



**TIMESTRIP PLC**  
**ANNUAL REPORT AND ACCOUNTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2007**

**Company Registration No. 03836605 (England and Wales)**

# TIMESTRIP PLC

## DIRECTORS AND ADVISERS

<b>Directors</b>	S V Oakes P J Freedman R Isbitsky S A Leslie Non-Executive Director (resigned 14 May 2008) J A Steinberg (appointed 07 March 2007)
<b>Secretary</b>	International Registrars Limited
<b>Company number</b>	03836605 (England & Wales)
<b>Registered office</b>	Finsgate 5-7 Cranwood Street, London EC1V 9EE
<b>Registered auditors</b>	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street EC1V 9EE
<b>Nominated Adviser and Broker</b>	Evolution Securities Limited 100 Wood Street London EC2V 7AN
<b>Bankers</b>	Anglo Irish Bank Corporation Plc 10 Old Jewry London EC2R 8DN
<b>Solicitors</b>	Kemp Little LLP Cheapside House 138 Cheapside London EC2V 6BJ

# TIMESTRIP PLC

## CONTENTS

	<b>Page</b>
Chairman's statement	1
Joint Chief Executives' statement	2 - 5
Corporate governance	6
Directors' report	8 - 12
Independent auditors' report	13 - 14
Consolidated income statement	15
Balance sheets	16
Consolidated statement of changes in equity	17
Consolidated cash flow statement	18
Company cash flow statement	20
Notes to the consolidated cash flow statement	19
Notes to the financial statements	22 - 47
Transition statement	48 - 52

# **TIMESTRIP PLC**

## **CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

2007 was a challenging year for the group in the context of delivering the revenues that we had anticipated. The delay in revenues led to a shortage of cash, which was addressed by the placing of new shares earlier this month.

I am pleased to report that our efforts during 2007 have delivered sales momentum into 2008. In the first five months of the new financial year, for example, the group has exceeded its entire sales for 2007.

In order to develop our unique technology and build a strong customer base, the group has established an excellent Production and R&D facility, as well as a robust sales infrastructure.

### **Financial Results**

Revenue for the year to 31 December 2007, was £176,900 (2006 - £378,975). At the pre-tax level the group recorded a loss of £1,679,927 (2006 – loss of £1,099,408 as restated) under International Financial Reporting Standards (“IFRS”). Due to a material deferred tax asset being credited to the accounts, the group’s loss after tax is £572,617 (2006 – loss of £1,009,844 as restated) The resultant loss per share is 0.18p (2006 – loss of 0.33p as restated). Cash at the end of 2007 was £834,000. The group has since issued 53,820,000 new Ordinary Shares in May 2008, to raise an additional £1,023,993 net of expenses.

### **Current trading and prospects**

Despite the challenges faced in 2007, there is much cause for optimism to be derived from the underlying trends within the business. There is consistent repeat-ordering from existing customers confirming that the Timestrip technology has real traction. This repeat business is driving sales and brand loyalty for an increasingly blue-chip customer base. Further, existing customers are also adopting the technology on new products in their ranges, confirming that the technology has lateral traction and is considered to be a part of their core brand proposition. New contract wins with blue chip companies have reinforced our progress along the path towards broad market acceptance.

The group remains confident in its ability to secure large contracts with major corporations and despite the long sales cycles involved continues to focus much of its effort in this direction..

Every contract win, large or small, helps to build the credibility of the technology and expose it to an increasing number of potential customers. The direct impact of new contract wins is seen in our expanding pipeline of potential orders and in this way we believe that the technology is poised to “tip” from a “nice to have” feature into a “must-have” feature on a wide range of products.

As the group continues to secure regular contracts, our production facility has been able to increase its efficiency. In addition, our product development team have been able to focus not only on customer driven projects, but also on ways of improving the production processes, driving down unit costs and increasing gross margins.

S.V.Oakes  
**Chairman**

**30<sup>th</sup> May 2008**

# **TIMESTRIP PLC**

## **JOINT CHIEF EXECUTIVES' STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007**

### **Joint Chief Executives' Statement**

#### **Operating Review**

The group has developed, and is now commercialising, two patent protected technologies. Each technology is capable of radically transforming the markets in which they are targeted. Marketed as Timestrip ® and iStrip ®, these technologies operate in the fields of time and temperature measurement and target six international mass markets; Food and Beverage, Appliances, Catering, Medical Devices, Pharmaceuticals and Cosmetics.

The group continues to invest in the development of these technologies to meet customer and market needs. It has established in-house production capabilities that make the group able to meet near-term anticipated demand for the products. The group plans to expand production rapidly and at low additional cost by licensing the rights to manufacture Timestrips to third parties in local markets. This will typically involve the sale of Production Machines to Licensees, who will purchase raw materials from the group and will also pay a per-unit royalty to the group based on sales of finished units.

#### **Timestrip ®**

Timestrips ® are smart labels that visually communicate how long a product has been open or how long it has been in use – otherwise known as the “Period after Opening Date”. Timestrips ® consist of a patented diffusion system in which a liquid travels across a specialised membrane inside the label at a controlled and repeatable rate. The level of repeatability in this process is such that, it is possible to use the progress of the liquid to measure elapsed time – being the time since the label was activated. Timestrips ® are activated by either manual or mechanical pressure exerted on the button in which the liquid is stored.

Timestrip ® smart labels are targeted at six international mass markets:

#### **Appliances and Consumables**

Timestrip has developed a visual reminder system which is positioned as a cost effective method of improving customer compliance with manufacturer's instructions such as “replace every three months”. Existing customers include; Hamilton Beach/Febreze ® (air filters), Hygolet (washroom devices), DryandStore ® (hearing aids), Bioconservacion SA (ethylene filters), and Whirlpool (fridge filters).

Timestrip ® has become a standard component for these customers, whose repeat order frequency is evidence that they are experiencing increased sales of the products to which Timestrip ® is attached. Indeed, our growing track record in helping brands to sell more products through better compliance with replacement instructions is now generating significant interest from manufacturers across a broad range of sectors. We are very encouraged that Bioconservacion and Whirlpool have extended the number of products using a Timestrip ®. In August 2007 the group announced a \$3 million, three year deal with United Pet Group to supply Timestrips for use with their market-leading brand of aquarium filters, Tetra ®, to encourage monthly replacement of filters. Shipments are scheduled to be made monthly and commenced in March 2008.

## **TIMESTRIP PLC**

### **JOINT CHIEF EXECUTIVES' STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Food and Beverage**

In the F&B sector, Timestrips are positioned as a tool to help consumers gauge the freshness of products, as well as avoid unnecessary waste by providing the opportunity to consume products before they expire.

We continue to develop relationships with solution providers in the packaging industry such as Plastek, CCL Label and, most recently, Bedford Industries. We have commenced a high profile trial of the Timestrip ® technology with the UK's leading branded food manufacturer, Premier Foods, which is currently testing the impact of the Timestrip ® on their Branston Pickle brand.

The F&B market is characterised by high volume, price sensitive products with related packaging solutions and is therefore one of our biggest challenges. We are encouraged by the growing importance of product freshness and are positioned to take advantage of the increasing social awareness of waste and its impact on the environment. It is our belief that F&B companies have yet to fully address the dilemma of how to help reduce consumer waste without impacting sales and profitability. As a result, the group spends much of its time targeting brands to view Timestrip ® as a device that will boost their "green credentials" by helping consumers to reduce waste through using products before they pass their best. Part of that effort continues to involve selling Timestrips ® to consumers directly in order to generate a pull effect on the brands.

#### **Catering / Foodservice**

Timestrips have two potential applications in the catering and food service industry. Firstly, it can be used as a simple mechanism that helps catering businesses comply with the food safety (HACCP) principles under the EU Directive on Food Hygiene and in State regulations across North America. Secondly, it saves money by reducing waste by up to 50%.

In the US market, our partners Daymark continue to invest in the marketing of Timestrip ® as part of their range of food safety solutions. We are no longer in a contractual relationship with Labellord in Northern Europe but we are delighted with the progress being made in the UK and with the recent announcement of trials with Nando's restaurants in South Africa.

In Europe we have successfully introduced trials of the Timestrip ® system to a number of leading contract caterers such as Caterplus. This effort has culminated in the UK's leading food-service distributor, 3663, ordering a full range of products that will be promoted by their sales team across multiple markets in the Europe. We are confident that this model for success can be translated to other markets internationally.

#### **Cosmetics, Pharmaceuticals and Medical Devices**

There remains a high level of interest in Timestrip from the cosmetic, pharmaceutical and medical device sectors. We have established excellent relationships with a number of cosmetic companies, where the challenge is to integrate the Timestrip ® in an aesthetically pleasing format, and with manufacturers of sun creams, where the dangers of using the product beyond its Period after Opening date are well documented.

## **TIMESTRIP PLC**

### **JOINT CHIEF EXECUTIVES' STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Cosmetics, Pharmaceuticals and Medical Devices**

We are encouraged that initial tests with a leading medical device company in Europe have been extended into another phase. We have also succeeded in forging relationships in Europe and the US with a number of leading pharmaceutical and medical device companies and are hopeful that our efforts during 2007 will be rewarded with some contract wins in 2008.

#### **iStrip®**



iStrip is a unique, patent pending label that changes colour irreversibly if an accidental freezing event takes place in the cold chain for products such as vaccines and agri-chemicals.

The group has focused on entering the market with a case-level solution, developing in parallel the capabilities to manufacture unit-level products for use with vaccines. During 2007 we established small-scale production in order to seed the market and are now in the process of scaling up our production capabilities in line with anticipated demand.

We are building relationships with a number of distributors worldwide who will carry iStrips in their existing range of time and temperature labels. We are particularly pleased to have developed a commercial relationship with DHL Exel as well as a leading pharmaceutical company, who is using iStrip with their clinical trial activities.

Our work with PATH (the Seattle based international non-profit organisation) is ongoing and directed towards acceptance of the technology for use by the World Health Organisation in connection with vaccines distributed worldwide.

#### **Staff**

We greatly appreciate the efforts of everyone in the organisation, as well as those of our growing team of distributors and agents across the world.

#### **Strategy**

The group's strategy is driven by its revenue model which seeks to license the rights to manufacture and distribute Timestrip and iStrip in local markets to customers, joint venture partners and distributors. This strategy is shaped by the manufacturing process and prevailing market dynamics for both Timestrip and iStrip.

The implementation of this strategy requires us to maintain in-house production capacity at a sufficient level to seed markets in the early stages and ensure production machinery is kept at levels that will enable the group to satisfy initial contracts. Royalty revenues will be enhanced through the supply of key raw materials and technical support to licensees. The group will enter into such arrangements at the earliest opportunity.

We also continually seek to broaden our product range and recent successes from our R&D team will enable us to add further products to our portfolio during 2008. We look forward to unveiling these products in due course.

## **TIMESTRIP PLC**

### **JOINT CHIEF EXECUTIVES' STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Strategy (continued....)**

The group stipulates the use of its registered trademark on all Timestrip® products, and there has been, to date, no objection to this policy from even the largest of international brand owners. It is the Directors' belief that the exposure to be gained by Timestrip® within the marketing campaigns of leading brands will in time, lead to the creation of an internationally recognised brand.

#### **Competition**

It is anticipated that the ongoing commercialisation of Timestrip will stimulate competition at some point in the future. Currently, the Directors are not aware of any competing technologies. Although competition exists for the iStrip technology, it is generally represented by devices that are designed and manufactured for use at case level, not unit level. When used at unit level on products such as vaccines, the iStrip will enable the product condition to be monitored more accurately and allow brand owners to reduce the cost of rejection.

As the group gains more exposure to the needs of different markets it continually reviews and, if necessary, expands its intellectual property portfolio to protect the technologies as they evolve.

Paul Freedman  
Joint Chief Executive Officer  
30<sup>th</sup> May 2008

Reuben Isbitsky  
Joint Chief Executive Officer  
30<sup>th</sup> May 2008

# **TIMESTRIP PLC**

## **CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2007**

The Directors acknowledge the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. Although the Combined Code is not compulsory for AIM companies, the Directors have applied the principles as far as practicable and appropriate for a relatively small public company as follows:

### **The Board of Directors**

The Board meets regularly and is responsible for strategy and performance. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. A nominations committee is not considered appropriate because of the small size of the Board and the Company, but all appointments are fully discussed by all Board members. Following the resignation of the non-executive director, the Board is actively involved in seeking a replacement and hope to announce one very soon. This non executive director will form part of the audit and remuneration committees.

### **Audit Committee**

The Audit Committee consists of Stephen Oakes and meetings are also attended by other executive directors of the Company on invitation. The Audit Committee is responsible for monitoring compliance with accounting and legal requirements, and for reviewing the annual and interim financial statements prior to their submission for approval by the Board.

### **Remuneration Committee**

The Remuneration Committee comprises Stephen Oakes. The Remuneration Committee's role is to consider and approve the remuneration and benefits of the executive directors of the Company. In framing the Company's remuneration policy, the Remuneration Committee will give consideration to Section B of the Combined Code.

### **Internal Financial Control**

The Board is responsible for establishing and maintaining the group's system of internal financial control and places importance on maintaining a strong control environment. The Group's system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives.

### **Statement by Directors on Compliance with the Provisions of the Combined Code**

The Board consider that they have complied with the provisions of The Combined Code, as far as practicable and appropriate for a public company of this size.

### **Directors Remuneration**

The Remuneration Committee will review the performance of executive Directors and recommend the scale and structure of their remuneration and review the basis of their service agreements with due regard to their interests of Shareholders. No member of the Board will participate in decisions concerning their own remuneration.

## **TIMESTRIP PLC**

### **CORPORATE GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Model Code**

The Company has adopted and will operate a share dealing code for directors and senior executives on the same terms as the London Stock Exchange Model Code for companies whose shares have been admitted to AIM.

#### **Relations with shareholders**

Communications with shareholders are given high priority. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Directors are available at Annual General Meetings to answer questions.

# TIMESTRIP PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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

### Principal activities and review of the business

The principal activity of the group is the design, manufacture and distribution of smart label technology, creating products that can monitor changes in time and temperature.

A review of the group's business and future developments is included in the Chairman's Statement.

### Key performance indicators

The Board of Timestrip Plc use the following financial and non-financial key performance indicators to measure strategic and operational performance:-

#### 1) Group Revenue

This represents the total amount charged to customers for our products and services, including delivery but excluding inter-company sales, and sales taxes such as VAT.

Our aim is to increase revenue each year through a combination of price and volume growth, from our existing and potential market positions. In 2007 we were unable to close a significant number of new deals and as such revenue fell by 47% from last year.

#### 2) Machine Production capacity

This represents the quantity of Timestrips that we are able to produce at our plant. Our aim is to increase this capacity by investing in new machinery and continuing to train our staff to deliver operational improvements.

Future demand will also be satisfied by the group's strategy of licensing manufacturing rights to third parties, who will purchase machines and certain raw materials from the Group and pay a royalty.

#### 3) Sales into new markets and sectors

Being a new and growing business it is crucial for us to continue to expand our product offering and to make our products attractive to the various market segments that we operate in. The board continually monitors the group's progress on this measure.

### Key risks and uncertainties

The group is exposed to a number of risks and has an established, structured approach to risk management.

Risks are analysed under three broad headings:

#### Strategic risks

##### Packaging and labelling market

Timestrip is a sub set of the larger packaging and labelling market. We continue to work closely with the key players in those markets to achieve the incorporation of Timestrips. Any significant changes in that market away from achieving integration would threaten the group's level of performance.

# **TIMESTRIP PLC**

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **3) Sales into new markets and sectors (continued...)**

#### **Competitive forces**

We do not believe there is a serious competitive threat to the business at the moment. Our product is unique and protected by a number of international patents. However, these factors alone do not protect the group from competition and we continue to engage in research and development to protect and enhance our competitive position. The market size for an expiry date indicator runs into the many billions of units and the impact of competition would not necessarily have a material effect on the prospects for the group.

#### **Financial risks**

These are risks that arise as a result of movements in financial markets. Principal risks are: movements in foreign currency exchange rates, interest rates, commodity prices and counterparty credit risk. In addition, being a new business we are at risk of liquidity problems due to the uneven revenue stream.

#### **Operational risks**

##### **Performance of supply chain**

The group's key raw materials are provided through supply chains external to the Group. Any failure of the supply chain would present a risk to the Group's ability to meet customer requirements and to achieve its financial goals.

The group's strategy is to simplify the external supply chain, forging deeper, strategic relationships with fewer but stronger suppliers.

The group is also investing in its manufacturing facilities, enhancing the production base, which will enable it to improve productivity and reduce costs by developing world-class manufacturing facilities and processes.

#### **Results and dividends**

The results for the year are set out on page 15.

The directors do not recommend payment of an ordinary dividend.

#### **Directors**

The following directors have held office since 1 January 2007:

S V Oakes

P J Freedman

R Isbitsky

S A Leslie (resigned – 14 May 2008)

J A Steinberg (appointed – 07 March 2007)

All directors who are eligible offer themselves for re-election at the forthcoming Annual General Meeting.

# TIMESTRIP PLC

## DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary shares of 0.02p each	
	31 December 2007	1 January 2007
S V Oakes	-	-
P J Freedman	38,716,698	38,716,698
R Isbitsky	38,716,698	38,716,698
S A Leslie	7,735,596	8,368,614
J A Steinberg	-	-

At the year end Lloyd Traders Inc, which is owned beneficially by S V Oakes and others, had an interest in 15,408,740 Ordinary shares of 0.02p each.

The directors also held the following ordinary shares under option:

	Ordinary shares of 0.02p each	
	31 December 2007	1 January 2007
S V Oakes	-	-
P J Freedman	5,000,000	1,750,000
R Isbitsky	5,000,000	1,750,000
S A Leslie	-	-
J A Steinberg	1,600,000	150,000

Refer to Note 20 Share based payments for details of exercise prices and option periods.

### Substantial interest in shares

As at 23 May 2008, the company has been notified of the following interests in 3% or more of the issued share capital of the company in accordance with Part V1 of the Companies Act 1985 (as amended).

	Number of Ordinary shares	Percentage of existing issued share capital
Pershing Nominees Limited	66,303,246	17.68%
Mr Paul Freedman	38,716,698	10.32%
Mr Reuben Isbitsky	38,716,698	10.32%
Jim Nominees Limited	22,523,890	6.01%
Mr David Lerer	16,463,678	4.39%
Brewin Nominees (Channel Islands)	16,450,000	4.39%
Lloyd Traders Inc*	15,408,740	4.11%
Hythe Nomiees Limited	14,300,000	3.81%
Mr Richard Thomas	13,577,422	3.62%
Morstan Nominees Limited	12,632,000	3.37%

\*Lloyd Traders Inc is owned beneficially by S V Oakes and others.

# **TIMESTRIP PLC**

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **Employee involvement**

The group is committed to the involvement of employees in the business.

Staff are kept informed of the performance and objectives of the group through publications of results and staff meetings.

### **Disabled persons**

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

### **Creditor payment policy**

The group's current policy on the payment of creditors is to:

- Settle the terms of payment with suppliers when agreeing the terms of each transaction.
- Ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- Pay in accordance with the group's contractual and other legal obligations.

On average trade creditors at the year end represented 28 days' (2006 : 74) administrative expenses.

### **Auditors**

In accordance with section 385 of the Companies Act 1985, a resolution proposing that Jeffrey's Henry LLP be reappointed as auditors of the company will be put to the Annual General Meeting.

### **Going Concern**

After making appropriate enquiries, the directors consider that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### **Post Balance Sheet Events**

On 6 May 2008 the company raised £1,162,512, before expenses, through a placing of 53,820,000 new ordinary shares of 0.02 pence each at a price of 2.16 pence per share. The net proceeds from the placing were £1,023,993.

### **Research & Development**

The group is heavily involved in research and development activities. Please refer to the Joint Chief Executives' statement, and the Chairman's Statement for full details.

# **TIMESTRIP PLC**

## **DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **Directors' responsibilities**

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and International Financial Reporting Standards.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group and enable them to ensure that the financial statements comply with the Companies Act 1985 and as regards to the group financial statements, article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Financial Statements are published on the company's website. The maintenance and integrity of the website is the responsibility of the Directors. The Directors' responsibility also extends to the financial statements contained therein.

### **Statement of disclosure to auditor**

So far as the directors are aware, there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the group's auditors are unaware, and each director has taken all the steps that he ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information.

On behalf of the board

S V Oakes  
**Director**

**30<sup>th</sup> May 2008**

# **TIMESTRIP PLC**

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TIMESTRIP PLC**

We have audited the group and parent company financial statements (the "financial statements") of Timestrip Plc which include the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company cashflow statements, consolidated statement of changes in equity for the year ended 31 December 2007 and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

### **Respective responsibilities of directors and auditors**

As described in the statement of Directors' responsibilities, the group's Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 and as regard group financial statements, Article 4 of the IAS Regulation. 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 Director's report includes that specific information mentioned in the Joint Chief Executives' Statement and Chairman's statement that is cross referred from the Research and Development and Review of the Business sections 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. This other information comprises only the Directors' Report, the Chairman's Statement, Corporate Governance Statement and Joint Chief Executives' 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.

## **TIMESTRIP PLC**

### **INDEPENDENT AUDITORS' REPORT (CONTINUED) TO THE SHAREHOLDERS OF TIMESTRIP PLC**

#### **Opinion**

In our opinion:-

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards (IFRS's) as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of the company's loss for the year then ended; and;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regard the group financial statements, article 4 of the IAS regulation.
- the information given in the directors' report is consistent with the financial statements.

#### **Jeffreys Henry LLP**

Chartered Accountants  
**Registered Auditor**

Finsgate, 5-7 Cranwood Street  
London  
EC1V 9EE

**30<sup>th</sup> May 2008**

# TIMESTRIP PLC

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		2007	2006
	Notes	£	As restated £
<b>Revenue</b>	<b>2</b>	176,900	378,975
Cost of sales		(112,918)	(281,069)
<b>Gross profit</b>		<u>63,982</u>	<u>97,906</u>
Administrative expenses		(1,833,099)	(1,311,636)
<b>Operating loss</b>	<b>3</b>	(1,769,117)	(1,213,730)
Finance income		98,164	122,651
Finance costs	<b>4</b>	(8,974)	(8,329)
<b>Loss before taxation</b>		(1,679,927)	(1,099,408)
Tax on loss on ordinary activities	<b>5</b>	1,107,310	89,564
<b>Loss for the year</b>	<b>18</b>	<u>(572,617)</u>	<u>(1,009,844)</u>
Attributable to:			
Equity holders of the Company		<u><b>(572,617)</b></u>	<u><b>(1,009,844)</b></u>
<b>Loss per share (basic &amp; diluted)</b>	<b>7</b>	(0.0018)	(0.0033)

The income statement has been prepared on the basis that all operations are continuing operations.

There is no difference between basic and diluted loss per share.

# TIMESTRIP PLC

## BALANCE SHEETS

AS AT 31 DECEMBER 2007

	Notes	Group		Company	
		2007	2006 As restated	2007	2006 As restated
		£	£	£	£
<b>Non Current assets</b>					
Intangible assets	8	7,441,582	6,969,161	-	-
Property plant & equipment	9	357,223	371,702	-	-
Investments	10	-	-	<u>6,526,637</u>	<u>6,526,637</u>
		<u>7,798,805</u>	<u>7,340,863</u>	<u>6,526,637</u>	<u>6,526,637</u>
<b>Current assets</b>					
Inventory	11	234,525	183,318	-	-
Trade and other receivables	12	161,862	185,610	4,732,184	4,107,592
Cash and cash equivalents	13	833,903	2,517,341	491,943	1,052,577
Current tax receivable		<u>131,891</u>	<u>195,255</u>	-	-
		<u>1,362,181</u>	<u>3,081,524</u>	<u>5,224,127</u>	<u>5,160,169</u>
<b>Current Liabilities</b>					
Bank overdraft and loans	16	(14,280)	(20,524)	-	-
Trade and other payables	15	(303,042)	(403,697)	(48,372)	(114,674)
Obligations under finance leases	22	<u>(6,244)</u>	<u>(6,244)</u>	-	-
		<u>(323,566)</u>	<u>(430,465)</u>	<u>(48,372)</u>	<u>(114,674)</u>
<b>Net current assets</b>		<u>1,038,615</u>	<u>2,651,059</u>	<u>5,175,755</u>	<u>5,045,495</u>
<b>Non current assets</b>					
Deferred tax asset	14	<u>951,742</u>	-	-	-
<b>Total assets less current liabilities</b>		9,789,162	9,991,922	11,702,392	11,572,132
<b>Non Current Liabilities</b>					
Bank loans	16	(38,101)	(52,386)	-	-
Finance lease	16	<u>(8,615)</u>	<u>(18,170)</u>	-	-
		<u>(46,716)</u>	<u>(70,556)</u>	-	-
		<u>9,742,446</u>	<u>9,921,366</u>	<u>11,702,392</u>	<u>11,572,132</u>
<b>Equity</b>					
<b>Capital and reserves attributable to equity holders of the Group</b>					
Called up share capital	17	3,607,991	3,606,621	3,607,991	3,606,621
Share premium account	18	27,719,167	27,541,931	27,719,167	27,541,931
Share Option Reserve		395,366	180,274	395,366	180,274
Profit and loss account	18	<u>(21,980,078)</u>	<u>(21,407,460)</u>	<u>(20,020,132)</u>	<u>(19,756,694)</u>
<b>Total Equity</b>	19	<u>9,742,446</u>	<u>9,921,366</u>	<u>11,702,392</u>	<u>11,572,132</u>

The financial statements were approved and authorised for issue by the board on 30<sup>th</sup> May 2008

S V Oakes  
Director

# TIMESTRIP PLC

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2007

	Deferred shares of 24p	Deferred shares of 49.8p	Ordinary shares 0.02p	Share premium	Share Options Reserve	Retained Losses	Total equity
<b>Balance at 1 Jan 2006</b>	3,206,119	337,728	59,484	26,587,956	-	(20,397,616)	9,793,671
<b>Corrections of prior period adjustments</b>	-	-	-	-	66,308	-	66,308
<b>Restated Balance</b>	3,206,119	337,728	59,484	26,587,956	66,308	(20,397,616)	9,859,979
Loss for the period	-	-	-	-	-	(1,009,844)	(1,009,844)
<b>Total recognised income and expense for the period</b>	-	-	-	-	-	(1,009,844)	(1,009,844)
Shares issued during period	-	-	3,290	953,975	-	-	957,265
Share Option charge	-	-	-	-	113,966	-	113,966
<b>Balance at 31 Dec 2006</b>	<u>3,206,119</u>	<u>337,728</u>	<u>62,774</u>	<u>27,541,931</u>	<u>180,274</u>	<u>(21,407,460)</u>	<u>9,921,366</u>
<b>Balance at 1 Jan 2007</b>	3,206,119	337,728	62,774	27,541,931	180,274	(21,407,460)	9,921,366
Loss for the period	-	-	-	-	-	(572,617)	(572,617)
<b>Total recognised income and expense for the period</b>	-	-	-	-	-	(572,617)	(572,617)
Shares issued during period	-	-	1,371	177,234	-	-	178,605
Share Option charge	-	-	-	-	215,092	-	215,092
<b>Balance at 31 Dec 2007</b>	<u>3,206,119</u>	<u>337,728</u>	<u>64,144</u>	<u>27,719,167</u>	<u>395,366</u>	<u>(21,980,078)</u>	<u>9,742,446</u>

Share capital (deferred and ordinary) is the amount subscribed for shares at nominal value.

Share premium represents the excess of the amount subscribed for share capital over the nominal value of the respective shares net of share issue expenses. There were no share issue expenses in the period ended 31 December 2007.

Retained loss represents the cumulative loss of the Group attributable to equity shareholders. The balances as at 1 January 2006 and 31 December 2006 have already been restated as a result of the transition to IFRS. Refer to note 30 for details.

Share options reserve relates to increases in equity for services received in equity-settled share based payment transactions. The prior period adjustment is in respect of share options and this has been fully disclosed in the financial Statements for the year ended 31 December 2006.

# TIMESTRIP PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

		2007		2006 As restated	
		£	£	£	£
<b>Net cash outflow from operating activities</b>	<b>1</b>		(1,837,012)		(1,442,280)
<b>Investing Activities</b>					
Investment in intangible assets		(43,412)		(21,885)	
Purchase of property plant & equipment		(65,502)		(53,591)	
Interest received		98,164		122,651	
<b>Net cash inflow for returns on investments and servicing of finance</b>			(10,750)		47,175
<b>Net cash outflow before management of liquid resources and financing</b>			(1,847,761)		(1,395,105)
<b>Financing activities</b>					
Issue of ordinary share capital		178,608		957,096	
Repayment of long term bank loan		(14,285)		(23,918)	
<b>Net cash inflow from financing</b>			164,323		933,178
<b>(Decrease) in cash in the period</b>			(1,683,439)		(461,927)
<b>Cash and cash equivalents at the start of the year</b>	<b>2</b>		2,517,341		2,979,268
<b>Cash and cash equivalents at the end of the year</b>	<b>2</b>		833,903		2,517,341

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

1 Reconciliation of operating profit to net cash inflow from operating activities	2007	2006
	£	As restated £
Operating loss	(1,769,117)	(1,213,730)
Depreciation, amortisation and impairment charges of intangible assets	120,927	89,728
Depreciation of property plant & equipment	79,981	66,845
Increase in inventories	(51,208)	(117,252)
Decrease / (Increase) in receivables	23,749	(96,566)
(Decrease) / Increase in payables	(104,766)	161,843
Cost of Share Options	215,092	113,966
Research & Development Capitalised	(549,936)	(438,785)
Interest paid	(8,974)	(8,329)
Corporation tax received	207,240	-
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(1,837,012)</b>	<b>(1,442,280)</b>
	<hr/> <hr/>	<hr/> <hr/>

## 2 Cash and cash equivalents

The amounts disclosed in the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	Group	
	2007	2006
	£	£
Bank accounts	833,903	2,517,341
	<hr/>	<hr/>

# TIMESTRIP PLC

## COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	2007	2006	
		£	As restated £	As restated £
<b>Net cash outflow from operating activities</b>	<b>3</b>	(790,154)		(1,560,988)
<b>Investing Activities</b>				
Interest received		50,911	68,618	
<b>Net cash inflow for returns on investments and servicing of finance</b>		50,911	68,618	
<b>Net cash outflow before management of liquid resources and financing</b>		(739,243)		(1,492,370)
<b>Financing activities</b>				
Issue of ordinary share capital		178,608	957,096	
<b>Net cash inflow from financing</b>		178,608	957,096	
<b>(Decrease)/ Increase in cash in the period</b>		(560,635)		(535,274)
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4</b>	1,052,577		1,587,851
<b>Cash and cash equivalents at the end of the year</b>	<b>4</b>	491,943		1,052,577

### 3 Notes to the company cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities	2007	2006
	£	£
Operating loss	(314,349)	(266,688)
Decrease / (Increase) in receivables	(624,592)	(1,453,691)
(Decrease) / Increase in payables	(66,305)	45,425
Cost of Share Options	215,092	113,966
<b>Net cash outflow from operating activities</b>	<b>(790,154)</b>	<b>(1,560,988)</b>

# TIMESTRIP PLC

## NOTES TO THE COMPANY CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

### 4 Cash and cash equivalents

The amounts disclosed in the cash flow statement in respect of cash and cash equivalents are in respect of these balance sheet amounts:

	<b>Company</b>	
	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Bank accounts	491,943	1,052,577
	<u>491,943</u>	<u>1,052,577</u>

# **TIMESTRIP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007**

### **1 Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated, and in preparing an opening IFRS balance sheet at 1 January 2006 for the purpose of transition to International Financial Reporting Standards (IFRS).

#### **1.1 Basis of Preparation**

These financial statements have been prepared for the first time in accordance with IFRS as adopted by the European Union, and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in note 30.

#### **Going concern**

This statement has been prepared on the assumption that the Group is a going concern.

When assessing the foreseeable future, the directors have looked at a period of twelve months from the date of approval of this report. The forecast cash-flow requirements of the business are contingent upon the ability of the group to generate future sales.

The group is still at an early stage of its commercialisation and the success of the business depends on the realisation of projected sales that are currently in the pipeline together with existing customers extending the use of Timestrips within their organisations.

The uncertainty as to the timing of the future growth in sales, require the directors to consider the group's ability to continue as a going concern. Notwithstanding this uncertainty, the directors believe that the group has demonstrated progress in achieving its objective of positioning the group as a major supplier of smart labels to the industries served by the group. Therefore the directors consider that it is appropriate to prepare the group's financial statements on a going concern basis, which assumes that the company is to continue in operational existence for the foreseeable future.

Were the Group be unable to continue as a going concern, adjustments may have to be made to the balance sheet of the Group to reduce balance sheet values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

#### **Preparation of financial statements**

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the groups accounting policies. Those areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.19.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **(a) Standards, amendments and interpretations effective at 1 January 2007.**

The following interpretations to existing standards have been published that are mandatory for the company's accounting periods beginning on or after 1 January 2007 or later periods:

- IFRS 7, 'Financial Instruments: Disclosure', and complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the company's financial instruments, or the disclosures relating to taxation and trade and other payables.
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issues in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the company's financial statements.

#### **(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group**

The following interpretations to existing standards have been published that are mandatory for the company's accounting periods beginning on or after 1 January 2008 or later periods but that the company has not adopted early:

- IAS 1 Revised – Presentation of Financial Statements (effective from 1 January 2009). Key changes include, the requirement to aggregate information in the financial statements on the basis of shared characteristics, the introduction of a Statement of Comprehensive Income & changes in titles of some of the financial statements.

Preparers of financial statements will have the option of presenting income and expense and components of other comprehensive income either in a single statement or in two separate statements (a separate income statement followed by a statement of comprehensive income).

The new titles for the financial statements (for example 'statement of financial position' instead of balance sheet) will be used in the accounting standards but are not mandatory for use in financial statements.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

The expected impact is still being assessed in detail by management as the IASB is involved in discussions to examine more fundamental questions about the presentation of information in financial statements.

- IFRS 8 – Operating Segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, “Disclosures about segments of an enterprise and related information”. The new standard requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

#### **(c) Interpretations to existing standards that are not yet effective and not relevant for the company’s operations**

The following interpretations to existing standards have been published and are mandatory for the group’s accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the group’s operations:

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007)
- IFRIC 12 – Service Concession Arrangements (effective from 1 January 2008)
- IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008)
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. (effective from 1 January 2008)

#### **Exemptions taken on first time adoption of IFRS 1**

**Business combinations (IFRS 3):** The group has applied the exemption from retrospectively recalculating goodwill which arose on acquisitions prior to 1 January 2006. This goodwill is included at its deemed cost, being the amount recorded under UK GAAP as at 1 January 2006 following an impairment review.

#### **1.2 Compliance with accounting standards**

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

#### **1.3 Basis of consolidation**

The consolidated income statement and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2007. The results of subsidiaries sold or acquired are included in the income statement up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **1.4 Revenue**

Revenue, which excludes value added tax ("VAT"), constitutes the value of goods and services provided by the group for its principal activities, which are the design, manufacture and marketing of smart labels. These consist of:

- Revenue from sale of Timestrips, which represents amounts billed for the supply of finished goods.
- Revenue from development projects to research new and enhanced products.

#### **1.5 Goodwill**

The goodwill is the difference between the amount paid on the acquisition of Timestrip UK Limited and the aggregate assets, less amortisation that was charged upto the date of transition to IFRS's. In accordance with IFRS 1 First time adoption of IFRS, the company has elected not to retrospectively apply IFRS 3 Business Combinations to the acquisition of Timestrip UK Limited, which occurred prior to the date of transition to IFRS's.

In accordance with IFRS 3 Business Combinations, goodwill is not amortised but reviewed annually for impairment and as such, is stated at cost less any provision for impairment of value. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On acquisition, any goodwill acquired is allocated to cash generating units for the purposes of impairment testing. Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

#### **1.6 Intangible Fixed Assets ( excluding Goodwill )**

Intangible assets acquired separately are capitalised at cost and those acquired as part of a business combination are capitalised separately from goodwill if the fair value can be measured reliably on initial recognition. The costs relating to internally generated intangible assets are capitalised if the criteria for recognition as assets are met. Other expenditure is charged against income statement in the year in which the expenditure is incurred. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Useful lives are also reviewed on an annual basis. Intangible assets with indefinite lives are tested for impairment annually, either on an individual or cash generated unit level.

#### **Patents**

Patent costs are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over the estimated useful economic life of 20 years.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### Website

Website development costs are valued at cost less accumulated amortisation. Amortisation is calculated to write off the cost in equal annual instalments over the estimated useful economic life of 3 years.

### Development

Development expenditure is capitalised when it is considered that there is a commercially and technically viable product, the related expenditure is separately identifiable and there is reasonable expectation that the related expenditure will be exceeded by future revenues.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of these intangible assets are assessed to be finite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement. Useful lives are also reviewed on an annual basis. Currently useful lives of 20 years are being used.

### Research

Research expenditure that doesn't meet the above recognition criteria for development is expensed to the income statement in the period incurred.

## 1.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered any impairment are reviewed for possible reversal of the impairment at each reporting date.

## 1.8 Property Plant & Equipment

Property, Plant & Equipment 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:

Office Equipment and Motor Vehicles	20% per annum
Plant & Machinery	20% per annum from when the machinery is brought into use.

# **TIMESTRIP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **1.9 Leasing**

Rental payable under operating leases are charged against income on a straight line basis over the lease term.

Assets held under finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease with the corresponding liability being recognised at the lower of fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the reduction of the lease liability and the finance charge in the income statement, so as to achieve a constant rate of interest on the remaining balance of the liability. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

### **1.10 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks another short term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### **1.11 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **1.12 Trade Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired.

### **1.13 Share premium**

Share premium represents the excess of the amount subscribed for share capital over the nominal value of these shares net of share issue expenses.

### **1.14 Investments**

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

### **1.15 Inventory**

Inventory is valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving inventory.

Cost is determined as follows:

- Raw materials - by the "First in first out" method.
- Work in progress and finished goods - on the basis of standard production costs.

# **TIMESTRIP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **1.16 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date together with any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full using the balance sheet liability method. Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the balance sheet. Deferred tax assets and liabilities are not recognised if they arise in the following situations: the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. The group does not recognise deferred tax liabilities, or deferred tax assets, on temporary differences associated with investments in subsidiaries as it is not considered probable that the temporary differences will reverse in the foreseeable future. It is the group's policy to reinvest undistributed profits arising in group companies. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

### **1.17 Foreign currency translation**

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

### **1.18 Share-based payments**

The group has applied the requirements of IFRS 2, Share-based Payments.

The group issued equity-settled and share-based payments which are measured at fair value at the date of grant. The fair value determined at the grant date of the 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 effects of non-transferability, exercise restrictions and behavioural considerations.

### **1.19 Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the recovery of its assets and the extent of its liabilities where these are estimated. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 1.19 • Plant and equipment & intangible assets

Intangible assets excluding goodwill and plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on management's estimates of the period that the assets will generate revenue, which are periodically reviewed for continued appropriateness. Due to the long lives of assets, changes to the estimates used can result in significant variations in the carrying value.

The Group assesses the impairment of plant and equipment and intangible assets subject to amortisation or depreciation whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Additionally, goodwill arising on acquisitions is subject to impairment review. The Group's management undertakes an impairment review of goodwill annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable.

The complexity of the estimation process and issues related to the assumptions, risks and uncertainties inherent in the application of the Group's accounting estimates in relation to plant and equipment and intangible assets affect the amounts reported in the financial statements, especially the estimates of the expected useful economic lives and the carrying values of those assets. If business conditions were different, or if different assumptions were used in the application of this and other accounting estimates, it is likely that materially different amounts could be reported in the Group's financial statements.

### 1.20 Borrowing costs

Borrowing costs are expensed to the income statement in the period incurred.

### 1.21 Provisions

A provision is recognised when:

- the Group has a legal or constructive obligation as a result of a past event; and
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the effect is material.

Expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

### 1.22 Severance Pay

Pursuant to Israeli severance pay law, employees of more than one year are entitled to one month's salary for each year employed or a portion thereof. The cost of providing severance pay is determined using the current salary of the employee and their length of service. From January 2008, the company has implemented a policy of paying severance pay on a current basis direct to the individual pension policies of the employees each month. This method caps the future liabilities of the company, so that they cannot exceed the amounts paid. Any other possible severance liabilities from pre-January 2008 are not material.

The funds are invested under the name of each individual employee. The deposited funds may be withdrawn only upon fulfilment of the severance pay obligations, pursuant to Israeli severance pay law or labour agreements. At the end of employment, the full value of the fund is transferred to the employee's ownership.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **1.23 Government grants**

Government grants are not recognised until there is reasonable assurance that any conditions attached to them will be complied with, and that the grants will be received.

Accordingly, expenditure that may be refunded by way of a government grant is expensed to the income statement in the period incurred, unless the above recognition criteria are met.

#### **1.24 Segmental reporting**

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns differing from those of segments operating in other economic environments.

There are no separately reportable business segments.

#### **1.25 RISK AND SENSITIVITY ANALYSIS**

The Group's activities expose it to a variety of financial risks: interest rate risk, foreign currency risk, liquidity risk and capital risk. The Group's activities also expose it to market risk and technological risk, which are non-financial risks. The Group's overall risk management programme focuses on unpredictability and seeks to minimise the potential adverse effects on the Group's financial performance. The Board reviews key risks on a regular basis and, where appropriate, actions are taken to mitigate the key risks identified.

##### **a) Interest rate risk and foreign currency risk**

The Group does not have formal policies on interest rate risk or foreign currency risk. However, the Group's exposure in these areas as at the balance sheet date was minimal.

##### **b) Liquidity risk**

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group, to manage liquidity risk. The directors have considered the risk posed by liquidity and are satisfied that there is sufficient growth and equity in the Group.

##### **c) Capital risk**

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

##### **d) Market risk**

The market for Timestrips may not grow as rapidly as expected. The Group may not be able to secure new contracts if potential customers do not want to incorporate Timestrips within their products. Currently, market risk is not characterised by a risk of losing business to competitors, as the product remains unique. The Group is actively selling Timestrips in all relevant markets, and developing new products such as i-strips in order to spread the risk.

##### **e) Technological risk**

There is a risk that the Group will be unable to procure the infrastructure necessary to deliver the future sales volumes that are forecasted. The Group has relationships with suppliers of machinery to help ensure it is developed to meet specific requirements and it can be delivered on time.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 2 Revenue

Sales are made by the group in the following geographical markets:

	<b>2007</b> £	<b>2006</b> £
United Kingdom	913	18,094
Europe	58,098	157,975
North America	38,172	181,147
Rest of World	79,717	21,759
	<u>176,900</u>	<u>378,975</u>
Loss for the year		
United Kingdom	(2,956)	(48,215)
Europe	(188,062)	(420,951)
North America	(123,562)	(482,697)
Rest of World	(258,037)	(57,981)
	<u>(572,617)</u>	<u>(1,009,844)</u>

There are no separately reportable business segments

	<b>United Kingdom</b>	<b>Europe</b>
Net assets	11,874,405	(1,012,950)
Liabilities	(185,539)	(186,080)
Property plant & equipment acquired	15,725	49,777
Intangible assets acquired	593,348	-
Depreciation	3,950	76,301
Amortisation	120,927	-

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

<b>3</b>	<b>Operating loss</b>	<b>2007</b>	<b>2006</b>
			<b>As Restated</b>
		<b>£</b>	<b>£</b>
	Operating loss is stated after charging:		
	Depreciation of property plant and equipment	79,981	66,845
	Amortisation of Patents	50,633	48,797
	Amortisation of Website	5,756	3,871
	Amortisation of Development	64,538	37,061
	Research and development expenditure recognised as an expense	55,101	75,784
	Operating lease rentals – buildings & motor	72,669	65,305
	Auditors' remuneration (company £15,000) – audit fees	21,000	20,000
	Auditors' remuneration – non-audit fees	6,000	4,500
	Profit or loss on foreign currency translation	3,560	4,135
		<u>          </u>	<u>          </u>
<b>4</b>	<b>Interest payable</b>	<b>2007</b>	<b>2006</b>
		<b>£</b>	<b>£</b>
	On bank loans and overdrafts	8,974	8,329
		<u>          </u>	<u>          </u>
		<u>          </u>	<u>          </u>

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

5 Taxation	2007	2006
	£	As restated £
<b>Domestic current year tax</b>		
R&D tax credit	(131,891)	(96,662)
R&D tax credits (under)/over provisions in respect of prior years	(23,677)	7,098
	<u>(155,568)</u>	<u>(89,564)</u>
<b>Current tax charge</b>		
<b>Deferred tax</b>		
Deferred tax credit current year (see note 14)	(951,742)	-
	<u>(1,107,310)</u>	<u>(89,564)</u>
<b>Factors affecting the tax charge for the year</b>		
Profit on ordinary activities before taxation	(1,091,452)	(674,867)
	<u>(1,091,452)</u>	<u>(674,867)</u>
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2006-19%)	(327,436)	(128,225)
	<u>(327,436)</u>	<u>(128,225)</u>
Effects of:		
Non deductible expenses	64,928	22,361
Non accounting deduction claimed - employee exercise of warrants	(57,951)	-
Depreciation add back	20,546	13,790
Capital allowances	(2,151)	-
Tax losses created	302,062	86,296
R&D tax credits	(155,568)	(89,564)
Deferred tax adjustment	(1,019,723)	-
Other tax adjustments	67,982	5,777
	<u>(779,874)</u>	<u>38,661</u>
<b>Current tax charge</b>	<u>(1,107,310)</u>	<u>(89,564)</u>

As at 31 December 2007, the group carried forward tax losses of £3,405,916 (2006- £2,381,044).

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 6 Loss for the financial period

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

	2007 £	2006 £
Holding company's loss for the financial period	(263,438)	(198,070)

### 7 Basic and diluted loss per share

Basic and diluted loss per ordinary share has been calculated using the weighted average number of shares in issue during the financial period. The weighted average number of equity shares in issue was 318,206,472 (2006 – 307,944,104) and the loss after tax, was £ 572,617 (2006 – £ 1,009,844 - as restated).

After the year end the company issued 53,820,000 new shares as part of a placing. They will increase the weighted average number of equity shares in issue to 356,060,596 for 2008. Share options are anti-dilutive as they decrease the loss per share. Therefore, for the period ended 31 December 2007, the diluted loss per share is equivalent to the basic loss per share.

### 8 Intangible fixed assets Group

	Goodwill	Patent	Website	Development	Total
	£	£	£	£	£
<b>Cost</b>					
At 1 January 2006	5,642,742	939,807	-	302,427	6,884,976
Additions	-	10,272	11,613	438,785	460,670
At 31 December 2006	<u>5,642,742</u>	<u>950,079</u>	<u>11,613</u>	<u>741,212</u>	<u>7,345,646</u>
<b>Amortisation</b>					
At 1 January 2006	235,114	36,522	-	15,121	286,757
Charge for the year	-	48,797	3,871	37,061	89,728
At 31 December 2006	<u>235,114</u>	<u>85,319</u>	<u>3,871</u>	<u>52,182</u>	<u>376,485</u>
<b>Carrying amount</b>					
At 31 December 2006 (As restated)	<u><u>5,407,628</u></u>	<u><u>864,760</u></u>	<u><u>7,742</u></u>	<u><u>689,030</u></u>	<u><u>6,969,161</u></u>

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

8 Intangible fixed assets Group	Goodwill	Patent	Website	Development	Total
	£	£	£	£	£
<b>Cost</b>					
At 1 January 2007	5,642,742	950,079	11,613	741,212	7,345,646
Additions	-	34,952	8,460	549,936	593,348
	<u>5,642,742</u>	<u>985,031</u>	<u>20,073</u>	<u>1,291,148</u>	<u>7,938,994</u>
<b>Amortisation</b>					
At 1 January 2007	235,114	85,319	3,871	52,182	376,485
Charge for the year	-	50,633	5,756	64,538	120,927
	<u>235,114</u>	<u>135,952</u>	<u>9,627</u>	<u>116,720</u>	<u>497,412</u>
<b>Carrying amount</b>					
At 31 December 2007	<u>5,407,628</u>	<u>849,080</u>	<u>10,446</u>	<u>1,174,428</u>	<u>7,441,582</u>

The group assesses at each reporting date whether there is an indication that an asset may be impaired, by considering the net present value of discounted cash flows forecasts. If an indication exists an impairment review is carried out. At the period end, there was no indication of impairment of the value of goodwill or of development costs

The directors have also concluded that no amortisation of goodwill is necessary, because its value has been actively maintained since it was acquired.

The development and website intangibles are internally generated.

Patent includes the costs associated with acquiring the full patent rights to the Timestrip technology from the original inventors. The carrying amount of this asset is £771,259 (2006: £ 816,186 ) and the remaining amortisation period is 17 years and two months.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

9 Property Plant & Equipment Group	Motor Vehicles	Office Equipment	Plant and Machinery	Total
	£	£	£	£
<b>Cost</b>				
At 1 January 2006	-	19,672	358,601	378,273
Disposals	-	-	(79,390)	(79,390)
Additions	33,777	19,814	80,717	134,308
	<u>33,777</u>	<u>39,486</u>	<u>359,928</u>	<u>433,191</u>
At 31 December 2006	33,777	39,486	359,928	433,191
<b>Depreciation</b>				
At 1 January 2006	-	11,236	62,798	74,034
Charge for the year	3,656	5,410	57,779	66,845
Disposals	-	-	(79,390)	(79,390)
	<u>3,656</u>	<u>16,646</u>	<u>41,187</u>	<u>61,489</u>
At 31 December 2006	3,656	16,646	41,187	61,489
<b>Carrying Amount</b>				
At 31 December 2006	<u>30,121</u>	<u>22,840</u>	<u>318,741</u>	<u>371,702</u>
<b>Cost</b>				
At 1 January 2007	33,777	39,486	359,928	433,191
Additions	-	34,444	31,059	65,502
	<u>33,777</u>	<u>73,930</u>	<u>390,987</u>	<u>498,693</u>
At 31 December 2007	33,777	73,930	390,987	498,693
<b>Depreciation</b>				
At 1 January 2007	3,656	16,646	41,187	61,489
Charge for the year	6,744	9,322	63,915	79,981
	<u>10,400</u>	<u>25,968</u>	<u>105,102</u>	<u>141,470</u>
At 31 December 2007	10,400	25,968	105,102	141,470
<b>Carrying Amount</b>				
At 31 December 2007	<u>23,377</u>	<u>47,962</u>	<u>285,885</u>	<u>357,223</u>

Motor vehicles held under finance leases have been secured with a three months deposit paid in advance to the finance provider. The carrying amount of motor vehicles held under finance lease is £15,163 (2006: £ 30,121)

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 10 Fixed asset investments

#### Company

	Shares in group undertakings
<b>Cost</b>	<b>£</b>
At 1 January 2007	6,526,637
Additions	-
	<hr/>
At 31 December 2007	<u>6,526,637</u>

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

#### Company

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Company	Country of registration or incorporation	Shares held	
		Class	%
<b>Subsidiary undertakings</b>			
Timestrip UK Limited	England	Ordinary	100
Timestrip Technical Services Limited	Israel	Ordinary	100

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

	<b>Principal activities</b>
Timestrip UK Limited	Distribute and market time sensitive material for use in the food packaging industry.
Timestrip Technical Services Limited	Develop and manufacture time sensitive material for use in the food packaging industry.

As at 31 December 2007 the aggregate capital and reserves for Timestrip UK Limited were £ 72,012 (2006: £(107,231-As restated) ) and the loss for the period then ended was £279,242 (2006: £387,234 – As restated).

As at 31 December 2007 the aggregate capital and reserves for Timestrip Technical Services Limited were £(1,012,950) (2006: £(424,529) ) and the loss for the period then ended was £588,421(2006: £424,521).

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 11 Inventory

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Raw Materials	172,610	102,485	-	-
Work In Progress	30,070	18,815	-	-
Finished Goods	31,845	62,017	-	-
	<u>234,525</u>	<u>183,318</u>	<u>-</u>	<u>-</u>

Raw Materials are reported net of a provision for slow moving inventory of £7,449 ( 2006 £ Nil )  
Finished goods are reported net of a provision for slow moving inventory of £32,985 ( 2006 £ Nil )

### 12 Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade receivables	65,909	117,773	-	-
Amounts owed by group undertakings	-	-	4,716,906	4,104,332
Other receivables	32,320	15,770	8,019	3,260
Prepayments and accrued income	63,633	52,067	7,259	-
	<u>161,862</u>	<u>185,610</u>	<u>4,732,184</u>	<u>4,107,592</u>

The amounts owed by group undertakings in the company balance sheet are non-current, and are expected to be recovered after more than 12 months.

### 13 Cash and cash equivalents

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank accounts	<u>833,903</u>	<u>2,517,341</u>	<u>491,943</u>	<u>1,052,577</u>

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 14 Non Current assets

	2007
<b>Deferred Tax asset</b>	<b>£</b>
Balance as at 1 January 2007	-
Profit and Loss account	<u>(951,742)</u>
Balance as at 31 December 2007	<u><u>(951,742)</u></u>

On the basis of these financial statements no provision has been made for Corporation tax. The total deferred tax asset calculated at 28% at 31 December 2007 was £1,915 and £953,657 on depreciation in excess of capital allowances and losses carried forward respectively (2006-nil). The deferred tax asset has been recognised as at 31 December 2007 based on the company forecast and director's assessment of the recovery of the losses carried forward.

### 15 Current liabilities

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade payables	125,305	235,270	29,899	42,527
Other payables	142,554	53,055	18,473	-
Taxes and social security costs	15,850	15,632	-	-
Accruals and deferred income	19,333	99,740	-	72,147
	<u>303,042</u>	<u>403,697</u>	<u>48,372</u>	<u>114,674</u>

Included within other payables is an amount of £43,123 (2006 - £19,800) in respect of severance pay liability. Refer to note 1.22.

### 16 Non Current Liabilities

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Bank loans	38,101	52,386	-	-
Finance lease (see note 22 )	8,615	18,170	-	-
	<u>46,716</u>	<u>70,556</u>	<u>-</u>	<u>-</u>

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 16 Non Current Liabilities (continued...)

#### Analysis of loans

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Wholly repayable within five years	67,240	91,080	-	-
Included in current liabilities	(20,524)	(20,524)	-	-
	<u>46,716</u>	<u>70,556</u>	<u>-</u>	<u>-</u>

The amount included in current liabilities consists of £14,280 (2006 – £20,524) bank loans and £ 6,244 (2006 - £nil) finance lease.

#### Loan maturity analysis

In more than one year but not more than two years	20,524	20,524	-	-
In more than two years but not more than five years	26,192	50,032	-	-
In more than five years	-	-	-	-
	<u>46,716</u>	<u>70,556</u>	<u>-</u>	<u>-</u>

The bank loan is secured under the Small Firm Loan Guarantee Scheme.

17 Share capital	2007	2006
	£	£
<b>Authorised</b>		
12,280,761,700 Ordinary shares of 0.02p each	2,456,152	2,456,152
678,170 Deferred shares of 49.8p each	337,728	337,728
13,358,829 Deferred share of 24p each	3,206,119	3,206,119
	<u>6,000,000</u>	<u>6,000,000</u>
<b>Allotted, called up and fully paid</b>		
320,722,739 Ordinary shares of 0.02p each	64,144	62,774
678,170 Deferred shares of 49.8p each	337,728	337,728
13,358,829 Deferred share of 24p each	3,206,119	3,206,119
	<u>3,608,000</u>	<u>3,606,621</u>
	<u>3,607,991</u>	<u>3,606,621</u>

At 31 December 2006 there were 313,868,790 ordinary 0.02p shares in issue. During the year the issued share capital was increased by 6,853,949 ordinary 0.02p shares. 2,400,350 shares were issued at par and the remaining 4,453,599 at 4p each.

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

#### 17 Share capital (continued...)

Holders of Deferred shares have no right to attend or vote at any General Meetings of the company, and they are not entitled to receive any dividends or other distributions.

On return of capital in a liquidation, holders of Deferred shares shall be entitled to receive only the amount credited as paid up on each share but only after the holder of each Ordinary Share shall have received the amount paid up or credited as paid up on such share, together with a payment of £10,000 per share, but the holders of Deferred Shares shall not be entitled to any further participation in the assets or profits of the company.

#### Share warrants

The company has the following share warrants outstanding:

	Number	Price	Period of exercise
'B' Warrants	1,002,582	4.00p	25 Feb 05 – 25 Feb 09
'C' Warrants	4,271,640	0.02p	25 Feb 07 – 25 Feb 12
'D' Warrants	4,000,000	4.00p	25 Feb 05 – 25 Feb 09
EMI Scheme	6,300,000	7.25p	15 Apr 06 – 15 Apr 16
EMI Scheme	150,000	7.00p	02 Jul 06 - 15 Apr 16
Approved Scheme	1,650,000	5.75p	14 Dec 06 – 14 Dec 16
EMI Scheme	1,650,000	5.63p	2 Feb 07 - 2 Feb 17
Unapproved	8,500,000	5.63p	3 Feb 07 - 2 Feb 17
Approved Scheme	7,100,000	6.25p	15 May 07 - 12 May 17
Approved Scheme	2,000,000	0.02p	15 May 07 - 12 May 17

After the year end, the "D" and "B" warrants had their exercise period extended by one year to 25 Feb 2009.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### 18 Statement of movements on reserves Group

	Share premium account £	Profit and loss Account £
Balance at 1 January 2007 as previously reported	27,541,931	(22,068,072)
Prior Year adjustment (see note 30)	-	660,612
	<hr/>	<hr/>
At the beginning of the year as restated	27,541,931	(21,407,461)
Premium on issue of shares	177,236	-
Loss for the financial year	-	(572,617)
	<hr/>	<hr/>
Balance at 31 December 2007	<u>27,719,167</u>	<u>(21,980,078)</u>

### Company

	Share premium account	Profit and loss account
Balance at 1 January 2007 as previously reported	27,541,931	(19,756,694)
Premium on issue of shares	177,236	-
Loss for the financial year	-	(263,438)
	<hr/>	<hr/>
Balance at 31 December 2007	<u>27,719,167</u>	<u>(20,020,132)</u>

### 19 Reconciliation of movements in shareholders' funds

	2007 £	2006 As Restated £
<b>Group</b>		
Loss for the financial period	(572,617)	(1,009,844)
Proceeds from issue of shares	177,234	953,975
Shares issued in the period	1,371	3,290
Share Option Reserve	215,092	113,966
	<hr/>	<hr/>
Net (reduction)/addition to shareholders' funds	(178,920)	61,387
Opening shareholders' funds	9,921,366	9,859,979
	<hr/>	<hr/>
Closing shareholders' funds	<u>9,742,446</u>	<u>9,921,366</u>

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

19 Reconciliation of movements in shareholders' funds	2007	2006 As Restated
Company	£	£
Loss for the financial period	(263,438)	(198,070)
Proceeds from issue of shares	177,234	953,975
Shares issued in the period	1,371	3,290
Share Option Reserve	215,092	113,966
	<hr/>	<hr/>
Net addition to shareholders' funds	130,260	873,161
Opening shareholders' funds	11,572,132	10,698,971
	<hr/>	<hr/>
Closing shareholders' funds	11,702,392	11,572,132
	<hr/> <hr/>	<hr/> <hr/>

### 20 Share-based Payments

#### Equity-settled share option plan

The group plan provides for a grant price equal to the average quoted market price of the Company's shares on the date of grant. An option will not normally be exercisable during a closed period, and furthermore can only be exercisable if the performance conditions are satisfied.

Subsisting options will lapse (at the latest) 10 years after the date of grant.

Options which have vested immediately before either the death of a participant or his ceasing to be an eligible employee by reason of injury, disability, redundancy, retirement or dismissal (otherwise than for good cause) shall remain, exercisable (to the extent vested) for 12 months after such cessation, and all non-vested options shall lapse.

	Year ended 31 December 2007		Year ended 31 December 2006	
	Options	Weighted Average Exercise price (in £)	Options	Weighted Average Exercise price (in £)
Outstanding at beginning of period	28,100,000	0.037	20,000,000	0.024
Granted during the period	19,250,000	0.053	8,100,000	0.071
Exercised during the period	(10,725,778)	0.031	-	0.000
Outstanding at the end of the period	36,624,222	0.043	28,100,000	0.037
Exercisable at the end of the period	36,624,222	0.043	28,100,000	0.037

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

#### 20 Share-based Payments (Continued...)

The inputs into the Black-Scholes model are as follows:-

	2007	2006
Weighted average share price	£0.002	£0.002
Weighted average exercise price	£0.037	£0.037
Expected volatility	40%	40%
Expected life	4	4
Risk free rate	4.4%	4.4%
Expected dividends	0.0%	0.0%

Expected volatility was determined by calculating the historical volatility of the Company's share price since admission of the shares to AIM on 26<sup>th</sup> February 2005. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The group recognised total expenses of £215,092 (2006: £113,966 as restated) related to equity-settled share-based payment.

#### 21 Financial commitments

The future aggregate minimum lease payments under non-cancellable operating leases for the group are as follows:

	Group	
	2007	2006
	£	£
Expiry date:		
No later than 1 year	5,500	56,666
Later than 1 year and no later than 5 years	187,531	13,166
	<u>193,031</u>	<u>69,832</u>

There was no capital expenditure that had been contracted for at the balance sheet date but not yet incurred.

The lease for premises is non-cancellable and terminates in May 2011. At the end of the lease period there is an option to renew for a further twelve months at a 6.6% increase in rent.

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

<b>22</b>	<b>Gross finance lease liabilities – minimum lease payments</b>	<b>2007</b>	<b>2006</b>
		<b>£</b>	<b>£</b>
	No later than 1 year	8,335	7,452
	Later than 1 year and no later than 5 years	9,313	20,585
		<u>17,648</u>	<u>28,037</u>
	Future finance charges on finance leases	<u>2,789</u>	<u>3,623</u>
	Present value of finance lease liabilities	<u>14,859</u>	<u>24,414</u>
	The present value of finance lease liabilities is as follows:		
	No later than 1 year	6,244	6,244
	Later than 1 year and no later than 5 years	8,615	18,170
		<u>14,859</u>	<u>24,414</u>

Lease liabilities relate to motor vehicles on 5 year terms paying an average finance charge of 4.7%

### 23 Directors' Emoluments

Directors' remuneration excluding employer's national insurance amounted to:

	<b>Salary, fees and pension</b>	<b>Share based payments</b>	<b>Benefits in kind</b>	<b>2007 Total</b>	<b>2006 Total</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
S V Oakes	15,000	-	-	15,000	15,000
P J Freedman	100,000	20,183	1,650	121,833	112,192
R Isbitsky	100,000	20,183	1,439	121,622	112,119
S A Leslie	12,000	-	-	12,000	12,000
J A Steinberg	75,000	9,005	-	84,005	33,320
	<u>302,000</u>	<u>49,371</u>	<u>3,089</u>	<u>354,460</u>	<u>284,631</u>
				<b>2007</b>	<b>2006</b>
				<b>£</b>	<b>£</b>

Emoluments disclosed above include the following amounts paid to the highest paid director:

Emoluments for qualifying services	<u>121,833</u>	<u>112,192</u>
------------------------------------	----------------	----------------

Included within directors remuneration is £115,000 (2006 - £118,000) that has been capitalised as development expenditure.

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

#### 24 Employees

##### Number of employees

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

	2007 Number	2006 Number
Management	6	6
Administration	6	5
Production	23	18
Sales	3	3
	<hr/>	<hr/>
	38	32
	<hr/> <hr/>	<hr/> <hr/>

##### Employment costs

	£	£
Wages and salaries	455,500	396,774
Social security costs	69,168	45,206
	<hr/>	<hr/>
	524,668	441,980
	<hr/> <hr/>	<hr/> <hr/>

#### 25 Financial Instruments

The objectives, policies and strategies applied by the group with respect to financial instruments are determined at a group level. The group's principal financial instruments are cash and its bank loans and overdraft facilities.

The group adopts a conservative policy towards the management of its cash and has not engaged in any speculative trades. The group has no derivative instruments or hedging transactions. The group has other financial instruments such as trade creditors, which arise directly from its operations.

The carrying amounts of financial assets and liabilities of the group and the company at the balance sheet date approximated their fair values.

The carrying amounts of cash and cash equivalents, trade and other receivables/payables, and borrowings approximate fair values due to the relatively short term maturity of these financial instruments.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **26 Control**

There is no ultimate controlling party.

#### **27 Related party transactions**

During the year, the company paid Mr. Stephen Oakes, a director, £15,000 (2006: £15,000) for professional fees in relations to his services as a director.

At the balance sheet date the company was owed £2,629,215 (2006: £3,216,723) by Timestrip UK Limited, and £2,087,691 (2006: £887,609) by Timestrip Technical Services Limited, both of which are subsidiaries.

#### **28 Contingent Liabilities**

The group has no contingent liabilities arising in respect of legal claims arising from the ordinary course of business and it is not anticipated that any material liabilities will arise from the contingent liabilities other than those provided for.

The company has issued a debenture in favour of National Westminster Bank Plc whereby all the assets, of the subsidiary Timestrip UK Limited, are secured on a fixed and floating charge.

#### **29 Post Balance Sheet Events**

On 6 May 2008 the company raised £1,162,512, before expenses, through a placing of 53,820,000 new ordinary shares of 0.02 pence each at a price of 2.16 pence per share. The net proceeds from the placing were £1,024,035.

# **TIMESTRIP PLC**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

### **30 Transition to IFRS**

#### **Introduction**

Timestrip Plc ("Timestrip") has previously prepared its consolidated Financial Statements under United Kingdom Generally Accepted Accounting Practice (GAAP). With effect from 1 January 2007, it is required to prepare its consolidated Financial Statements in accordance with International Reporting Standards (IFRS) as adopted by the European Union.

The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 December 2007, the comparative information presented in these financial statements for the year ended 31 December 2006 and in the preparation of the opening IFRS balance sheet at 1 January 2006. (transition date).

The IFRS transition statement has been prepared to explain the impact on the reported result of Timestrip and to set out the changes to the accounting policies of the group together with provision of reconciliations of the restatement of previously published comparative financial information.

References to IFRS throughout this document refer to the application of International Accounting Standards and International Financial Reporting Standards.

#### **Overview of impact of adoption of IFRS**

Conversion to IFRS affect Timestrip Plc's reporting particularly in respect of intangible assets and capitalised development expenditure. It does not affect the cashflows or the underlying prospects of the business; however, the implementation of the new standards may result in increased volatility in reported result due to changes in accounting for intangible asset and development expenditure.

#### **Revised Group Accounting policies under IFRS.**

The following accounting policies represent changes from the accounting policies stated in the financial statements for the year ended 31 December 2006. The remaining accounting policies remain the same as in the financial statements for the year ended 31 December 2006 which are consistent with IFRS.

#### **Internally-generated Intangible Assets -Research and Development Expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An internally-generated intangible asset arising is recognised only if all of the following conditions are met:

- an asset is created that can be identified ;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Under UK GAAP, expenditure on research and development was written off in the period incurred.

## **TIMESTRIP PLC**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007**

#### **Internally-generated Intangible Assets -Research and Development Expenditure(continued.....)**

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### **Internally-generated Intangible Assets –Trademarks**

The cost of trademarks which protect internally generated brands and logos are specifically prohibited from recognition as an intangible asset under IAS 38. Under UK GAAP, trademarks were capitalised and classified as intangible assets on the balance sheet and these were amortised over their estimated useful economic life of 20 years.

## TIMESTRIP PLC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

#### Transition statement from UK GAAP to IFRS - 31 December 2006

Income statement	UK GAAP at 31 December 2006 £'000	Trademarks IAS 38 £'000	Research & Development IAS 38 £'000	IFRS at 31 December 2006 £'000
Revenue	379	-	-	379
Cost of sales	(281)	-	-	(281)
Gross Profit	98	-	-	98
Administrative expenses	(1,707)	(7)	402	(1,312)
Loss from Operations	(1,609)	(7)	402	(1,214)
Investment Revenue	123	-	-	123
Finance costs	(8)	-	-	(8)
Loss before tax	(1,495)	(7)	402	(1,100)
Taxation	90	-	-	90
Loss for the period	£ (1,405)	£ (7)	£ 402	£ (1,010)

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### Transition statement from UK GAAP to IFRS - 1 January 2006

Consolidated Balance sheet	UK GAAP at 1 January 2006 £'000	Trademarks IAS 38 £'000	Research & Development IAS 38 £'000	IFRS at 1 January 2006 £'000
<b>Non current assets</b>				
Goodwill	5,408	-	-	5,408
Other intangible assets	931	(23)	287	1,195
Property, plant & equipment	304	-	-	304
	<b>6,643</b>	<b>(23)</b>	<b>287</b>	<b>6,907</b>
<b>Current assets</b>				
Inventory	67	-	-	67
Trade and other receivables	194	-	-	194
Corporation tax	-	-	-	-
Cash and cash equivalents	2,979	-	-	2,979
	<b>3,240</b>	<b>-</b>	<b>-</b>	<b>3,240</b>
Total Assets	<b>9,883</b>	<b>(23)</b>	<b>287</b>	<b>10,147</b>
<b>Current Liabilities</b>				
Trade and other payables	(208)	-	-	(208)
Bank overdrafts and loans	(14)	-	-	(14)
Obligations under finance leases	-	-	-	-
	<b>(222)</b>	<b>-</b>	<b>-</b>	<b>(222)</b>
<b>Non-current Liabilities</b>				
Bank Loans	(67)	-	-	(67)
Obligations under finance leases	-	-	-	-
Total Liabilities	<b>(289)</b>	<b>-</b>	<b>-</b>	<b>(289)</b>
Net Assets	<b>£9,594</b>	<b>£(23)</b>	<b>£287</b>	<b>£9,858</b>
<b>Equity</b>				
Share Capital	3,603	-	-	3,603
Share Premium Account	26,588	-	-	26,588
Share Options Reserve	66	-	-	66
Retained losses	(20,663)	(23)	287	(20,399)
	<b>£9,594</b>	<b>£(23)</b>	<b>£287</b>	<b>£9,858</b>

# TIMESTRIP PLC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2007

### Transition statement from UK GAAP to IFRS - 31 December 2006

Consolidated Balance sheet	UK GAAP at 31 December 2006 £'000	Trademarks IAS 38 £'000	Research & Development IAS 38 £'000	IFRS at 31 December 2006 £'000
<b>Non current assets</b>				
Goodwill	5,408	-	-	5,408
Other intangible assets	901	(30)	690	1,561
Property, plant & equipment	372	-	-	372
	<b>6,680</b>	<b>(30)</b>	<b>690</b>	<b>7,341</b>
<b>Current assets</b>				
Inventory	184	-	-	184
Trade and other receivables	186	-	-	186
Corporation tax	195	-	-	195
Cash and cash equivalents	2,517	-	-	2,517
	<b>3,082</b>	<b>-</b>	<b>-</b>	<b>3,082</b>
Total Assets	<b>9,762</b>	<b>(30)</b>	<b>690</b>	<b>10,422</b>
<b>Current Liabilities</b>				
Trade and other payables	(404)	-	-	(404)
Bank overdrafts and loans	(21)	-	-	(21)
Obligations under finance leases	(5)	-	-	(5)
	<b>(430)</b>	<b>-</b>	<b>-</b>	<b>(430)</b>
<b>Non-current Liabilities</b>				
Bank Loans	(52)	-	-	(52)
Obligations under finance leases	(18)	-	-	(18)
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Total Liabilities	<b>(501)</b>	<b>-</b>	<b>-</b>	<b>(501)</b>
Net Assets	<b>£9,261</b>	<b>£ (30)</b>	<b>£ 690</b>	<b>£ 9,921</b>
<b>Equity</b>				
Share Capital	3,607	-	-	3,607
Share Premium Account	27,542	-	-	27,542
Share Options Reserve	180	-	-	180
Retained losses	(22,068)	(30)	690	(21,408)
	<b>£9,261</b>	<b>£ (30)</b>	<b>£ 690</b>	<b>£ 9,921</b>