	100,000	100,000
Pension contributions	10,000	10,000
	110,000	110,000

Two directors (2007: two) had benefits accruing under money purchase pension schemes.

Notes to the consolidated financial statements

4) Profit before tax (2007 – loss)

Profit before tax (2007 – loss) is stated after charging:	2008	2007
	£	£
Depreciation – owned assets	183,091	388,564
Depreciation – assets on hire purchase contracts	20,229	18,918
Licences amortisation	77,975	81,718
Auditor's remuneration – statutory audit of parent and consolidated accounts	35,000	33,000
Audit services provided to subsidiaries were £25,000 (2007: £25,000)		
Other services supplied pursuant to such legislation: Interim results	5,000	5,000
Foreign exchange loss	7,268	5,410

5) Interest receivable and similar income

	2008	2007
	£	£
Bank interest received	2,914	4,898

6) Interest payable and similar charges

	2008	2007
	£	£
Interest on convertible loan	41,654	124,168
Bank charges & interest paid	70,541	24,244
Finance leases	7,828	20,174
	120,023	168,586

7) Taxation

	2008	2007
	£	£
Current tax charge		
R&D tax credit	(153,313)	
Deferred tax charge	-	84,698
Tax (credit)/ charge	(153,313)	84,698

Notes to the consolidated financial statements

Factors affecting the tax charge for the year	2008 £	2007 £
Profit /(loss) on ordinary activities before taxation	179,815	(2,156,493)
Profit /(loss) on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 28.5% (2007:30%)	51,247	(646,948)
Effects of:		
Non deductible expenses	15,040	10,913
Tax losses (utilised)/ carried forward	(82,423)	590,835
Foreign tax adjustment	-	84,698
Research and Development tax credit	(153,313)	-
Share option expense	16,136	45,200
Tax (credit)/ charge	(153,313)	84,698

The Research and Development tax credit related to the year ended 31 December 2006.

At 31 December 2008, the group had estimated tax trading losses of £ 5.3 million (2007: £5.6 million) which subject to the agreement of the HM Revenue & Customs and overseas tax authorities, are available to carry forward against future profits of the same trade. No deferred tax asset has been recognised on these losses as future profits are uncertain.

8) Earnings/(loss) per share

Adjusted earnings/(loss) per share

The calculations of adjusted basic and diluted earnings/(loss) per ordinary share are based on the following adjustments to results:

	Continuing operations		Continuing and discontinued operations	
	2008	2007	2008	2007
Reported loss for the financial period	333,128	(2,241,191)	333,128	(2,222,600)
Weighted average number of ordinary shares	75,513,224	59,390,157	75,513,224	59,390,157
Weighted average number of ordinary shares including dilutive effect of outstanding share options and warrants	75,513,224	59,390,157	75,513,224	59,390,157
Basic earnings/(loss) per share	0.4p	(3.8p)	0.4p	(3.7p)
Diluted earnings/(loss) per share	0.4p	(3.8p)	0.4p	(3.7p)

Due to the loss incurred in 2007 there was no dilution effect from the issued share options and warrants.

There is not considered to be any dilution effect of the issued share options and warrants during 2008 as the listed market value of the shares throughout 2008 was lower than the exercise prices of the share options and warrants in issue during the year.

Notes to the consolidated financial statements

9) Intangible assets

	Licences Cost £	Development Cost £	Total Cost £
Cost			
At 1 January 2007	834,882	443,354	1,278,236
Additions	39,350	1,155,569	1,194,919
At 31 December 2007 and 1 January 2008	874,232	1,598,923	2,473,155
Additions	-	753,982	753,982
Disposals	(244,966)	-	(244,966)
At 31 December 2008	629,266	2,352,905	2,982,171
Amortisation			
At 1 January 2007	178,832	-	178,832
Amortisation for year	81,718	-	81,718
At 31 December and 1 January 2008	260,550	-	260,550
Amortisation for year	77,975	235,291	313,266
Disposals	(52,241)	-	(52,241)
At 31 December 2008	286,284	235,291	521,575
Net book value at 31 December 2008	342,982	2,117,614	2,460,596
Net book value at 31 December 2007	613,682	1,598,923	2,212,605
Net book value at 1 January 2007	656,050	443,354	1,099,404

10) Property, plant & equipment

	Fixtures, fittings & equipment £	Broadcasting equipment £	Computer equipment £	Totals £
Cost				
At 1 January 2007	38,815	1,851,114	174,070	2,063,999
Additions	-	-	12,235	12,235
Disposals	(38,815)	(286,033)	(1,507)	(326,355)
At 31 December 2007 and 1 January 2008	-	1,565,081	184,798	1,749,879
Additions	-	19,898	24,178	44,076
Disposals	-	(51,012)	(3,846)	(54,858)
At 31 December 2008	-	1,533,967	205,130	1,739,097
Depreciation				
At 1 January 2007	5,380	889,615	60,497	955,492
Additions	-	362,150	45,332	407,482
Disposals	(5,380)	(118,811)	-	(124,191)
At 31 December 2007 and 1 January 2008	-	1,132,954	105,829	1,238,783
Charge for year	-	168,197	35,123	203,320
Disposals	-	(28,176)	(1,898)	(30,074)
At 31 December 2008	-	1,272,975	139,054	1,412,029
Net book value at 31 December 2008	-	260,992	66,076	327,068
Net book value at 31 December 2007	-	432,127	78,969	511,096
Net book value at 1 January 2007	33,435	961,499	113,573	1,108,507

Assets, included in the above, which are held under finance leases, are as follows:

Cost	Fixtures, fittings & broadcasting equipment £
At 1 January 2007, 1 January 2008 and 31 December 2008	126,401
Depreciation	
At 1 January 2008	20,082
Charge for the year	18,918
At 1 January 2008	39,000
Charge for the year	20,229
31 December 2008	59,229
Net book value	
As 31 December 2008	67,172
As 31 December 2007	87,401
As 1 January 2007	106,319

11) Subsidiary companies

At 31 December 2008 Cellcast plc owned 100% of the issued share capital in Cellcast UK Limited, a company incorporated in the UK whose principal business was television and broadcasting. At 31 December 2008, Cellcast UK owned the following other interests:

Company	Country of incorporation	Class	Shares held %	Type of holding	Principal business
Cellcast TV SA	Argentina	Ordinary	51%	Subsidiary	Television & broadcasting
Cellcast China Limited	Hong Kong	Ordinary	80%	Subsidiary	Television & broadcasting
Cellcast International Limited	United Kingdom	Ordinary	100%	Subsidiary	Television & broadcasting
TV You! Limited	United Kingdom	Ordinary	100%	Subsidiary	Television & broadcasting

Cellcast Television China Limited owned 100% of the issued ordinary share capital of Cellcast China Limited, a company incorporated in Hong Kong. The television broadcasting activities ceased in the first quarter of 2008.

12) Associates

Share of net assets	2008 £	2007 £
1 January	561,217	4,933
Investment in associates	-	741,784
Share of results post tax	(342,498)	(180,567)
Exchange translation	36,076	-
Disposal of interest in associates	-	(4,933)
31 December	254,795	561,217

The group interest in associates at 31 December 2007 and 31 December 2008 comprised 27% of the share capital of Cellcast Lebanon SAL and 37.5% of the share capital of Cellcast Asia Holdings Limited. The group' s share of the results of its principal associates all of which are unlisted and its aggregate assets and liabilities are as follows:

	2008 £'000	2007 £'000
Total assets	655	912
Total liabilities	400	305
Revenue	689	526
Loss for the year	342	181

In August 2007, Cellcast injected its 100% holding in Cellcast Interactive India Pvt Limited and its 50% holding in Cellcast SEA Limited into a new holding company, Cellcast Asia Holdings Limited (Cellcast Asia). At the same time, the group's interest in Cellcast Asia was reduced to 37.5% following the cash injection of an external private equity funding. The activities of Cellcast Interactive India Pvt Limited and Cellcast SEA Limited were treated in 2007 as discontinued operations for consolidation purposes to the date of the transfer of the group's holding to Cellcast Asia.

The effects of the operations discontinued in 2007 are detailed below:

Discontinued operations	2008 £	2007 £
Revenue	-	2,896,865
Cost of Sales	-	(3,339,917)
Gross loss	-	(443,052)
Administrative expenses	-	(725,513)
Finance costs	-	(65)
Recycling of foreign exchange translation reserve on disposal of foreign subsidiaries	-	21,133
Loss for the period from discontinued operations	-	(1,147,497)
Gain on dilution of subsidiaries	-	1,166,088
Income tax expense	-	-
Profit for the period from discontinued operations		18,591

13) Trade and other receivables

	2008 £	2007 £
Trade receivables	817,031	641,354
Prepayments and accrued income	2,041,903	1,406,657
Other receivables	140,405	201,111
Due from associates	-	20,905
	2,999,339	2,270,027

Ageing of trade receivables is as follows:

	2008 £	2007 £
Current	518,587	46,819
Up to 3 months	261,506	318,753
Up to 6 months	22,999	166,111
Up to 9 months	13,939	109,671
	817,031	641,354

14) Trade and other payables

	2008 £	2007 £
Bank loans and overdraft	68,722	-
Obligations under finance leases	17,096	70,202
Trade payables	1,181,315	1,328,902
Other taxes & social security	528,051	577,218
Other payables	553,737	794,454
Due to associates	-	23,935
Accruals & deferred income	1,153,272	424,331
	3,502,193	3,219,042
Credit payment profile in days	48 days	58 days

Overdraft

At 31 December 2008, the group had an overdraft facility of £150,000, bearing interest of 4.25% over base rate. The bank overdraft is repayable on demand and is secured with a fixed and floating charge over the assets of the company. The facility is due for renewal in October 2009.

Recourse factoring facility

During the year the company entered into a recourse factoring facility of £450,000 for up to 70% of the value of the approved debt due from a single customer. This facility is available until February 2010. £315,000 in respect of the factoring facility is included within other payables.

15) Finance leases

Net obligations under finance leases:	2008 £	2007 £
Repayable within one year	17,096	70,202
	17,096	
		70,202
Included in current liabilities	(17,096)	(70,202)
	-	-

Gross finance lease liabilities - minimum lease payments	19,487	77,183
Repayable within one and five years	-	-
	19,487	77,183
Future finance charges on finance leases	(2,391)	(6,981)
Present value of finance lease liabilities	17,096	70,202

Notes to the consolidated financial statements

16) Borrowings

	2008	2007
	£	£
Convertible Loan Notes	247,297	482,109

The amounts that have been recognised in relation to the converted loan notes are as follows:

	2008	2007
	£	£
Liability component brought forward at 1 January 2008	482,109	-
Proceeds of issue of convertible loan notes	-	500,000
Repayments of principal on convertible loan notes	(260,000)	-
Less transaction costs	-	(27,000)
	222,109	473,000
Interest charge	41,654	16,609
Interest paid	(16,466)	(7,500)
Liability component as at 31 December 2008	247,297	482,109

The convertible loan note facility has been renegotiated in the year to restrict the conversion to equity as long no further draw downs were requested and the outstanding loan is repaid under the terms of the Deed of Variation dated 7 May 2008. In this deed the provider of the convertible loan note agreed to waive their right of conversion in respect of any notes held by the company unless the company failed to comply with the agreed repayment plan, which would pay off the loan in full by 29 June 2009.

During the year ended 31 December 2007 the company issued two convertible loan note facilities, an 8% 1,000,000 facility on 1 January 2007 and a 9% £2,000,000 on 19 June 2007. The company was able to draw-down on these facilities up to these maximum value amounts over the term of the loan notes, being two years from the date of the facility agreement, subject to certain conditions. The holder had the option to convert these loan notes into a variable number of the company's ordinary shares equal to 95% of the lowest closing bid price during the previous fifteen trading days, upon conversion. If the conversion option was not taken up, the company would redeem the convertible loan notes in cash. The issuer had the right to redeem at 110% of the principal amount invested if redeemed within 180 days of draw down and 105% of the principal amount if redeemed after 180 days of draw down.

During 2007, of the £2million drawn down from the facilities by the company and £1.5 million of the loan drawn down was converted into equity. At 31 December 2007 the company had an outstanding liability in relation to £500,000 of the 9% convertible loan note. The interest charged for the year is calculated by applying an effective interest rate of 34% for the 8% convertible loan notes and 38% for the 9% convertible loan notes. On the £1.5m loan notes the company incurred transaction costs of £280,751 and incurred interest charges of £107,559 up to the date of conversion.

17) Financial risk management

The group's financial instruments mainly comprise cash, overdraft facility, recourse factoring facility, finance leases, convertible loan notes and various items arising directly from its operations, such as trade receivables and trade payables. The details of finance lease obligations are disclosed in note 15 and the details of the convertible loan in note 16. The main purpose of these financial instruments is to provide working capital for the group. The group's policy is to obtain the highest rate of return on its cash balances, subject to having sufficient resources to manage the business on a day to day basis and not exposing the group to unnecessary risk of default.

(a) Risk management policies

The group's finance function is responsible for procuring the group's capital resources and maintaining an efficient capital structure, together with managing the group's liquidity, foreign exchange and interest exposures.
All treasury operations are conducted within strict policies and guidelines that have been approved by the directors.

The group's portfolio of cash and cash equivalents is managed such that there is no significant concentration of credit risk in any one bank or other financial institution.

(b) Financial assets and liabilities

Financial assets and liabilities analysed by the categories defined in IAS 39 were as follows:

As at 31 December 2008	Currency	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Total carrying Value £'000	Total fair Values £'000
Financial assets					
Trade receivables and accrued income	Sterling	2,859	-	2,859	2,859
Other receivables	Sterling	140	-	140	140
Cash balances	Sterling	-	-	-	-
Financial liabilities					
Trade payables	Sterling		(1,181)	(1,181)	(1,181)
Overdraft	Sterling	-	(69)	(69)	(69)
Amounts payable under finance leases	Sterling	-	(17)	(17)	(17)
Other payables	Sterling	-	(239)	(239)	(239)
Recourse factoring facility	Sterling		(315)	(315)	(315)
Accruals	Sterling	-	(1,153)	(1,153)	(1,153)
Convertible loan note	Sterling	-	(247)	(247)	(247)
		2,999	(3,221)	(222)	(222)

Notes to the consolidated financial statements

As at 31 December 2007	Currency	Loans and receivables £'000	Other financial liabilities at amortised cost £'000	Total carrying Value £'000	Total fair Values £'000
Financial assets					
Trade receivables and accrued income	Sterling	2,048	-	2,048	2,048
Other receivables	Sterling	201	-	201	201
Cash balances	Sterling	7	-	7	7
Financial liabilities					
Trade payables	Sterling	-	(1,327)	(1,327)	(1,327)
	US Dollar	-	(2)	(2)	(2)
Overdraft	Sterling				
Amounts payable under finance leases	Sterling	-	(70)	(70)	(70)
Other payables	Sterling	-	(794)	(794)	(794)
Accruals	Sterling	-	(424)	(424)	(424)
Convertible loan note	Sterling	-	(482)	(482)	(482)
		2,256	(3,099)	(843)	(843)

The carrying value of all financial instruments is not materially different from their fair value. It is, and has been throughout the year, the group's policy that no principal trading in financial instruments shall be undertaken.
Cash and cash equivalents attract floating interest rates. Accordingly, their carrying amounts are considered to approximate to fair value.

Finance lease obligations attract fixed interest rates that are implicit in the lease rentals and their fair value has been assessed by reference to prevailing market interest rates.

The interest rate risk relates to the recourse factoring facility on a LIBOR rate basis, and the overdraft facility on a Base Rate basis.

(c) credit risk

Credit risk is the risk that a counter party will default on its contractual obligations resulting in financial loss to the group. Maximum credit risk at 31 December was as follows:

	2008 £'000	2007 £'000
Trade receivables and accrued income	2,859	2,048
Other receivables	140	201
Cash and cash equivalent	-	7
	2,999	2,256

Notes to the consolidated financial statements

Before accepting a new customer, the group assesses both the potential customer's credit quality and risk. Customer contracts are drafted to reduce any potential credit risk to the group. Where appropriate the customer's recent financial statements are reviewed.

The company carries credit risk insurance in respect of the debtor financed under the recourse factoring facility.

Trade receivables are regularly reviewed for bad and doubtful debts. Debts amounting to £5,152 have been written off during 2008 (2007: £19,577). There are no provisions for trade receivables at year end.

Ageing of the trade receivables is as follows:	2008 £'000	2007 £'000
Current	518	47
Up to 3 months	262	319
Up to 6 months	23	166
Up to 9 months	14	109
	817	641

The total of the trade receivables which were passed due at 31 December 2008 but not impaired was £299,000 (2007 £594,000). The group believes that the balances are ultimately recoverable. Of £2,859,000 of the trade receivables and accrued income at the year end, £2,670,000 was collected by 31 March 2008. The directors are confident as to the recoverability of the remaining balance and thus no impairment of the amount has been recognised in the financial statements at 31 December 2008.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Contractual cash flows relating to the group's financial liabilities are as follows:

	2008			2007		
	Within 6 months £'000	6 months to 1 year £'000	Total £'000	Within 6 months £'000	6 months to 1 year £'000	Total £'000
Overdraft	(69)	-	(69)	-	-	-
Trade and other payables	(1,181)	-	(1,181)	(1,329)	-	(1,329)
Finance lease obligations	(17)	-	(17)	(32)	(32)	(64)
Convertible loan	(247)	-	(247)	-	(482)	(482)
Other payables	(767)	-	(767)	(773)	-	(773)
Recourse factoring facility	(315)	-	(315)			
Accruals	(1,153)	-	(1,153)	(424)	-	(424)
Cash flows on financial liabilities	(3,749)	-	(3,749)	(2,558)	(514)	(3,072)

(e) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows associated with a financial instrument will fluctuate because of changes in market interest rates.

The interest rate profile of the group's financial assets and liabilities was as follows:

As at 31 December 2008	Currency	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000	Total £'000
Financial assets					
Trade receivable and accrued income	Sterling	-	-	2,859	2,859
Other receivables	Sterling	-	-	140	140
Cash balances	Sterling	-	-	-	-
Financial liabilities					
Trade payables	Sterling	-	-	(1,181)	(1,181)
Overdraft	Sterling	(69)	-	-	(69)
Amounts payable under finance leases	Sterling	-	(17)	-	(17)
Other payables	Sterling	-	-	(767)	(767)
Recourse factoring facility	Sterling	(315)	-	-	(315)
Accruals	Sterling	-	-	(1,153)	(1,153)
Convertible loan note	Sterling	-	(247)	-	(247)
		(384)	(264)	(102)	(750)

As at 31 December 2007	Currency	Floating rate £'000	Fixed rate £'000	Non-interest bearing £'000	Total £'000
Financial assets					
Trade receivables and accrued income	Sterling	-	-	2,048	2,048
Other receivables	Sterling	-	-	201	201
Cash balances	Sterling	-	-	7	7
Financial liabilities					
Trade payables	Sterling	-	-	(1,327)	(1,327)
	US Dollar	-	-	(2)	(2)
Overdraft	Sterling	-	-	-	-
Amounts payable under finance leases	Sterling	-	(64)	-	(64)
Other payables	Sterling	-	-	(773)	(773)
Accruals	Sterling	-	-	(424)	(424)
Convertible loan note	Sterling	-	(482)	-	(482)
		-	(546)	(270)	(816)

The group has derived a sensitivity analysis based on 50% variance in floating interest rates

	31 December 2008 £'000	31 December 2007 £'000
Impact on equity and profit after tax		
50% increase in the base rate of interest	28	-
50% decrease in the base rate of interest	(28)	-

(f) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises on financial assets and liabilities and investments in associates that are denominated in a currency other than the functional currency of the entity by which they are held. The main currency risk of the group is considered to be the group's investment in Cellcast Asia which has a carrying value of £255,000. Cellcast Asia operations are main transaction are conducted in Indian Rupee.

	31 December 2008 £'000	31 December 2007 £'000
Impact on equity and profit after tax		
30% increase Indian Rupee foreign exchange rate against pound sterling	75	165
30% decrease Indian Rupee foreign exchange rate against pound sterling	(75)	(165)

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

Fair value

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

Capital management

The group's main objective when managing capital is to protect returns to shareholders by ensuring the group will continue to trade in the foreseeable future.

The group considers its capital to include share capital, share premium, retained earnings, interest in own shares and net debt as noted below.

Net debt includes short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

	31 December 2008 £'000	31 December 2007 £'000
Convertible loan notes	247	482
Recourse factory facility	315	-
Bank loans and overdraft	69	-
Finance leases	17	70
Total debt	648	552
Less: cash and cash equivalents	-	(7)
Net debt	648	545
Total equity	2,255	1,882
Debt to capital ratio	0.29	0.29

Notes to the consolidated financial statements

18) Share capital

	2008		2007	
Authorised	£	No of shares	£	No of shares
1 January	3,000,000	100,000,000	1,500,000	50,000,000
The authorised share capital was increased on the 23 March 2007 by an ordinary resolution of 50,000,000 shares at 3p each			1,500,000	50,000,000
31 December	3,000,000	100,000,000	3,000,000	100,000,000
Issued				
1 January	2,265,398	75,513,224	1,331,619	44,387,300
1 January 2007				
Shares in lieu of fees for advisory services, waiver of debt at 8p	-	-	13,594	453,119
17 January 2007				
Conversion of shareholders' loans at 8p	-	-	49,488	1,649,615
18 January 2007				
Shares in lieu of fees for placing commissions, waiver of debt at 8p	-	-	10,667	355,555
28 February 2007				
Loan conversion at 6.3p	-	-	94,286	3,142,857
23 April 2007				
Shares in lieu of fees for placing commissions, waiver of debt at 8p	-		58,624	1,954,128
Loan conversion at 8p			300,750	10,025,000
11 July 2007				
Shares in lieu of fees for loan arrangement, waiver of debt at 8p	-	-	18,750	625,000
8 November 2007				
Loan conversion and associated interest paid at 3.0875p		-	50,120	1,670,650
22 November 2007			300,000	10,000,000
Loan conversion at 4p	-	-		
29 November 2007				
Loan conversion at 4p	-	-	37,500	1,250,000
At 31 December	2,265,398	75,513,224	2,265,398	75,513,224

Note 1: the issue price has been set as at market price at the date of issue
Note 2: with the agreement of the service providers the fees mentioned above were paid in shares rather than cash to assist with working capital management

The share options and warrants granted over the shares of the company are set out in note 19.

19) Share options

The group operates two different share option schemes, an EMI scheme and a share option plan which are available to be granted to directors, staff, consultants and independent contractors as part of their remuneration package and they act as an incentive to assist with the future performance of the group. The group has also issued warrants to consultants and independent contractors as part of their remuneration packages.

During the year ended 31 December 2008 the company had share-based payment arrangements which are described below.

EMI share option plan

Date of grant	10/10/05	15/5/06	10/10/06	08/11/07	25/07/08
Number granted	1,142,238	70,000	775,000	884,510	1,200,000
Contractual life	10 years	10 years	10 years	10 years	10 years
Estimated fair value per option -Tranche 1	£ 0.260	£ 0.290	£ 0.040	£ 0.020	£ 0.0041
Estimated fair value per option -Tranche 2	£ 0.250	£ 0.340	£ 0.040	£ 0.030	£ 0.0044
Estimated fair value per option -Tranche 3	£ 0.270	£ 0.380	£ 0.050	£ 0.030	n/a
Vesting conditions	None	None	None	None	None

General share option plan

Date of grant	15/9/05	4/4/06	15/5/06	10/10/06	08/11/07	25/07/08
Number granted	535,206	17,391	110,000	325,000	1,600,000	1,800,000
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years
Estimated fair value per option -Tranche 1	£ 0.310	£ 0.440	£ 0.350	£ 0.040	£ 0.020	£ 0.0041
Estimated fair value per option -Tranche 2	£ 0.330	£ 0.510	£ 0.400	£ 0.050	£ 0.030	£ 0.0044
Estimated fair value per option -Tranche 3	£ 0.360	£ 0.500	£ 0.400	£ 0.050	£ 0.030	n/a
Vesting conditions	None	None	None	None	None	None

Share warrant scheme

Date of grant	18/01/07	23/02/07	29/06/07
Number granted	1,000,000	1,875,000	2,000,000
Contractual life	5 years	5 years	5 years
Estimated fair value per option	£ 0.030	£ 0.030	£ 0.033
Vesting conditions	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	10/10/05	15/5/06	10/10/06	08/11/07	25/07/08
Share price at grant date	£ 0.710	£ 0.685	£ 0.080	£ 0.053	£ 0.01
Exercise price	£ 0.710	£ 0.685	£ 0.080	£ 0.053	£ 0.03
Contractual life	10 years	10 years	10 years	10 years	10 years
Expected volatility	80%	80%	80%	80%	80%
Expected dividends	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	4.22%	4.62%	4.53%	4.75%	4.94%
Sub-optimal coefficient	1.7	1.7	1.7	1.7	1.7
Forfeiture rate	27% and 40%	15%	0% and 10%	0% and 10%	0%

General share option plan

Date of grant	15/9/05	4/4/06	15/5/06	10/10/06	08/11/07	25/07/08
Share price at grant date	£ 0.715	£ 0.863	£ 0.685	£ 0.080	£ 0.053	£ 0.01
Exercise price	£ 0.715	£ 0.863	£ 0.685	£ 0.080	£ 0.053	£ 0.03
Contractual life	10 years	10 years	10 years	10 years	10 years	10 years
Expected volatility	80%	80%	80%	80%	80%	80%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk-free interest rate	4.16%	4.37%	4.62%	4.53%	4.75%	4.94%
Sub-optimal coefficient	1.7	1.7	1.7	1.7	1.7	1.7
Forfeiture rate	15% and 21%	0% and 10%	0% and 10%	0% and 10%	0% and 10%	0%

Share warrant scheme

Date of grant	18/01/07	23/02/07	29/06/07
Share price at grant date	£ 0.073	£ 0.073	£ 0.080
Exercise price	£ 0.080	£ 0.080	£ 0.088
Contractual life	5 years	5 years	5 years
Expected volatility	80%	80%	80%
Expected dividends	Nil	Nil	Nil
Risk-free interest rate	5.11%	5.04%	5.63%
Sub-optimal coefficient	1.7	1.7	1.7
Forfeiture rate	0%	0%	0%

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

Notes to the consolidated financial statements

The share options and warrants in issue during the year are as follows:

	2008		2007	
Share options	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 January	4,877,521	0.25	2,632,447	0.45
Granted during the year	3,000,000	0.03	2,484,510	0.05
Forfeited during the year	(635,137)	0.31	(239,436)	0.71
Cancelling during the year	(385,984)	0.71	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	6,856,400	0.12	4,877,521	0.25
Exercisable at 31 December	3,778,540	0.44	1,550,759	0.56

Of the share options that have been granted during the year 1,800,000 relate to those which have been issued from both the EMI scheme and the general share option plan as consideration for the cancelled options. The share option that were cancelled during the year relate to those from within the EMI scheme and the general share option plan grants made in 10 October 2005 and 15 May 2006. These share options that were cancelled as management considered that they had become un-advantageous to the option holders. Accordingly replacement share options were granted with modified terms and conditions, principally a reduced exercise price, to make the share options more favourable. These replacement share options have therefore been accounted for as a modification and the total incremental fair value of these replacement share options is £7,164 of which £2,213 has been recognised in the income statement during the year.

The share options outstanding at the end of the year have an exercise price of between £0.03 and £0.8625, with a weighted average remaining contractual life of 8.88 years.

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.

	Option price £	Number granted	Date of grant
Andrew Wilson	0.710	56,338	15/09/05
Bertrand Pierre Folliet	0.715	56,338	15/09/05
Emmanuelle Guicharnaud	0.710	98,591	15/09/05
	0.030	400,000	24/07/08
Julian Paul	0.715	70,423	15/09/05
	0.030	400,000	24/07/08
Michael Neville	0.715	7,042	15/09/05
	0.685	40,000	15/05/06
	0.030	400,000	24/07/08

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

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

Share warrants	2008 Number of options	2008 Weighted average exercise price	2007 Number of options	2007 Weighted average exercise price
Outstanding at 1 January	4,875,000	0.08	-	-
Granted during the year	-	-	4,875,000	0.08
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at 31 December	4,875,000	0.08	4,875,000	0.08
Exercisable at 31 December	4,875,000	0.08	4,875,000	0.08

The share warrants outstanding at the end of the year have an exercise price of £0.08, with a weighted average remaining contractual life of 3.29 years.

The total expense, which has been recognised in the income statement, arising from share-based payment transactions is as follows:

	2008	2007
	£	£
Share option and warrant expense	56,619	150,665

In addition in 2007 the warrants granted in relation to the issuing of convertible loans with a fair value amounting to £150,300 was recognised as a finance cost and offset against the funds borrowed. These costs are recognised as an expense using the effective interest method under IAS39: 'Financial Instrument: recognition and measurement'.

During the year terms associated with some of the warrants were revised which resulted in a credit of £16,564 being recognised in the income statement.

Notes to the consolidated financial statements

20) Cash flows

	Year ended 31 December 2008 £	2007 £
a Reconciliation of net profit/(loss) to net cash outflow from operating activities		
Profit/(loss) before tax on continuing operations	179,815	(2,156,493)
Interest receivable and similar income	(2,914)	(4,898)
Interest payable and similar charges	120,023	168,586
Share of operating loss in associates	342,498	180,567
Amortisation and depreciation	516,587	489,200
Share option expense	56,619	150,665
General administration fees settled in shares	-	221,024
Loss on disposal of property, plant and equipment	24,784	-
Gain on disposal of intangible assets - proceeds from disposal of channels	(1,207,275)	-
Finance costs	42,977	-
(Increase)/decrease in trade and other receivables	(765,388)	182,233
Increase in trade and other payables	267,534	1,573,787
Net cash inflow / (outflow) from operating activities from continuing operations	(424,740)	804,671
Net cash outflow from operating activities of discontinued operations	-	(1,237,414)
Net cash outflow from operations	(424,740)	(432,743)
b Cash flow from investing activities		
Proceeds on disposal of intangible assets	1,400,000	-
Purchase of property, plant and equipment	(44,076)	(12,235)
Purchase of intangible assets	(753,982)	(1,194,919)
Net cash inflow/(outflow) from investing activities	601,942	(1,207,154)
c Cash flow from financing activities		
Capital element of finance leases	(54,395)	(62,463)
Interest paid	(120,023)	(44,418)
Repayment of loan	(276,500)	-
Proceeds from the issue of convertible loan note	-	2,000,000
Less issue costs	-	(188,090)
Net cash (used in)/generated from financing activities	(450,918)	1,705,029

21) Capital commitments

At 31 December 2008, the group had no outstanding capital commitments (2007: nil)

22) Contingent liability

In August 2007, Cellcast Asia Holdings Limited ("CAH") issued US$5.25 million of Series A Preferred Stock to Canaan Partners, a private equity firm. At the end of August 2012, CAH may be required to redeem the Preferred Stock at the higher of cost or fair market value and, in those circumstances, a breach by CAH of the redemption provisions in its articles of association may trigger a right for the holder(s) of the Preferred Stock to put the Preferred Stock on to Cellcast plc. Purchase by Cellcast plc of the Preferred Stock under the put option would be subject to the requirements of the AIM Rules for Companies and any other applicable regulation or legislation at the time. After reviewing CAH's management forecasts to 2012, the directors do not consider that any material value attaches to this option at 31 December 2008.

23) Related party transactions

SMS Media Limited
In 2008 sales to SMS Media Limited amounted to £66,982 and management charges totalled £321,040. At the year end £84,140 (2007: £23,395) was owed to SMS Media Limited, which has common directors and beneficial shareholders in Bertrand Folliet and Andrew Wilson.

Sky Telemedia (UK) Limited
During the year recharges, relating mostly to rent and rates, from Sky Telemedia (UK) Limited amounted to £417,806 (2007: £952,623). At the year end £15,368 (2007: £94,177) was owed to Sky Telemedia (UK) Limited. Sky Telemedia (UK) Limited is a wholly owned subsidiary of SMS Media Limited.

Cellcast Television China Limited
At the start of the year the company transferred funds amounting to £18,000 to Cellcast Television China Limited a former trading subsidiary of the group. During the year there were recharges to Cellcast Television China Limited of £Nil (2007: Nil). At the year end the amount due to Cellcast UK Limited was £553,140 (2007: £535,140) from Cellcast Television China Limited. This was written off in Cellcast UK Limited's accounts during 2008 as the company ceased trading.

Cellcast Lebanon SAL
At the year end £Nil (2007: £20,905) was owed to Cellcast UK Limited. Cellcast UK Limited has a beneficial 27% interest in Cellcast Television Lebanon SAL.

Neil Craven
During the year the company paid £5,000 to Neil Craven (2007: nil) as a fee to assist with the company's financial public relations, to review investor relations strategy and to promote the company to existing and potential investors.

Cellcast plc entity balance sheet

	Note	2008 £	2007 £
Fixed assets			
Investments in subsidiary	24	1,145,266	1,088,647
Current assets			
Debtors	25	7,017,357	7,387,818
Cash at bank and in hand		1,677	928
		7,019,034	7,388,746
Creditors: amounts falling due within one year	26	247,297	482,109
Net current assets representing total assets less current liabilities		6,771,737	6,906,637
		7,917,003	7,995,284
Capital and reserves			
Called up share capital	27	2,265,398	2,265,398
Share premium account	28	5,498,626	5,498,626
Profit and loss account	28	152,979	231,260
		7,917,003	7,995,284

Accounting policies

Accounting convention

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.

No income statement is presented for Cellcast plc as provided by section 230 of the Companies Act 1985. The details of the loss for the year are given in note 29.

Revenue

Revenue represents amounts receivable for services net of VAT.

Investments

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

Deferred taxation

Deferred taxation 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 company's taxable between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

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, so as to produce a constant periodic rate of change on the net obligation outstanding in each period.

Share-based payments

The parent company 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 recognized over the vesting period. The expense is recognized as a staff cost and the associated credit entry is made in equity.

Convertible loan notes

The convertible loan notes issued by the company are accounted for in accordance with the substance of the contractual arrangement. The convertible loan notes have been accounted for in full as a financial liability in accordance with FRS26: 'Financial instruments: recognition and measurement' as the conversion option on these loan notes is based on a variable number of ordinary shares.

The convertible loan notes are recognised initially at fair value and subsequently amortised at cost using the effective interest rate method. Issue costs in relation to these convertible loan notes are accounted for within the initial recognition of the financial liability.

24) Investments

Investments in subsidiary	£
At 1 January 2008	1,088,647
Contribution in relation to share option charge	56,619
At 31 December 2008	1,145,266

	£
At 1 January 2007	639,087
Contribution in relation to share option charge	449,560
At 31 December 2007	1,088,647

The investment relates entirely to the 100% holding of Cellcast UK Limited a company incorporated in England and Wales and whose principal activity is television and broadcasting. Full details of Cellcast UK Limited subsidiaries are given in note 11.

25) Debtors

	2008	2007
	£	£
Amounts owed by group undertakings	7,017,357	7,336,323
Other debtors	-	51,495
	7,017,357	7,387,818

26) Creditors falling due within one year

	2008	2007
	£	£
Convertible lean note	247,297	482,109

Full details of convertible loan note included in note 16

27) Share capital

	2008	2007
	£	£
Authorised share capital		
Ordinary shares of 3p each 100,000,000 (2007: 100,000,000)	3,000,000	3,000,000
Allotted, called up and fully paid		
Ordinary shares of 3p each 75,513,224 (2007: 75,513,224)	2,265,398	2,265,398

28) Reserves

	Share Premium	Profit and Loss account	Total
	£	£	£
Balance at 1 January 2008	5,498,626	231,260	5,729,886
Loss for the period	-	(134,900)	(134,900)
Share option charge	-	56,619	56,619
Balance at 31 December 2008	5,498,626	152,979	5,651,605

	Share Premium	Profit and Loss account	Total
	£	£	£
Balance at 1 January 2007	4,775,743	23,313	4,799,056
Loss for the period	-	(391,913)	(391,913)
Share option charge	-	449,560	449,560
Warrant issue charge	-	150,300	150,300
Proceeds of shares issued at a premium	722,883	-	722,883
Balance at 31 December 2007	5,498,626	231,260	5,729,886

29) Statement of movement in equity shareholders' funds

	2008	2007
	£	£
Loss for the period	(134,900)	(391,913)
Proceeds from shares issued	-	1,656,662
Warrant issue charge	-	150,300
Share option charge written off to share premium account	56,619	449,560
Net addition to shareholders' funds	(78,281)	1,864,609
Opening equity shareholders' funds	7,995,284	6,130,675
Closing equity shareholders' funds	7,917,003	7,995,284

30) Related party transactions

The company has taken advantage of the exemption in Financial Reporting Standard Number 8 from the requirement to disclose transactions with group companies on the grounds that consolidated financial statements are prepared by the ultimate parent company.

31) Contingent liability

In August 2007, Cellcast Asia Holdings Limited ("CAH") issued US$5.25 million of Series A Preferred Stock to Canaan Partners, a private equity firm. At the end of August 2012, CAH may be required to redeem the Preferred Stock at the higher of cost or fair market value and, in those circumstances, a breach by CAH of the redemption provisions in its articles of association may trigger a right for the holder(s) of the Preferred Stock to put the Preferred Stock on to Cellcast plc. Purchase by Cellcast plc of the Preferred Stock under the put option would be subject to the requirements of the AIM Rules for Companies and any other applicable regulation or legislation at the time. After reviewing CAH's management forecasts to 2012, the directors do not consider that any material value attaches to this option at 31 December 2008.

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