Contents

Cellcast plc Annual report and accounts for the year ended 31 December 2007

Chairman's statement	pages	2	-	3
Review of operations	pages	4	-	5
Directors and advisers	pages	6	-	7
Corporate governance statement	pages	8	-	9
Directors' report	pages	10	-	12
Independent Auditor's report	page	14	-	15
Consolidated income statement	page	16		
Consolidated balance sheet	page	17		
Consolidated statement of changes in equity	page	18		
Consolidated cash flow statement	page	19		
Notes to the consolidated financial statements	pages	20	-	53

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Chairman's statement

The financial statements for the year ended 31 December 2007 are the first full year statements that the company has prepared under International Financial Reporting Standards ("IFRS") as adopted within the EU. The move to IFRS has resulted in a considerable extension of the disclosure requirements and in reconciliation statements with the previously reported UK GAAP numbers, but the financial impact is limited and relates principally to the capitalisation of SUMO.tv development costs, which had previously been expensed under UK GAAP.

2007 results

Headline revenue from continuing operations for the year ended 31 December 2007 was £12 million, down from £12.5 million in 2006. As originally reported under UK GAAP, 2006 revenue was £21.9 million, but following the termination of the limited term arrangements in France, the transfer of the Indian and South East Asian entities to Cellcast Asia Holdings and the deconsolidation of the Brazilian subsidiary for the whole of 2007 due to the cessation of control during the year, these activities have all been treated as discontinued operations in 2007, and 2006 has thus been restated accordingly. As a result, the revenues of the UK continuing business of £11.9 million in 2007 (2006 - £12.3million) represented 99% of the total, and this trend will continue into 2008 and beyond. Gross margin in respect of continuing operations improved significantly, from a negative £249,000 in 2006 to a positive £889,000 in 2007. Operating costs and expenses of continuing operations of £2.7 million were down 18% on 2006 due to cost-cutting measures. Consequently, the group showed a reduced operating loss for the year in respect of continuing operations of £2.2 million (2006 - £3.5 million).

Cellcast Asia Holdings

During the year, the company's controlling shareholdings in Cellcast India and Cellcast SE Asia were transferred to a new company, Cellcast Asia Holdings, and additional funding of $5.25 million was introduced by Canaan Partners, a global private equity firm. As a result, the company's interest in Cellcast Asia was diluted to 37.5% and the results of Cellcast Asia ceased to be consolidated from 31 August 2007 onwards. The terms of the Canaan deal valued the company's residual shareholding at $5.1 million (£2.6 million), compared to an investment cost of £700,000. Importantly the company has no further funding obligations in respect of Cellcast Asia, which is currently seeking further funding to expand its infrastructure.

SUMO.tv

As indicated above, the SUMO.tv costs both internal and external have been capitalised under IFRS whereas previously they had been expensed under UK GAAP. At 31 December 2007 these costs totalled £1.9 million, of which £300,000 represented the license costs of the Sky channels on which the SUMO product was carried and £1.6 million other capitalised costs. In June 2008, the company announced that it had agreed to an exchange of its two SUMO channels on Sky for another Sky channel and a cash payment of £1.4 million which will result in a £1.1 million profit in the first half of 2008. The company carried out an impairment review of the SUMO asset at 31 December 2007, as a result of which the board concluded that the current and future earnings potential of the SUMO technology and content aggregation platform sustains the carrying value (following the Sky channel rearrangement) of £1.6 million. This is based on current and future earnings opportunities from the use of SUMO technology for

various internet, mobile and TV applications. Now that the Sumo platform is fully developed and deployed there are unlikely to be further capitalised SUMO development costs from now on.

Cost reductions

The group has continued to make substantial cost reductions in 2007 in response to the changing business environment. Staff costs are the largest component and it is in this area that the main impact has been. At the start of 2007, the group had 86 employees in 4 different locations, mostly in the UK. At 31 December 2007, there were 71 employees, and by the end of June 2008 this will have been further reduced to 26 employees in the UK only. This reflects development staffing reductions on completion of the SUMO technical platform, the deconsolidation of the Indian and South East Asian activities, as well as general staff reductions. Premises are another important cost, and following the reduction in the number of employees in the UK, we have sublet part of the Bolsover Street head office premises to a third party.

Funding

The £1.4 million received following the Sky channel rearrangement described above enabled the company to repay all its short-term debt under overdraft and factoring facilities and to renegotiate the terms of its Headstart convertible term loan facilities. The company has now agreed a repayment programme with Headstart, who have waived their conversion rights if the company meets the repayment schedule, thus removing the potential equity dilution.

Outlook

After the massive disruption in 2006 from the Sky EPG reorganisation, the company believes that the UK operations will be profitable in 2008 (before group overheads) following the substantial cost-cutting exercise undertaken over the last year. UK revenues are currently running at over £1.1 million per month, and we anticipate that in 2008 Cellcast will revert to being the substantially UK based business that it was in 2005, with over 95% of its revenues arising in the UK.

The whole of the UK participation TV business has suffered as a result of controversy arising from the related activities of large terrestrial broadcasters such as ITV, Channel 4 and the BBC who have been investigated by the regulator Ofcom and fined for misconduct involving interactive voting. These actions caused a crisis of consumer confidence in participation TV services and Ofcom is now undertaking a review of the whole sector. There have been no significant consumer complaints relating to Cellcast's services, but any new Ofcom regulations arising from the review could constrain some of the ways in which the group's products and services can be promoted.

The company has performed surprisingly well and consistently against a backdrop where both in the UK and other European markets, participation TV revenues of the large TV broadcasters and the market on the whole had declined by more than 70%. We hope that 2008 will be a significantly better year than 2007.

Julian Paul
Chairman
27 June 2008

Review of operations

Group overview

The group faced significant challenges in the United Kingdom and internationally in 2007. Regulatory concerns arising from the practices of a number of broadcasters and media companies had a substantial impact on the business environment for interactive digital entertainment and in particular participation TV.

UK operations

The major effort in 2007 was to restore margins and manage a return to profitability after the uncertainties of 2006. This was achieved through the implementation of a major cost reduction programme and renewed efforts to enhance 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 produces 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 three digital channels. Revenues are derived from audience participation in the television programmes, and increasingly via the web and mobile services, providing users with access 24-hours a day.

Increasingly, the group is deploying innovations developed by its User Generated Content (UGC) incubator, SUMO.tv. Proprietary technology and user-generated applications developed by SUMO are being applied to capture new opportunities arising from the growth of 3G, IPTV, enhanced broadband, video mobile and wireless broadband services in the UK.

International operations

The acquisition in August 2007 of the group's operations in India, Sri Lanka, Malaysia and South-East Asia by a new regional venture formed by Canaan Partners, with the group retaining a significant but minority interest, was an endorsement of the international business model and secured independent future funding for these operations. The group no longer consolidates revenues from these markets, nor funds the operations in the region.

Network problems and termination issues in Brazil were not resolved in 2007, curtailing the group's operations and revenues in this market. While South America as a whole continues to offer potential opportunities, the group's overall strategy for 2008 means it is taking a risk-averse approach to relationships in this and other developing markets.

As a consequence of the divestment of the India and South-East Asia operations, and the difficulties encountered in Brazil, the group's international revenues as a percentage of total revenues were sharply reduced from the 2006 figure.

In the Middle East, the group continues to offer premium billing services to regional broadcasters, and currently has fourteen direct agreements with GSM operators. With competition increasing – there are over 370 free-to-air TV channels available in the region, Cellcast ME is expanding its relationships with broadcasters and diversifying its revenue stream through offering 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. Cellcast ME incurred a loss in 2007, but following the diversification of its revenue sources, is expected to return to profitability in 2008.

SUMO.tv

SUMO.tv, the group's incubator of multi-platform technology solutions and new UGC services, built substantial audiences for its UK showcase channel on the Sky Digital platform and associated website in 2007, validating both the key technologies and short-form video content model.

Video services are becoming one of the key drivers of mobile entertainment. During 2007, new content distribution agreements were entered into with iVibe, which services O2 and the 3 Network in the UK and Vodafone in Spain, and with Mobibase in France and Tapuz Mobile in Israel on the Orange networks. Having identified those areas offering the best return on the investment made through the year, it was decided in late 2007 to focus on B2B opportunities in 2008. The group has been very successful in developing turnkey technology solutions to enable broadcasters to rapidly integrate user-generated content with existing programmes, and these are to be licensed to broadcasters worldwide, the majority of whose business models remain under attack from new media.

Proprietary technology

The group continues to build on its reputation as a pioneer of innovative new multi-platform formats and user-generated content applications. These are supported by a proprietary interactive broadcast services architecture which includes the Cellcast Interactive Platform (CIP), Network Attached Storage System (NAS), Transcoding Subsystem, Content Management System (CMS), Digital Asset Management System (DAMS), Rendering Engine, Website Kernel and 3G Subsystem.

In 2007, the technology division delivered the first full product line to use the content management and media delivery systems. Each aspect of user-generated content delivery, from mobile and web to television broadcast, was deployed using the CMS and MDP 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 of the year it is intended to license the frameworks to third parties as a B2B solution.

The group introduced a number of new and innovative features to its interactive platform in 2007. These included a suite of "Teller" applications which allow the TV system to inform web and mobile users of broadcast related information in real time - for example, informing a user and their friends via SMS when their uploaded video has been selected for broadcast; a suite of Personal Broadcasting applications that give users the ability to create their own personal channels by giving them access to Cellcast's library of rights cleared and complied content; and "Telly Conferencing", a new version of Cellcast's webcam/3G-to-screen technology which utilises Flash video to enable participants to interact live with a TV programme presenter or other members of the audience.

Outlook for 2008

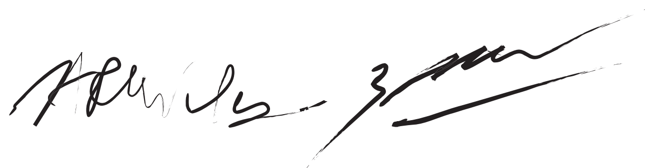
With global economic uncertainties having a significant impact on consumer spending in 2008, the group intends to follow a conservative growth strategy by leveraging its interactive content and multi-platform technology assets rather than making any new major investments. At the same time the group will renew its focus on providing innovative products and services to capture the opportunities arising from the growing uptake of 3G services, IPTV, and video mobile services in the UK market, all of which require compelling content to drive subscriptions.

The public consultation process on proposals by the UK regulator Ofcom to tighten the regulation of television and radio programmes which rely on premium rate telephone services is due to be completed in the summer of 2008. The group welcomes regulation intended to offer further protection to consumers, which is good for the interactive entertainment industry, its sustainability and growth. However, the technology driving convergence, together with the new tools facilitating audience participation, are blurring the lines between editorial and advertising, and this remains a significant challenge for regulators addressing new media services.

The international business model has been adapted to the extent that the group will in future partner with third-parties willing to underwrite the costs of distribution in consideration of a higher revenue share, rather than directly investing in media or airtime purchases itself. This will enable the group to minimise risk and better manage its resources in support of its content and application development and related B2B solutions

Significant benefits are flowing back from the investment in content and technology for SUMO, particularly in regard to Cellcast's core participation TV applications and formats, enabling the company to develop new revenue streams from the internet and from 3G mobile services.

Interactive 3G mobile video products operated by Cellcast saw a 400% increase over the last twelve months. This is attributed to growing 3G handset penetration and increased familiarity with video calling in general and the ease of use of 3G video calling services. 2008 has also seen the integration of 3G video calling products with Cellcast's portfolio of TV channels and websites, offering yet another level of interaction to existing formats. A fully integrated interactive online and mobile chat and messaging platform, incorporating video calling between online webcam users with 3G video callers, is the most recent addition to a growing suite of products. The company's 3G traffic and revenue has more than doubled since October 2007 and is continuing to grow as these applications are distributed across more of Cellcast TV output.



Andrew Wilson
Chief Executive Officer
27 June 2008

Bertrand Folliet
Chief Operating Officer
27 June 2008

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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 is currently deputy chairman of Eagle Rock Entertainment Limited, of which he was a founder shareholder. He is also a non-executive director of Entertainment Rights plc, Inspired Gaming Group plc, Pilat Media Global plc, Stagecoach Theatre Arts plc 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 Ko ng. 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 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 fundraising as well as numerous merger and acquisition transactions in various parts of the world.

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Bankers
HSBC
196 Oxford Street
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Nominated Adviser and Broker
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40 Marsh Wall
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Registrars
Capita Registrars
The Registry
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Beckenham
Kent BR3 4TU

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Threadneedle Communications
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London EC4A 2AB

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 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:

Audit committee

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

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

The directors present their report and the consolidated financial statements for the year ended 31 December 2007.

Directors

The following directors have held office since 1 January 2007:

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 2008 is contained in the Chairman's Statement on pages 3 and 4 and the Review of Operations on pages 5 and 6. These deal with the business risks facing the company which are predominantly of a regulatory nature. The group carefully monitors its output to make sure that it is compliant with the regulations.

Results and dividends

The consolidated income statement for the year is set out on page 16. No dividend is proposed (2006: 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. The group's management monitors on a daily basis the performance of each interactive programme split between revenue sources and type of cost.

Group research and development activities

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

Post balance sheets events

On 20 March 2008 the company exchanged two of its channels on the Sky digital platform (one of which was surplus to requirements) for one channel and a cash consideration of £1.4 million.

Financial instruments

The risk exposure for the group and how the group addresses these issues are dealt with in note 19 of the financial statements.

Political and charitable donations

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

Related party transactions

Disclosures of transactions with related parties are disclosed in note 24.

Substantial shareholdings

The company has been notified of the following substantial interests as at 4 June 2008.

	Shareholding	Ordinary shares of 3p each
	%	
Neil Craven	18.31%	13,829,927
SMS Media Limited (note 1)	12.82%	9,680,062
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 Ltd which in turns 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 20 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 2007 were 58 days (2006: 77 days).

Going concern

The directors have considered whether or not it is appropriate to adopt the going concern basis in preparing the 2007 financial statements in view of the substantial operating losses in 2006 and 2007. As indicated in the Chairman's statement, following the substantial cost-cutting programme in 2007 which continued into the first half of 2008, the company expects th e UK operations to return to profitability during 2008. This, coupled with the completion of the SUMO.tv development process and the removal of any further funding obligations in respect of the company's international operations, means that the group should be cash-generative by the end of 2008. In addition, in April 2008, the company received £1.4 million in cash for the rearrangement of its Sky channels carrying the SUMO.tv brand, enabling the company to enter into a repayment programme with Headstart in respect of its £500,000 convertible loan facility over the next twelve months. As at the date of this report, the company had available undrawn credit facilities totalling £600,000 (£450,000 factoring facility and £150,000 bank overdraft) and the company's detailed cash forecasts indicate that the factoring facility should remain undrawn for the remainder of 2008. Accordingly, the directors believe the going concern basis to be appropriate.

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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 statem ents in accordance with 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 be en 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 auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Auditor

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

By order of the board

Emmanuelle Guicharnaud
Secretary
27 June 2008

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Independent auditor's report to the members of Cellcast plc

We have audited the group and parent company financial statements on pages 16 - 53

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. 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, Chairman's Statement, the Review of Operations and the Corporate Governance Statement. 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 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. However, in respect of the dilution of the interest in Cellcast Interactive India Pvt Limited and Cellcast SEA Limited, the profit on dilution of £1,166,088 included in discontinued operations and disclosed in note 11, the share of the loss of the associate of £180,567, and the share of the net assets of the associate of £561,217, we were unable to obtain sufficient appropriate audit evidence due to the absence of appropriate financial statements or management information. We are unable to quantify the extent of any under or overstatement as to the amount of these results and balance.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from limitation in audit scope

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the treatment of the investment in the associate, in our 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 2007 and of its loss 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 December2007;
- 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

In respect solely of the limitation on our work relating to the associate:

- We have not obtained all the information and explanations that we consider necessary for the purpose of our audit; and
- We were unable to determine whether proper accounting records have been maintained.

Emphasis of matter

In forming our opinion on the financial statements, which is not qualified except for the limitation of scope above, we have considered the adequacy of the disclosures made in the accounting policies on page 20 of the financial statement concerning the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

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Baker Tilly UK Audit LLP

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST
27 June 2008

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Consolidated income statement

	Note	Year ended 31 December 2007 £	2006 £
Continuing operations			
Revenue		12,008,998	12,477,818
Cost of sales		(11,119,565)	(12,727,205)
Gross profit		889,433	(249,387)
Operating costs and expenses:			
General and administrative		(2,061,806)	(2,467,988)
Share option expense		(150,665)	(298,895)
Amortisation and depreciation		(489,200)	(528,175)
Total operating costs and expenses		(2,701,671)	(3,295,058)
Operating loss	4	(1,812,238)	(3,544,445)
Interest receivable & similar income	5	4,898	31,968
Interest payable & similar charges	6	(168,586)	(6,872)
Share of loss in associates	12	(180,567)	-
Loss before tax		(2,156,493)	(3,519,349)
Current taxation		-	19,900
Deferred taxation	7	84,698	(84,698)
Total taxation		84,698	(64,798)
Loss after tax for continuing operations		(2,241,191)	(3,454,551)
Discontinued operations			
Profit / (loss) for the period from discontinued operations	11	18,591	93,728
Total loss for the year		(2,222,600)	(3,360,823)
Gain / (loss) attributable to minority interests		30,684	(30,684)
Loss for the year attributable to equity holders of the parent		(2,253,284)	(3,330,139)
Total loss for the year		(2,222,600)	(3,360,823)
Loss per share			
Basic & diluted – continuing	8	(3.8p)	(10.6p)
Basic & diluted – continuing and discontinued	8	(3.7p)	(10.3p)

Consolidated balance sheet

	Note	As at 31 December 2007 £	2006 £
Assets			
Non-current assets			
Intangible assets	9	2,212,605	1,099,404
Property, plant and equipment	10	511,096	1,108,507
Investments in associates	12	561,217	4,933
Deferred tax	13	-	84,698
		3,284,918	2,297,542
Current assets			
Inventories and work in progress	14	-	38,984
Trade and other receivables	15	2,270,027	6,997,017
Cash and cash equivalents		7,533	135,677
		2,277,560	7,171,678
Total assets		5,562,478	9,469,220
Capital and reserves			
Called up share capital	20	2,265,398	1,331,619
Share premium account		5,498,626	4,775,743
Merger reserve		1,300,395	1,300,395
Cumulative translation reserve		(5,159)	24,995
Retained earnings		(7,197,933)	(5,245,614)
Equity attributable to equity holders of the parent		1,861,327	2,187,138
Minority interest		-	(30,684)
Total equity		1,861,327	2,156,454
Liabilities			
Non-current liabilities			
Finance leases	17	-	70,202
Current liabilities			
Trade and other payables	16	3,219,042	7,053,411
Borrowings	18	482,109	189,153
Total liabilities		3,701,151	7,312,766
Total equity and liabilities		5,562,478	9,469,220

The financial statements were approved and authorised for issue by the board on 27 June 2008

Emmanuelle Guicharnaud
Secretary
27 June 2008

Andrew Wilson
Chief Executive Officer
27 June 2008

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Consolidated statement of changes in equity

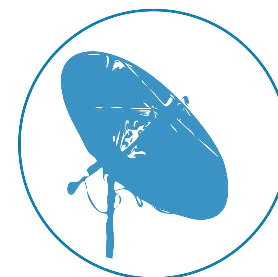
Amounts attributable to the equity holders of the parent undertaking

	Share Capital	Share Premium	Merger Reserve	Cumulative Translation Reserve	Retained Loss	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

	Share Capital	Share Premium	Merger Reserve	Cumulative Translation Reserve	Retained Loss	Total	Minority Interest	Total
As at 31 December 2006								
Balance at 1 January 2006	850,407	4,038,676	1,300,395		(2,214,370)	3,975,108		3,975,108
Loss for the year					(3,330,139)	(3,330,139)	(30,684)	(3,360,823)
Exchange translation				24,995		24,995		24,995
Total recognised income / (expense) for the year				24,995	(3,330,139)	(3,305,144)	(30,684)	(3,335,828)
Share-based payment charge					298,895	298,895		298,895
Proceeds of shares issue	481,212	802,007				1,283,219		1,283,219
Share issue costs		(64,940)				(64,940)		(64,940)
Balance at 31 December 2006	1,331,619	4,775,743	1,300,395	24,995	(5,245,614)	2,187,138	(30,684)	2,156,454

Consolidated cash flow statement

Net increase in cash and cash equivalents		Year ended 31 December 2007 £	2006 £
Net cash outflow from operations	22a	(432,743)	(2,899,128)
Income taxes		-	70,097
Interest received		4,898	31,968
Net cash outflow from operating activities		(427,845)	(2,797,063)
Net cash outflow from investing activities	22b	(1,207,154)	(1,145,198)
Net cash generated from financing activities	22c	1,705,029	1,167,610
Net (decrease) / increase in cash and cash equivalents		70,030	(2,774,651)
Cash and cash equivalents at beginning of period		(53,476)	2,696,180
Exchange gains and losses		(9,021)	24,995
Cash and cash equivalents at end of period		7,533	(53,476)



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Notes to the consolidated financial statements

Accounting policies

From January 1 2007, the group has adopted International Financial Reporting Standards ("IFRS") and the IFRIC interpretations as adopted by the EU in the preparation of its consolidated financial statements. The financial statements have been prepared under the historical cost basis. Prior to 2007, the group prepared its audited financial statements under UK GAAP. Information on the impact on accounting policies and financial results resulting from the conversion from UK Generally Accepted Accounting Principles ("UK GAAP") to IFRS is provided later in note 25.

Transitional arrangements

The group has taken the following optional exemptions contained in IFRS 1 'First-time Adoption of International Financial Reporting Standards' in preparing the group's balance sheet on transition to IFRS at 1 January 2006:

Cumulative translation differences

The cumulative translation differences for all foreign subsidiaries have been set to zero 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 has elected not to apply IFRS-3 Business Combinations retrospectively to past business combinations (business combinations that occurred before the date of transition to IFRS).

Based on the above exemptions there are no transitional adjustments to the 1 January 2006 opening balance sheet. A UK GAAP to IFRS reconciliation for the comparative periods is included in this interim statement in Note 25.

Adoption of new and revised standards

In the current year, the group has adopted IFRS 7 – 'Financial instruments: Disclosures', which is effective for annual reporting periods beginning on or after 1 January 2007, and the related amendment to IAS 1 ' Presentation of Financial Statements'. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the group's financial instruments and management of capital. Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are IFRIC 7 'Applying the Restatement Approach under IAS 29'; Financial Reporting in Hyperinflationary Economies'; IFRIC 8 'Scope of IFRS2'; IFRIC 9 'Reassessment of Embedded derivatives'; and IFRIC 10 'Interim Financial Reporting and Impairment'. The adoption of these interpretations has not led to any changes in the group's accounting policies.

Standards issued but not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 1	Amendments relating to cost of an investment on first time adoption
IFRS 2	Share Based Payment – Amendment relating to vesting conditions and cancellations
IFRS 3	Business Combinations– Comprehensive revision on applying the acquisition method
IFRS 8	Operating Segments
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer loyalty programmes
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset Minimum Funding Requirements and their interaction
IAS 1	Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive equipment and amendments relating to puttable instruments and obligations arising on liquidation
IAS 23	Borrowing costs – Comprehensive revision to prohibit immediate expensing
IAS 27	Consolidated and Separate Financial Statements – Consequential amendments arising from Amendments to IFRS3
IAS 28	Investments in Associates – Consequential amendments arising from amendments to IFRS 3 and amendments relating to cost of an investment on first time adoption
IAS 31	Investments in Joint Ventures – Consequential amendments arising from amendments to IFRS 3
IAS 32	Financial Instruments Presentation – Amendments relating to puttable instruments and obligations arising on liquidation

Annual improvements project

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group when the relevant Standards and Interpretation come into effect.

The financial statements have been prepared under the historical cost convention. The principal accounting policies adopted are set out below.

Going concern

The directors have considered whether or not it is appropriate to adopt the going concern basis in preparing the 2007 financial statements in view of the substantial operating losses in 2006 and 2007. As indicated in the Chairman's statement, following the substantial cost-cutting programme in 2007 which continued into the first half of 2008, the company expects the UK operations to return to profitability during 2008. This, coupled with the completion of the SUMO.tv development process and the removal of any further funding obligations in respect of the company's international operations, means that the group should be cash-generative by the end of 2008. In addition, in April 2008, the company received £1.4 million in cash for the rearrangement of its Sky channels carrying the SUMO.tv brand, enabling the company to enter into a repayment programme with Headstart in respect of its £500,000 convertible loan facility over the next twelve months. As at the date of this report, the company had available undrawn credit facilities totalling £600,000 (£450,000 factoring facility and £150,000 bank overdraft) and the company's detailed cash forecasts indicate that the factoring facility should remain undrawn for the remainder of 2008. Accordingly, the directors believe the going concern basis to be appropriate.

Basis of consolidation

Subsidiaries are entity 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 in the value of individual investments of the associates.

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 4 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 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 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.

Notes to the consolidated financial statements

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.

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.

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-based payment transactions

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

Currency	31 December 2007	31 December 2006
Euro	1.35710	1.48520
Indian Rupee	78.76390	86.43680
Hong Kong Dollar	15.58880	15.24080
Brazilian Real	3.54340	4.18960

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;
- Recognition of share-based payments;
- Valuation of intangible assets;
- Convertible loan notes valuation;

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.

Post balance sheets events

On 20 March 2008 the company exchanged two of its channels on the Sky digital platform (one of which was surplus to requirements) for one channel and a cash consideration of £1.4 million.

Notes to the consolidated financial statements

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 2007 £	2006 £
Revenue		
UK	11,871,761	12,312,375
Asia	137,237	165,443
Total	12,008,998	12,477,818
Cost of sales		
UK	10,959,797	12,485,091
Asia	159,768	262,114
Total	11,119,565	12,727,205
Gross profit		
UK	911,964	(172,716)
Asia	(22,531)	(76,671)
Total	889,433	(249,387)
Operating proft / (loss) from continuing operations		
UK	(1,009,397)	(2,397,958)
Asia	(162,976)	(319,417)
Segmental operating loss	(1,172,373)	(2,717,375)
Non Segmental		
Amortisation and depreciation	(489,200)	(528,175)
Share option expense	(150,665)	(298,895)
Total	(1,812,238)	(3,544,445)

	2007 £	2006 £
Total Assets		
UK	5,471,589	4,618,949
Rest of Europe	65,970	2,868,974
Asia	24,919	878,346
South America	-	1,018,253
Non Segmental		
Deferred tax	-	84,698
Total	5,562,478	9,469,220

	2007 £	2006 £
Total liabilities		
UK	3,120,596	2,401,887
Rest of Europe	65,970	2,736,732
Asia	11,344	957,806
South America	-	1,027,188
Non Segmental		
Borrowings	482,109	189,153
Total	3,680,019	7,312,766

	2007 £	2006 £
Capital expenditure - intangible		
UK	1,194,919	138,701
Asia	-	1,507
Total	1,194,919	140,208

	2007 £	2006 £
Capital expenditure - tangible		
UK	12,235	577,592
Rest of Europe	-	1,910
Asia	-	47,137
South America	-	102,598
Total	12,235	729,237

	2007 £	2006 £
Amortisation and depreciation		
UK	483,268	460,418
Rest of Europe	-	95
Asia	5,932	24,350
Total	489,200	484,863

Notes to the consolidated financial statements

2) Staff Costs

	2007 £	2006 £
Wages and salaries	1,316,754	2,121,895
Social security costs	145,386	218,430
Other pension costs	22,799	29,340
Share option expenses	150,665	298,895
	1,635,604	2,668,560

Included in the above staff costs is £442,000 (2006: £274,000) in relation to development costs that were capitalised in accordance with IAS 38 Intangible assets. The remaining staff costs are included within the General and administrative expenses.

Average monthly number of employees by activity (including directors)		
Production	35	45
Technical	16	25
Management	9	12
Administration	12	15
	72	97

Key management	£	£
Salaries, post employment and other short-term employee benefits	613,439	679,993
Post employment benefits	22,799	29,340
Share based payment	150,665	298,895
	786,903	1,008,228

3) Directors' emoluments

	£	£
Aggregate emoluments for qualifying services	342,689	342,735
Company's pension contributions to money purchase schemes	17,200	17,200
	359,889	359,935

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

Two directors (2006: two) had benefits accruing under money purchase pension schemes

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4) Loss before tax

The loss before tax is stated after charging:	2007 £	2006 £
Depreciation – owned assets	388,564	434,798
Depreciation – assets on hire purchase contracts	18,918	44,508
Licences amortisation	81,718	95,853
Auditor's remuneration – statutory audit of parent and consolidated accounts	33,000	30,000
Audit services provided to subsidiaries were £25,000 (2006: £22,000)		
Other services supplied pursuant to such legislation: Interim results	5,000	-
Foreign exchange loss	5,410	5,828

In the year ended 31 December 2006 audit, tax and other services were provided by Baker Tilly.
In the year ended 31 December 2007 audit services were provided by Baker Tilly UK Audit LLP and other services provided by Baker Tilly Tax and Advisory Services LLP. .

5) Interest receivable and similar income

	2007 £	2006 £
Bank interest received	4,898	31,968

6) Interest payable and similar charges

	2007 £	2006 £
Interest on convertible loan	124,168	-
Bank charges & interest paid	24,244	2
Finance leases	20,174	6,870
	168,586	6,872

7) Taxation

	2007 £	2006 £
Current tax charge	-	19,900
Deferred tax charge / (credit)	84,698	(84,698)
Tax charge / (credit)	84,698	(64,798)

Notes to the consolidated financial statements

Factors affecting the tax charge for the year	2007 £	2006 £
Loss on ordinary activities before taxation	(2,156,493)	(3,519,349)
Loss on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 30% (2006:30%)	(646,948)	(1,055,805)
Effects of:		
Non deductible expenses	10,913	23,884
Tax losses carried forward	590,835	845,758
Foreign tax adjustment	84,698	82,498
Share-based payments charge	45,200	89,669
Other tax adjustments	-	(50,802)
Tax charge / (credit)	84,698	(64,798)

At 31 December 2007, the group had estimated tax trading losses of £4.9 million (2006: £3.7 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) Loss per share

Adjusted loss per share

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

	Continuing operations		Continuing and discontinued operations	
	2007	2006	2007	2006
Reported loss for the financial period	(2,241,191)	(3,454,551)	(2,222,600)	(3,360,823)
Weighted average number of ordinary shares	59,390,157	32,609,687	59,390,157	32,609,687
Basic and diluted loss per share	(3.8p)	(10.6p)	(3.7p)	(10.3p)

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

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Notes to the consolidated financial statements

9) Intangible assets

	Licences Cost £	Development Cost £	Total Cost £
Cost			
At 1 January 2006	694,674	-	694,674
Additions	140,208	443,354	583,562
At 31 December 2006 and 1 January 2007	834,882	443,354	1,278,236
Additions	39,350	1,155,569	1,194,919
At 31 December 2007	874,232	1,598,923	2,473,155
Amortisation			
At 1 January 2006	82,979	-	82,979
Amortisation for year	95,853	-	95,853
At 31 December and 1 January 2007	178,832	-	178,832
Amortisation for year	81,718	-	81,718
At 31 December 2007	260,550	-	260,550
Net book value at 31 December 2007	613,682	1,598,923	2,212,605
Net book value at 31 December 2006	656,050	443,354	1,099,404
Net book value at 1 January 2006	611,695	-	611,695

10) Property, plant & equipment

	Fixtures, fittings & equipment £	Broadcasting equipment £	Computer equipment £	Totals £
Cost				
At 1 January 2006	-	1,225,267	109,495	1,334,762
Additions	38,815	625,847	64,575	729,237
At 31 December 2006 and 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	-	1,565,081	184,798	1,749,879
Depreciation				
At 1 January 2006	-	428,741	47,563	476,304
Additions	5,380	460,874	12,934	479,188
At 31 December 2006 and 1 January 2007	5,380	889,615	60,497	955,492
Charge for year	-	362,150	45,332	407,482
Disposals	(5,380)	(118,811)	-	(124,191)
At 31 December 2007	-	1,132,954	105,829	1,238,783
Net book value at 31 December 2007	-	432,127	78,969	511,096
Net book value at 31 December 2006	33,435	961,499	113,573	1,108,507
Net book value at 1 January 2006	-	796,526	61,932	858,458

Assets, included in the above, which are held under finance leases, are as follows:	Fixtures, fittings & broadcasting equipment £
Cost	
At 1 January 2007 and 31 December 2007	126,401
Depreciation	
At 1 January 2007	20,082
Charge for the year	18,918
31 December 2007	39,000
Net book value	
As 31 December 2007	87,401
As 31 December 2006	106,319
As 1 January 2006	25,694

Notes to the consolidated financial statements

11) Subsidiary companies

At 31 December 2007 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 2007, Cellcast UK owned the following other interests:

Company	Country of incorporation	Class	Shares held %	Type of holding	Principal business
Start TV Limited	United Kingdom	Ordinary	100%	Subsidiary	Television & broadcasting
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
Cellcast Asia Holdings Limited	India	Ordinary	37.5%	Associate	Television & broadcasting
TOV Cellcast Ukraine	Ukraine	Ordinary	85%	Subsidiary	Television & broadcasting
Cellcast Brasil Communicação Ltda	Brazil	Ordinary	51%	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 whose principal activity is television broadcasting activities.

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 Holding Limited (Cellcast Asia). At the same time, Cellcast Asia issued US$5.25m of Series A Preferred Stock (the "Preferred Stock") to Canaan Partners, a global private equity firm. The Preferred Stock issue valued the enlarged share capital of Cellcast Asia at US$13.5 million. The activities of Cellcast Interactive India Pvt and Cellcast SEA Limited are treated as discontinued operations for consolidation purposes to the date of the transfer of the groups holding.

Cellcast holds 37.5% of the fully diluted share capital of Cellcast Asia, valuing this portion of the business at £2.6 million compared with an investment cost of £0.7 million. Canaan holds 38.9%. The remaining shares are held by a trust which administers share option plans for existing and future employees of Cellcast Asia.

During the year the company ceased to have a controlling interest in Cellcast Brasil Communicação Ltda and accordingly it has been treated as a discontinued operation in the year.

On the 29 February 2008 Cellcast Mobilité SEP and Cellcast France SARL were dissolved and have been treated as discontinued operations

The effects of the discontinued operations are detailed below:

Discontinued operations	2007 £	2006 £
Revenue	2,896,865	9,500,154
Cost of sales	(3,339,917)	(5,040,974)
Gross Profit	(443,052)	4,459,180
Administrative expenses	(725,513)	(4,365,701)
Finance costs	(65)	249
Recycling of foreign exchange translation reserve on disposal of foreign subsidiaries	21,133	-
(Loss) / profit for the period from discontinued oerations	(1,147,497)	93,728
Gain on dilution of subsidiaries	1,166,088	-
Income tax expense	-	-
Profit for the period from discontinued operations	18,591	93,728

12) Associates

Share of net assets	2007 £	2006 £
1 January 2007	4,933	-
Investment in associates	741,784	4,933
Share of results post tax	(180,567)	-
Disposal of interest in associates	(4,933)	-
31 December 2007	561,217	4,933

The group interest in associates at 31 December 2007 comprised 27% of the share capital of Cellcast Lebanon SAL and 37.5% of the share capital of Cellcast Asia Holding Limited.

	2007 £'000
Total assets	912
Total liability	305
Revenue	1,262
Loss for the year	514

At 31 December 2006 the group had one associate, Cellcast France SARL, whose numbers were not material.

13) Deferred tax asset

	2007 £	2006 £
Balance at 1 January	84,698	-
Derecognition of losses	(84,698)	84,698
Balance at 31 December	-	84,698

Notes to the consolidated financial statements

14) Inventories and work in progress

	2007 £	2006 £
Inventories and work in progress	-	38,984

15) Trade and other receivables

	2007 £	2006 £
Trade receivables	641,354	5,212,104
Prepayments and accrued income	1,406,657	1,258,101
Other receivables	201,111	526,812
Due from associates	20,905	-
	2,270,027	6,997,017

Ageing of trade receivables is as follows:

	2007 £	2006 £
Current	46,819	1,146,663
Up to 3 months	318,753	1,980,600
Up to 6 months	166,111	1,772,115
Up to 9 months	109,671	312,726
	641,354	5,212,104

16) Trade and other payables

	2007 £	2006 £
Obligations under finance leases	70,202	62,463
Trade payables	1,328,902	5,753,888
Corporation tax	-	89,997
Other taxes & social security	577,218	512,281
Other payables	794,454	106,880
Due to associates	23,935	-
Accruals & deferred income	424,331	527,902
	3,219,042	7,053,411

17) Fincance leases

	2007	2006
	£	£
Obligations under finance leases	-	70,202

Amounts due under finance leases are secured on related assets.

	2007	2006
Net obligations under finance leases:	£	£
Repayable within one year	70,202	62,463
Repayable within one and five years	-	70,202
	70,202	132,665
Included in current liabilities	(70,202)	(62,463)
	-	70,202

	2007	2006
Gross finance lease liabilities - minimum lease payments	77,183	75,656
Repayable within one and five years	-	77,183
	77,183	152,839
Future finance charges on finance leases	(6,981)	(20,174)
Present value of finance lease liabilities	70,202	132,665

18) Borrowings

	2007	2006
	£	£
Convertible loan notes	482,109	-
Overdraft	-	189,153
	482,109	189,153

Overdraft

At 31 December 2007 the group has an overdraft facility of £150,000, bearing interest of 2% over base rate up to £50,000 and 3% over base rate above this amount. The bank overdraft is repayable on demand and is secured with a fixed and floating charge over the assets of the company.

Convertible loan notes

During the year ended 31 December 2007 the company issued two convertible loan note facilities to the value of £1,000,000 and £2,000,000, on 1 January 2007 and 19 June 2007 respectively. 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 is not taken up, the company shall 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.

The company has made the following draw-downs on these facilities:

Convertible loan notes	Total amount drawn down during the year (£)
8% convertible loan notes	
Draw-downs made on: 1 January 2007, 28 February 2007, 19 May 2007	1,000,000
9% convertible loan notes	
Draw-downs made on: 4 July 2007, 27 November 2007	1,000,000

During the year £1.5 million of the loan drawn down has been converted into equity. At the year end, the company has an outstanding liability in relation to only the draw-down that occurred on 27 November 2007 for £500,000 as all the other draw-downs have been converted during the year.

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.

The directors considered that the carrying amount of the liability component of the convertible loan notes approximate their fair value.

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

	£
Proceeds of issue of convertible loan notes	1,500,000
Less transaction costs	(380,751)
	1,119,249
Interest charged	107,559
Interest paid during the period up to conversion	(26,363)
Liability component transferred to equity upon conversion	1,200,445

At the year end, the following amounts are included within liabilities:

	£
Proceeds of issue of convertible loan notes	500,000
Less transaction costs	(27,000)
	473,000
Interest charged	16,609
Interest paid	(7,500)
Liability component as at 31 December 2007	482,109

The outstanding £500,000 had the option to be converted into equity within 360 days of the draw down from the 27 November 2007. Subsequent to the year end the facility has been renegotiated to restrict the conversion to equity as long as the 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 waiver 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.

19) Financial risk management

The group's financial instruments mainly comprise cash, overdraft 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 17 and the details of the convertible loan in note 18. 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.

The group operates in a number of overseas markets, as disclosed in note 1. The directors minimise the group's foreign by retaining surplus cash in sterling.

(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 there is no significant concentration of credit risk in any one bank or other financial institution. Management monitors closely the credit quality of the institutions with which it holds deposits.

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

	Currency	Loans and receivables	Other financial liabilities at amortised cost	Total carrying Value	Total fair Values
As at 31 December 2007		£'000	£'000	£'000	£'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		(64)	(64)	(64)
Other payables	Sterling		(773)	(773)	(773)
Accruals	Sterling		(424)	(424)	(424)
Convertible loan note	Sterling		(482)	(482)	(482)
		2,256	(3,072)	(816)	(816)

Notes to the consolidated financial statements

As at 31 December 2006	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	1,985		1,985	1,985
	Euro	2,641		2,641	2,641
	US Dollar	76		76	76
	Brazilian real	1,178		1,178	1,178
	Indian Rupee	377		377	377
	Ukraine Hryvnia	213		213	213
Other receivables	Sterling	562		562	562
Cash balances	Sterling	74	-	74	74
	US Dollar	26		26	26
	Indian Rupee	21		21	21
	Ukraine Hryvnia	13		13	13
Financial liabilities					
Trade payables	Sterling		(2,032)	(2,032)	(2,032)
Euro	Euro		(2,217)	(2,217)	(2,217)
US Dollar	US Dollar		(112)	(112)	(112)
Brazilian real	Brazilian real		(837)	(837)	(837)
Indian Rupee	Indian Rupee		(401)	(401)	(401)
Ukraine Hryvnia	Ukraine Hryvnia		(155)	(155)	(155)
Overdraft	Sterling		(150)	(150)	(150)
	Indian Rupee		(39)	(39)	(39)
Amounts payable under finance leases	Sterling		(62)	(62)	(62)
Other payables	Sterling		(107)	(107)	(107)
Accruals	Sterling		(426)	(426)	(426)
	Brazilian real		(102)	(102)	(102)
		7,166	(6,640)	526	526

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.

(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 2007 was as follows:

	2007 £'000	2006 £'000
Trade receivables and accrued income	2,048	6,470
Other receivables	201	562
Cash and cash equivalent	7	134
	2,256	7,166

Before accepting a new customer, the group assesses each 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.

Trade receivables are regularly reviewed for bad and doubtful debts. Debts amounting to £19,577 have been written off during 2007 (2006: £38,023). There are no provisions for trade receivables at year end.

Ageing of trade receivables is as follows:	2007 £'000	2006 £'000
Current	47	1,147
Up to 3 months	319	1,981
Up to 6 months	166	1,772
Up to 9 months	109	312
	641	5,212

£594,000 of trade receivables were past due for payment as at 31 December 2007. Of the £2,048,000 of the trade receivables and accrued income at the year end, £1,994,000 was collected by 31 May 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 2007.

(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:

	2007			2006		
	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	-	-	-	(189)	-	(189)
Trade and other payables	(1,329)	-	(1,329)	(5,754)		(5,754)
Finance lease obligations	(32)	(32)	(64)	(31)	(31)	(62)
Convertible loan	-	(482)	(482)	-	-	-
Other payables	(773)	-	(773)	(533)	-	(533)
Accruals	(424)	-	(424)	(102)	-	(102)
Cash flows on financial liabilities	(2,558)	(514)	(3,072)	(6,609)	(31)	(6,640)

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Notes to the consolidated financial statements

(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:

	Currency	Floating rate	Fixed rate	Non-interest bearing	Total
As at 31 December 2007		£'000	£'000	£'000	£'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)
As at 31 December 2006					
Financial assets					
Trade receivables and accrued income	Sterling			1,985	1,985
	Euro			2,641	2,641
	US Dollar			76	76
	Brazilian real			1,178	1,178
	Indian Rupee			377	377
	Ukraine Hryvnia			213	213
Other receivables	Sterling			562	562
Cash balances	Sterling	74			74
	US Dollar	26			26
	Indian Rupee	21			21
	Ukraine Hryvnia	13			13
Financial liabilities					
Trade payables	Sterling			(2,032)	(2,032)
Euro	Euro			(2,217)	(2,217)
US Dollar	US Dollar			(112)	(112)
Brazilian real	Brazilian real			(837)	(837)
Indian Rupee	Indian Rupee			(401)	(401)
Ukraine Hryvnia	Ukraine Hryvnia			(155)	(155)
Overdraft	Sterling	(150)			(150)
	Indian Rupee		(39)		(39)
Amounts payable under finance leases	Sterling		(62)		(62)
Other payables	Sterling			(107)	(107)
Accruals	Sterling			(426)	(426)
	Brazilian real			(102)	(102)
		(16)	(101)	643	526

The group has no significant financial instruments held on floating interest rates and therefore it is felt that the sensitivity to interest rate movement is not material.

(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 that are denominated in a currency other than the functional currency of the entity by which they are held. The group's exposure to currency risk was as follows:

	At 31 December 2007					
	Euro	US Dollar	Indian Rupee	Brazilian real	Ukraine Hryvnia	Total
Functional currency of entity	£'000	£'000	£'000	£'000	£'000	£'000
Sterling		(2)				(2)
	At 31 December 2006					
Sterling	424	(10)	(82)	341	71	744

On the assumption that the change in exchange rates is applied to the risk exposures in existence at the balance sheet date, an increase/decrease of 10% in the value of the functional currencies of the entities concerned against the currencies in which the financial assets and liabilities are denominated would increase/decrease the group's profit and equity by nil (2006: £8,000)

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 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 debts include short and long-term borrowings (including overdrafts and lease obligations) net of cash and cash equivalents.

	31 December 2007	31 December 2006
	£'000	£'000
Total debt	482	189
Less: cash and cash equivalents	(7)	(134)
Net debt	475	55
Total equity	1,882	2,156
Debt to capital ratio	0.25	0.03

Notes to the consolidated financial statements

20) Share capital

	2007		2006	
	£	No of shares	£	No of shares
1 January	1,500,000	50,000,000	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	1,500,000	50,000,000
1 January	1,331,619	44,387,300	850,407	28,346,900
25 September 2006				
Raising additional share capital for cash consideration of 8p for working capital purposes			481,212	16,040,400
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 Novemeber 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	1,331,619	44,387,300

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 sh ares 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 21.

21) Share-based payment transactions

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.
As part of the arrangement process for the convertible loan notes the group issued the following warrants:
On the 18 January 2007 the provider of the convertible loan notes facilities received 1 million 5 year share warrants at an exercise price of 8p and a further 2 million 5 year share warrants at an exercise price of 8.8p on the 29 June 2007.
On the 23 February 2007, the group issued 5 year warrants in respect of 1,875,000 Ordinary Shares of the Company at an exercise price of 8p per share to HB Corporate, the group's nomad and broker, for corporate advisory services in relation to the placing of shares and the arrangement of the convertible loan agreement.

During the year ended 31 December 2007 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
Number granted	1,142,238	70,000	775,000	884,510
Contractual life	10 years	10 years	10 years	10 years
Estimated fair value per option -Tranche 1	£0.260	£0.290	£0.040	£0.020
Estimated fair value per option -Tranche 2	£0.250	£0.340	£0.040	£0.030
Estimated fair value per option -Tranche 3	£0.270	£0.380	£0.050	£0.030
Vesting conditions	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
Number granted	535,206	17,391	110,000	325,000	1,600,000
Contractual life	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
Estimated fair value per option -Tranche 2	£0.330	£0.510	£0.400	£0.050	£0.030
Estimated fair value per option -Tranche 3	£0.360	£0.500	£0.400	£0.050	£0.030
Vesting conditions	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

Notes to the consolidated financial statements

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
Share price at grant date	£0.710	£0.685	£0.080	£0.053
Exercise price	£0.710	£0.685	£0.080	£0.053
Contractual life	10 years	10 years	10 years	10 years
Expected volatility	80%	80%	80%	80%
Expected dividends	Nil	Nil	Nil	Nil
Risk-free interest rate	4.22%	4.62%	4.53%	4.75%
Sub-optimal coefficient	1.7	1.7	1.7	1.7
Forfeiture rate	27% and 40%	15%	0% and 10%	0% and 10%

General share option plan

Date of grant	15/9/05	4/4/06	15/5/06	10/10/06	08/11/07
Share price at grant date	£0.715	£0.863	£0.685	£0.080	£0.053
Exercise price	£0.715	£0.863	£0.685	£0.080	£0.053
Contractual life	0 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	4.16%	4.37%	4.62%	4.53%	4.75%
Sub-optimal coefficient	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%

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.

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

Share Options	2007 Number of options	2007 Weighted average exercise price	2006 Number of options	2006 Weighted average exercise price
Outstanding at 1 January	2,632,447	0.45	1,677,444	0.71
Granted during the year	2,484,510	0.05	1,297,389	0.17
Forfeited during the year	239,436	0.71	342,386	0.71
Exercised during the year	-	-	-	-
Outstanding at 31 December	4,877,521	0.25	2,632,447	0.45
Exercisable at 31 December	1,550,759	0.56	448,352	0.71

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
Julian Paul	0.715	70,423	15/09/05
Michael Neville	0.715	7,042	15/09/05
	0.685	40,000	15/05/06

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

Share warrants	2007 Number of options	2007 Weighted average exercise price
Outstanding at 1 January	-	-
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
Exercisable at 31 December	4,875,000	0.08

The share options outstanding at the end of the year have an exercise price of between £0.053 and £0.8625, with a weighted average remaining contractual life of 9.09 years.
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 4.29 years.

The total fair value of the options granted in the year was £73,517 (2006: £112,015). The total fair value of the warrants issued during the year was £150,300 (2006: nil).

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

	2007 £	2006 £
Equity-settled share-based payment transactions	150,665	298,895

In addition, the warrants granted in relation to the issuing of convertible loans with a fair value amounting to £150,300 have been recognised as a finance cost and offset against funds borrowed. These costs will be recognised as an expense using the effective interest method under IAS 39: 'Financial instruments: recognition and measurement.

Notes to the consolidated financial statements

22) Cash flows

		Year ended 31 December	
		2007	2006
		£	£
a	Reconciliation of net loss to net cash inflow from operating activities		
	Loss before tax on continuing operations	(2,156,493)	(3,519,349)
	Interest receivable and similar income	(4,898)	(31,968)
	Interest payable and similar charges	168,586	6,872
	Share of operating loss and associates	180,567	-
	Amortisation and depreciation	489,200	528,175
	Share option expense	150,665	298,895
	General administration fees settled in shares	221,024	-
	Decrease/ (increase) in work in progresss	-	(38,984)
	Decrease in trade and other receivables	182,233	4,303,448
	Increase/ (decrease) in trade and other payables	1,573,787	(4,191,484)
	Net cash inflow / (outflow) from operating activities from continuing operations	804,671	(2,644,395)
	Net cash (outflow) from operating activities from discontinued operations	(1,237,414)	(254,733)
		(432,743)	(2,899,128)
b	Cash flow from investing activities		
	Purchase of property, plant and equipment	(12,235)	(563,451)
	Purchase of intangible assets	(1,194,919)	(581,747)
	Net cash outflow from investing activities	(1,207,154)	(1,145,198)
c	Cash flow from financing activities		
	Capital element of finance leases	(62,463)	(43,798)
	Interest paid	(44,418)	(6,872)
	Proceeds from the issue of convertible loan note	2,000,000	-
	Proceed from the issue of share capital	-	1,283,220
	Less issue costs	(188,090)	(64,940)
	Net cash generated from financing activities	1,705,029	1,167,610

23) Capital commitments

At 31 December 2007, the group had no outstanding capital commitments (2006: nil).

24) Related party transactions

SMS Media Limited
In 2007 sales to SMS Media Limited amounted to £110,108 and management charges totalled £243,750. At the year end £23,935 (2006: £16,371) 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 from Sky Telemedia (UK) Limited amounted to £952,623 (2006: £809,493). Sales to Sky Telemedia (UK) Limited amounted to £Nil (2006: £10,629). At the year end £94,177 (2006: £36,690) was owed to Sky Telemedia (UK) Limited. Sky Telemedia (UK) Limited is a wholly owned subsidiary of SMS Media Limited.

Sardik Limited
During the year the balance of the loan amounting to £4,298 was settled by issue of share capital into the parent company. SMS Media Limited owns 50.1% of Sardik Limited.

Atlas Telecom Holdings (Bermuda) Limited
During the year the balance of the loan amounting to £46,875 was settled by issue of share capital into the parent company.

Cellcast Television China Limited
During the year the company transferred funds amounting to £140,040 to Cellcast Television China Limited. During the year there were recharges to Cellcast Television China Limited of £Nil (2006: £27,720). At the year end £535,140 (2006: £395,100) was owed to Cellcast UK Limited. Cellcast UK Limited owns 80% of Cellcast Television China Limited.

Cellcast Asia Holdings Limited
At 31/08/07 the group balances of both Cellcast Interactive India Pvt Ltd and Cellcast SEA Ltd were transferred to investment for a total amount of £741,784. This reflected the investment made in a new entity, Cellcast Asia Holdings Limited in which Cellcast retained 37.50% of the share capital. The new company is a joint venture between Cellcast and Canaan Partners who injected USD 5.25 million in cash, and the local management team.

Cellcast Ukraine Limited
During the year the company received funds amounting to £47,522 from Cellcast Ukraine Limited. At the year end £Nil (2006: £47,522) was owed to Cellcast UK Limited. Cellcast UK Limited owns 85% of Cellcast Ukraine Limited.

Cellcast Brasil Communicação Ltda
During the year the company received £179,078 from Cellcast Brasil Communicação Ltda. The outstanding balance of £163,922 (2006: £343,000) was written off in 2007. Cellcast UK Limited had a 51% interest in Cellcast Brasil Communicação Ltda.

Cellcast Lebanon SAL
During the year supplies from Cellcast Lebanon amounted to £10,909 (2006: £Nil). At the year end £20,905 (2006: £31,814) was owed to Cellcast UK Limited. Cellcast UK Limited has a beneficial 27% interest in Cellcast Television Lebanon SAL.

25) Reconciliation of UK GAAP to IFRS

Explanation of transition to IFRS

As required by IFRS 1, the impact of the transition from UK GAAP to IFRS is explained below.

The accounting policies set out above have been applied consistently to all periods presented in this interim financial information and in preparing an opening IFRS balance sheet at 1 January 2006 for the purposes of the transition to IFRS.

1AS1	Presentation of Financial Statements. The form and presentation of the UK GAAP financial statements has been changed to be in compliance with IAS 1.
1AS7	Cash Flow Statements. The IFRS Cash Flow Statement, prepared under IAS 7, presents cash flows in three categories; cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Other than the reclassification of cash flow into the new disclosure categories, there are no significant differences between the group's Cash Flow Statement under UK GAAP and IFRS. Consequently, no cash flow reconciliations are provided. Purchases of tangible fixed assets under UK GAAP have been reclassified to purchases of intangible assets and purchases of property, plant and equipment under IFRS.

No reconciliation between UK GAAP and IFRS has been made in respect of the 1 January 2006 balance sheet, as there was no difference between the two formats.

(a) Translation reserves

The translation reserve results from exchange gains and losses arising from the translation of the group's net investments in its overseas operating subsidiaries. The foreign exchange impact of translating foreign operations since 1 January 2006 is reflected in the restated income statements.

(b) Intangibles assets

Development costs which were previously expensed through the income statement under the accounting policy previously set out in accordance with UK GAAP has been reviewed if the cost meet the criteria set out in IAS 38 and in the group's policy on intangible assets they have been capitalized.

Reconciliation of UK GAAP to IFRS (continued)

Year ended 31 December 2006 Consolidated income statement

	UK GAAP £	IFRS Adjustment £	Discontinued Activities £	Restated £
Revenue	21,977,972		(9,500,154)	12,477,818
Cost of sales	(18,211,533)	443,354	5,040,974	(12,727,205)
Gross profit	3,766,439	443,354	(4,459,180)	(249,387)
Operating costs and expenses:				
General and administrative	(6,786,705)	-	4,318,717	(2,467,988)
Amortisation and depreciation	(575,159)		46,984	(528,175)
Share option expense	(298,895)	-		(298,895)
Total operating costs and expenses	(7,660,759)	-	4,365,701	(3,295,058)
Operating loss	(3,894,320)	443,354	(93,479)	(3,544,445)
Interest receivable	32,217	-	(249)	31,968
Interest payable and similar charges	(6,872)	-	-	(6,872)
Loss on ordinary activities before taxation	(3,868,975)	443,354	(93,728)	(3,519,349)
Taxation	64,798			64,798
Loss on ordinary activities before taxation	(3,804,177)	443,354	(93,728)	(3,454,551)
Discontinued operations	-	-	93,728	93,728
Loss for the period	(3,804,177)	443,354	-	(3,360,823)
Attributable to:				
Equity holders of the company	(3,773,493)	443,354	-	(3,330,139)
Minority interest	(30,684)	-	-	(30,684)
Loss for the period	(3,804,177)	443,354	-	(3,360,823)
Loss per share				
Basic and diluted	(11.6p)			(10.3p)

Notes to the consolidated financial statements

Reconciliation of UK GAAP to IFRS (continued)

Year ended 31 December 2006 Consolidated balance sheet

	UK GAAP £	IFRS Adjustment £	Restated £
Assets			
Non-current assets			
Intangible assets	656,050	443,354	1,099,404
Property, plant and equipment	1,108,507	-	1,108,507
Investments	4,933	-	4,933
Deferred tax	84,698	-	84,698
	1,854,188	443,354	2,297,542
Current assets			
Work in progress	38,984	-	38,984
Trade and other receivables	6,997,017	-	6,997,017
Cash and cash equivalents	135,677	-	135,677
	7,171,678	-	7,171,678
Total assets	9,025,866	443,354	9,469,220
Liabilities			
Non current			
Finance leases	70,202	-	70,202
Current			
Trade and other payables	7,267,559	(24,995)	7,242,564
Total liabilities	7,337,761	(24,995)	7,312,766
Net assets	1,688,105	468,349	2,156,454
Capital and reserves			
Called up share capital	1,331,619	-	1,331,619
Share premium account	4,775,743	-	4,775,743
Merger reserve	1,300,395	-	1,300,395
Retained earnings	(5,688,968)	443,354	(5,245,614)
Translation reserve	-	24,995	24,995
Attributable to equity holders of the company	1,718,789	468,349	2,187,138
Minority interest in equity	(30,684)	-	(30,684)
Total equity	1,688,105	468,349	2,156,454

Cellcast plc entity balance sheet

	Note	2007 £	2006 £
Fixed asset			
Investments in subsidary	26	1,088,647	639,087
Current assets			
Debtors	27	7,387,818	5,491,007
Cash at bank and in hand		928	581
		7,388,746	5,491,588
Creditors: amounts falling due within one year	28	482,109	-
Net current assets representing total assets less current liabilities		6,906,637	5,491,588
		7,995,284	6,130,675
Capital and reserves			
Called up share capital	29	2,265,398	1,331,619
Share premium account	30	5,498,626	4,775,743
Profit and loss account	30	231,260	23,313
		7,995,284	6,130,675

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 31.

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.

Notes to the consolidated financial statements

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.

26) Investments

Investments in subsidiary	£
At 1 January 2007	639,087
Contribution in relation to share option charge	449,360
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.

27) Debtors

	2007	2006
	£	£
Amounts owed by group undertakings	7,336,323	5,484,781
Payments and accrued income	-	6,226
Other debtors	51,495	-
	7,387,818	5,491,007

28) Creditors falling due within one year

	2007	2006
	£	£
Convertible loan note	482,109	-

Full details of convertible loan note included in note 18

29) Share capital

	2007	2006
Authorised share capital		
Ordinary shares of 3p each 100,000,000 (2006: 50,000,000)	3,000,000	1,500,000
Allotted, called up and fully paid		
Ordinary shares of 3p each 75,513,224 (2006: 44,387,300)	£2,265,398	£1,331,619

See note 20 for details of shares issued during the year

30) Reserves.

	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

31) Statement of movement in equity shareholders' funds

	2007	2006
	£	£
Loss for the period	(391,913)	(13,301)
Proceeds from shares issued	1,656,662	1,283,219
Warrant issue charge	150,300	-
Share option charge written off to share premium account	449, 560	(64,940)
Net addition to shareholders' funds	1,864,609	1,204,978
Opening equity shareholders' funds	6,130,675	4,925,697
Closing equity shareholders' funds	7,995,284	6,130,675

32) 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 comp any.

Full details of all other related party transaction included in note 24.

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