



TIMESTRIP PLC

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

TIMESTRIP PLC

DIRECTORS AND ADVISERS

Directors	S V Oakes P J Freedman (Appointed 25 February 2005) R Isbitsky (Appointed 25 February 2005) S A Leslie (Appointed 25 February 2005) Non-Executive Director
Secretary	International Registrars Limited
Company number	03836605 (England & Wales)
Registered office	5-7 Cranwood Street London EC1V 9EE
Registered auditors	Jeffreys Henry LLP Finsgate 5-7 Cranwood Street EC1V 9EE
Nominated Adviser and Broker	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Bankers	Allied Irish Bank 10 Old Jewry London EC2R 8DN
Solicitors	Kemp Little LLP Cheapside House 138 Cheapside London EC2V 6BJ

TIMESTRIP PLC

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TIMESTRIP PLC

CHAIRMAN'S STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

The last year has been one of great transition for your Company as it emerged from a Creditors' Voluntary Arrangement to acquire Timestrip UK Limited and raising £4.5 million through two share placings to fund the commercialisation of its unique smart label technology, the Timestrip®.

The Timestrip®, which enables the measurement of lapsed time, has been developed for use, initially, for the food, pharmaceutical and other consumable goods industries. The Company has made significant advances with the technology and also begun to get real traction with potential users, as is evidenced by the deals and alliances that have been formed with, amongst others, Nestle, Bayer, Hamilton Beach/Proctor Silex, and Labellord. A number of other discussions and trials with major international companies are also in progress.

Financial Results

In financial terms, the Company remains at a very early stage of development. Turnover for the year ended 31 December 2005 amounted to £103,303 (2004 - £0), resulting in a loss before tax of £1,259,035 (2004 - £33,942). The Company's financial resources remain in robust health. Cash at the end of the year stood at £2,979,268 while the exercise of placing warrants in April 2006 has increased net cash by a further £867,384.

Current Trading and Prospects

In the current year Timestrip has started to establish itself as a high profile solution provider in the global smart packaging market, the size of which is predicted to reach \$14 billion by 2013.¹ It is also predicted that freshness indicators will feature as one of the fastest growing product categories in this market.²

The Company has continued to promote the Timestrip® technology and is pleased to report that it now has a number of opportunities, which your Board is confident will lead to commercial relationships during the course of 2006 and beyond. As is described in the Operating Review below, Timestrip® labels have become an integral part of manufacturers' packaging in both the food and non-food consumable industries and your Board is confident that, as consumers and markets become ever more aware of freshness and product age and with the increasing influence of legislation, Timestrip will continue to gain traction within its chosen markets.

S.V.Oakes
Chairman

19 May 2006

1. Source: *in-Pharmatechnologist.com*
2. Source: *Michael Hancock, MD, Pira International, at Intelligent and Smart Packaging Conference, Orlando January 2005*

TIMESTRIP PLC

JOINT CHIEF EXECUTIVES' STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

Operating Review

The Timestrip® label has applications for a number of industrial sectors and good progress is being made in the following operating markets:-

Catering and Food Services

The main highlight in this sector is the successful launch of the Labellord®-Timestrip® in foodservice markets in Benelux and Germany. Since their appointment, NSD/Labellord has marketed Timestrip® as a food safety solution relevant to the recently introduced EU Food Hygiene Legislation. The food celebrity, Rob Geus, regularly promotes Timestrip® on television and in print, and a concerted advertising campaign, funded by Labellord, is quickly paying dividends. Timestrips® are now part of the Bunzl product range in this region and Labellord have recently secured a deal with Metro, a leading wholesaler in Germany with over 100 outlets, who will stock a range of Labellord food safety products that will include five unique product lines of the Timestrip®. Orders have already been received from Labellord in 2006 that exceed total turnover for the Group in 2005 and it is expected that this trend to continue as the year progresses with increasing numbers of wholesalers selling the product in Europe. The search continues for similar distribution agreements in Southern Europe but slower than expected progress is being experienced in North America, where different marketing challenges are being actively addressed.

Food

The recent decision by Nestlé to adopt the Timestrip® technology as a standard packaging feature on the Maggi® range of sauces in the UK Foodservice business is an important confirmation that the technology is a cost-efficient packaging solution that is delivering benefits to brand owners and end-users alike. The Company looks forward to building on this success both within the Nestlé organisation and within the industry in general.

Retail Packs: Ocado have been re-ordering retail packs of Timestrips® for sale online and have confirmed that they will expand the range to include freezer and room temperature Timestrips® later this year. This success, while modest in terms of revenue for the Company, is opening doors to other retail opportunities such as a recent order from John Lewis Partnership in the UK as well as approaches from a number of leading international brands wishing to explore co-branded retail launches in North America and in Europe.

Recent consumer surveys and trends towards fresher and healthier food give much cause for optimism in this sector.

Non-food Consumables

Filters: since the announcement in November 2005, Hamilton Beach have not only launched the TrueAir® device featuring an integrated Timestrip®, but also recently announced the launch of another device that is a co-brand venture with Febreze®, an internationally recognised household brand from Procter & Gamble. (http://www.trueair.com/press_room/febreze.html). Shipments have also commenced to Bioconservacion S.A., who have launched their filter device in the Fagor® brand of fridges in Europe.

Development projects: work has escalated on the project to integrate the Timestrip® technology into a household product with near-universal usage and progress with consumer trials will be reported in due course. The Company also recently won a significant development contract with a leading international consumer brand to integrate a version of its technology into a new mass-market product planned for launch in 2007.

TIMESTRIP PLC

JOINT CHIEF EXECUTIVES' STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

Pharmaceuticals

All previously announced projects continue and a leading pharmaceutical company has tested and recently approved their Timestrip® samples as "fit for purpose". This is an important step towards achieving the Company's objective of securing high profile long-term supply contracts with mass-market international brands.

Medical Devices, Cosmetics, Personal Care

A previously announced development project continues on ways to integrate the technology into a range of devices used in hospitals, although progress in this sector is predictably quite slow. Opportunities have been identified for the Timestrip® technology within the National Health Service and a report on the progress of discussions will be provided in due course.

Since the announcement of the Company's ability to produce a one year Timestrip® a high level of interest has been generated from cosmetic/personal care product companies who are looking at the opportunity presented by Timestrip® in relation to recently introduced EU labelling regulations.

Staff

As previously mentioned the Company plans to continue building its team of chemical and mechanical engineers. This is an ongoing process that can take time to deliver results, however recent evidence of technological breakthroughs gives cause for optimism. The sales and marketing effort has expanded considerably this year with the addition of certain key strategic partners who are marketing the technology within their respective fields of territorial or product expertise. This is already proving to be a very effective and cost-effective method of expanding the Company's reach without adversely impacting its overhead structure.

The Directors are extremely appreciative of the huge efforts being made by everyone involved in this exciting business – not only the dedicated and professional team in the UK and Israel who are so committed to the Company's goal of becoming a household name across the globe, but also to all of the Company's advisors who have guided it through a time of great transition.

Strategy

The manufacturing process and prevailing market dynamics lend themselves to a strategy under which Timestrip will license the rights to manufacture and distribute in local markets to customers, joint venture partners and distributors. The implementation of this strategy requires a level of in-house production in order to seed markets in the early stages and new production machinery has recently increased production capacity to levels that will enable the Company to satisfy initial contracts. Royalty revenues will be enhanced through the supply of key raw materials and technical support to licensees.

The Company 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 lead to the creation, over time, of an internationally recognised brand of significant value.

TIMESTRIP PLC

JOINT CHIEF EXECUTIVES' STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

Competition

It is anticipated that the commercialisation of Timestrip® will stimulate competition at some point in the future, but the Directors are not aware at this time of any direct competition to the technology. The first patent has now been granted in Europe, South Africa and Hong Kong and is pending review in all other territories. As the Company gains more exposure to the needs of different markets it continually reviews and, if necessary, expands its Intellectual Property portfolio to protect the technology as it evolves.

Paul Freedman
Joint Chief Executive Officer
19 May 2006

Reuben Isbitsky
Joint Chief Executive Officer
19 May 2006

TIMESTRIP PLC

CORPORATE GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2005

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

Following the acquisition of Timestrip UK Limited on 25 February 2005, Mr Knifton and Mr Weller resigned from the board and Mr. Freedman, Mr Isbitsky and Mr Leslie were appointed directors of the company. Mr Cowan resigned from the Board on 12 January 2005. 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.

Audit Committee

The Audit Committee consists of Spencer Leslie and Stephen Oakes and meetings will also be attended by other executive directors of the Company on invitation. The Audit Committee will be 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 will comprise of Spencer Leslie and 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. In this regard, a firm of Chartered Accountants are to provide an interim finance function, and Spencer Leslie, a Chartered Accountant, is to be responsible for overseeing this finance function on the Board.

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.

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.

TIMESTRIP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

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

Principal activities and review of the business

The principal activity continued to be that of a holding company. During the year the company acquired Timestrip UK Limited, a company whose principal activity is the development and marketing of time sensitive material for use in the food packaging industry.

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

Results and dividends

The results for the year are set out on page 7.

The directors do not recommend payment of an ordinary dividend.

Directors

The following directors have held office since 1 January 2005:

N J Cowan	(Resigned 12 January 2005)
L E V Knifton	(Resigned 25 February 2005)
S V Oakes	
W N V Weller	(Resigned 25 February 2005)
P J Freedman	(Appointed 25 February 2005)
R Isbitsky	(Appointed 25 February 2005)
S A Leslie	(Appointed 25 February 2005)

Directors' interests

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

	Ordinary shares of 0.02p each	
	31 December 2005	1 January 2005
S V Oakes	-	-
P J Freedman	38,716,698	-
R Isbitsky	38,716,698	-
S A Leslie	8,368,614	-

At the year end Lloyd Traders Inc, which is owned beneficially by Messrs Knifton, Oakes and Weller in equal proportion, had an interest in 15,408,740 Ordinary shares of 0.02p each.

TIMESTRIP PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

Substantial interest in shares

As at the date of this report, the Company has been notified of the following interests in the issued share capital of the Company in accordance with section 198 of the Companies Act 1985 (as amended).

	Number of Ordinary shares	Percentage of existing issued share capital
P J Freedman	38,716,698	13.0%
R Isbitsky	38,716,698	13.0%
D Lerer	19,963,678	6.7%
Pershing Keen Nominees Limited	47,245,594	15.8%
Brewin Nominees (Channel Islands)	13,087,500	4.4%
Lloyd Traders Inc*	15,408,740	5.2%
Morstan Nominees Limited	14,423,500	4.8%

*Lloyd Traders Inc is owned beneficially by Messrs Knifton, Oakes and Weller in equal proportion.

Employee involvement

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

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

Disabled persons

The company'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 company'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 company's contractual and other legal obligations. On average trade creditors at the year end represented 67 (2004 : Nil) days' 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.

TIMESTRIP PLC

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company 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 company will continue in business.

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

On behalf of the board

S V Oakes

Director

19 May 2006

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 on pages 5 to 19 for the year ended 31 December 2005. 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

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Chairman's 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

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

Jeffreys Henry LLP

Chartered Accountants
Registered Auditor

19 May 2006
Finsgate, 5-7 Cranwood Street
London
EC1V 9EE

TIMESTRIP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Turnover	2	103,303	-
Cost of sales		(66,181)	-
Gross profit		<u>37,122</u>	-
Administrative expenses		(1,346,248)	(33,784)
Loss on ordinary activities before interest		<u>(1,309,126)</u>	<u>(33,784)</u>
Other interest receivable and similar income		55,064	-
Interest payable and similar charges	4	(4,973)	(158)
Loss on ordinary activities before taxation	3	<u>(1,259,035)</u>	<u>(33,942)</u>
Tax on loss on ordinary activities	5	93,999	-
Loss on ordinary activities after taxation		<u>(1,165,036)</u>	<u>(33,942)</u>
Dividends		-	-
Retained loss for the period	17	<u><u>(1,165,036)</u></u>	<u><u>(33,942)</u></u>

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

There are no recognised gains and losses other than those passing through the profit and loss account.

		2005 £	2004 £
Loss per share	7	(0.49)p	(0.12)p

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

TIMESTRIP PLC

BALANCE SHEETS

AS AT 31 DECEMBER 2005

	Notes	Group		Company	
		2005 £	2004 £	2005 £	2004 £
Fixed Assets					
Intangible assets	8	6,339,333	-	-	-
Tangible assets	9	304,239	-	-	-
Investments	10	-	-	6,526,637	-
		<u>6,643,572</u>	<u>-</u>	<u>6,526,637</u>	<u>-</u>
Current assets					
Stocks	11	66,067	-	-	-
Debtors	12	194,735	2,618	2,654,103	2,618
Cash at bank and in hand		<u>2,979,268</u>	<u>-</u>	<u>1,587,851</u>	<u>-</u>
		3,240,070	2,618	4,241,954	2,618
Creditors: amounts falling due within one year	13	<u>(222,513)</u>	<u>(14,713)</u>	<u>(69,620)</u>	<u>(14,173)</u>
Net current assets/(liabilities)		<u>3,017,557</u>	<u>(11,555)</u>	<u>4,172,334</u>	<u>(11,555)</u>
Total assets less current liabilities		9,661,129	(11,555)	10,698,871	(11,555)
Creditors: amounts falling due after more than one year	14	<u>(66,666)</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>9,594,463</u>	<u>(11,555)</u>	<u>10,698,971</u>	<u>(11,555)</u>
Capital and reserves					
Called up share capital	15	3,063,331	3,550,807	3,603,331	3,550,807
Share premium account	16	26,587,956	15,869,426	25,587,956	16,869,426
Profit and loss account	16	<u>(20,596,824)</u>	<u>(19,431,788)</u>	<u>(19,492,316)</u>	<u>(11,555)</u>
Shareholders' funds	17	<u>9,594,463</u>	<u>(11,555)</u>	<u>10,698,971</u>	<u>(11,555)</u>
Equity interests		6,050,616	(3,555,402)	7,155,124	(3,555,402)
Non-equity interests		<u>3,543,847</u>	<u>3,543,847</u>	<u>3,543,847</u>	<u>3,543,847</u>
		<u>9,594,463</u>	<u>(11,555)</u>	<u>10,698,971</u>	<u>(11,555)</u>

The financial statements were approved by the board on 19 May 2006.

S V Oakes
Director

TIMESTRIP PLC

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005		2004	
	£	£	£	£
Net cash outflow from operating activities		(1,294,053)		(2,221,515)
Returns on investments and servicing of finance				
Interest received	55,064		-	
Interest paid	(4,973)		(158)	
Net cash inflow/(outflow) for returns on investments and servicing of finance		50,091		(158)
Taxation recovered		79,853		-
Capital expenditure and financial investment				
Payments to acquire intangible assets	(120,971)		-	
Payments to acquire tangible assets	(16,122)		-	
Net cash outflow for capital expenditure		(137,093)		-
Acquisition and disposals				
Net cash acquired on acquisition		43,288		-
Net cash outflow before management of liquid resources and financing		(1,257,914)		(2,221,673)
Financing				
Issue of ordinary share capital	4,521,750		2,231,302	
Cancellation of issued share capital	-		(15,562)	
Cost of share issue	(272,543)		5,601	
Repayment of long term bank loan	(11,905)		-	
Net cash inflow from financing		4,237,302		2,221,341
Increase/(decrease) in cash in the period		2,979,388		(332)

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NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

1	Reconciliation of operating profit to net cash inflow from operating activities		2005	2004	
			£	£	
	Operating loss		(1,309,129)	(33,784)	
	Depreciation, amortisation and impairment charges of intangible assets		276,269	-	
	Depreciation of tangible assets		40,889	-	
	Increase in stocks		(8,050)	-	
	(Increase)/decrease in debtors		(47,834)	7,299	
	Decrease in creditors within one year		(246,198)	(2,195,030)	
			<hr/>	<hr/>	
	Net cash outflow from operating activities		(1,294,053)	(2,221,515)	
			<hr/> <hr/>	<hr/> <hr/>	
2	Analysis of net (debt)/funds	1 January 2005	Cash flow	Other non- cash changes	31 December 2005
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	(120)	2,979,388	-	2,979,268
		<hr/>	<hr/>	<hr/>	<hr/>
	Bank Loans				
	Debts falling due within one year	-	(14,286)	-	(14,286)
	Debts falling due after one year	-	(66,666)	-	(66,666)
		<hr/>	<hr/>	<hr/>	<hr/>
		-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
	Net (debt) / funds	(120)	2,898,436	-	2,898,316
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
3	Reconciliation of net cash flow to movement in net funds/(debt)		2005	2004	
			£	£	
	(Decrease)/increase in cash in the period		2,979,388	(332)	
	Cash outflow from increase in debt and lease financing		(80,952)	-	
			<hr/>	<hr/>	
	Movement in net funds/(debt) in the period		2,898,436	(332)	
	Opening net (debt)/funds		(120)	212	
			<hr/>	<hr/>	
	Closing net funds/(debt)		2,898,316	(120)	
			<hr/> <hr/>	<hr/> <hr/>	

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

4 Purchase of subsidiary undertakings

On 25 February 2005 the company acquired Timestrip UK Limited

Group of net assets acquired	Fair Value to Group £
Intangible assets	851,889
Tangible assets	329,006
Debtors	188,155
Cash at bank	43,288
Creditors	(528,455)
	<hr/>
	883,883
Goodwill	5,642,742
	<hr/>
	6,526,625
	<hr/> <hr/>
Satisfied by	
Share issue	6,400,000
Other expenses	126,625
	<hr/>
	6,526,625
	<hr/> <hr/>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Compliance with accounting standards

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

1.3 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 31 December 2005. The results of subsidiaries sold or acquired are included in the profit and loss account up to, or from, the date control passes. Intra-group sales and profits are eliminated fully on consolidation.

1.4 Turnover

Turnover comprises the invoiced value of goods and services supplied by the group, net of Valued Added Tax and trade discounts.

1.5 Goodwill, patents and trademarks

Goodwill is the difference between the amount paid on the acquisition of Timestrip UK Limited and the aggregate fair value of its separable net assets. Goodwill, patents and trademarks are capitalised and classified as an intangible asset on the balance sheet. The directors have concluded that goodwill arising on the acquisition of Timestrip UK Limited should be amortised over its useful economic life of 20 years. Patents and trademarks are also amortised over their useful economic life which is estimated to be 20 years.

1.6 Tangible fixed assets and depreciation

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

Office Equipment	20% per annum straight line basis
Plant & Machinery	20% per annum straight line basis from when the machinery is brought into use.

1.7 Leasing

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account as incurred.

1.8 Investments

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

1.9 Stock and consumables

Stocks and consumables are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Cost includes all direct costs and an appropriate proportion of fixed and variable overheads.

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

1 Accounting policies (continued)

1.10 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes.

1.11 Foreign currency translation

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

1.12 Research and Development

Expenditure on research and development is written off in the year it is incurred.

2 Turnover

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

	£
United Kingdom	11,970
Europe	49,512
North America	35,721
Rest of World	6,100
	<u>103,303</u>

3 Operating loss

	2005	2004
	£	£
Operating loss is stated after charging:		
Depreciation of tangible assets	40,889	-
Amortisation of intangible assets	276,269	-
Operating lease rentals	57,560	-
Auditors' remuneration (company £7,500)	12,500	-
Remuneration of auditors for non-audit work	<u>8,750</u>	<u>-</u>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

4	Interest payable	2005	2004
		£	£
	On bank loans and overdrafts	4,973	158
		<u>4,973</u>	<u>158</u>
		<u><u>4,973</u></u>	<u><u>158</u></u>
5	Taxation	2005	2004
		£	£
	Domestic current year tax		
	U.K. corporation tax	(93,999)	-
	Adjustment for prior years	-	-
		<u>(93,999)</u>	<u>-</u>
	Current tax charge	(93,999)	-
	Deferred tax		
	Deferred tax charge current year	-	-
		<u>-</u>	<u>-</u>
		<u>(93,999)</u>	<u>-</u>
		<u><u>(93,999)</u></u>	<u><u>-</u></u>
	Factors affecting the tax charge for the period		
	Loss on ordinary activities before taxation	(1,165,036)	(33,942)
		<u>(1,165,036)</u>	<u>(33,942)</u>
		<u><u>(1,165,036)</u></u>	<u><u>(33,942)</u></u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19.00% (2004: 19.00%)	(221,357)	(6,449)
		<u>(221,357)</u>	<u>(6,449)</u>
		<u><u>(221,357)</u></u>	<u><u>(6,449)</u></u>
	Effects of:		
	Depreciation and amortisation add back	60,260	-
	Non deductible expenses	6,656	-
	R&D Tax credit	(93,999)	-
	Other tax adjustments	154,441	6,449
		<u>127,358</u>	<u>6,449</u>
		<u><u>127,358</u></u>	<u><u>6,449</u></u>
	Current tax charge	(93,999)	-
		<u>(93,999)</u>	<u>-</u>
		<u><u>(93,999)</u></u>	<u><u>-</u></u>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

6 Loss for the financial period

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

	2005 £	2004 £
Holding company's loss for the financial period	(60,528)	(33,942)

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 236,786,705 (2004 – 28,484,103) and the loss after tax, was £1,165,036 (2004 - £33,942).

8 Intangible fixed assets

Group

	Goodwill £	Patents £	Total £
Cost			
At 1 January 2005	-	-	-
Acquisition of subsidiary undertakings	-	851,889	851,889
Additions	-	120,971	120,971
On acquisition of subsidiary undertaking	5,642,742	-	5,642,742
At 31 December 2005	5,642,742	972,860	6,615,602
Amortisation			
At 1 January 2005	-	-	-
Acquisition of subsidiary undertakings	-	-	-
Charge for the year	235,114	41,155	276,269
At 31 December 2005	235,114	41,155	276,269
Net book value			
At 31 December 2005	5,407,628	931,705	6,339,333
At 31 December 2004	-	-	-

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

9 Tangible fixed assets Group	Office Equipment	Plant and Machinery	Total
	£	£	£
Cost			
At 1 January 2005	-	-	-
Acquisition of subsidiary undertakings	15,730	346,421	362,151
Additions	3,942	12,180	16,122
	<hr/>	<hr/>	<hr/>
At 31 December 2005	19,672	358,601	378,273
	<hr/>	<hr/>	<hr/>
Depreciation			
At 1 January 2005	-	-	-
Acquisition of subsidiary undertakings	7,302	25,843	33,145
Charge for the year	3,934	36,955	40,889
	<hr/>	<hr/>	<hr/>
At 31 December 2005	11,236	62,798	74,034
	<hr/>	<hr/>	<hr/>
Net book value			
At 31 December 2005	8,436	295,803	304,239
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2004	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

10 Fixed asset investments Company	Shares in group undertakings
	£
Cost	
At 1 January 2005	-
Additions	6,526,637
	<hr/>
	6,526,637
	<hr/> <hr/>

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.

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

10 Fixed asset investments (Continued)

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	%
Subsidiary undertakings			
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:

	Principal activity
Timestrip UK Limited	Develop and market time sensitive material for use in the food packaging industry.
Timestrip Technical Services Limited	Develop and market time sensitive material for use in the food packaging industry.

11 Stocks

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Stock and consumables	66,067	-	-	-

12 Debtors

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Trade debtors	34,436	-	-	-
Amounts owed by group undertakings	-	-	2,599,845	-
Other debtors	51,570	2,082	44,258	2,082
Called-up share capital not paid	10,000	-	10,000	-
Prepayments and accrued income	4,730	536	-	536
Corporation tax recoverable	93,999	-	-	-
	194,735	2,618	2,654,103	2,618

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

13 Creditors : amounts falling due within one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loans	14,286	120	-	120
Trade creditors	144,161	6,259	46,861	6,259
Other creditors	6,152	-	-	-
Taxes and social security costs	24,818	-	-	-
Accruals and deferred income	33,096	7,794	22,759	7,794
	<u>222,513</u>	<u>14,173</u>	<u>69,620</u>	<u>14,173</u>

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

14 Creditors : amounts falling due after more than one year

	Group		Company	
	2005	2004	2005	2004
	£	£	£	£
Bank loans	66,666	-	-	-
	<u>66,666</u>	<u>-</u>	<u>-</u>	<u>-</u>
Analysis of loans				
Not wholly repayable within five years	80,952	-	-	-
Included in current liabilities	(14,286)	-	-	-
	<u>66,666</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loan maturity analysis				
In more than one year but not more than two years	14,286	-	-	-
In more than two years but not more than five years	42,857	-	-	-
In more than five years	9,523	-	-	-
	<u>66,666</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

15 Share capital	2005	2004
	£	£
Authorised		
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> </u>	<u> </u>
Allotted, called up and fully paid		
297,420,605 Ordinary shares of 0.02p each	59,484	6,960
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> </u>	<u> </u>
	<u>3,603,331</u>	<u>3,550,807</u>

Share warrants

The company has the following share warrants outstanding:

	Number	Price	Period of exercise
'B' Warrants	7,500,000	4p	25 Feb 05 – 25 Feb 07
'C' Warrants	8,500,000	0.02p	25 Feb 07 – 25 Feb 12
'D' Warrants	4,000,000	4p	25 Feb 05 – 25 Feb 07
Placing warrants	16,068,744	6p	25 Feb 05 – 25 Feb 07

On 28 January 2005 'B' warrants over a total of 7,500,000 ordinary shares of 4p each, were granted to vendors subject to completion of the acquisition of Timestrip UK Limited.

On 28 January 2005 'C' warrants over a total of 8,500,000 ordinary shares of 0.02p each, were granted to individual who had comparable options in respect of the shares of Timestrip UK Limited subject to completion of the acquisition.

On 28 January 2005 'D' warrants over a total of 4,000,000 ordinary shares of 4p each, were granted to Mr Spencer Leslie subject to completion of the acquisition.

On 25 February 2005, the company acquired the entire issued share capital of Timestrip UK Limited for a consideration of £6.4 million. The purchase price was satisfied by the issue of 160,000,000 Ordinary Shares of 0.02p each at 4p per share to the vendors on the sale of their Timestrip UK Limited shares.

Furthermore on 25 February 2005, 50,581,250 new Ordinary Shares of 0.02p were issued together with granting of placing warrants over a total of 16,860,409 for ordinary shares of 6p each, pursuant to a placing to raise a total of £2,023,250 before expenses.

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

15 Share capital (Continued)

On 11 October 2005, 40,000,000 Ordinary Shares of 0.02p were issued to raise a total of £2,400,000 before expenses.

On 19 October 2005, 624,999 Ordinary Shares of 0.02p were issued to raise a total of £37,500 before expenses.

On 23 November 2005, 166,666 Ordinary Shares of 0.02p were issued to raise a total of £10,000 before expenses.

On 6 December 2005, 5,000,000 Ordinary Shares of 0.02p were issued at par subsequent to the exercise of 5,000,000 'A' warrants.

On 6 December 2005, 6,250,000 Ordinary Shares of 0.02p were issued in favour of £50,000 convertible loan stock.

Subsequent to the year end, 14,958,408 placing warrants were exercised representing 5% of the issued share capital. The remaining placing warrants have now lapsed.

16 Statement of movements on reserves Group

	Share premium account	Profit and loss account
	£	£
Balance at 1 January 2005	15,869,426	(19,431,788)
Retained loss for the period	-	(1,165,036)
Premium on shares issued during the year	10,718,530	-
	<u> </u>	<u> </u>
Balance at 31 December 2006	26,587,956	(20,596,824)
	<u> </u>	<u> </u>

Company

	Share premium account	Profit and loss account
Balance at 1 January 2005	15,869,426	(19,431,788)
Retained loss for the period	-	(60,528)
Premium on shares issued during the year	10,718,530	-
	<u> </u>	<u> </u>
Balance at 31 December 2006	26,587,956	(19,492,316)
	<u> </u>	<u> </u>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

17 Reconciliation of movements in shareholders' funds	2005	2004
Group	£	£
Loss for the financial period	(1,165,036)	(33,942)
Proceeds from issue of shares	10,718,530	2,231,302
Cancellation of issued share capital	-	(15,562)
Shares issued in the period	52,524	5,602
	<hr/>	<hr/>
Net addition to shareholders' funds	9,606,018	2,187,400
Opening shareholders' funds	(11,555)	(2,198,955)
	<hr/>	<hr/>
Closing shareholders' funds	9,594,463	(11,555)
	<hr/> <hr/>	<hr/> <hr/>

Company

Loss for the financial period	(60,528)	(33,942)
Proceeds from issue of shares	10,718,530	2,231,302
Cancellation of issued share capital	-	(15,562)
Shares issued in the period	52,524	5,602
	<hr/>	<hr/>
Net addition to shareholders' funds	10,710,526	2,187,400
Opening shareholders' funds	(11,555)	(2,198,955)
	<hr/>	<hr/>
Closing shareholders' funds	10,698,971	(11,555)
	<hr/> <hr/>	<hr/> <hr/>

18 Financial commitments

At 31 December 2005 the group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2005	2004	2005	2004
	£	£	£	£
Expiry date:				
Within one year	18,000	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	18,000	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

19 Directors' Emoluments

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

	Salary, fees and pension £	Bonus £	Benefits in kind £	2005 Total £	2004 Total £
S V Oakes	3,750	-	-	3,750	-
P J Freedman	88,793	50,000	1,805	140,598	-
R Isbitsky	88,793	50,000	1,734	140,527	-
S A Leslie	9,000	-	-	9,000	-
	<u>190,336</u>	<u>100,000</u>	<u>3,539</u>	<u>293,875</u>	<u>-</u>

	2005 £	2004 £
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Emoluments for qualifying services	<u>140,598</u>	<u>-</u>

20 Employees

Number of employees

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

	2005 Number	2004 Number
Management	4	-
Administration	1	-
Sales	2	-
	<u>7</u>	<u>-</u>

Employment costs

	£	£
Wages and salaries	485,165	-
Social security costs	46,611	-
	<u>531,776</u>	<u>-</u>

TIMESTRIP PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2005

21 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, hedging or foreign currency transactions. The group has other financial instruments such as trade creditors, which arise directly from its operations.

22 Control

There is no ultimate controlling party.

23 Related party transactions Group

During the year, the company paid Mr. Stephen Oakes, a director, £3,750 for professional fees in relations to his services as a director.