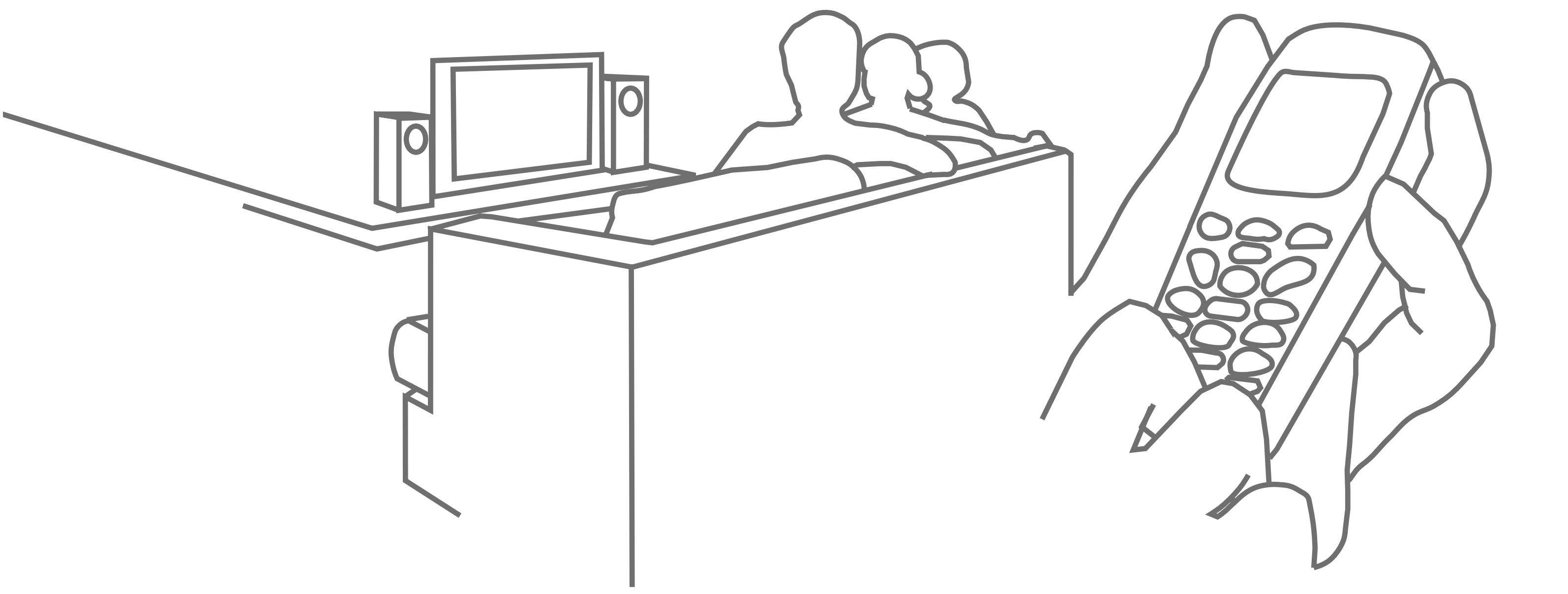
cellcast

Annual report and accounts 2005

a proven innovator in interactive media



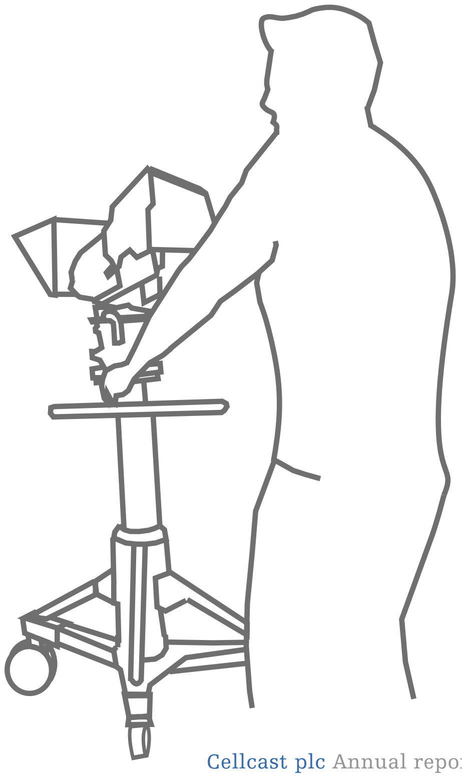
Corporate Statement Cellcast plc, the global interactive digital broadcaster, is a world leader in the provision of participation television programming and interactive mobile content in the rapidly growing multi-platform digital entertainment sector.

Our business models are highly scalable and deliver incremental revenues to broadcasters and telecom networks of every size. Cellcast's innovative multi-platform interactive entertainment applications, supported by expertise in the provision of micro-billing solutions, deliver new telephony-based pay-to-play and pay-to-participate revenues that are independent of subscription income and advertising.

Cellcast's extensive portfolio of exclusive formats and proprietary Interactive Platform enable broadcasters, mobile networks, content developers and media ventures to capture new business opportunities from the accelerating convergence of television, IT and telecommunications in a fast-changing media environment.

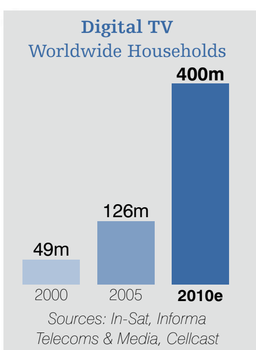
2005 Highlights

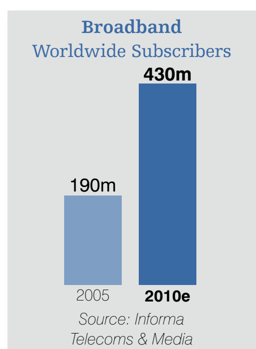
- Turnover of £13.2 million, up 61% on 2004
- Successful listing on AIM in September 2005, raising £5 million before expenses
- Launch of four additional channels on the Sky Digital network and bandwidth secured on the fast growing Freeview platform in the UK
- Expansion of operations in Europe and the Middle East
- New ventures established in India, Latin America, China and Eastern Europe
- Significant development of proprietary technology to facilitate distribution of live interactive content across television, broadband and 3G platforms
- Strategic new initiatives in the gaming and gambling sectors

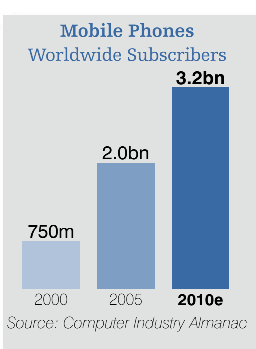


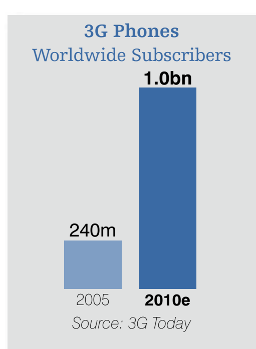
In this new era of participatory entertainment, Cellcast has developed innovative strategies for integrating mobile content into the multi-channel television environment, recognising that mobile phones are now a general-purpose interaction device in the hands of over two billion consumers, who always have their phones with them.

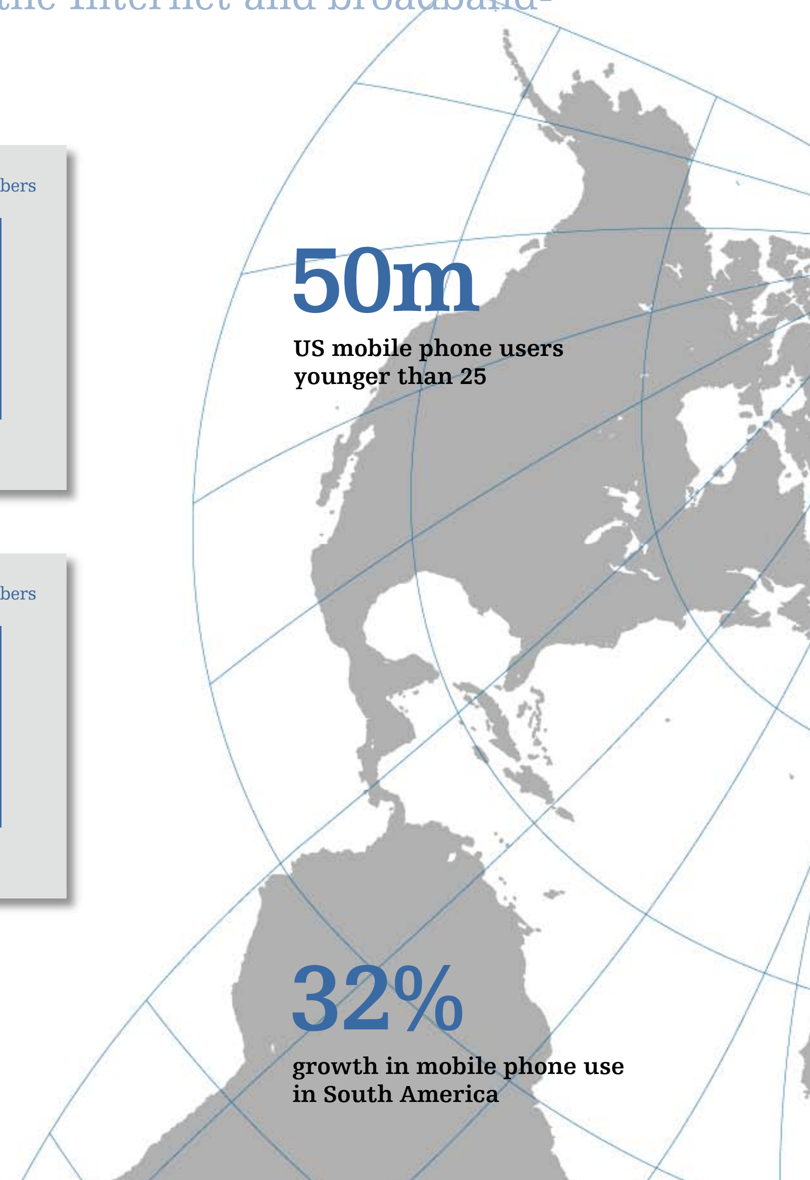
Our business model requires no significant upfront investment by broadcasters, whilst our proprietary technology does away with the need for set-top boxes for viewers. We are focused on delivering compelling interactive programmes with a proven ability to generate incremental revenues for both broadcasters and telecommunications networks. Our platform facilitates 24/7 distribution of content to mobile phones, the Internet and broadband-delivered IPTV.







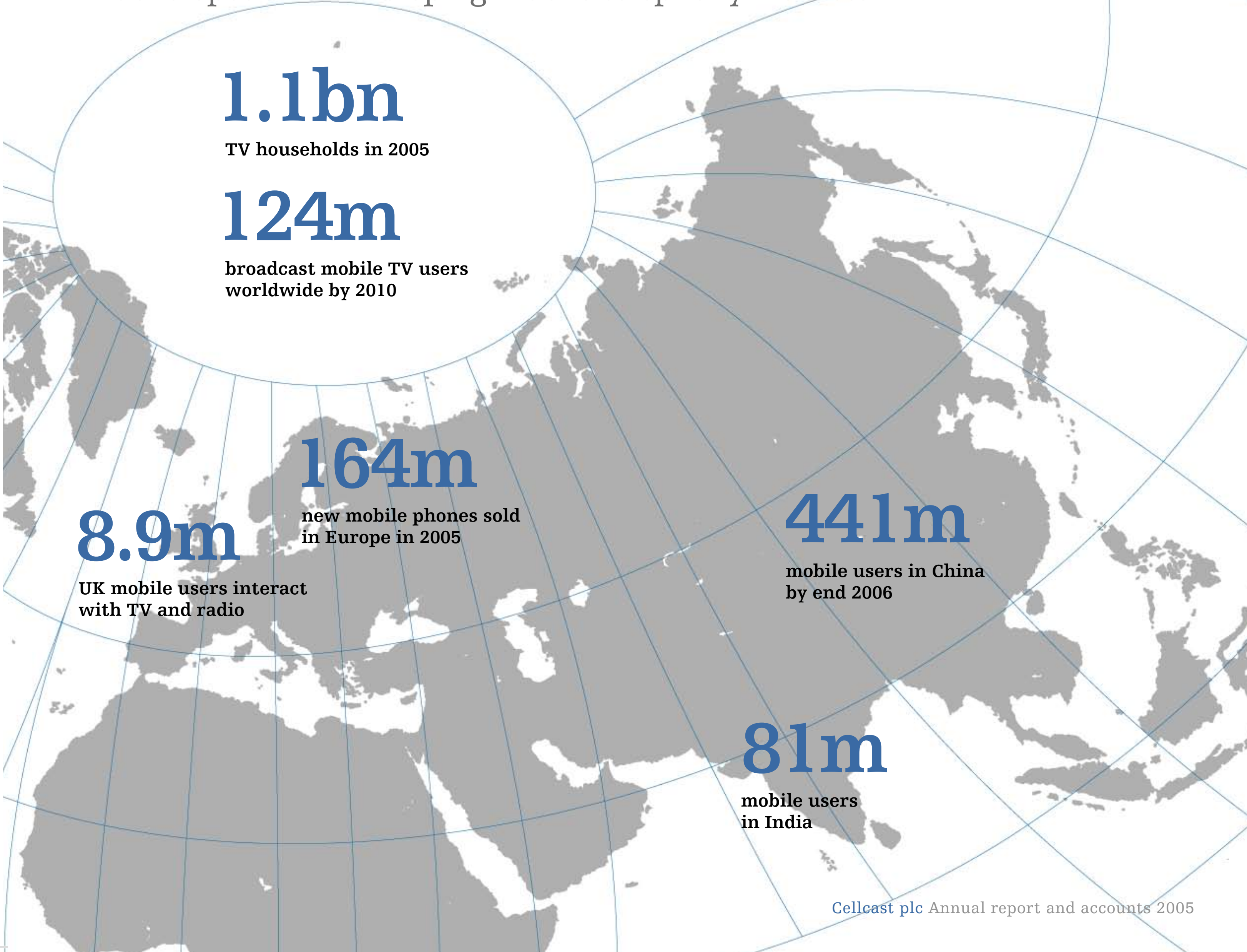




We currently broadcast over 100 hours of live television per day on the Sky Digital platform in the United Kingdom, and our applications and programming are building new traffic for mobile operators and generating additional revenues for our growing network of broadcast partners around the world.

With increased consumer demand for entertainment 'anytime, anywhere', we are expanding our content portfolio and developing new distribution opportunities in Europe, the Middle East, China, India, Latin America and the United States.

Our goal is to establish a presence in every one of the world's developed and developing mobile telephony markets.



Chairman's Statement

I am pleased to report that turnover for the year ended 31 December 2005 was up 61% to £13.2 million. Performance in the UK market was very strong, contributing some £2.2 million in gross profit and giving us the resources and opportunity to invest for the future in key overseas markets.

Julian Paul

I am very pleased to introduce the first Annual Report of Cellcast plc as a public company following Admission to AIM in September 2005.

Admission to AIM

The company had a successful debut on AIM, raising £5 million before expenses and introducing a wide range of new shareholders. I would like to welcome our new shareholders and thank them for supporting the company. The placing was well received which resulted in the issue being oversubscribed. This meant that we were able to raise more money for the company than we originally had intended, and it also allowed Atlas Group, which had been an investor for some time, to realise part of its holding. We were delighted with the investor response to the company and as a consequence now have an excellent institutional shareholder base. The funds raised will enable us to develop our business in line with the strategy set out in the Admission document.

2005 results

I am pleased to report that turnover for the year ended 31 December 2005 was up 61% to £13.2 million, 97% of which was generated in the UK. Performance in this market was very strong, contributing some £2.2 million in gross profit and giving us the resources and opportunity to invest for the future in key overseas markets. Start-up losses in the overseas territories of Ukraine, India and Argentina and expensed development costs in those and other territories aggregated some £1.4 million. As a consequence, the company recorded a loss at the EBITDA level of £327,000 (2004: £460,000) and an operating loss before interest and tax of £728,000 (2004: £708,000). No dividend is proposed.

A full review of operations in 2005 is set out on pages 6 and 7 of this report.

Non-executive board members

In the AIM Admission document, we stated that the company intended to appoint a further independent non-executive director following Admission. This was because Mike Neville, who is a non-executive director, was the chairman of Atlas Group, which prior to Admission owned 50% of the company and therefore he was not considered to be independent. However, since Admission, he has ceased to be chairman of Atlas and now has no formal association with them. He is therefore

Summary

- Successful listing on AIM, raising £5 million before expenses
- Turnover of £13.2 million, up 61% on 2004
- Operating loss before interest and tax of £728,000 (2004: £708,000)
- No dividend proposed

Current year trading in the UK has begun well, with UK generated turnover for the first two months running some 16% ahead of the same period in the prior year. There are plenty of profitable opportunities ahead for the company, as we continue to take advantage of the dramatic changes in the media landscape.

now considered to be independent. He has a great deal to offer to the company in view of his experience in the telecommunications and technology arena, and therefore we will not at present be seeking to appoint a further non-executive director.

Staff tribute

The company depends critically on the loyalty and commitment of its team, both in the UK and now increasingly overseas, and I wish to put on record the board's appreciation of their hard work and commitment. Motivation and retention of key staff is vital for the future success of the company. At the time of Admission to AIM, we put in place share option schemes in the form of an Enterprise Management Incentive Scheme and an Unapproved Share Option Plan. At 31 December 2005, the company had granted just over 1.4 million share options under these schemes to 48 members of staff other than directors, aggregating 5% of the share capital of the company.

Outlook

Current year trading in the UK has begun well, with UK generated turnover for the first two months running some 16% ahead of the same period in the prior year. This does not include revenues from any Freeview services which are expected to flow later in the year. Having spent considerable time and money in 2005 setting the stage for the international expansion of the company, we anticipate that revenue growth in 2006, mainly in the second half, will come from the activities in India, China, Latin America and other countries where mobile phone penetration is growing rapidly. We continue to invest in our proprietary technology and in new formats, and, in developing gambling formats and applications, hope to benefit from increased international opportunities arising from deregulation of the gambling industry. There are plenty of profitable opportunities ahead for the company, as we continue to take advantage of the dramatic changes in the media landscape.

Julian Paul
Chairman
10 April 2006

£13.2m

turnover in 2005

61%

growth in turnover against 2004

£1.3m

investment in proprietary technology and distribution infrastructure

Review of Operations During the past year we have enhanced our position in Europe and developing markets with distribution deals and partnerships with established broadcasters and media companies in India, Latin America, China, Eastern Europe and the Middle East.

Andrew Wilson

Bertrand Folliet

Summary

- Launch of four additional channels on Sky Digital and bandwidth secured on Freeview in the UK
- New ventures established in India, Latin America, China and Eastern Europe
- Proprietary technology upgraded to facilitate distribution of live interactive content across multiple platforms
- Strategic new initiatives in the gaming and gambling sectors

During 2005, Cellcast has focused on three key areas of activity, which together drive revenue growth and uniquely position the company in the global marketplace for convergent entertainment services.

UK

Cellcast now broadcasts over 100 hours of live interactive programming each day, which are distributed across eight channels on the Sky Digital platform. We continue to expand our reach in the UK, through securing bandwidth on Freeview's digital terrestrial platform, via cable networks, consumer broadband services, and mobile network portals.

Increasingly, our programmes facilitate user-generated content and are the conduit for user-to-user experiences that extend participation outside television transmission times. Interactive episodic content specially formatted for mobile phones also provides further incremental 24/7 revenue opportunities.

With our experience of integrating new technologies and new communication channels, and our considerable expertise in the provision of micro-billing solutions, we continue to develop new products and business models that capture the opportunities arising from the current growth of 3G, IPTV, enhanced broadband, video mobile and wireless broadband services.

From our base in one of the world's most competitive digital television markets, we continue to identify, develop and test profitable new interactive applications and formats for worldwide distribution. This extensive portfolio of proven programming lowers the cost of entering new territories and creates the foundation for our continued global expansion.

International expansion

The company's strong international push in 2005 has proven the scalability of our business model and the competitive benefits of its cost-effective deployment. Our extensive range of interactive applications and programmes can now be customised to fit any transmission schedule, for broadcasters of all sizes, from small cable and satellite channels to major terrestrials.

During the past year we have enhanced our position in Europe and developing markets with distribution deals and partnerships with established broadcasters and media companies in India, Latin America, China, Europe and the Middle East.

Through our new subsidiary, Cellcast India Interactive, we partnered with the Essel Group to launch India's first live 24-hour interactive gaming channel, PlayTV, offering active viewer involvement to over 47 million cable and DTH households. With 85 million television households, over 81 million mobile

Cellcast is now firmly established as a leading provider of interactive TV and mobile entertainment. The focus over the coming year is our drive into China, India, Brazil, USA and Russia, within an overall strategy of building a presence in all markets where mobile penetration is high or growing rapidly.

phone subscribers growing by 2.5 million users a month, and a sustained rise in consumer spending, India promises to become a leading world market for convergent entertainment services in a very short time.

Our Latin American roll-out was launched with a showcase interactive game show on Telefé, Argentina's largest terrestrial broadcaster. This was the first step in a regional strategy which simultaneously addresses the Hispanic markets of the United States. Following the successful entry into Argentina, we launched Ecuador's first participation-TV show on one of the country's main terrestrial channels TeleAmazonas, and our proven business model is now attracting the strong interest of broadcasters across the continent.

In the Far East, our initial focus has been China, where our new joint venture has national billing agreements with China Mobile and China Unicom. China has the world's largest mobile phone market, with more than 400 million mobile phone subscribers, and its SMS revenues in 2007 are forecast to exceed those of the whole of Western Europe. Our innovative programming on TVS-3, one of the leading entertainment channels in the country's richest province, Guangdong, provides consumers with a seamless service extending television to mobile phones via China Mobile's WAP portal. We will continue to identify new broadcast and media partners in China, and expect to announce further distribution deals in 2006.

We are pursuing commercial discussions with national and regional broadcasters in several Eastern European countries. Our new partnership with STB, one of Ukraine's major broadcasters, is expected to be a springboard for entry into the large Russian market.

In the Middle East, our considerable expertise working with multiple GSM and fixed-line operators, and with the particular network infrastructure and technical interface constraints of the region, continues to be in demand from broadcasters. We are the exclusive SMS billing provider to the pan-Arab Future TV network and to all four channels on the region's largest music network, Rotana Television, and provide billing services and interactive screen management to E2 in Cairo, Music Time and Citruss TV in Dubai, and Escape TV in Jordan.

Proprietary technology

We made a significant step forward this year with the evolution of the proprietary Cellcast Interactive Platform (CIP). The new 'Channel in a Box' architecture means a broadcaster can now playout via a single system connected to the CIP back office, and have the complete channel, including advertisements, interactively enabled. Cutting edge 3D interactivity is built into the system from the ground up.

In 2006 these upgrades to the CIP will enable us to enhance 3G, podcast and broadcast delivery, and to focus on short form content and enhanced interactive formats for mobile platforms including J2ME, Windows and Symbian.

Outlook for 2006

Cellcast is now firmly established as a leading provider of interactive TV and mobile entertainment. The global market for our programmes and applications continues to expand. The focus over the coming year is our drive into China, India, Brazil, USA and Russia, within an overall strategy of building a presence in all markets where mobile penetration is high or growing rapidly.

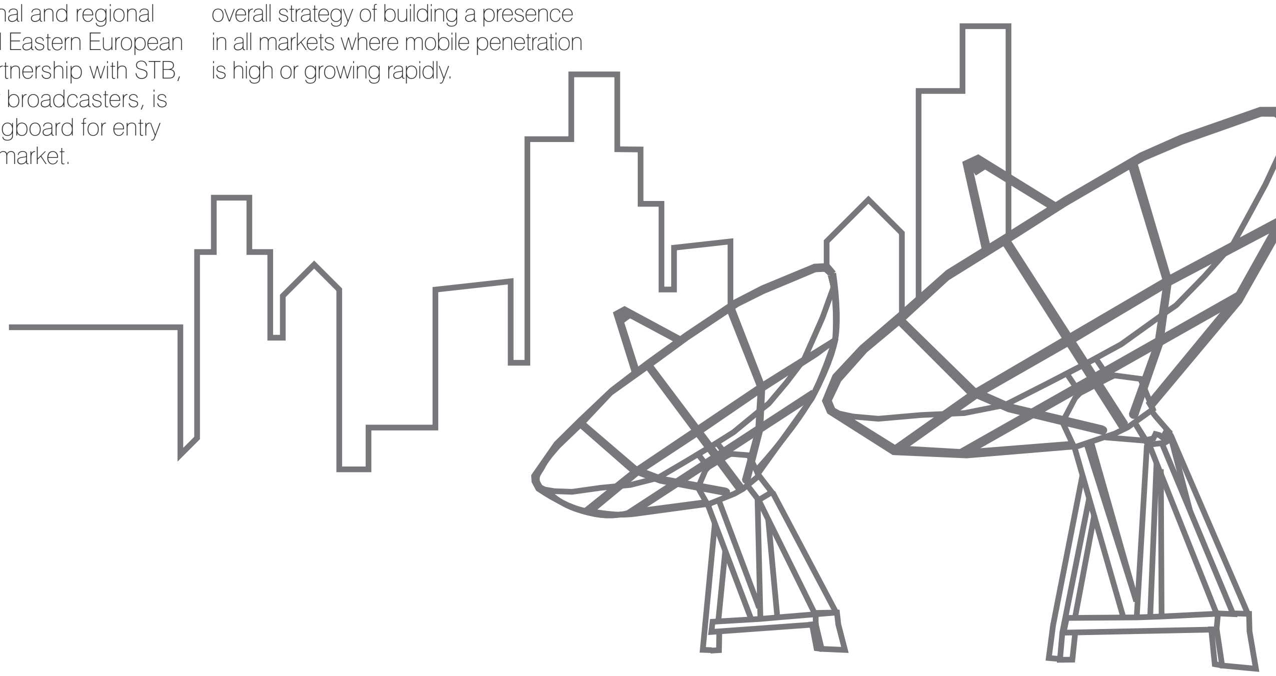
Our proprietary CIP platform has already proven its ability to facilitate rapid deployment of a growing portfolio of applications into multiple markets, and key platform upgrades during the coming months will allow us to combine 2D and 3D rendering in real time.

We will continue to invest in new formats designed specifically for multi-platform distribution, including 3G and IPTV. Close attention will be paid to user-generated content, and leveraging our established skills to exploit the interactive applications that can be built around this.

A development focus on gambling formats and applications will take advantage of our strong presence on the Sky Digital platform in the UK and the increased international opportunities arising from deregulation in the global gambling industry.

Andrew Wilson
Chief Executive Officer

Bertrand Folliet
Chief Operating Officer



Directors and Advisers

Julian Paul FCA
Non-Executive Chairman

Andrew Wilson
Chief Executive Officer

Bertrand Folliet
Chief Operating Officer

Emmanuelle Guicharnaud
Chief Financial Officer

Mike Neville
Non-Executive Director

Julian Paul FCA
Non-Executive Chairman
Julian Paul (60) 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. He was deputy chairman of Castle Communications plc between 1991 and 1997 and chairman of Tele-Cine Cell Group plc between 1994 and 1998. He is currently deputy chairman of Eagle Rock Entertainment Limited, of which he was a founder shareholder. He is also a non-executive director of Entertainment Rights plc, Pilat Media Global plc, Stagecoach Theatre Arts plc, Ekay plc and Edge Performance VCT plc.

Andrew Wilson
Chief Executive Officer
Andrew Wilson (45) co-founded Cellcast in 2002. With 20 years experience in the telecoms and information industries, he enjoys a proven track record of building innovative international businesses in related telecoms, broadcasting and new media sectors. Most recently, he has played a leading industry role in driving the global success of value-added services such as SMS and the monetization of digital content. Before co-founding Cellcast, he served as an executive director of the Tokyo based Jasdaq-listed e-Lux Corporation, and was chief executive officer of the publicly listed Hong Kong company e-New Media. Prior to this he was a director of the international telemedia services provider VISL, and joint managing director of Marketing Solutions, a subsidiary of DDB Needham.

Bertrand Folliet
Chief Operating Officer
Bertrand Folliet (40) 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 that 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
Emmanuelle Guicharnaud (33) spent four years as a management consultant for PricewaterhouseCoopers. 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 (51) has extensive experience in capital markets and is a director of a number of public and private companies. He is currently chairman of Felix Group plc, World Television Group plc and Minmet plc, all AIM companies. His background is in the telecommunications, technology and media arena, where he has worked for the last 17 years specialising in strategy, mergers and acquisitions, and turn around situations. He has worked for companies such as Cable & Wireless, United Utilities, Ozemail Interline Pty and OnCue Telecommunications Limited, where he has been involved in large and small scale fund raisings as well as numerous merger and acquisitions transactions in various parts of the world.

Nominated Adviser and Broker
Daniel Stewart & Company plc
Beckett House
36 Old Jewry
London EC2R 8DD

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Independent Auditors
Baker Tilly
2 Bloomsbury Street
London WC1B 3ST

Solicitors to the Company
Memery Crystal
44 Southampton Buildings
London WC2A 1AP

Wallace LLP
1 Portland Place
London W1B 1PN

Financial PR Advisers
Abchurch Communications Ltd.
100 Cannon Street
London EC4N 6EU

Bankers
HSBC
196 Oxford Street
London W1D 1NT

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 9. 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 14 and a statement on going concern is given on page 11.

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

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

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

Nomination committee

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

Remuneration committee

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

Audit committee

The audit committee comprises Julian Paul and Mike Neville, and is chaired by Julian Paul. The committee meets not less than twice annually. The committee provides a forum for reporting by the company's external auditors. Meetings are also attended, by invitation, by the chief executive officer or the chief financial officer.

The audit committee is responsible for reviewing a wide range of matters including the half year and annual accounts before their submission to the board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the board on the appointment of external auditors and their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the external auditors. A formal statement of independence is received from the external auditors each year.

Relations with shareholders

The board recognises the importance of communications with shareholders. The Chairman's Statement and Review of Operations include a detailed review of the business and future developments. There is 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. The chairman aims to ensure that the chairmen of the audit, remuneration and nomination committees are available at the Annual General Meetings to answer questions.

Management structure
The board has overall responsibility for the company. Each executive 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 risk 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 are 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 the senior management, the board considers that there is no current requirement for an internal audit function. This will be kept under review.

Audit committee
The audit committee monitors, through regular reports, the controls which are in force and any perceived gaps in the control environment. The audit committee also considers and determines relevant action in respect of any control issues raised by the external auditors.

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

Directors' Report
for the year ended 31 December 2005

The directors present their report and consolidated financial statements for the year ended 31 December 2005.

The company was incorporated on 26 January 2005 as Cellcast Television Limited. On the 10 August 2005 the company changed its name to Cellcast Limited and on 15 September 2005 it reregistered as a public company.

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 2006 is contained in the Chairman's Statement on pages 4 and 5 and Review of Operations on pages 6 and 7.

Results and dividends
The Consolidated Profit and Loss Account for the year is set out on page 16.

Directors
The following directors have held office since incorporation, unless otherwise stated:

Andrew Wilson	
Bertrand Pierre Folliet	
Emmanuelle Guicharnaud	
Julian Paul	(appointed 15 September 2005)
Michael Neville	(appointed 15 September 2005)
Craig Gardiner	(resigned 3 August 2005)

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

	Shareholding %	Ordinary shares of 3p each As at 31 December 2005
Andrew Wilson	10.22	2,875,497
Bertrand Pierre Folliet	10.22	2,875,497
Emmanuelle Guicharnaud	1.24	349,903
Julian Paul	—	—
Michael Neville	—	—

Substantial shareholdings
Other than the directors' interests shown above, the company has been notified of the following substantial interests as at 31 December 2005.

	Shareholding %	Ordinary shares of of 3p each As at 23 March 2006
SMS Media Limited	30.9	8,762,953
Atlas Group of Companies Limited	28.3	8,017,288
Sardik Limited	6.7	1,888,503

Share capital
Details of the share capital are given in note 16 to the financial statements.

Share options
The company has established two share option schemes, the Share Option Plan and the EMI Scheme.

Under the rules of the schemes the number of shares under option at any one time will not exceed more than 10% of the company's issued share capital from time to time.

EMI Options and Unapproved Options (together the "Options") have been granted over 1,705,614 ordinary shares in aggregate to directors, staff, consultants and independent contractors under the schemes exercisable at the placing and representing approximately 6% of the enlarged issued share capital.

There are no performance conditions required for the exercise of the options in respect of the grants.

On 15 September 2005 the company granted 549,291 share options under the Share Option Plan.

On 15 September 2005 the company granted 1,156,323 share options under the EMI Scheme.

The following EMI Options, save for those granted to Mike Neville, Julian Paul and Bertrand Foillet which are Unapproved Options, over the ordinary shares have been granted to the directors.

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

Further details on director share options are given in note 16 to the financial statements.

Creditor payment policy
The company policy is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment practice 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 2005 were 55 days (2004: 52 days).

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

Auditors
Baker Tilly were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

Directors' Report
for the year ended 31 December 2005

Directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

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

By order of the board

Emmanuelle Guicharnaud
Secretary
10 April 2006

Independent Auditors' Report

to the shareholders of Cellcast plc

We have audited the financial statements on pages 16 to 31.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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. This other information comprises the Directors' Report, the Chairman's Statement and the Review of Operations. 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 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

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 December 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly
Registered Auditor
10 April 2006

Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

Consolidated Profit and Loss Account

for the year ended 31 December 2005

	Notes	2005 £ Total	2004 £ Total
Turnover		**13,186,663**	8,197,875
Cost of sales		**(11,361,484)**	(6,373,234)
Gross profit		**1,825,179**	1,824,641
Administrative expenses		**(2,152,528)**	(2,284,543)
Depreciation & amortisation		**(400,908)**	(248,481)
		(2,553,436)	(2,533,024)
Operating loss	3	**(728,257)**	(708,383)
Loss on disposal of subsidiaries	4	**(35,726)**	—
Loss on ordinary activities before interest		**(763,983)**	(708,383)
Interest receivable and similar income		**42,226**	2,938
Interest payable and similar charges	5	**(2,683)**	(894)
Loss on ordinary activities before taxation		**(724,440)**	(706,339)
Tax on loss on ordinary activities	6	**—**	(7,053)
Loss on ordinary activities after taxation		**(724,440)**	(713,392)
Minority interests		**—**	16,354
Loss for the financial year	18	**(724,440)**	(697,038)
Loss per share	7		
Basic and diluted		**(3.2)p**	(3.3)p

There are no recognised gains and losses other than those included in the profit and loss account.

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

Balance Sheets
as at 31 December 2005

		Group		Company
		2005	2004	2005
	Notes	£	£	£
Fixed assets				
Intangible assets	8	611,695	386,667	—
Tangible assets	9	858,458	529,919	—
Investments	10	4,933	4,933	639,087
		1,475,086	921,519	639,087
Current assets				
Debtors	11	2,778,267	1,243,135	1,958,217
Cash at bank and in hand		2,696,180	410,706	2,328,393
		5,474,447	1,653,841	4,286,610
Creditors: amounts falling due within one year	12	(2,852,147)	(2,020,094)	—
Net current assets/(liabilities)		2,622,300	(366,253)	4,286,610
Total assets less current liabilities		4,097,386	555,266	4,925,697
Creditors: amounts falling due after more than one year	13	(122,278)	(273,424)	—
		3,975,108	281,842	4,925,697
Capital and reserves				
Called up share capital	16	850,407	632,200	850,407
Share premium account	18	4,038,676	—	4,038,676
Merger reserve	18	1,300,395	1,144,282	—
Profit and loss account	18	(2,214,370)	(1,489,930)	36,614
Shareholders' funds – equity interests	19	3,975,108	286,552	4,925,697
Minority interests		—	(4,710)	—
		3,975,108	281,842	4,925,697

The financial statements were approved and authorised for issue by the board on 10 April 2006.

Bertrand Folliet
Director

Emmanuelle Guicharnaud
Chief Financial Officer

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	2005		2004	
	£	£	£	£
Net cash inflow/(outflow) from operating activities		(669,985)		501,441
Returns on investments and servicing of finance				
Interest received	42,226		2,938	
Interest paid	(2,683)		(894)	
Net cash inflow for returns on investments and servicing of finance		39,543		2,044
Taxation		(7,053)		—
Capital expenditure				
Payments to acquire intangible assets	(294,674)		(400,000)	
Payments to acquire tangible assets	(804,384)		(558,127)	
Net cash outflow for capital expenditure		(1,099,058)		(958,127)
Acquisitions and disposals				
Purchase of subsidiary undertakings and other significant investments	—		(4,923)	
Proceeds on disposal of subsidiary undertakings	2		—	
Cash on disposal of subsidiary undertakings	(212,548)		—	
Net cash outflow for acquisitions and disposals		(212,546)		(4,923)
Net cash outflow before management of liquid resources and financing		(1,949,099)		(459,565)
Financing				
Issue of ordinary share capital	5,001,248		730,191	
Share issue costs	(751,244)		—	
Capital element of finance lease contracts	(15,364)		(5,125)	
Net cash inflow from financing		4,234,640		725,066
Increase in cash in the year		2,285,541		265,501

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

1 Accounting policies

1.1 Accounting convention
The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards
The financial statements are prepared in accordance with applicable accounting standards.

1.3 Basis of consolidation
The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2005.

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

Merger with Cellcast (UK) Limited
On 14 September 2005, Cellcast plc entered into an agreement with all the shareholders of Cellcast (UK) Limited to merge their respective businesses. The consideration for the purchase of the share capital of Cellcast (UK) Limited was satisfied by the allotment and issue of 21,302,900 ordinary shares of £0.03 each in Cellcast plc, credited as fully paid.

The financial statements have been prepared under the merger accounting rules (the pooling of interests method), as the combining entities within the group were controlled by the same parties both before and after the combination. Accordingly, the financial information for the current period, and for the prior period has been presented as if Cellcast (UK) Limited had been owned by Cellcast plc throughout the current and comparative accounting periods.

1.4 Going concern
The accounts have been prepared on a going concern basis.

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

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

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

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

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

1.9 Pensions
The group operates a defined contribution scheme for the benefit of its employees.

Contributions payable are charged to the profit and loss account in the year they are payable.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

1 Accounting policies (continued)

1.10 Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that resulted in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains 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 timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

1.11 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 the profit and loss account.

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

1.13 Licences
Licence costs are amortised over their relevant licence period on a straight line basis.

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

2 Turnover
The total turnover of the group for the year has been derived from its principal activity.

Segmental analysis by geographical area.

	Turnover	
	2005	2004
	£	£
UK	**12,818,587**	7,883,560
International	**368,076**	314,315
	13,186,663	8,197,875

3 Operating loss

	2005 £	2004 £
Operating loss is stated after charging:		
Amortisation of intangible assets	69,646	13,333
Depreciation of tangible assets	331,262	235,148
Loss on disposal of tangible assets	6,638	—
Loss on foreign exchange transactions	2,639	1,665
Auditors' remuneration	25,000	24,500

4 Investments

	2005 £	2004 £
Loss on disposal of subsidiary undertakings	35,726	—

On 21 September 2005 the former group headed by Cellcast (UK) Limited disposed of its 50% shareholding in Intercast TV Limited and Mediacast TV Limited.

5 Interest payable

	2005 £	2004 £
Hire purchase interest	2,683	894

6 Taxation

	2005 £	2004 £
Current tax		
UK corporation tax	—	7,053
Current tax charge	—	7,053
Factors affecting the tax charge for the year		
Loss on ordinary activities before taxation	(724,440)	(706,339)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2004: 30.00%)	(217,332)	(211,902)
Effects of:		
Non deductible expenses	18,431	101,150
Capital allowances in excess of depreciation	2,307	25,478
Tax losses (carried forward)/utilised	(238,070)	92,327
	217,332	218,955
Current tax charge	—	7,053

The group has losses of approximately £1,785,000 (2004:£1,150,000) available for carry forward against future trading profits.

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

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

7 Earnings per share
The calculation of the basic loss per share is based on the loss attributable to ordinary equity shareholders of £724,440 (2004: loss £697,038) divided by the weighted average of 22,891,724 (2004: 21,073,333) ordinary shares in issue.

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

The financial statements have been prepared under the merger accounting rules (the pooling of interests method), as the combining entities within the group were controlled by the same parties both before and after the combination. Accordingly, the financial information for the current period, and for the prior period, has been presented as if Cellcast (UK) Ltd had been owned by Cellcast plc throughout the current and comparative accounting periods.

8 Intangible fixed assets

Group	Licences £	Development costs £	Total £
Cost			
At 1 January 2005	300,000	100,000	400,000
Additions	294,674	—	294,674
At 31 December 2005	**594,674**	**100,000**	**694,674**
Amortisation			
At 1 January 2005	—	13,333	13,333
Charge for the year	49,646	20,000	69,646
At 31 December 2005	**49,646**	**33,333**	**82,979**
Net book value			
At 31 December 2005	**545,028**	**66,667**	**611,695**
At 31 December 2004	300,000	86,667	386,667

9 Tangible fixed assets

Group	Broadcasting equipment £	Computers, fixtures and fittings £	Total £
Cost			
At 1 January 2005	772,421	90,846	863,267
Additions	736,499	67,885	804,384
Disposals	—	(10,902)	(10,902)
On disposal of subsidiary undertakings	(283,653)	(38,334)	(321,987)
At 31 December 2005	**1,225,267**	**109,495**	**1,334,762**
Depreciation			
At 1 January 2005	292,812	40,536	333,348
Disposals	—	(4,264)	(4,264)
Disposal of subsidiary undertakings	(161,914)	(22,128)	(184,042)
Charge for the year	297,843	33,419	331,262
At 31 December 2005	**428,741**	**47,563**	**476,304**
Net book value			
At 31 December 2005	**796,526**	**61,932**	**858,458**
At 31 December 2004	479,609	50,310	529,919

9 Tangible fixed assets (continued)

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

	Total £
Net book values	
At 31 December 2005	**25,694**
At 31 December 2004	41,926
Depreciation charge for the year	
31 December 2005	**16,229**
31 December 2004	6,762

10 Fixed asset investments

Group	Shares in group and related undertakings £
Cost	
At 1 January 2005	4,933
At 31 December 2005	**4,933**
Net book values	
At 31 December 2005	**4,933**
At 31 December 2004	4,933

Company	
Cost	
At 1 January 2005	
Additions	639,087
At 31 December 2005	**639,087**

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

At 31 December 2005 Cellcast plc owned 100% of the issued share capital in Cellcast (UK) Limited.

At 31 December 2005 Cellcast UK Limited owned the following investments in related companies:

	Country of registration	Shares held Class	%
Gamecast UK Limited	United Kingdom	Ordinary	100
TV You Plc	United Kingdom	Ordinary	100
Cellcast Interactive India Private Limited	India	Ordinary	100
Cellcast TV SA	Argentina	Ordinary	51

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

Gamecast UK Limited	Television broadcasting activities
TV You Plc	Television broadcasting activities
Cellcast Interactive India Private Limited	Television broadcasting activities
Cellcast TV SA	Television broadcasting activities

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

10 Fixed asset investments (continued)
On 21 September 2005 Cellcast (UK) Limited disposed of its 50% shareholding in Intercast TV Limited and Mediacast TV Limited for £2 consideration.

	Intercast TV Limited	
	9 months to 21 September 2005 £	12 months to 31 December 2004 £
Profit and loss account		
Turnover	1,487,550	1,072,701
Cost of sales	(1,311,609)	(941,586)
Gross profit	175,941	131,115
Administrative expenses	(203,563)	(173,354)
Operating loss	(27,622)	(42,239)
Balance sheet		
Tangible assets	118,592	173,744
Debtors	359,024	125,095
Cash at bank and in hand	113,113	112,887
Creditors due within one year	(659,122)	(453,334)
Net liabilities	(68,393)	(41,608)

	Mediacast TV Limited	
	9 months to 21 September 2005 £	12 months to 31 December 2004 £
Profit and loss account		
Turnover	2,084,393	2,665,723
Cost of sales	(1,452,205)	(1,641,826)
Gross profit	632,188	1,023,897
Administrative expenses	(566,032)	(1,009,204)
Operating profit	66,156	14,693
Balance sheet		
Tangible assets	19,353	41,885
Debtors	492,256	490,684
Cash at bank and in hand	99,435	62,361
Creditors due within one year	(511,633)	(562,738)
Net assets	99,411	32,192

11 Debtors

	Group		Company
	2005	2004	2005
	£	£	£
Trade debtors	1,541,593	367,331	—
Amounts owed by group undertakings	—	—	1,951,991
Other debtors	106,029	126,061	—
Prepayments and accrued income	1,130,645	749,743	6,226
	2,778,267	1,243,135	1,958,217

12 Creditors: amounts falling due within one year

	Group		Company
	2005	2004	2005
	£	£	£
Bank overdraft	—	67	—
Net obligations due under hire purchase	8,744	15,226	—
Trade creditors	2,552,602	1,274,911	—
Corporation tax	—	7,053	—
Taxes and social security costs	260,288	361,104	—
Accruals and deferred income	30,513	361,733	—
	2,852,147	2,020,094	—

13 Creditors: amounts falling due after more than one year

	Group		Company
	2005	2004	2005
	£	£	£
Net obligations under finance leases and hire purchase agreements	—	8,882	—
Other creditors	122,278	264,542	—
	122,278	273,424	—

Notes to the Consolidated Financial Statements

for the year ended 31 December 2005

14 Net obligations under finance leases and hire purchase contracts

	Group		Company
	2005 £	2004 £	2005 £
Repayable within one year	11,427	17,909	—
Repayable between one and five years	—	10,447	—
	11,427	28,356	—
Finance charges and interest allocated to future accounting periods	(2,683)	(4,248)	—
	8,744	24,108	—
Included in liabilities falling due within one year	—	(15,226)	—
	8,744	8,882	—

15 Pension costs

Defined contribution

	2005 £	2004 £
Contributions payable by the group for the year	2,229	2,872

16 Share capital

	Group		Company
	31/12/05 £	31/12/04 £	31/12/05 £
Authorised			
33,333,333 ordinary shares of 3p each	1,000,000	1,000,000	1,000,000
Allotted, called up and fully paid			
28,346,911 ordinary shares of 3p each	850,407	632,200	850,407
Reported as at 1 January 2004 or on incorporation	632,200	632,200	1
Issue of shares	218,207	—	850,406
Reported as at 31 December 2005	850,407	632,200	850,407

The company was incorporated with a share capital of one ordinary share of £1 on 26 January 2005 as Cellcast Television Limited. On the 10 August 2005 the company changed its name to Cellcast Limited.

On 14 September 2005 the company and Cellcast (UK) Limited passed a resolution to subdivide every one ordinary share of £1 (both issued and unissued) in the share capital of the company into 100 ordinary shares of one pence each.

On 14 September 2005 the company and Cellcast (UK) Limited passed a resolution to consolidate every 3 ordinary shares of one pence each (both issued and unissued) into one ordinary share of 3 pence each.

On the 14 September 2005 SMS Media Limited, Sardik Limited and Atlas Telecom Holdings (Bermuda) Limited together applied to capitalise £163,000 of loans made by them to the Cellcast (UK) Limited. In this regards the company allotted total of 229,578 ordinary shares of 3 pence each for the price of 71 pence.

On 14 September 2005 the shareholders of Cellcast (UK) Limited entered into a share exchange agreement with Cellcast plc whereby they transferred their shares in Cellcast (UK) Limited for shares in Cellcast plc, one for one. This resulted in 21,302,900 ordinary shares of 3 pence each being issued at par.

On 15 September 2005 it reregistered as a public company.

16 Share capital (continued)

On 21 September 2005 the company issued a further 7,044,000 ordinary shares of 3 pence each for cash consideration of 71 pence each. Following this issue of shares the company placed its shares for trading on the AIM.

The financial statements have been prepared under the merger accounting rules (the pooling of interests method), as the combining entities within the group were controlled by the same parties both before and after the combination. Accordingly, the financial information for the current period, and for the prior period, has been presented as if Cellcast (UK) Ltd had been owned by Cellcast plc throughout the current and comparative accounting periods.

Share option schemes

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

EMI Options and Unapproved Options (together the "Options") have been granted over 1,705,614 ordinary shares in aggregate to directors, staff, consultants and independent contractors under the schemes exercisable at the placing and representing approximately 6% of the enlarged issued share capital. There are no performance conditions required for the exercise of the options in respect of the grants referred to in this paragraph.

On 15 September 2005 the company granted 549,291 share options under the Share Option Plan exercisable at 71.5 pence each.

On 15 September 2005 the company granted 1,156,322 share options under the EMI Scheme exercisable at 71 pence each.

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

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

17 Employment costs

Number of employees

The average monthly number of employees (including directors) during the year was 41 (2004: 30).

	2005 £	2004 £
Wages and salaries	1,346,997	1,007,128
National Insurance	146,824	97,642
Pension costs	2,229	2,872
	1,496,050	1,107,642

Remuneration in respect of directors was as follows:

	2005 £	2004 £
Emoluments	134,199	104,600
Pension contributions	180	—
	134,379	104,600

During the year one (2004: one) director participated in a money purchase pension scheme.

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

18 Statement of movements on reserves

Group	Merger reserve £	Share premium account £	Profit and loss account £
Balance at 1 January 2005	1,144,282	—	(1,489,930)
Retained loss for the year	—	—	(724,440)
Premium on shares issued during the year	156,113	4,789,920	—
Issue costs	—	(751,244)	—
Balance at 31 December 2005	**1,300,395**	**4,038,676**	**(2,214,370)**

Company	Share premium account £	Profit and loss account £
Balance at 1 January 2005	—	—
Retained loss for the year	—	36,614
Premium on shares issued during the year	4,789,920	—
Issue costs	(751,244)	—
Balance at 31 December 2005	**4,038,676**	**36,614**

Company profit and loss account

As permitted by section 230 of the 1985 Companies Act, the company has not presented its own profit and loss account.

19 Reconciliation of movements in shareholders' funds

Group	2005 £	2004 £
Loss for the financial year	(724,440)	(697,038)
Issue of shares	5,001,240	—
Conversion of loans to share capital	163,000	—
Issue costs	(751,244)	—
Net increase/(depletion) in shareholders' funds	3,688,556	(697,038)
Opening shareholders' funds	286,552	983,590
Closing shareholders' funds	3,975,108	286,552

Company	2005 £
Profit for the financial year	36,614
Issue of shares	5,001,240
Arising on share restructure with Cellcast (UK) Limited	639,087
Issue costs	(751,244)
Net increase in shareholders' funds	4,925,697
Opening shareholders' funds	—
Closing shareholders' funds	4,925,697

20 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss to net cash outflow from operating activities

	2005 £	2004 £
Operating loss	(728,257)	(708,383)
Depreciation of tangible assets	331,262	235,148
Amortisation of intangible assets	69,646	13,333
Loss on disposal of fixed assets	6,638	—
Increase in debtors	(2,386,412)	(658,897)
Increase in creditors	2,037,138	1,620,240
Net cash inflow/(outflow) from operating activities	(669,985)	501,441

(b) Analysis of net funds

	1 January 2005 £	Cash flow £	Other non-cash changes £	31 December 2005 £
Net cash:				
Cash at bank and in hand	410,706	2,285,474	—	2,696,180
Bank overdrafts	(67)	67	—	—
	410,639	2,285,541	—	2,696,180
Finance leases	(24,108)	15,364	—	(8,744)
Net funds	386,531	2,300,905	—	2,687,436

(c) Reconciliation of net cash flow to movement in net funds

	2005 £	2004 £
Increase in cash in the year	2,285,541	265,501
Finance lease	15,364	5,125
Change in net funds resulting from cash flows	2,300,905	270,626
Cash inflow from finance lease	—	(29,233)
Movement in net funds in the year	2,300,905	241,393
Opening net funds	386,531	145,138
Closing net funds	2,687,436	386,531

Notes to the Consolidated Financial Statements
for the year ended 31 December 2005

21 Financial Instruments
The group's financial instruments comprise cash. The group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations which have not been included in the following disclosures.

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

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

Foreign exchange risk
The functional currencies of the group are Sterling, Euro and US Dollars. The group does not hedge against the effects of movements in exchange rates. The risks are monitored on a regular basis.

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

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

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

The interest rate risk profile of the group's financial assets as at 31 December 2004 was:

	Fixed rate £	Floating rate £	Total £
Sterling	—	395,208	395,208
US Dollar	—	6,892	6,892
Euro	—	8,606	8,606
	—	410,706	410,706
Of which:			
Cash at bank and in hand	—	410,706	410,706

Floating rate instant access deposits in Sterling earn interest at prevailing bank rates.

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

Facility
The group does not currently have an overdraft facility.

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

22 Related party transactions

SMS Media Limited
Sales and management charges to SMS Media Limited amounted to £183,003 (2004: £259,827). At the year end £122,208 (2004: £264,542) was owed to SMS Media Limited. During the year loans amounting to £67,156 (2004: £nil) were converted into share capital. SMS Media have common directors and beneficial shareholders in Bertrand Folliet and Andrew Wilson.

Sky Telemedia (UK) Limited
During the year recharges from Sky Telemedia (UK) Limited amounted to £725,165 (2004: £493,492). Sales to Sky Telemedia (UK) Limited amounted to £442,904 (2004: £311,012). At the year end £30,862 (2004: £63,363) was owed by (2004: owed to) Sky Telemedia (UK) Limited. Sky Telemedia is a wholly owned subsidiary of SMS Media Limited.

Sardik Limited
During the year loans amounting to £14,344 were converted into share capital. Loan interest of £41 has been charged on outstanding loans. At the year end £6,860 (2004: £41,705) was owed to Sardik Limited. SMS Media Limited owns 50.1% of Sardik Limited.

Asian Interactive Broadcasting Limited
During the year expenses and management charges amounted to £36,842 (2004: £84,007) were charged by Asian Interactive Broadcasting Limited. At the year end £nil (2004: £nil) was owed to Cellcast UK Limited. Asian Interactive Broadcasting Limited is a wholly owned subsidiary of SMS Media Limited.

Atlas Telecom Holdings (Bermuda) Limited
During the year the company received a loan of £100,000 (2004: £150,000) from a shareholder, Atlas Telecom Holdings (Bermuda) Limited. Interest charged on the loan amounted to £254. During the year loans amounting to £81,500 (2004: £nil) were converted into share capital. At the year end the Cellcast (UK) Limited owed £62,500 (2004: £150,000) to the Atlas Telecom Holdings (Bermuda) Limited.

Intercast TV Limited
During the year expenses and management fees amounting to £205,308 (2004: £78,958) were charged to Intercast TV Limited. At the year end £7,383 (2004: £3,543) was owed from (2004: owed to) Intercast TV Limited. Up to 21 September 2005 Intercast TV Limited was a 50% subsidiary of Cellcast UK Limited.

Mediacast TV Limited
During the year expenses and management fees amounting to £497,479 (2004: £586,026) were recharged to Mediacast TV Limited. At the year end £136,267 (2004: £160,397) was owed to Cellcast UK Limited. Up to 21 September 2005 Mediacast TV limited was a 50% subsidiary of Cellcast UK Limited.

Cellcast Television France, SAS
During the year the company transferred funds amounting to £1,244 (2004:£27,551) to Cellcast France. At the year end £18,035 (2004: £27,551) was owed to Cellcast UK Limited. Cellcast UK Limited owns 20% of Cellcast Television France, SAS.

Cellcast Lebanon SAL
During the year recharges from Cellcast Lebanon amounted to £nil (2004: £13,802). At the year end £31,814 (2004: £54,089) was owed to Cellcast UK Limited. Cellcast UK Limited has a beneficial 27% interest in Cellcast Television Lebanon SAL.

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

Notes

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www.flathillplc.com

Cellcast plc

3–8 Bolsover Street
Fourth Floor
Bentinck House
London W1W 6AB

Tel. 020 7190 0300
Fax. 020 7190 0301
www.cellcast.tv