**MOBILE STREAMS PLC**
**(Formerly Mobile Streams Limited)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006

Company no 03696108

**MOBILE STREAMS PLC**

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2006

| | |
|---|---|
| Company registration number: | 03696108 |
| Registered office: | 26B Northbrook Street<br>Newbury<br>Berkshire<br>RG14 1DJ |
| Directors: | S D Buckingham<br>M Carleton<br>I A L Donn<br>P A Murphy<br>R G Parry<br>J Sodha<br>P Tomlinson |
| Chairman: | R G Parry |
| Secretary: | J Sodha |
| Bankers: | National Westminster Bank plc<br>PO Box 13<br>30 Market Place<br>Newbury<br>RG14 1AS |
| Auditors: | Grant Thornton UK LLP<br>Registered Auditors<br>Chartered Accountants<br>Grant Thornton House<br>Melton Street<br>Euston Square<br>London<br>NW1 2EP |

**MOBILE STREAMS PLC**

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2006

| **INDEX** | **PAGE** |
|---|---|

# CHIEF EXECUTIVE'S STATEMENT

Mobile Streams is at the centre of the rapidly growing new markets of mobile media and mobile internet.

Sales in 2006 were £8.2m which was up from £5.1m in 2005. This increase of 62% was achieved two-thirds from organic growth and one-third from acquisitions. Trading EBITDA* was breakeven compared to a profit of £0.1m in 2005. This performance was as planned and Mobile Streams demonstrated profitable trading during the second half of 2006.

At the end of the year, Mobile Streams had cash balances of £4.1m. At IPO we raised a net £6.0m of new money. Cash investments during the year were primarily made in acquisitions and in the Vuesia platform.

In line with policies set at the time of the listing the Board is not recommending a dividend for 2006.

*Acquisitions*

During the year, Mobile Streams acquired Cyoshi Mobile, The Nickels Group and Mobilemode. The acquisition of Cyoshi Mobile, based in Germany, provided access to unique animated cartoon content and distribution in mainland Europe. The Nickels Group, based in Los Angeles, also provided access to unique content, this time in the music genres of hip hop and Reggaeton. Mobilemode, based in Hong Kong and Australia, added distribution and relationships in the Asia Pacific region from its bases in Australia and Hong Kong. Management is happy with the performance of all 3 acquisitions.

*Board and Management*

In February 2006, Mobile Streams appointed Mark Carleton, Senior Vice President of Liberty Media, to our Board. Liberty Media owns approximately 17% of the equity through their subsidiary TruePosition Inc.

In addition to Mr. Carleton, the Board now consists of two Executive Directors (Simon Buckingham CEO and Jitesh Sodha CFO), three non executives and myself as Chairman.

*Outlook and Trading*

Since the beginning of the new financial year in 2007, Mobile Streams has won and launched several new operator contracts including being selected as the comedy channel partner for Hutchison 3G in the UK. The company has also been awarded projects to mobilise some major content properties on a global basis, such as Spider-Man 3 from Sony Pictures Entertainment. Additionally, the consumer business is continuing to build as mobile search volumes grow at a rapid rate, with site launches in several markets including Germany, Spain, the US and Australia. Selling our proprietary content through mobile and other distribution channels is also looking promising, following the success of the broadcast of Suicidal Squirrels on MTV in Germany. As the market is constantly changing and new business models and business opportunities appear, projections for full year's trading are difficult to make. However, management believe we are well positioned strategically to achieve our growth objectives and as such we look forward to 2007 with confidence.

**R G Parry**
**Chairman**

*Calculated as loss before tax, interest, amortization of goodwill, depreciation, share compensation expense and fund raising and flotation cost.

Our business has four lines of operation, all powered by the Vuesia technology platform:

- Platforms: helping content owners mobilise their media
- Operators: providing operators with extra sources of revenue
- Content: creating proprietary mobile content
- Consumer: selling content directly to consumers

*Platforms*

As media companies invest in digital distribution strategies, they are looking at mobile as a growing and important medium. Unlike the internet, distribution on mobile phones is technically complex with thousands of differing handset types, standards, protocols, screen sizes and networks. Mobile Streams has made it possible for media companies to reduce this complexity through utilising our proprietary platform Vuesia.

Through Vuesia, media companies can make the necessary mobile copies of the original digital assets. Vuesia will also manage the identification of a user's handset and will provide the most appropriate 'mobile copy' for that customer. In this way, a customer with a high end handset on a 3G network will receive a larger file in higher quality than one on a 2G network with a lower end device.

As well as using Vuesia internally within Mobile Streams, in 2006 we sold the Vuesia platform externally for the first time. Customers have included Sony Pictures Entertainment, where we mobilised films such as Casino Royale and The Da Vinci Code.

*Operators*

Mobile Streams now has direct distribution with over 70 operators in more than 20 countries. During 2006 we continued to improve our direct distribution both organically and through acquisition.

We won new business with many operators including E-Plus Germany, Vodafone Australia, Vodafone New Zealand, COMCEL (America Movil) Colombia, Movistar (Telefonica) Chile, Cingular Wireless in USA and Bell Mobility in Canada.

The acquisition of Mobilemode Limited in August 2006 provided additional distribution with a number of mobile network operators, particularly in Australia, New Zealand, Singapore and Hong Kong.

*Content*

Access to exclusive and proprietary content can help to secure distribution, improve sales and margins. With our experience of the mobile market we are able to invest in securing exclusive rights to properties that appeal directly to the right consumer segments. We have the exclusive European mobile distribution rights for animated series Happy Tree Friends, which has gained popularity through the internet and is being shown on MTV. In Latin America we distribute content from the likes of Playboy, Warner Music, Private Media Group, and Maxim magazine.

The acquisition of Cyoshi Mobile in Germany has given us the access to animated content such as Suicidal Squirrels that has been created and commissioned by Mobile Streams. We have already secured broadcast distribution for Suicidal Squirrels on MTV Germany. This allows us to capture the IP owner's share of the margins as well as benefit from non-mobile rights such as DVD, broadcast and internet.

The acquisition in August 2006 of the Nickels Group, based in Los Angeles, has also provided access to unique content, this time in the music genres of Reggaeton and hip hop, where the Company now has mobile rights for Tupac Shakur, one of the world's best selling artists.

*Consumer*

Mobile network operators are increasingly changing the structure of their content portals. In addition to continuing to market their own mobile content on portal, they are auctioning off some of their portal space and traffic through partnerships with search engines such as Google, Yahoo and others. This has created a new "on operator, off portal" business model in which Mobile Streams acquires traffic generated on the operator portals and delivers content directly to consumers based on the consumer's keyword preferences. This area initially launched during the 2006 financial year.

*Liberty Media*

The strategic investment from Liberty Media highlights the importance of the mobile content sector for media companies. The investment has already resulted in the establishment of a Liberty Media subsidiary, Connectid LLC. Connectid is readying the launch of innovative mobile location services for launch later in 2007. As well as earning fees for managing and operating Connectid, Mobile Streams holds warrants over 10% of the company's equity.

Additional relationships have been established with several companies in the Liberty Media family. For example, Mobile Streams is the mobile platform company for Discovery Communications in Asia Pacific and mobilises the popular Starz Media internet property 30-Second Bunnies Theatre globally.

**Simon Buckingham**
**Chief Executive**

Group turnover in the year was £8.2m, a 62% increase on 2005 (£5.1m). Trading EBITDA* was breakeven for the period (2005: £0.1m). Loss before tax was £1.8m after fund raising/flotation cost (£1.3m) and share compensation expense required under FRS 20 (£0.3m). Overall gross margin improved to 58.6% (2005: 56.7%).

We now have a genuine global distribution footprint with 12 subsidiaries on 4 continents. Leveraging our expertise and technology platform across multiple operating regions both increases our return on technology investment and assists our global customers with the implementation of their mobile strategies. Our global footprint and geographical scale will enable us to reduce our dependence on any one customer or region, and facilitate our growth. Europe now represents 43% of our turnover, down from 59% in 2005 as other geographies grow. North America representing 23% (2005: 17%) and Latin America representing 28% (2005: 25%) grow in importance to the group, and the acquisition of Mobilemode has now provided a meaningful presence in Asia Pacific (6% of turnover).

The Group has applied Financial Reporting Standard 20 "Share Based Payment" for the first time. This requires the recognition of a charge in the Profit and Loss Account in respect of share options. The impact of this policy is detailed in note 17. A prior year adjustment has not been made as the adjustment was not material. A charge of £0.3m has been made in respect of FRS 20.

£1.1m was invested during the year on tangible fixed assets. This was predominantly for the further development of the Vuesia platform, and associated hardware. £3.8m of intangible assets were added onto the balance sheet, of which £3.7m was goodwill relating to the three acquisitions made during the period. The group continues to invest in the development of the Vuesia platform and content assets.

The Group incurred a net cash outflow from operations of £1.5m (2005: inflow £0.3m). The cash balance at 31 December 2006 was £4.1m.

Basic earnings per share amounted to a loss of 3.056p per share (2005: loss of 0.519p).

Adjusted earnings per share (excluding depreciation, amortisation, flotation/fund raising costs and share compensation expense) amounted to a loss of 0.559p (2005: loss of 0.519p).

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

**J Sodha**
**Chief Financial Officer**

*Calculated as loss before tax, interest, amortization of goodwill, depreciation, share compensation expense and fund raising and flotation cost.

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

The principal activity of the group is the provision of technology and services for the creation and publication of content, primarily for distribution on wireless devices.

**Results and dividends**

The trading results for the year and the group's/company's financial position at the end of the year are shown in the attached financial statements, and are discussed further in the business review below.

The company will not be paying a dividend this year.

## BUSINESS REVIEW

**Financial overview**

2006 was another excellent year for growth with revenues increasing 62% to £8.2m (2005: £5.1m). 71% of the revenue growth was organic, whilst the remainder was through the acquisition of three businesses.

The operating loss of £2.0m (2005: profit £0.1m) was primarily driven by costs associated with listing on AIM and compensation expense for share based schemes.

The directors are pleased with the performance during the year and believe that Mobile Streams Plc is in a strong position to grow.

**Financial performance**

Financial performance for the year has been analysed as follows:

| | **Year to 31 December 2006** | Year to 31 December 2005 | Change | |
|---|---|---|---|---|
| | **£000's** | £000's | £000's | % |
| Turnover | **8,223** | 5,071 | 3,152 | 62 |
| Gross profit | **4,821** | 2,874 | 1,947 | 68 |
| (Loss)/profit before tax after exceptional items | **(1,808)** | 31 | (1,839) | - |

**Strategy**

Mobile Streams operates on 4 lines of business:

- Operators: providing operators with extra sources of revenue
- Platforms: helping content owners mobilise their media
- Consumer: selling content directly to consumers
- Content: creating proprietary mobile content

A more detailed review of company performance can be found in the Chairman's and CEO statements.

**Principal risks and uncertainties**

The management of the business and the nature of the group's/company's strategy are subject to a number of risks.

The directors have set out below the principal risks facing the business.

***Contracts with Mobile Network Operators (MNOs)***

While Mobile Streams maintains relationships with numerous MNOs in the various territories, a small number of operators account for a high portion of the company's business.

As the company grows, management are using geographic and product diversity to counter this risk.

***Contracts with rights holders***

The majority of content provided by Mobile Streams is licensed from rights holders. While Mobile Streams is not dependent on any single rights holder for its entertainment content, termination, non-renewal or significant renegotiation of a contract could result in lower turnover.

Mobile Streams is investing in content that is 100% owned or with exclusivity to help manage this risk. Also, sales of platform products and services will reduce the reliance on content.

***Competition***

Competition from alternative providers could adversely affect operating results by either providing price pressure, or by replacement.

***Evolution of mobile entertainment content***

Mobile entertainment content is constantly evolving in terms of what is popular, how it is distributed and business models.

Management constantly monitor changes in the market and invest in new and evolving areas to remain at the forefront of the industry. This has already been demonstrated in the historical changes from mono-tones, to polyphonic tones to truetones and video.

*Fluctuations in currency exchange rates*

Approximately 61% of our turnover relates to overseas operations. As a company, we are therefore exposed to foreign currency fluctuations and the financial condition of the company may be adversely impacted by foreign currency fluctuations.

Currently the currency exposure is not hedged.

*Dependencies on key executives and personnel*

The success of the business is substantially dependent on the executive directors and senior management team.

The company has incentivised all key and senior personnel with stock options and has taken out key man insurance policies on some of the key personnel.

*Intellectual Property Rights*

The protracted and costly nature of litigation, particularly in North America, may make it difficult to take a swift or decisive action to prevent infringement of the Company's intellectual property rights.

Although directors believe that the company's content and Vuesia technology platform and other intellectual property rights do not infringe the IP rights of others, third-parties may assert claims of infringement which could be expensive to defend or settle.

*Technology Risk*

A significant portion of the future revenues are dependent on the Vuesia platform. Any instability or interruption of its availability for an extended period could have an adverse impact on the company's financial position.

Mobile Streams is investing in a resilient hardware architecture and maintains a software control process to minimise this risk.

*Management controls and reporting procedures and execution*

The ability of the company to implement its strategy in a competitive market requires effective planning and management control systems. The company's future growth will depend upon its ability to expand whilst improving operational, financial and management risk.

*Regulatory Risk*

The company may be affected by the prevailing regulatory and legal environment.

*Cash / Tax Risk*

The group operates in many markets and under many different tax jurisdictions. A specific ruling or change in tax regime could result in higher tax payments or increase the difficulty of repatriation of funds from those markets.

**Financial risk management objectives and policies**

The group/company uses various financial instruments. These include loans, cash, equity investments, and various items, such as trade debtors and trade creditors that arise directly from its operations. The numerical disclosures relating to these policies are set out in Note 14 to the financial statements. The main purpose of these financial instruments is to raise finance for the group's/company's operations.

The existence of these financial instruments exposes the group/company to a number of financial risks, which are described in more detail below. The company does not currently use derivative products to manage foreign currency or interest rate risk.

The main risks arising from the group's/company's financial instruments are market risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below. These policies have remained unchanged from previous years.

**Market risk**

Market risk encompasses three types of risk, being currency risk, fair value interest rate risk and price risk. In this interest rate risk and price has been ignored as it is not considered a material risk to the business. The group's/company's policies for currency risk is set out below.

**Currency risk**

The group/company is exposed to translation and transaction foreign exchange risk. Currently, there is generally an alignment of assets and liabilities in a particular market, and no hedging instruments are used. In Latin American markets, cash in excess of working capital is converted into a hard currency such as US Dollars. The company will review its currency risk position as the overall business profile changes.

**Liquidity risk**

The group/company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The group currently has no borrowing arrangement in place and prepares cashflow forecasts which are reviewed at Board meetings to ensure liquidity.

**Credit risk**

The group's/company's principal financial assets are bank deposits, cash and trade debtors. The credit risk associated with the bank deposits and cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from the group's/company's trade debtors. Most of the Group's debtors are large mobile network operators or media groups. History suggests that the credit risk is low. 22 customers made up approximately 48% of the Group trade debtors at the year end.

**Directors and their interests**

The present membership of the Board together with their beneficial interests in the shares of the Company are set out below. All directors with the exception of M Carleton served on the Board throughout the year.

| | **Ordinary shares of £0.002 each 31 December 2006** | Ordinary shares of £0.002 each* 1 January 2006 |
|---|---|---|
| S D Buckingham | **18,007,500** | 21,437,500 |
| M Carleton (appointed 20 February 2006 ) | - | - |
| I A L Donn | **332,500** | 1,225,000 |
| P A Murphy | - | - |
| P Tomlinson | - | 1,125,000 |
| R G Parry | **106,183** | 54,175 |
| J Sodha | - | - |

*During the year there was a 48 for 1 bonus issue.

**Options**

The table below summarises the exercise terms of the various options over ordinary shares of £0.002 (2005: £0.002*) each which have been granted, and were still outstanding at 31 December 2006 and 31 December 2005.

| | Options Held at 1 Jan 2006* | Options Granted during the year | Options exercised during the year | Options held at 31 December 2006 | Exercise price | Earliest date from which exercisable | Latest expiry date |
|---|---|---|---|---|---|---|---|
| | Number | Number | Number | Number | £ | | |
| R G Parry[1] | - | 689,655 | - | 689,655 | 0.8700 | 15 Feb 2007 | 14 Feb 2016 |
| J Sodha[2] | 490,000 | - | - | 490,000 | 0.03183 | 1 Mar 2006 | 28 Feb 2015 |
| J Sodha[3] | - | 155,077 | - | 155,077 | 0.0020 | 1 Mar 2006 | 28 Feb 2015 |
| J Sodha[4] | - | 100,000 | - | 100,000 | 0.4000 | 7 Dec 2007 | 6 Dec 2016 |

*Options have been restated following the 48 for 1 bonus issue during the year

1. Mr Parry's options were granted on 15 February 2006 and can be exercised from the first anniversary of the grant date (33%), second anniversary of the grant date (67%) and third anniversary of grant date (100%).

2. Mr Sodha's existing options can be exercised from the first anniversary of the admission date (50%) and second anniversary of the grant date (100%). The latest these options maybe exercised is 1 March 2015.

3. Mr Sodha was granted 155,077 options on 15 February 2005 pursuant to a non-dilute option agreement. These options can be exercised in line with the initial grant of options. The non-dilute option agreement expired on the issuing of these options.

4. Mr Sodha was granted a further 100,000 share options on 7 December as part of the EMI share option scheme; 33.33% of these options may be exercised on or after the first anniversary of the grant date or the date, 66.67% of these option may be exercised on or after the second anniversary of the grant date, 100% may be exercised on or after the third anniversary of the grant date.

**Post balance sheet events**

There have been no material post balance sheet events.

**Research and development**

The Group continues to invest in the development of its media platform. During the year £651,000 of costs (both internal and external) has been incurred. These costs have been capitalised in the balance sheet and are being written off over 3 years in accordance with Group accounting policies

**Policy on payment on creditors**

It is the group's policy to settle supplier accounts in accordance with individual terms of business. The number of day's purchases outstanding at the year end in respect of the company were 79 days (2005: 79 days)

**Directors' responsibilities for the financial statements**

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

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

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

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

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the website and accordingly the auditors accept no responsibility for the information published.

Information published on the website is accessible in many countries and legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

J Sodha 19 March 2007
Director

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF MOBILE STREAMS PLC

We have audited the group and parent company financial statements (the "financial statements") of Mobile Streams Plc for the year ended 31 December 2006 which comprise the principal accounting policies, the group profit and loss account, the group and company balance sheets, the group cash flow statement, the group statement of total recognised gains and losses and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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. This other information comprises only the Directors' Report and the Chairman's 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

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

Grant Thornton UK LLP

**GRANT THORNTON UK LLP**
**REGISTERED AUDITOR**
**CHARTERED ACCOUNTANTS**
**LONDON**

**Date: 19 March 2007**

## BASIS OF PREPARATION

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

The principal accounting policies of the group, as set out below, have remained unchanged from the previous year except for the adoption of Financial Reporting Standard 20, "Share-based payment". The impact of this change in accounting policy has been reflected in the profit and loss account and gave rise to a charge of £325,000 for the period. A prior year adjustment has not been made as the adjustment was not material. The change in policy did not result in any change in Shareholders' equity.

## BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and its subsidiary undertakings (see note 11) drawn up to 31 December 2006. Profits or losses on intra-group transactions are eliminated in full.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings are included in the Group profit and loss from the date of acquisition.

## TURNOVER

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding sales taxes. Where the Group is selling directly to the end customer, the turnover is the amount paid by that customer excluding sales taxes. Where the customer contracts with a third party, through which Mobile Streams is distributing its content, turnover is that portion that is payable to Mobile Streams including royalties and commissions. Revenue is recognised when goods are supplied to a customer.

## INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are stated in the Company's balance sheet at cost less provisions for impairment.

## TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost less estimated residual value of fixed assets over their estimated useful lives. The following rates and methods have been applied:

| | |
|---|---|
| Leasehold improvements | Over the life of the lease |
| Plant and equipment | 33% straight line |
| Media platform development | 33% straight line |
| Office furniture | Between 10% and 33% straight line |

Media platform costs represent the cost of the initial development of websites and media platforms, which support the company's core operations. The capitalisation is based on matching the cost with anticipated revenues in future periods.

The Group has continued to invest in a new media platform during 2006 and has capitalised the direct staff costs incurred during the creation of this asset. The expected useful economic life of the platform is estimated to be 3 years and the asset is being depreciated on this basis.

---

### GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets are stated at cost, net of amortisation and any provision of impairment.

Amortisation is calculated to write down the cost of goodwill and intangible assets over their estimated useful lives. The following rates and methods have been applies:

| | |
|---|---|
| Intangible assets | Between 2 and 4 years straight line |
| Goodwill | Between 10 and 20 years straight line |

The intangible assets represent the cost of creating original media content.

Goodwill arising on consolidation, representing the fair value of consideration given over the fair values of the identifiable net assets acquired, is capitalised and amortised on a straight line basis though the profit and loss account. This ranges between 10 and 20 years.

### DEFERRED TAXATION

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered.

Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. All other exchange differences are dealt with through the profit and loss account.

### OPERATING LEASES

Rentals in respect of leases are charged to the profit and loss account in equal amounts over the lease term.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

| | Note | Continuing £000's | Acquisitions £000's | **2006 Total £000's** | 2005 £000's |
|---|---|---|---|---|---|
| Group turnover | 1 | 7,301 | 922 | **8,223** | 5,071 |
| Cost of sales | | (2,896) | (506) | **(3,402)** | (2,197) |
| Gross profit | | 4,405 | 416 | **4,821** | 2,874 |
| Flotation/fund raising costs | | (1,296) | - | **(1,296)** | - |
| Share based compensation | | (325) | - | **(325)** | - |
| Other administration expenses | | (4,654) | (577) | **(5,231)** | (2,812) |
| **Operating (loss)/profit** | 2 | (1,870) | (161) | **(2,031)** | 62 |
| Net interest | 3 | | | **223** | (31) |
| **(Loss)/profit on ordinary activities before taxation** | | | | **(1,808)** | 31 |
| Tax on profit on ordinary activities | 6 | | | **(176)** | (159) |
| Loss on ordinary activities after taxation | | | | **(1,984)** | (128) |
| Loss retained | | | | **(1,984)** | (128) |
| | | | | **Pence per share** | Pence per share |
| Basic and diluted earnings per share | 4 | | | **(3.056)** | (0.519) |

There were no discontinued operations during the year.

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 DECEMBER 2006

| | 2006<br>£000's | 2005<br>£000's |
|---|---|---|
| **Loss for the period** | **(1,984)** | (128) |
| Currency differences on foreign currency net investments | **(153)** | 25 |
| **Total recognised losses for the period** | **(2,137)** | (103) |

CONSOLIDATED AND PARENT COMPANY BALANCE SHEETS AT 31 DECEMBER 2006

| | Note | The Group 2006 £000's | The Group 2005 £000's | The Company 2006 £000's | The Company 2005 £000's |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | 9 | **3,701** | - | **67** | - |
| Tangible assets | 10 | **1,112** | 247 | **849** | 199 |
| Investments | 11 | **382** | - | **3,511** | 129 |
| | | **5,195** | 247 | **4,427** | 328 |
| **Current Assets** | | | | | |
| Debtors | 12 | **2,742** | 1,524 | **4,387** | 1,517 |
| Cash at bank and in hand | | **4,073** | 268 | **3,136** | 43 |
| | | **6,815** | 1,792 | **7,523** | 1,560 |
| Creditors: amounts falling due within one year | 13 | **(3,399)** | (2,170) | **(1,567)** | (1,453) |
| **Net current assets/(liabilities)** | | **3,416** | (378) | **5,956** | 107 |
| Provisions for liabilities | 15 | **(85)** | (18) | **(85)** | (18) |
| **Net assets/(liabilities)** | | **8,526** | (149) | **10,298** | 417 |
| **Capital and reserves** | | | | | |
| Called up share capital | 16 | **69** | 1 | **69** | 1 |
| Share premium | 18 | **10,290** | 165 | **10,290** | 165 |
| Shares to be issued | | **294** | - | **294** | - |
| Profit and loss account | 18 | **(2,127)** | (315) | **(355)** | 251 |
| **Shareholders' funds/(deficit)** | 19 | **8,526** | (149) | **10,298** | 417 |

The financial statements were approved by the Board of Directors on 19 March 2007.

**J Sodha Director**

CASH FLOW STATEMENT

For the year ended 31 DECEMBER 2006

| | Note | 2006 £000's | 2005 £000's |
|---|---|---|---|
| **Net cash (outflow)/inflow from operating activities** | 23 | **(1,529)** | 260 |
| **Returns on investment and servicing of finance** | | | |
| Interest received | | **216** | 6 |
| Interest paid | | **(14)** | (37) |
| **Taxation** | | **(192)** | (48) |
| **Capital expenditure and financial investment** | | | |
| Capital expenditure | | **(1,256)** | (257) |
| Trade investments | | **(382)** | - |
| **Acquistions** | | | |
| Investments in subsidiaries (net of cash acquired) | | **(2,379)** | - |
| **Financing** | | | |
| Issue of share capital (net of expenses paid) | | **9,494** | 65 |
| **Increase/(decrease) in cash** | | **3,958** | (11) |
| **Reconciliation from net cash flow to movement to net funds** | | | |
| Increase/(decrease) in net cash | | **3,958** | (11) |
| Foreign currency movements | | **(153)** | 21 |
| **Change in net funds resulting from cash flows** | | **3,805** | 10 |
| Net funds brought forward | | **268** | 258 |
| **Net funds carried forward** | 24 | **4,073** | 268 |

## 1 SEGMENTAL REPORTING

The directors consider there to be one class of business, being the creation and publication of mobile phone content.

A split of turnover, (loss)/profit before taxation and net assets/(liabilities) by geographical segment is set out below:

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| **Turnover by origin and destination of sales:** | | |
| Europe | **3,539** | 2,968 |
| North America | **1,882** | 839 |
| Latin America | **2,324** | 1,264 |
| Asia | **478** | - |
| | **8,223** | 5,071 |
| **(Loss)/profit before taxation, fundraising and share based compensation costs:** | | |
| Europe | **754** | (132) |
| North America | **(281)** | (22) |
| Latin America | **(423)** | 185 |
| Asia | **(237)** | - |
| | **(187)** | 31 |
| Fund raising costs | **(1,296)** | - |
| Share based compensation | **(325)** | - |
| (Loss)/profit before taxation | **(1,808)** | 31 |
| **Net assets/(liabilities):** | | |
| Europe | **10,346** | 251 |
| North America | **(807)** | (182) |
| Latin America | **(876)** | (218) |
| Asia | **(137)** | - |
| | **8,526** | (149) |

## 2 (LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The (loss)/profit on ordinary activities before taxation is stated after charging:

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Depreciation of tangible fixed assets owned | **240** | 44 |
| Amortisation of intangible fixed assets | **15** | - |
| Amortisation of goodwill | **123** | - |
| Hire of plant and machinery under operating leases | **12** | 48 |

**Services provided by the group's auditor and network firms**

During the year the group (including its overseas subsidiaries) obtained the following services from the group's auditor at costs detailed below:

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Fees payable to company auditor for the audit of parent company and consolidated accounts | **44** | 26 |
| Non-Audit services: | | |
| Fees payable to the company's auditor and its associates for other services: | | |
| The audit of company's subsidiaries pursuant to legislation | **4** | - |
| Tax compliance and advisory services | **41** | 33 |
| Advisory work on acquisitions | **92** | - |
| Advice relating to fund raising and initial public offering, including acting as reporting accountant | **116** | - |
| | **253** | 33 |

## 3 NET INTEREST RECEIVABLE/(PAYABLE)

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Interest receivable | **216** | 6 |
| Bank interest payable | **(14)** | (37) |
| Other interest receivable | **21** | - |
| | **223** | (31) |

## 4 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of share in issue during the period.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.
As there was loss for the financial period there has been no dilution of the earnings per share.

| | **31 December 2006** | 31 December 2005 |
|---|---|---|
| | **Pence per share** | Pence per share |
| Basic and diluted earnings per share | **(3.056)** | (0.519) |
| | **£000's** | £000's |
| Loss for the financial period | **(1,984)** | (128) |
| **For adjusted earnings per share** | **£000's** | |
| Loss for the financial period | **(1,984)** | (128) |
| Add back: exceptional floatation/fund raising costs | **1,296** | - |
| Add back: share compensation expense | **325** | - |
| Adjusted loss for the period | **(363)** | (128) |
| **Weighted average number of shares** | **Number of shares** | Number of shares |
| For basic and diluted earnings per share | **64,930,798** | 24,531,997 |
| Adjusted earnings per share | **(0.559)** | (0.519) |

The adjusted EPS has been calculated to reflect the underlying profitability of the business by excluding the exceptional floatation and fund raising costs, and share compensation expense.

## 5 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£000's** | £000's | **£000's** | £000's |
| Wages and salaries | **2,569** | 1,603 | **1,329** | 1,018 |
| Social security costs | **281** | 136 | **181** | 130 |
| Pension costs | **-** | 6 | **-** | 6 |
| | **2,850** | 1,745 | **1,510** | 1,154 |
| Less: staff costs capitalised within media platform costs | **(380)** | (177) | **(380)** | (177) |
| | **2,470** | 1,568 | **1,130** | 977 |

The average number of employees during the year was:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **Number** | Number | **Number** | Number |
| Management | **7** | 6 | **4** | 4 |
| Administration | **71** | 45 | **28** | 27 |
| | **78** | 51 | **32** | 31 |

Remuneration in respect of directors was as follows:

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Emoluments | **404** | 197 |
| Pension contributions | **-** | 6 |
| | **404** | 203 |

The amounts set out above include remuneration in respect of the highest paid director as follows:

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Emoluments | **175** | 90 |
| Pension contributions | **-** | 6 |
| | **175** | 96 |

## 6 TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

The tax charge is based on the (loss)/profit for the year and represents:

| | 2006 | 2005 |
|---|---|---|
| | £000's | £000's |
| **Current tax charge/(credit)** | | |
| United Kingdom corporation tax at 30% (2004: 30%) | **100** | 63 |
| Overseas Taxation | **9** | 78 |
| | **109** | 141 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | **67** | 18 |
| **Tax on (loss)/profit on ordinary activities** | **176** | 159 |

The tax credit is lower than that based upon the standard rate of corporation tax. The differences are explained below.

| | 2006 | 2005 |
|---|---|---|
| (Loss)/profit on ordinary activities before taxation | **(1,808)** | 32 |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom of 30% | **(542)** | 10 |
| Expenses not deductible for tax purposes | **377** | 3 |
| Excess of capital allowances over depreciation | **(37)** | (19) |
| Overseas taxation and losses | **311** | 147 |
| | **109** | 141 |

The Group has approximately £2m trading losses to offset against future trading profits. At this stage no deferred tax asset has been recognised and will not be recognised until such time as the expansion of the relevant companies within the Group beyond their initial set up phase deems it appropriate.

The Company has a deferred tax asset estimated at £172,000 relating to a potential UK corporation tax deduction in respect to employee share options. Due to the uncertainty of the timing of exercise and the current expansion phase no deferred tax asset has been recognised at this stage.

## 7 LOSS FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE PARENT COMPANY

The parent company has taken advantage of the exemption from presenting its own profit and loss account as permitted by Section 230 of the Companies Act 1985. The group loss for the year includes a loss after tax of £931,000 (2005: restated £182,000) that has been dealt within the financial statements of the parent company.

## 8 DIVIDENDS

No dividend was paid or proposed during the year (2005: £nil).

## 9 INTANGIBLE ASSETS

| **Group** | Media content £000's | Goodwill £000's | **Total £000's** |
|---|---|---|---|
| Cost | | | |
| At 1 January 2006 | - | - | - |
| Additions | 151 | 3,688 | **3,839** |
| **At 31 December 2006** | 151 | 3,688 | **3,839** |
| | | | |
| Accumulated amortisation | | | |
| At 1 January 2006 | - | - | - |
| Charge for the year | 15 | 123 | **138** |
| **At 31 December 2006** | 15 | 123 | **138** |
| | | | |
| **Net book value at 31 December 2006** | 136 | 3,565 | **3,701** |
| | | | |
| Net book value at 31 December 2005 | - | - | - |

| **Company** | Media content £000's | Goodwill £000's | **Total £000's** |
|---|---|---|---|
| Cost | | | |
| At 1 January 2006 | - | - | - |
| Additions | 72 | - | **72** |
| **At 31 December 2006** | 72 | - | **72** |
| | | | |
| Accumulated amortisation | | | |
| At 1 January 2006 | - | - | - |
| Charge for the year | 5 | - | **5** |
| **At 31 December 2006** | 5 | - | **5** |
| | | | |
| **Net book value at 31 December 2006** | 67 | - | **67** |
| | | | |
| Net book value at 31 December 2005 | - | - | - |

## 10 TANGIBLE FIXED ASSETS

**Group**

| | Leasehold improvements £000's | Office furniture, plant and equipment £000's | Media platform development £000's | **Total £000's** |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2006 | - | 152 | 255 | **407** |
| Additions | 44 | 412 | 651 | **1,107** |
| Disposals | - | (31) | - | **(31)** |
| **At 31 December 2006** | 44 | 533 | 906 | **1,483** |
| Depreciation | | | | |
| At 1 January 2006 | - | 81 | 79 | **160** |
| Provided in the year | 4 | 53 | 183 | **240** |
| Foreign exchange movement | - | 2 | - | **2** |
| Disposals | - | (31) | - | **(31)** |
| **At 31 December 2006** | 4 | 105 | 262 | **371** |
| Net book amount at **31 December 2006** | 40 | 428 | 644 | **1,112** |
| Net book amount at 31 December 2005 | - | 71 | 176 | **247** |

**Company**

| | Leasehold improvements £000's | Office furniture, plant and equipment £000's | Media platform development £000's | **Total £000's** |
|---|---|---|---|---|
| Cost | | | | |
| At 1 January 2006 | - | 84 | 255 | **339** |
| Additions | 44 | 163 | 651 | **858** |
| Disposals | - | (31) | - | **(31)** |
| **At 31 December 2006** | 44 | 216 | 906 | **1,166** |
| Depreciation | | | | |
| At 1 January 2006 | - | 61 | 79 | **140** |
| Provided in the year | 4 | 20 | 184 | **208** |
| Disposals | - | (31) | - | **(31)** |
| **At 31 December 2006** | 4 | 50 | 263 | **317** |
| Net book amount at **31 December 2006** | 40 | 166 | 643 | **849** |
| Net book amount at 31 December 2005 | - | 23 | 176 | **199** |

## 11 INVESTMENTS

| **Company** | **£000's** |
|---|---|
| Cost | |
| At 1 January 2006 | 171 |
| Additions | 3,382 |
| **At 31 December 2006** | 3,553 |
| | |
| Amount provided | |
| At 1 January 2006 | 42 |
| Provided in year | - |
| **At 31 December 2006** | 42 |
| | |
| **Net book amount at 31 December 2006** | 3,511 |
| | |
| Net book amount at 31 December 2005 | 129 |

**Investments in Subsidiary undertakings comprise:**

| | **Proportion held** | | | |
|---|---|---|---|---|
| | **Directly by Mobile Streams Plc** | **By other group companies** | **Total held by Group** | **Country of incorporation** |
| Mobile Streams Inc. | 100% | - | **100%** | USA |
| Mobile Streams De Argentina SRL | 50% | 50% | **100%** | Argentina |
| Mobile Streams De Brasil Midia Digital Para Celulares Ltda | 64% | 36% | **100%** | Brazil |
| Mobile Streams Chile Ltda | 50% | 50% | **100%** | Chile |
| Mobile Streams De Colombia Ltda | 50% | 50% | **100%** | Columbia |
| Mobile Streams of Mexico S De RL De CV | 50% | 50% | **100%** | Mexico |
| The Nickels Group Inc | - | 100% | **100%** | USA |
| Mobile Streams Venezuela SA | 100% | - | **100%** | Venezuela |
| Mobile Streams Asia Limited | 100% | | **100%** | UK |
| Mobile Streams Australia Limited Pty | - | 100% | **100%** | Australia |
| Mobile Streams (Hong Kong) Limited | 100% | - | **100%** | Hong Kong |
| Mobile Streams Singapore Limited | - | 100% | **100%** | Singapore |

All the subsidiaries' issued shares were ordinary shares and their principal activities were the creation and publication of mobile phone content, with the exception of Mobile Streams Asia Limited which was dormant.

The additions to investments in the year was further investments at nominal value in existing subsidiaries and the acquisitions of Mobile Streams Europe GmbH, Mobile Streams (Hong Kong) Limited and The Nickels Group Inc.

## INVESTMENTS (CONTINUED)

### Other Investments:

The Group, through its wholly owned subsidiary Mobile Streams Inc, has invested £382,000 in Mobile Greetings Inc.

The investment is in the form of interest bearing convertible loan stock. Mobile Greetings' principal activities are the creation and publication of mobile phone content.

## 12 DEBTORS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£000's** | £000's | **£000's** | £000's |
| Trade debtors | **2,221** | 1,458 | **704** | 564 |
| Amounts owed by group undertakings | **-** | - | **3,464** | 909 |
| Other debtors | **521** | 66 | **219** | 44 |
| | **2,742** | 1,524 | **4,387** | 1,517 |

## 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£000's** | £000's | **£000's** | £000's |
| Trade creditors | **1,244** | 713 | **624** | 249 |
| Corporation tax | **113** | 168 | **100** | 90 |
| Amounts owed to group undertakings | **-** | - | **197** | - |
| Other taxation and social security | **91** | 49 | **78** | 46 |
| Other creditors | **208** | 119 | **18** | 110 |
| Accruals and deferred income | **1,743** | 1,121 | **550** | 958 |
| | **3,399** | 2,170 | **1,567** | 1,453 |

## 14 FINANCIAL INSTRUMENTS

This note should be read in conjunction with the financial risk management objectives and policies set out in the Directors report.

### Financial assets and liabilities disclosures

Short-term debtors and creditors arising directly from the Group's operations are excluded from the following disclosures.

**FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial assets**

The foreign currency risk exposure to financial assets of the Group at the end of the year was as follows (book value and fair value):

| | Functional currency of Group operation | | | | | |
|---|---|---|---|---|---|---|
| | Sterling | Other | **2006** | Sterling | Other | 2005 |
| **Financial assets denominated in:** | £000's | £000's | **£000's** | £000's | £000's | £000's |
| Euro | 4 | - | **4** | 3 | - | 3 |
| US Dollar | 136 | 192 | **328** | 3 | 105 | 108 |
| | | | **332** | | | 111 |

The financial assets included above comprise all amounts held by the Group in the form of cash and bank deposits. Where possible deposits are held in interest bearing accounts with the highest floating interest rates available to the Group.

**Financial liabilities**

The Group had no financial liabilities at the year end (2005: nil).

## 15 PROVISIONS FOR LIABILITIES

| | **The Group £000's** | **The Company £000's** |
|---|---|---|
| Deferred tax liability: | | |
| At 1 January 2006 | **18** | **18** |
| Current year charge | **67** | **67** |
| **At 31 December 2006** | **85** | **85** |

## 16 SHARE CAPITAL

**Group and company**

| | **2006 £000's** | 2005 £000's |
|---|---|---|
| Authorised<br>69,150,000 ordinary shares of £0.002 each (2005: 27,000,000 ordinary shares of £0.002 each) | **138** | 54 |
| Allotted, called up and fully paid: 34,639,691 ordinary shares of £0.002 each (2005: 439,667 ordinary shares of £0.002 each) | **69** | 1 |

*on 23 January 2006 a bonus issue on a 48 for 1 basis was made to existing shareholders of fully paid up ordinary shares.

During the year the Company issued a total of 848,100 fully paid ordinary shares of £0.002 each as a consequence of the exercise by employees of options over shares in the Company. The exercise price paid on these shares was £0.03183 per share.

## SHARE CAPITAL (CONTINUED)

On 9 January the Company issued 3,813,621 fully paid up shares of £0.02 per share at a value of £0.95 per share in a private placing to True Position Inc*.

On 15 February the Company issued 6,896,551 fully paid ordinary shares of £0.002 per share at a value of £0.87 per share in an Initial Public Offering (IPO).

On 8 August the Company issued 1,537,736 fully paid ordinary shares of £0.002 per share at a value of £0.455 per share as part of the consideration for the purchase of the share capital of Mobilemode Limited.

* True Position share issue has been restated following the bonus issue made during the year.

**Options**

The table below summarises the exercise terms of the various options over ordinary shares of £0.002 (200: £0.002) each which have been granted, and were still outstanding at 31 December 2006 and 31 December 2005.

| | | | | At 31 December 2005 | At 31 December 2006 |
|---|---|---|---|---|---|
| | | Period of option | | Ordinary shares of £0.002 each | Ordinary shares of £0.002 each |
| Date of issue | price of issue | Earliest date | Latest date | Number | Number |
| **Enterprise Management Incentive Scheme** | | | | | |
| 19 Nov 2004 | £0.03183* | 19 Nov 2005** | 18 Nov 2014 | 735,000 | 436,925 |
| 01 Mar 2005 | £0.03183* | 1 Mar 2006** | 28 Feb 2015 | 490,000 | 490,000 |
| 23 May 2005 | £0.03183* | 23 May 2006** | 22 May 2015 | 24,500 | - |
| 01 Jul 2005 | £0.03183* | 1 Jul 2006** | 30 Jun 2015 | 4,900 | - |
| 01 Feb 2006 | £0.8163 | 1 Feb 2007*** | 31 Jan 2016 | - | 120,050 |
| 17 Aug 2006 | £0.46 | 17 Aug 2007**** | 16 Aug 2016 | - | 61,500 |
| 07 Dec 2006 | £0.40 | 7 Dec 2007**** | 06 Dec 2016 | - | 454,050 |
| **ISO Sub-Plan** | | | | | |
| 19 Nov 2004 | £0.03183* | 19 Nov 2005*** | 18 Nov 2014 | 735,000 | 12,250 |
| 29 Mar 2005 | £0.03183* | 29 Mar 2006*** | 28 Mar 2015 | 42,875 | - |
| **Global Share Option Plan** | | | | | |
| 19 Nov 2004 | £0.03183* | 19 Nov 2005** | 18 Nov 2014 | - | 9,800 |
| 01 Feb 2006 | £0.03183* | 19 Nov 2005** | 31 Jan 2016 | - | 116,375 |
| 01 Feb 2006 | £0.8163 | 1 Mar 2006** | 31 Jan 2016 | - | 52,675 |
| 19 Apr 2006 | £0.76 | 19 Apr 2007**** | 18 Apr 2016 | - | 207,468 |
| 02 Aug 2006 | £0.465 | 2 Aug 2007**** | 01 Aug 2016 | - | 116,426 |
| 08 Aug 2006 | £0.465 | 8 Aug 2007**** | 07 Aug 2016 | - | 210,000 |
| 17 Aug 2006 | £0.46 | 17 Aug 2007**** | 16 Aug 2016 | - | 92,675 |
| 07 Dec 2006 | £0.40 | 7 Dec 2007**** | 06 Dec 2016 | - | 210,450 |
| **Stand Alone Option Plans** | | | | | |
| 01 Feb 2006 | £0.03183* | 1/2/2006***** | 31 Jan 2016 | - | 24,500 |
| 15 Feb 2006 | £0.87 | 15 Feb 2007**** | 14 Feb 2016 | - | 689,655 |
| 15 Feb 2006 | £0.002 | 1 Mar 2006****** | 28 Feb 2015 | - | 155,077 |

**SHARE CAPITAL (CONTINUED)**

* Original issue price was £0.078. Due to recapitalisation the adjusted issue price is £0.03183.

** 50% of the issued options can be exercised on the later of the first anniversary of the grant date (date shown above) or the date the shares are traded on a stock exchange. 100% of the issued options can be exercised on the later of the second anniversary of the grant date or the date the shares were traded on a stock exchange.

*** 100% of the issued options can be exercised on the later of the first anniversary of the grant date (date shown above) or the date the shares are traded on a stock exchange.

**** 33.33 % of issued options can be exercised on or after the first anniversary of the grant date, 66.67% of the issued options can be exercised on or after the second anniversary of the grant date, 100% of the issued options can be exercised on or after the third anniversary of the grant date

***** Options exercisable immediately issued to employee who left company after a number of years of service

****** Options issued pursuant to a non-dilute agreement upon IPO.

## 17 SHARE BASED PAYMENTS

The Group operates a number of share option schemes in order to attract and maintain key staff. The remuneration committee can grant options over shares in the company to employees of the group. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. The company has made grants throughout 2006. Details of the option plans in place and exercise periods are shown above in note 16. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are shown below:

| Date of grant | 19 Nov 2004 | 1 Mar 2005 | 1 Mar 2005 | 29 Mar 2005 | 23 May 2005 | 23 May 2005 | 1 Jul 2005 |
|---|---|---|---|---|---|---|---|
| Share price at grant (£) | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0665 |
| Exercise price (£) | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0318 | 0.0318 |
| Shares under option | 605,975 | 245,000 | 245,000 | 42,875 | 12,250 | 12,250 | 2,450 |
| Vesting period (years) | 2 | 1 | 2 | 2 | 1 | 2 | 1 |
| Volatility | 78.93% | 70.24% | 70.24% | 71.56% | 71.72% | 71.72% | 62.29% |
| Option Life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Risk-free rate | 4.70% | 4.85% | 4.85% | 4.82% | 4.35% | 4.35% | 4.14% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair value (£) | 0.0143 | 0.0093 | 0.0130 | 0.0132 | 0.0094 | 0.0132 | 0.0373 |

| Date of grant | 1 Jul 2005 | 1 Feb 2006 | 1 Feb 2006 | 1 Feb 2006 | 1 Feb 2006 | 1 Feb 2006 | 1 Feb 2006 |
|---|---|---|---|---|---|---|---|
| Share price at grant (£) | 0.0665 | 0.8163 | 0.8163 | 0.8163 | 0.8163 | 0.8163 | 0.8163 |
| Exercise price (£) | 0.0318 | 0.8163 | 0.8163 | 0.8163 | 0.0318 | 0.0318 | 0.0318 |
| Shares under option | 2,450 | 120,663 | 133,525 | 4,288 | 58,188 | 58,188 | 24,500 |
| Vesting period (years) | 2 | 1 | 2 | 3 | 1 | 2 | 0.04 |
| Volatility | 62.29% | 57.76% | 57.76% | 57.76% | 57.76% | 57.76% | 57.76% |
| Option Life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Risk-free rate | 4.14% | 4.37% | 4.37% | 4.37% | 4.37% | 4.37% | 4.37% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair value (£) | 0.0407 | 0.1992 | 0.2829 | 0.3452 | 0.7858 | 0.7871 | 0.7845 |

**SHARE BASED PAYMENTS (CONTINUED)**

| Date of grant | 15 Feb 2006 | 15 Feb 2006 | 15 Feb 2006 | 15 Feb 2006 | 15 Feb 2006 | 19 Apr 2006 | 19 Apr 2006 |
|---|---|---|---|---|---|---|---|
| Share price at grant (£) | 0.8600 | 0.8600 | 0.8600 | 0.8600 | 0.8600 | 0.7600 | 0.7600 |
| Exercise price (£) | 0.8700 | 0.8700 | 0.8700 | 0.0020 | 0.0020 | 0.7600 | 0.7600 |
| Shares under option | 229,885 | 229,885 | 229,885 | 77,539 | 77,539 | 69,156 | 69,156 |
| Vesting period (years) | 1 | 2 | 3 | 1 | 2 | 1 | 2 |
| Volatility | 56.73% | 56.73% | 56.73% | 56.73% | 56.73% | 56.30% | 56.30% |
| Option Life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Risk-free rate | 4.31% | 4.31% | 4.31% | 4.31% | 4.31% | 4.59% | 4.59% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair value (£) | 0.2024 | 0.2899 | 0.3551 | 0.8600 | 0.8600 | 0.1820 | 0.2591 |

| Date of grant | 19 Apr 2006 | 1 Aug 2006 | 1 Aug 2006 | 2 Aug 2006 | 2 Aug 2006 | 2 Aug 2006 | 8 Aug 2006 |
|---|---|---|---|---|---|---|---|
| Share price at grant (£) | 0.7600 | 0.4650 | 0.4650 | 0.4650 | 0.4650 | 0.4650 | 0.4550 |
| Exercise price (£) | 0.7600 | 0.4600 | 0.4600 | 0.4650 | 0.4650 | 0.4650 | 0.4650 |
| Shares under option | 69,156 | 30,750 | 30,750 | 38,809 | 38,809 | 38,809 | 70,000 |
| Vesting period (years) | 3 | 1 | 2 | 1 | 2 | 3 | 1 |
| Volatility | 56.30% | 72.28% | 72.28% | 72.28% | 72.28% | 72.28% | 73.80% |
| Option Life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Risk-free rate | 4.59% | 4.76% | 4.76% | 4.78% | 4.78% | 4.78% | 4.87% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair value (£) | 0.3167 | 0.1409 | 0.1965 | 0.1391 | 0.1950 | 0.2352 | 0.1355 |

| Date of grant | 8 Aug 2006 | 8 Aug 2006 | 17 Aug 2006 | 17 Aug 2006 | 17 Aug 2006 | 7 Dec 2006 | 7 Dec 2006 |
|---|---|---|---|---|---|---|---|
| Share price at grant (£) | 0.4550 | 0.4550 | 0.4600 | 0.4600 | 0.4600 | 0.4000 | 0.4000 |
| Exercise price (£) | 0.4650 | 0.4650 | 0.4600 | 0.4600 | 0.4600 | 0.4000 | 0.4000 |
| Shares under option | 70,000 | 70,000 | 37,967 | 37,967 | 37,967 | 221,500 | 221,500 |
| Vesting period (years) | 2 | 3 | 1 | 2 | 3 | 1 | 2 |
| Volatility | 73.80% | 73.80% | 74.56% | 74.56% | 74.56% | 83.20% | 83.20% |
| Option Life (years) | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Expected life (years) | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Risk-free rate | 4.87% | 4.87% | 4.84% | 4.84% | 4.84% | 4.79% | 4.79% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fair value (£) | 0.1917 | 0.2320 | 0.1417 | 0.1982 | 0.2386 | 0.1354 | 0.1879 |

| Date of grant | 7 Dec 2006 |
|---|---|
| Share price at grant (£) | 0.4000 |
| Exercise price (£) | 0.4000 |
| Shares under option | 221,500 |
| Vesting period (years) | 3 |
| Volatility | 83.20% |
| Option Life (years) | 10 |
| Expected life (years) | 5 |
| Risk-free rate | 4.79% |
| Dividend yield | 0.00% |
| Fair value (£) | 0.2247 |

The volatility of the Company's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the Peer Group on the corresponding dates. The volatility of share price of each company in the Peer Group was calculated as the average of annualized standard deviations of daily continuously compounded returns on the Company's stock, calculated over 1, 2, 3, 4 and 5 years back from the date of grant, where applicable. The risk-free rate is the yield to maturity on the date of grant of a UK Gilt Strip, with term to maturity equal to the life of the option. In our experience the expected life of an employee share option is 5 years.

**SHARE BASED PAYMENTS (CONTINUED)**

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Number (000's)** | **Weighted average exercise price** | Number (000's) | Weighted average exercise price |
| Outstanding at 1 January | 1,882 | £0.032 | 1,480 | £0.032 |
| Granted | 2,704 | £0.549 | 562 | £0.032 |
| Forfeited | (214) | £0.286 | (160) | £0.032 |
| Exercised | (848) | £0.127 | - | - |
| Outstanding at 31 December | 3,524 | £0.391 | 1,882 | £0.032 |
| Exercisable at 31 December | 786 | £0.029 | 964 | £0.032 |

The weighted average fair value of options granted in the year was £0.391 (2005: £0.032). The total charge recorded in 2006 was £325,000 (2005: nil).

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| **Range of exercise prices** | **Weighted average exercise price** | **Number of Shares (000's)** | **Weighted average remaining life (years): Expected** | **Weighted average remaining life (years): Contractual** | Weighted average exercise price | Number of Shares (000's) | Weighted average remaining life (years): Expected | Weighted average remaining life (years): Contractual |
| £0.00-£0.50 | £0.191 | 2,430 | 3.2 | 8.9 | £0.032 | 1,882 | 4.2 | 9.0 |
| £0.50-£1.50 | £0.832 | 1,094 | 3.1 | 9.1 | - | - | - | - |

The weighted average share price during the period for options exercised over the year was £0.757 (2005: no options exercised). The total charge for the year relating to employee share based payment plans was £325,000 (2005: nil), all of which related to equity-settled share based payment transactions.

## 18 RESERVES

**Group**

| | Share premium £000's | Profit and loss account £000's |
|---|---|---|
| At 1 January 2006 | 165 | (315) |
| Bonus issue | (50) | - |
| Issue of share capital | 10,326 | - |
| Cost of raising finance/IPO | (151) | - |
| Share based compensation | - | 325 |
| Loss for the year | - | (1,984) |
| Net exchange differences | - | (153) |
| **At 31 December 2006** | **10,290** | **(2,127)** |

**RESERVES (CONTINUED)**

| Company | Share premium £000's | Profit and loss account £000's |
|---|---|---|
| At 1 January 2006 | 165 | 251 |
| Bonus issue | (50) | - |
| Issue of share capital | 10,326 | - |
| Cost of raising finance/IPO | (151) | - |
| Share based compensation | - | 325 |
| Loss for the year | - | (931) |
| **At 31 December 2006** | **10,290** | **(355)** |

## 19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | **2006 £000's** | 2005 £000's |
|---|---|---|
| Loss for the period | (1,984) | (128) |
| Other recognised gains and losses | (153) | 25 |
| Issues of shares | 10,193 | 65 |
| Share compensation expense | 325 | - |
| Shares to be issued | 294 | - |
| Net increase in shareholders' funds | 8,675 | (38) |
| Shareholders' funds at 1 January 2006 | (149) | (111) |
| Shareholders' funds at 31 December 2006 | 8,526 | (149) |

## 20 CAPITAL COMMITMENTS

The group and the company has capital commitments totalling £138,000 (US$270,000) to one supplier for the production of media content at 31 December 2006 (2005: nil).

## 21 CONTINGENT LIABILITIES

The group and the company had no contingent liabilities at 31 December 2006. The contingent liability disclosed in the 2005 annual report and accounts has since materialised: the Society of Composers, Authors & Music Publishers of Canada (SOCAN) had petitioned the Copyright Board for payment of a 10% royalty on all ringtone sales made in Canada. The outcome of the hearing was a retroactive decision which will require Mobile Streams and other ringtone suppliers to pay SOCAN a 6% royalty. Consequently a charge of £90,000 has been recognised in 2006 for current and prior years.

## 22 LEASING COMMITMENTS - GROUP

The group has commitments under operating leases for land and buildings and other leases to pay the following amounts in the next twelve months.

| | Land and Buildings | | Other | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **£000's** | £000's | **£000's** | £000's |
| **Annual commitments under non-cancellable operating lease expiring:** | | | | |
| Within one year | **118** | 44 | **13** | 45 |
| Within two to five years | **246** | 30 | **2** | 13 |
| After five years | **13** | - | - | - |
| | **377** | 74 | **15** | 58 |

## 23 RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | **2006** | 2005 |
|---|---|---|
| | **£000's** | £000's |
| Operating (loss)/profit | **(2,031)** | 63 |
| Share based compensation | **325** | - |
| Depreciation and amortisation charged | **378** | 44 |
| Increase in debtors | **(571)** | (877) |
| Increase in creditors | **370** | 1,030 |
| | **(1,529)** | 260 |

## 24 RECONCILATION OF NET FUNDS

| | As at 1 January 2006 | Cash flow | Exchange movements | At 31 December 2006 |
|---|---|---|---|---|
| | £000's | £000's | £000's | £000's |
| Cash in hand and at bank | **268** | **3,258** | **(153)** | **4,073** |

## 25 MAJOR NON-CASH TRANSACTIONS

Part of the acquisition of Mobile Streams Europe GmbH (formerly Cyoshi Mobile GmbH) was comprised of a deferred payment of shares. Further details of the acquisition are set out in note 26.

Part of the acquisition of Mobile Streams (Hong Kong) Limited (formerly Mobilemode Limited) and its subsidiaries comprised shares. Further details of the acquisition are set out in note 26.

## 26 ACQUISITIONS

The Group purchased 100% of the share capital of three companies during the year for a total consideration of £3,670,000. The total value of adjustments required to the book values of the assets and liabilities of the companies acquired was £202,000, details of the adjustment are set out below together with the resultant goodwill arising. All of these purchases have been accounted for as acquisitions.

### a) Acquisition of Mobile Streams Europe GmbH (formerly Cyoshi Mobile GmbH)

| | **Book value & fair value £000's** |
|---|---|
| Debtors | **114** |
| Creditors | **(105)** |
| Cash | **11** |
| | **20** |
| Goodwill | **1,754** |
| **Cost of investments** | **1,774** |
| | |
| **Satisfied by:** | |
| Cash | 1,480 |
| Shares to be issued | 294 |
| | 1,774 |

Mobile Streams Europe was acquired on 19 April 2006. No adjustments to the accounts were necessary.

The shares to be issued represent 827,024 ordinary shares in Mobile Streams plc to be issued 25% on 19 April 2007, 75% on 19 April 2008. The issuing of shares is not conditional.

The cost of investment includes other costs of acquisition amounting to £92,000.

Mobile Streams Europe business contributed £70,000 to the net operating cashflows, and utilised £3,000 for capital expenditure.

**Pre acquisition accounting date - 31 December**

| | **1 January 2006 to 18 April 2006** | Year ended 31 December 2005 |
|---|---|---|
| Turnover | 119 | |
| Operating Profit | 48 | |
| Loss before tax | (10) | |
| Tax | - | |
| **Loss after tax** | **(10)** | **(6)** |

## ACQUISITIONS (CONTINUED)

### b) Acquisition of The Nickels Group Inc

| | Book value £000's | Revaluation £000's | Fair value £000's |
|---|---|---|---|
| Liabilities | - | (51) | **(51)** |
| Goodwill | | | **415** |
| **Cost of investment** | | | **364** |
| | | | |
| **Satisfied by:** | | | |
| Cash | | | **241** |
| Deferred cash payment | | | **123** |
| | | | **364** |

The Nickels Group Inc was acquired by Mobile Streams Inc, a wholly owned subsidiary of Mobile Streams Plc, on 4 August 2006. The revaluation of the liabilities was to recognize potential legal claims outstanding at the time of the acquisition. As at the year end no amounts have been paid out and have been included within 'Creditors due within one year'.

The deferred consideration is contingent on the continued active employment of the sellers and is payable in 4 installments in 6 monthly installments from 4 February 2007. This is in accordance with the share purchase agreement.

In the pre acquisition period (to 3 August 2006) the Nickels Group generated a loss after tax of £71,000 (prior year to 31 December 2005 profit after tax £21,000).

The cost of investment includes other costs of acquisition amounting to £11,000.

The Nickels Group contributed £18,000 to the net operating cashflows.

### c) Acquisition of Mobile Streams (Hong Kong) Limited (formerly Mobilemode Limited)

Mobile Streams (Hong Kong) Limited and its wholly owned subsidiaries were acquired by Mobile Streams Plc on 8 August 2006.

**ACQUISITIONS (CONTINUED)**

| | Book Value £000's | Revaluations £000's | Fair Value £000's |
|---|---|---|---|
| Fixed Assets | 2 | - | **2** |
| Debtors | 545 | (34) | **511** |
| Creditors | (518) | (117) | **(635)** |
| Income tax | (28) | - | **(28)** |
| Cash | 163 | - | **163** |
| | 164 | (151) | **13** |
| Goodwill | | | **1,519** |
| **Cost of investment** | | | **1,532** |
| | | | |
| **Satisfied by:** | | | |
| Cash | | | **832** |
| Shares | | | **700** |
| | | | **1,532** |

The revaluation adjustments to debtors reflect a write down to the estimated realizable value of amounts outstanding and corrections for over provisions in accrued income.

The revelation adjustments to creditors reflect the correction for understated accrued costs.

A further deferred consideration may be payable in cash or shares (at the discretion of Mobile Streams) based on the achievement of 2007 profitability targets up to a maximum of €5.7m.

The cost of investment includes other costs of acquisition amounting to £148,000.

Mobile Streams (Hong Kong) Limited and its subsidiaries contributed £37,000 to net operating cashflows, utilised £13,000 for capital expenditure and paid £15,000 in tax.

**Pre acquisition accounting date - 31 March**

| | **1 April 2006 to 10 August 2006** | Year ended 31 March 2006 |
|---|---|---|
| Turnover | 450 | |
| Operating Profit | 215 | |
| Loss before tax | (33) | |
| Tax | (31) | |
| **Loss after tax** | **(64)** | **(219)** |