

**FeONIC plc**

**Report and Financial Statements**

31 July 2008



Registered No: 03788874

**Directors**

B R E Hopkins (Chairman)  
B D Smith (Managing Director)  
G E Beswick (Group Finance and Commercial Director)  
J A Urquhart-Stewart (Non-Executive)

**Secretary**

G E Beswick

**Auditors**

haysmacintyre  
Fairfax House  
15 Fulwood Place  
London  
WC1V 6AY

**Bankers**

Bank of Scotland plc  
Beaucherc House  
3 Queens Road  
Reading  
RG1 3AR

**Solicitors**

Seymours Solicitors  
75 Carter Lane  
London  
EC4V 5EP

**Registered Office**

Fairfax House  
15 Fulwood Place  
London  
WC1V 6AY

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## Chairman's Statement

This has been a year of outstanding challenges but also some good progress.

There has been a change of emphasis from pure R&D with sales from consultancy to one where the sales are starting to come from selling products with healthy margins through direct sales to the customer, through sales relationships with specific market partners and through wholesaler distribution in various world territories. This period of transition has produced a drop in sales for our last financial year but we have started to see sales lead times reduced dramatically with the set up of the production line in China.

Our new patented F1.3 and F4 drives have been well received in the market place since their launch in late April. This followed almost nine months of dedication on the part of the technical team lead by Managing Director, Brian Smith, to set up the production processes in China. Part of this time was affected by two months of disruption caused by the refurbishment we had to undergo following the flooding of the premises in June 2007.

We welcome very much with the formation of FeONIC Transport Limited and the partnership we have with First Class Partnerships, ([www.firstclasspartnerships.com](http://www.firstclasspartnerships.com)) a group of consultants who have many years of experience in the railway and general transport industry. FeONIC plc has a 30% shareholding in this company and will supply all the actuators and amplifiers to their customers.

Commenting on the signing of the licence agreement, Neil Atkins Managing Director of FeONIC Transport Ltd said "We are delighted to be entering into this agreement to sell the amazing FeONIC audio technology to the transport industry around the world.

In talking to transport chiefs we are already aware of the tremendous interest our product is creating in the market place and we hope to be announcing the winning of our first major contracts very soon. The FeONIC audio technology will transform how sound is delivered in both transport and other environments with major commercial benefit for our clients. We are looking forward to a long and fruitful partnership with FeONIC plc"

We have been disappointed that we have not been able to proceed with our relationship with the consumer electronics manufacturer due primarily to the unfortunate illness of the proprietor. This has affected our sales figures to some extent as has the completion of the marine contract research project.

Despite this our sales of the new F series are beginning to support the overheads of the technical team and we anticipate that as we recruit new distributors in Europe and Asia and start to make inroads into the US along with the efforts of FeONIC Transport Limited, this will increase our level of sales substantially in the coming year.

We have been grateful for the support of our shareholders both old and new and I am also grateful for the financial and managerial support of my fellow directors. Going forward the Board have prepared and approved a detailed cash flow forecast, which shows the need to raise some additional finance, in the short term, but which shows a significant improvement in the performance of the company in comparison to prior years.

A special thank you goes to our loyal hardworking technical team for taking on each new challenge with courage and equanimity.

**Brenda Hopkins**  
Chairman

11 December 2008

## Operational Review

### Market Overview

2008 has seen the start of the evolution of FeONIC Technology from “gadget” to “credible audio” status with the launch of our patented F1.3 and F4 drives. International partners exhibiting in Pro Audio shows in Frankfurt, Berlin, and Amsterdam, and in the UK at CEDIA (home installers association), 100% Design (International Interior Design) and Sleep08 (hospitality), has provided significant exposure for the technology with excellent press coverage. A dedicated FeONIC®SoundLounge created by our partners, Studio AV, opened in February in London, enabling high end audio demonstrations to journalists, potential customers and partners. At 100% Design in July studioAV showed only FeONIC product on their 40m<sup>2</sup> stand, attracting over 600 enquiries.

**“The F-Drive really does have a magical quality about it, producing a highly immersive listening experience quite unlike anything else.**

Nick Ryan - Founder of The Fragmented Orchestra - winners of PRS New Music Award 2008

The industry response has also been positive, Custom Installer, one of the UK’s leading trade magazines for the home installation market (circulation 11,000) reviewed the technology very favourably in June 2008.

### Technical Overview (FeONIC Drives)

The first batch of F1.3 and F4 production was produced by our dedicated production line on the 1<sup>st</sup> April on schedule. Batch size has grown as demand has increased, often being sold out before completion. QC (Quality Control) has to date been handled by our technical team here in the UK. However the transfer to the factory is in place to complete by the year end. Continued development of the core of the products has resulted in a further patent application being made, further protecting our investment.

**“ Custom Installer was very impressed with the immersive and detailed quality of the sound which also had a good level of transparency.”**

Custom Installer June 2008

### FeONIC Amplifiers

Bundling of the FeONIC F110 (10W) amplifier with the F4 have significantly increase the sales opportunity of this device. A new amplifier the F1M, 100W single channel has been designed and manufactured as part of the supply contract to the Fragmented Orchestra (see below). This amplifier uses cutting edge Class D technology and is a superb partner to the F1. We are proposing to expand this product range to include a stereo version and possibly a 2.1 solution. A new stereo 25W Bluetooth amplifier is currently in development for the F4 product as well as a similar smaller BT 10/12W unit for soundbug 2 for the consumer markets. In order to complete the product suite we have designed our own AGC (automatic gain control) module which is now in advanced prototype and have a manufacturer in place to produce it. This module will enable all combinations of products to be offered in bundled solutions, with amplifiers, noise management and in some cases integrated Bluetooth.

**“FeONIC Technology looks set to become a serious player in the AV Installation marketplace”**

Pro Sound News July 2008

## Operational Review

**FeONIC Floors** Demonstrations of the first 5.1 FeONIC Floor have also been well received, with it's incredibly "immersive" and "realistic" qualities all being commented on by many that have experienced it.

**Materials** The sensitivity (acoustic conduction) of the materials we are sounding affects the output considerably. A number of manufacturers of materials that are known to be acoustically efficient have approached us looking to add value to their products by integrating FeONIC technology as part of their offering

### Sales initiatives

**International** Established partners in Japan, Singapore, Australia, Hungary and South America have started to purchase new products for their regions and are beginning to replicate the UK model in terms of sales growth.

**Home market** Non-exclusive relationships with numerous partners are enabling FeONIC to slowly penetrate specific added value markets across many fields. A commission based salesman has been recruited to help expand this growing network across a number of new markets, including the construction industry, as well as a Pro-Audio specialist to advise on how best to approach this market.

**Transport** A worldwide license has been signed with FeONIC Transport Limited (FTL) to exploit the technology in the transport market. Market interest includes platform sliding doors, TFL Help Points, and rolling stock structural audio, with initial trials underway in a number of projects. Our research in the area of VA (voice alert) for public buildings and transport hubs has revealed that FeONIC technology can be both electrically and acoustically more efficient than traditional speakers when used in conjunction with acoustically conductive surfaces. At the time of writing FTL had quoted prospects of £6m sales based on FeONIC products.

**Chelsea Harbour Design Centre** FeONIC technology has been selected by the owners of Chelsea Harbour Design Centre for the refurbishment of the current building and incorporation into a new extension to it representing a total area increase of 60%. It is hoped that this installation will become our first commercial building install, during 2009.

**FeONIC audio technology will transform how**

**sound is delivered in both transport and other environments with major**

**commercial benefit for our clients.** Neil Atkins Managing Director FeONIC Transport Ltd

**Soundbug 1+;** The new soundbug 1+ has been approved for production by ADM Promotions, part of the Polyconcept Group of France [www.polyconcept.com](http://www.polyconcept.com) and 3700 samples released to sales agents around the world. Promotional interest is high, with one major studio considering

## Operational Review

the product for a major movie launch in the first quarter of 2009. FeONIC have enlisted the support of a retail sales partner who has considerable experience in this field, and relationships with internet sites are being re-established.

**Soundbug 2** will use the Bluetooth stereo amplifier currently in development. The FeONIC F6 drive has been redesigned to enable the most compact footprint possible, and tooling is planned to start during the first quarter of 2009.

**“One worth considering”**

Roland Hemming

**FeONIC in the Arts;** Shona Illingworth has used FeONIC technology as an integral part of her piece *The Watch Man*, which starts its third show at the Wellcome Trust on Euston Rd on the 16<sup>th</sup> December (until January 12<sup>th</sup>). Coincidentally *The Fragmented Orchestra*, winners of this year’s PRS New Music Award opens the same week, with 24 FeONIC nodes around the UK reproducing the Orchestra’s output at 24 national locations.

**Website:** [www.feonic.com](http://www.feonic.com) has served us well, but needs repositioning to support our new sales and application initiatives. A new website will be live by the end of January if not before.

### Moving Forward

Last year I concluded by saying we need to develop both sales and products. Our sales initiatives are beginning to make progress, in Transport, Pro-Audio and Construction. Our product development team have, and continues to be very busy with both F1/F4 production and amplifier with AGC. With the F6 now back on the horizon, and Bluetooth amplifiers for this product and the F4, our consumer strand should be contributing to sales by this time next year.

As mentioned in the Chairman’s Statement, the company has altered their emphasis toward product sales rather than a commitment to research and development, which formed a significant part of our cost base in prior years. As such we anticipate a lower level of operating gearing, with less fixed and more variable costs, so our intention to continue to monitor and reduce our cost base will be paramount over the coming twelve months.

The detailed cash flow forecasts prepared by the Board show that a small amount of additional funding is required to enable the company to increase its customer base, in the short term, with a small profit anticipated over the coming twelve months. Given the significant losses experienced in the past, and promising results since the year end, we are confident that these forecasts are achievable and that the company will be profitable on an ongoing basis.

**B R E Hopkins**

Chairman

11 December 2008

## Directors' report

The directors present their report together with the group accounts for the year ended 31 July 2008.

### Principal activities and review of the business

The company and group's principal activity is that of research, development and consultancy services in magnetostrictive devices, including innovating, designing and selling smart material products.

The company continues to concentrate on pushing its audio product range into the market with the objective of firmly establishing the technology into the five defined market sectors of Domestic, Commercial, Transport, Marine and Pro-Audio.

The Company's future development will be to build on opportunities arising from its current activity.

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

The company and the group face a range of financial and non financial risks which may affect the way in which it performs in the future. The key risks currently facing the business are the economic downturn and the need for additional capital to enable the group to continue as a going concern. The directors are confident that they have considered all the relevant risks facing the business and that the business is in a position to trade profitably in the future.

Further consideration of the financial risks facing the business is given in note 15.

### Results and dividends

There was a loss for the year after taxation amounting to £304,883 (2007 – loss £267,247). The directors do not recommend payment of a dividend (2007 - £nil).

### Issue of shares

During the year the company issued 2,875,000 shares from various private placings and warrant conversions raising £107,000 for additional working capital.

### Directors and their interests

Directors who held office during the year are as shown on page one.

The interests of the directors in the shares of the company as at 31 July 2008, were as follows:

	<i>Ordinary shares</i>	
	<i>31 July</i>	<i>1 August</i>
	<i>2008</i>	<i>2007</i>
B R E Hopkins	3,583,333	3,583,333
B D Smith*	123,500	123,500

\* B D Smith is a trustee and potential beneficiary under a discretionary settlement which holds 23,500 ordinary shares.

In addition, the directors hold options to subscribe for ordinary shares in the company as disclosed in note 7 to the financial statements

### Post balance sheet events

Following the year end the company has issued a further 3,251,998 ordinary shares to raise additional working capital of £99,550

## Directors' report

### Major interests in shares

As at 30 November 2008 the directors are aware of the following shareholders who have an interest in 3% or more of the company's issued share capital.

	<i>No. of shares</i>	<i>%</i>
B R E Hopkins	3,583,333	7.2
C & G Patel	3,166,666	6.3
R M & J A Simmons	2,936,000	5.9
P Shah	2,527,500	5.0
A J Wilkinson & S Pulko	1,760,000	3.5
T D Sarin	1,666,666	3.3
J Birch	1,666,666	3.3

### Creditor payment policy

It is the company's policy to negotiate specific arrangements with suppliers and then to make payments to suppliers in accordance with those terms. At 31 July 2008 amounts owed to company's suppliers represented 100 days purchases (2007 – 131 days).

### Statement of directors' responsibilities in respect of the accounts

The directors have prepared these accounts, which give a true and fair view of the state of affairs of the group as at 31 July 2008 and of the group loss for the year then ended. In preparing these accounts, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepared the accounts on the going concern basis on the presumption 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 group and to enable them to ensure that accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In determining how amounts are presented within items in the profit and loss account and balance sheet, the directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practise. So far as each of the directors is aware at the time the report is approved:

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' report

### **Auditors**

A resolution to re-appoint haysmacintyre as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

**B R E Hopkins**

Chairman

11 December 2008

# **Independent auditors' report**

**to the members of FeONIC plc**

We have audited the group's financial statements for the year ended 31 July 2008 which comprise the Consolidated Profit and Loss Account, Statement of Total Recognised Gains and Losses, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Cash Flow Statement and the related notes 1 to 28. These financial statements have been prepared on the basis of 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 company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 whether the information given in the Directors' Report is consistent with the financial statements. We also 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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## **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 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.

# **Independent auditors' report**

to the members of FeONIC plc

## **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 and Company's affairs as at 31 July 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

## **Emphasis of matter – going concern**

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure in note 1 to the financial statements concerning FeONIC plc's ability to continue as a going concern. FeONIC plc and its subsidiary companies incurred a net loss of £308,883 during the year ended 31 July 2008 and, at that date the current liabilities exceeded its total assets by £734,478.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

## **haysmacintyre**

Registered Auditor  
Chartered Accountants  
London

11 December 2008

## Consolidated profit and loss account

for the year ended 31 July 2008

	<i>Notes</i>	<i>2008</i> £	<i>2007</i> £
<b>TURNOVER</b>	2	142,825	365,581
Cost of sales		(73,588)	(81,185)
		<u>69,237</u>	<u>284,396</u>
<b>GROSS PROFIT</b>			
Administrative expenses:			
Research and development		(140,479)	(138,130)
Other administrative expenses		(267,176)	(437,342)
		<u>(407,655)</u>	<u>(575,472)</u>
<b>OPERATING LOSS</b>	3	(338,418)	(291,076)
Bank interest receivable		303	121
Interest payable	4	(29,263)	(30,169)
		<u>(367,378)</u>	<u>(321,124)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Taxation on loss on ordinary activities	5	58,495	53,877
		<u>(308,883)</u>	<u>(267,247)</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>	18		
		<u><u>(308,883)</u></u>	<u><u>(267,247)</u></u>
<b>EARNINGS PER SHARE</b>			
Loss per share - basic and diluted	8	0.67p	0.62p
		<u><u>0.67p</u></u>	<u><u>0.62p</u></u>

All activities are continuing in the year and prior year

**Statement of total recognised gains and losses**

for the year ended 31 July 2008

	<i>Notes</i>	<i>2008</i> £	<i>2007</i> £
Total losses recognised in the year	18	(308,883)	(267,247)
		<u>(308,883)</u>	<u>(267,247)</u>
		=====	=====

## Consolidated balance sheet

at 31 July 2008

	<i>Notes</i>	<i>2008</i> £	<i>2007</i> <i>As restated</i> £
<b>FIXED ASSETS</b>			
Tangible assets	9	12,679	19,919
<b>CURRENT ASSETS</b>			
Stock	11	15,953	13,648
Debtors	12	39,104	112,478
Cash at bank and in hand		1,640	12,109
		<u>56,697</u>	<u>138,235</u>
<b>CREDITORS: amounts falling due within one year</b>	13	(803,855)	(448,240)
<b>NET CURRENT LIABILITIES</b>		<u>(747,158)</u>	<u>(310,005)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>(734,479)</u>	<u>(290,086)</u>
<b>CREDITORS: amounts falling due after more than one year</b>	14	-	(308,431)
		<u>(734,478)</u>	<u>(598,517)</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	2,427,348	2,398,598
Share premium account	18	2,652,287	2,574,037
Merger reserve	18	(998,750)	(998,750)
Profit and loss account	18	(5,083,956)	(4,775,073)
Options and warrants reserve	18	263,593	197,671
Other reserves	18	5,000	5,000
<b>SHAREHOLDERS' FUNDS – IN DEFICIT</b>	19	<u>(734,478)</u>	<u>(598,517)</u>

The financial statements were approved and authorised for issue by the Board of Directors on 11 December 2008 and signed below on its behalf by:

**B R E Hopkins**  
Director

## Company Balance sheet

at 31 July 2008

	Notes	2008 £	2007 <i>As restated</i> £
<b>FIXED ASSETS</b>			
Investments	10	1,000,004	1,000,004
<b>CURRENT ASSETS</b>			
Debtors	12	-	1,877
Cash at bank and in hand		97	3,532
		97	5,409
<b>CREDITORS: amounts falling due within one year</b>	13	(680,272)	(258,040)
<b>NET CURRENT LIABILITIES</b>		(680,175)	(252,631)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		319,829	747,373
<b>CREDITORS: amounts falling due after more than one year</b>	14	-	(308,431)
		319,829	438,942
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	2,427,348	2,398,598
Share premium account	18	2,652,286	2,574,037
Profit and loss account	18	(5,028,398)	(4,736,364)
Option and warrant reserve	18	263,593	197,671
Other reserves	18	5,000	5,000
<b>SHAREHOLDERS' FUNDS</b>		319,829	438,942

The financial statements were approved and authorised for issue by the Board of Directors on 11 December 2008 and signed below on its behalf by:

**B R E Hopkins**  
Director

## Consolidated cash flow statement

for the year ended 31 July 2008

	<i>Notes</i>	<i>2008</i> £	<i>2007</i> £
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	20	(331,301)	(297,201)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Interest received		303	121
Interest paid		(315)	(10,317)
		<hr/>	<hr/>
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(12)	(10,196)
		<hr/>	<hr/>
<b>TAXATION</b>			
Tax refunded		24,780	53,877
		<hr/>	<hr/>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>			
Purchase of tangible fixed assets		(6,264)	(16,550)
		<hr/>	<hr/>
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		(6,264)	(16,550)
		<hr/>	<hr/>
<b>NET CASH OUTFLOW BEFORE FINANCING</b>		(312,797)	(270,070)
		<hr/>	<hr/>
<b>FINANCING</b>			
Issue of ordinary share capital		107,000	87,682
Share issue costs		-	(5,000)
Loans from directors		195,328	415,237
		<hr/>	<hr/>
<b>NET CASH INFLOW FROM FINANCING</b>		302,328	497,919
		<hr/>	<hr/>
<b>(DECREASE)/INCREASE IN CASH</b>	21	(10,469)	227,849
		<hr/> <hr/>	<hr/> <hr/>

## Notes to the financial statements

at 31 July 2008

### 1. Accounting policies

#### **Basis of preparation**

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

#### **Going Concern**

The financial statements have been prepared on a going concern basis on the presumption that continued support will be made available to the company from its shareholders and directors to enable the company to meet its liabilities as they fall due.

The directors expect sales from the company's new products to increase and the directors have prepared detailed cash flow projections, which they consider to be reasonable. These projections demonstrate the need for the business to raise additional funds in the short term to fund the company's working capital requirement.

The directors are currently examining options to raise these funds with various interested parties. In addition, the directors have confirmed that they do not intend to seek repayment of their loans within 12 months from the date of approval of these financial statements, emphasising their continued commitment to take the company forward.

The group's ability to meet its future working capital requirements, and therefore its ability to continue as a going concern, is dependent on its ability, in the short term, to raise additional funding as necessary and in the longer term, to achieve its sales objectives and generate sufficient revenues and free cash flows from its trading activities to meet its requirements.

Whilst there is uncertainty in relation to the above matters, the directors consider it appropriate for the accounts to be prepared on a going concern basis. If the company is unable to raise additional funding, or generate sufficient revenue and free cash flows, then it would be unable to continue as a going concern.

Adjustments would have to be made to reduce the balance sheet value of assets to their recoverable amounts and to provide for the further liabilities that might arise and to reclassify fixed assets and any long-term liabilities as current assets and liabilities but such adjustments have not been made in these financial statements.

#### **Basis of consolidation**

The group accounts consolidate the accounts of FeONIC plc and its subsidiary companies. No profit and loss account is presented for FeONIC plc as permitted by section 230 of the Companies 1985.

FeONIC plc acquired FeONIC Technology Limited (formerly Newlands Technology Limited) by way of an offer of shares to the shareholders of FeONIC Technology Limited on 29 July 1999. This acquisition was accounted for as a merger using the merger accounting principles set out in FRS 6. All subsequent acquisitions have been included in the group accounts using the acquisition method of accounting.

Dormant subsidiary companies of FeONIC plc have been excluded from the consolidation, as have the results of FeONIC Transport Limited (See note 10). The company holds a 30% investment in this company but the results of the period ended 31 July 2008 were not deemed material.

## Notes to the financial statements

at 31 July 2008

### 1. Accounting policies (continued)

#### ***Fixed assets and investments***

Fixed assets and investments are initially recorded at cost. The carrying values of fixed assets and investments are reviewed for impairment annually or if events or changes in circumstances indicate that the carrying values may not be recoverable.

#### ***Depreciation***

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land by equal annual instalments over their expected useful lives. The periods generally applicable are:

Plant and machinery	-	5 years
Fixtures and fittings	-	3 years

#### ***Revenue recognition***

Turnover represents the invoice value excluding VAT, of goods sold and services provided to customers. Revenue from products is recognised upon despatch to a customer. Revenue from development contracts is recognised over the period of the contract based on the proportion of work completed and turnover relating to future periods is deferred and released in the period to which the income relates. Licence income is recognised on the signing of licence agreements or where specified in the agreement on the passing of specific contract milestones. Royalties are recognised on receipt of a partner royalty return specifying the customer sales of licensed products.

#### ***Research and development***

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

#### ***Stocks***

Stocks have been valued on a consistent basis at the lower of cost or net realisable value on a first-in, first-out basis. Cost represents that expenditure which has been incurred in the normal course of business in bringing the product or service to its present condition and location. Net realisable value is based on estimated selling price less any further costs expected. The Directors review stock on a regular basis and provide for obsolete and slow moving stock as appropriate.

#### ***Deferred taxation***

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

## Notes to the financial statements

at 31 July 2008

### 1. Accounting policies (continued)

#### **Government grants**

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by equal instalments over the expected useful lives of the relevant assets.

Government grants assistance of a revenue nature are credited to the profit and loss account in the same year as the related expenditure.

#### **Foreign currencies**

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

#### **Leasing and hire purchase commitments**

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

#### **Pensions**

The company operates a defined contribution group personal pension scheme and a stakeholder pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

#### **Employee share options**

The Company awards employees' bonuses in the form of share options (or as Warrants which in substance are share options), from time to time, on a discretionary basis. The options are subject to vesting conditions, and their market value at the date of grant, less the exercise price, is recognised as an employee benefits expense with a corresponding increase in other reserves over the vesting period. The proceeds received, net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

#### **Warrants**

The net proceeds from the issue of warrants for shares are credited to other reserves. If the warrant is exercised, any amount previously recognised is included in the net proceeds of the share issue. If the warrant lapses unexercised, the amount previously recognised is credited directly to profit and loss reserves.

## Notes to the financial statements

at 31 July 2008

### 1. Accounting policies (continued)

#### *Share based payments*

The Company has issued share options and warrants to directors, employees and other parties. These must be measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in equity. The fair value of the options and warrants was estimated at the date of grant using the Black-Scholes option pricing model. The fair value will be charged as an expense in the profit and loss account over the vesting period and the credit is charged to a newly created share option and warrants reserve (see Note 17). The charge is adjusted each year to reflect the expected and actual level of vesting with the reserve reduced or further increased, depending on the level of warrants exercised, lapsed and/or issued in future years.

#### *Prior year adjustment*

Following the adoption of FRS 20 regarding the valuation of share based payments, the company has reflected a prior year adjustment in these financial statements relating to the costs that would have been incurred in previous years had the policy been in place for those earlier years

### 2. Turnover

Turnover arises from the one continuing activity of the group, the innovating, designing and selling of smart material products, and represents the invoice value excluding VAT, of goods sold and services provided to customers.

An analysis of turnover by geographical market, by destination, is:	2008	2007
	£	£
UK	60,190	85,567
Other European Union Countries	59,375	257,095
North America	2,630	9,497
Asia	14,650	9,821
Australia	4,380	720
South and Central America	1,600	2,880
	<u>142,825</u>	<u>365,581</u>

Net assets and profit relate to the one continuing activity of the group in the UK

## Notes to the financial statements

at 31 July 2008

### 3. Operating loss

The operating loss is stated after charging/(crediting):

	2008	2007
	£	£
Auditors' remuneration		
- audit services	10,900	10,400
- other services	2,787	-
Depreciation of owned tangible fixed assets	13,504	6,225
Depreciation of fixed assets held under finance leases and hire purchase contracts	-	3,193
Foreign exchange rate losses	(459)	351
Government grants	-	(4,948)
Operating lease rentals – other	32,125	43,148
- plant and machinery	-	3,872
Non-recurring credit deducted from administrative costs In respect of insurance claims following a flood	(8,396)	(18,243)
	<u>          </u>	<u>          </u>

### 4. Interest payable

	2008	2007
	£	£
Bank interest	315	10,317
Other interest	28,948	19,852
	<u>          </u>	<u>          </u>
	29,263	30,169
	<u>          </u>	<u>          </u>

### 5. Taxation

#### a) Analysis of tax charge for the year

	2008	2007
	£	£
UK corporation tax		
Research and development tax credits		
In respect of previous years	24,780	53,877
In respect of the current year	33,715	-
	<u>          </u>	<u>          </u>
	58,495	53,877
	<u>          </u>	<u>          </u>

## Notes to the financial statements

at 31 July 2008

### 5. Taxation (continued)

b) Factors affecting the tax charge for the year

	2008	2007
	£	£
Loss on ordinary activities before tax	(367,378)	(321,124)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	(110,213)	(96,337)
Effect of:		
Expenses not deducted for tax purposes	441	1,137
Allowable deductions not debited to profit and loss account	(21,072)	(15,488)
Capital allowances in excess of depreciation	1,734	(2,251)
Current tax losses not utilised	129,110	112,939
Prior year R&D tax credit	24,780	53,877
Current year R&D tax credit	33,175	-
Tax credit for the year	58,495	53,877

c) Factors that may affect future tax charges

The group has cumulative estimated tax losses of £4,066,563 (2007 - £3,846,914), to offset against future profits.

The group currently has no liability for deferred tax and does not recognise any deferred tax asset.

### 6. Staff costs

	2008	2007
	£	£
Wages and salaries	113,288	314,885
Social security costs	12,553	34,176
Other pension costs	8,509	31,732
Fair value of warrants and options	38,503	19,854
	172,853	400,647

The average number of employees of the group during the year was as follows:

	2008	2007
	No.	No.
Technical	4	4
Commercial	1	1
Administration	1	1
Management	3	3
	9	9

## Notes to the financial statements

at 31 July 2008

### 7. Directors' emoluments

Remuneration in respect of directors was as follows:

	2008 £	2007 £
Emoluments including benefits and pension contributions	(3,723)	179,570

The company made pension contributions for 1 director as follows	1,925	10,600
--	-------	--------

During the year the directors were granted warrants to subscribe for shares as set out in the table below. The fair value of these warrants has been calculated using the Black-Scholes pricing model as £38,503 (2007 £19,894). Please refer to Note 16 for a list of current options as at the year end

During the year the directors waived their entitlement to salaries for the year ended 31 July 2008 totalling £178,250 and to pension contributions totalling £4,675. In addition two directors have waived their entitlement to salary in respect of the previous year amounting to £34,333 and a former director has waived his entitlement to £5,088.

The interests of the directors entitled to share options and warrants were as follows:

Name	Note	Exercise price	At 31 July	Granted	Exercised/ Lapsed	At 31 July	
			2007 No.	during the year No.	during the year No.	2008 No.	
B D Smith	A	1p	200,000	-	-	200,000	
	B	55p	1,050,000	-	-	1,050,000	
	C		50,000	-	(50,000)	-	
	C		50,000	-	(50,000)	-	
	D		2,100,000	-	(2,100,000)	-	
	G	3.5p	-	12,710,142	-	-	12,710,142
B R E Hopkins	H	3.5p	-	5,725,000	-	5,725,000	
	C		50,000	-	(50,000)	-	
	C		50,000	-	(50,000)	-	
	D		1,200,000	-	(1,200,000)	-	
	G	3.5p	-	7,681,414	-	-	7,681,414
	H	3.5p	-	5,959,865	-	-	5,959,865
G Beswick	D		1,200,000	-	(1,200,000)	-	
	E	4p	100,000	-	-	100,000	
	F	3.5p	-	466,666	-	-	466,666
	G	3.5p	-	4,285,714	-	-	4,285,714
	H	3.5p	-	2,265,014	-	-	2,265,014
J Urquhart Stewart	G	3.5p	-	900,000	-	900,000	
			6,050,000	39,993,815	(4,700,000)	41,343,815	
			=====	=====	=====	=====	

## Notes to the financial statements

at 31 July 2008

### 7. Directors' emoluments (continued)

- A) These options are exercisable at any time before 6 September 2011. The exercise price paid by the director will be 1p. The market price at the date of grant was 55p.
- B) These options can only be exercised on the satisfaction of performance conditions set out for commercial activities, investment activities, management activities, revenue, share price increase and net profits. The earliest exercise dates are: 30 September 2002 – 200,000 shares, 30 September 2003 – 250,000 shares, 30 September 2004 – 300,000 shares, 30 September 2005 – 275,000 shares and 30 September 2006 – 25,000 shares. The share price at the date of grant was 55p.
- C) On 4 October 2002 B D Smith and B R E Hopkins each purchased a further 100,000 ordinary shares in the company at a price of 25p per share. The share purchases entitled both directors to 50,000 options each, exercisable at 25p per share, and 50,000 options each, at 40p per share, all exercisable at any time between 4 October 2002 and 4 October 2005. The share price at the date of grant was 25.5p. These options have now lapsed.
- D) On 1 August 2005 B D Smith and B R E Hopkins were granted options to purchase 2,100,000 and 1,200,000 ordinary shares respectively, in three equal tranches over the next three years. The options will be exercisable at the average closing mid price for the last 10 trading days of July in each year and will only become exercisable when the company has reported a full years profitable trading. The options will expire on 1 August 2015. These options have now lapsed
- On 15 September 2005 G Beswick was granted options to purchase 1,200,000 ordinary shares under the same terms and performance criteria as those awarded to B D Smith and B R E Hopkins on 1 August 2005. These options have now lapsed
- E) On 15 September 2005 G Beswick was granted warrants to purchase 100,000 ordinary shares at 4p exercisable at any time before 15 September 2015.
- F) On 31 October 2007 G Beswick was granted warrants to purchase 466,666 ordinary shares at 3.5p exercisable at any time before 31 October 2017.
- G) On 1 April 2008 B D Smith, B R E Hopkins and G Beswick were granted warrants to purchase 12,710,142, 7,681,414 and 4,285,714 ordinary shares at 3.5p respectively exercisable at any time before 1 April 2018.
- H) On 31 July 2008 B D Smith, B R E Hopkins and G Beswick were granted warrants to purchase 5,725,000, 5,969,865 and 2,265,014 ordinary shares at 3.5p respectively exercisable at any time before 31 July 2018.

The market mid-price of the company's ordinary shares on 31 July 2008 was 2.62p. The high and low share price during the period was 3.5p and 2p respectively.

## Notes to the financial statements

at 31 July 2008

### 8. Loss per share

The calculation of loss per ordinary share is based on the losses of £308,883 (2007 - £267,247) and the weighted average number of ordinary shares in issue during the year of 45,835,928 (2007 – ordinary shares of 43,256,346).

The loss for the year and weighted average number of ordinary shares for the purpose of calculating the diluted earnings per share are the same as for the basic earnings per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and would therefore not be dilutive under the terms of Financial Reporting Standard 22.

### 9. Tangible fixed assets

Group

	<i>Plant and machinery</i>	<i>Fixtures &amp; fittings</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 August 2007	75,007	94,051	169,058
Additions	6,213	51	6,264
Disposals/write offs	-	-	-
At 31 July 2008	81,220	94,102	175,322
Depreciation:			
At 1 August 2007	72,458	76,681	149,139
Charged for the year	2,932	10,572	13,504
Disposals/write offs	-	-	-
At 31 July 2008	75,390	87,253	162,643
Net book amounts:			
At 31 July 2008	5,830	6,849	12,679
At 31 July 2007	2,549	17,370	19,919

Included in the amount for plant and machinery and fixtures and fittings above are the following amounts relating to the net book value of assets acquired under finance leases and hire purchase contracts:

	2008 £	2007 £
At 31 July 2007	-	3,193
Additions	-	-
Depreciation	-	(3,193)
At 31 July 2008	-	-

## Notes to the financial statements

at 31 July 2008

### 10. Investments

Company

£

Shares at cost:

At 1 August 2007 and at 31 July 2008 1,000,004

Details of the investments in which the group and the company hold 20% or more of the nominal value of any class of share capital are as follows:

<i>Name of company</i>	<i>Nature of business</i>
FeONIC Technology Limited	Research and development
Newlands Research Limited	Dormant
Newlands Audio Limited	Dormant
Newlands Technology Limited	Dormant
Newlands Scientific Limited	Dormant

All the company's subsidiary undertakings are registered in England and Wales. For all subsidiary undertakings the holding is 100% of both the share capital and the voting rights

The company also holds a 30% investment in FeONIC Transport Limited a company registered in England. FeONIC Transport Limited commenced trading in January 2008 and has made a loss for the year to date. The directors consider that the investment currently has no value and as such have not included the results of the company in these financial statements. At 31 July 2008 the company had not made any payment in respect of this investment and therefore no addition is shown to the cost of investments in these financial statements.

### 11. Stocks

	2008	<i>Group</i> 2007
	£	£
Raw materials and consumable stores	12,100	6,713
Finished goods and goods for resale	3,853	6,935
	<u>15,953</u>	<u>13,648</u>

The difference between purchase price of stock and their replacement cost is not material.

### 12. Debtors

	2008	<i>Group</i> 2007	2008	<i>Company</i> 2007
	£	£	£	£
Trade debtors	5,389	96,520	-	-
Other debtors	-	199	-	-
R & D Tax credits due	33,715	-	-	-
Prepayments and accrued income	-	15,759	-	1,877
	<u>39,104</u>	<u>112,478</u>	<u>-</u>	<u>1,877</u>

All amounts fall due for payment within one year.

## Notes to the financial statements

at 31 July 2008

### 13. Creditors: amounts falling due within one year

	2008	Group 2007	2008	Company 2007
	£	£	£	£
Trade creditors	75,103	110,666	27,197	32,941
Amounts owed to group undertakings	-	-	3	3
Social security and other taxes	57,917	145,859	26,604	95,530
Other creditors	21,479	20,488	-	15,060
Directors' loans (note 15)	610,566	106,806	606,568	86,806
Accruals and deferred income	38,790	64,421	19,900	27,700
	<u>803,855</u>	<u>448,240</u>	<u>680,272</u>	<u>258,040</u>

### 14. Creditors: amounts falling due after more than one year

	2008	Group 2007	2008	Company 2007
	£	£	£	£
Directors' loans	-	308,431	-	308,431
	<u>-</u>	<u>308,431</u>	<u>-</u>	<u>308,431</u>

### 15. Financial Instruments

The group's principal financial instruments comprise cash and short-term deposits and also debtors and creditors arising directly from its operations. The group is exposed to the following market price risks arising from financial instruments. The Board will keep under review existing policies for the management of these risks.

- Liquidity risk – surplus funds are invested on short-term deposits at money market rates and therefore such funds are available at short notice.
- Currency risk – the group has no overseas investments. The group has transactional currency exposure for sales and purchases denominated in currencies other than sterling.

With the exception of the analysis of currency exposures the disclosures set out below exclude short term debtors and creditors.

#### Interest rate risk profile of financial assets

The interest rate risk profile of financial assets was confined to floating rate assets comprising cash deposits at call. Interest is earned at bank rates.

	2008	2007
	£	£
Sterling	1,515	-
Euro	73	-
US dollar	52	-
	<u>1,640</u>	<u>-</u>

## Notes to the financial statements

at 31 July 2008

### 15. Financial Instruments (continued)

#### Interest rate risk profile of financial liabilities

The interest rate risk profile of financial liabilities is as follows:

	Fixed rate Financial liabilities £	Nil rate financial liabilities £	Floating rate financial liabilities £	Total financial liabilities £
2008 Sterling	-	195,329	415,237	610,566
2007 Sterling	-	-	415,237	415,237

There were no fixed rate financial liabilities as at 31 July 2008 or 31 July 2007. Floating rate financial liabilities comprise directors' loans which bear interest at rates based on LIBOR.

#### Currency exposure

The table below shows the groups currency exposures that give rise to gains and losses recognised in the profit and loss account. Such exposures comprise monetary assets and liabilities of the Group that are not denominated in the functional and operational currency, sterling.

Functional currency	Net foreign currency monetary assets/(liabilities)		
	US Dollar £	Other £	Total £
2008 Sterling	52	73	125
2007 Sterling	(2,249)	81,393	79,144

At the year end the group had no open forward currency contracts or derivatives. The book values and fair values of the Company's financial assets and liabilities are approximately the same.

## Notes to the financial statements

at 31 July 2008

### 15. Financial Instruments (continued)

#### Maturity of financial liabilities

The maturity profile of the group's financial liabilities is as follows:

	2008	2007
	£	£
In one year or less or on demand	610,566	106,806
In more than one year but not more than two years	-	-
In more than two years but not more than five years	-	90,597
In more than five years	-	217,834
	<u>610,566</u>	<u>415,237</u>

The directors loans are repayable on demand and interest is payable on the loans from Brian Smith and Brenda Hopkins at rates of 10.75% and 6.45% respectively. The other directors' loans do not receive interest.

The directors have a fixed and floating charge over the assets of the company as security for the loans.

Since the year end the directors have confirmed that they do not intend to seek repayment of their loans within 12 months of the date of approval of these financial statements.

At the balance sheet date the company had breached the terms of the directors' loan agreements requiring the loans to be shown as due within one year.

### 16. Share capital

	2008	2007
	£	£
Authorised		
804,005,425 ordinary shares of 1p each	8,040,054	8,040,054
195,994,575 deferred ordinary shares of 1p each	1,959,946	1,959,946
	<u>10,000,000</u>	<u>10,000,000</u>
	2008	2007
	£	£
Allotted, called up and fully paid		
Ordinary shares of 1p each	467,402	438,652
Deferred ordinary shares of 1p each	1,959,946	1,959,946
	<u>2,427,348</u>	<u>2,398,598</u>

## Notes to the financial statements

at 31 July 2008

### 16. Share capital (continued)

During the year the company issued the following share capital:

<b>Date of issue</b>	<b>No. of ordinary shares issued</b>	<b>Price per share</b>	<b>Gross proceeds £</b>
8 October 2007	250,000	4p	10,000
8 October 2007	1,525,000	4p	61,000
17 December 2007	500,000	3p	15,000
29 March 2008	600,000	3.5p	21,000
	2,875,000		107,000

At 31 July 2008, the following warrants were outstanding:

<b>Date of grant</b>	<b>Number of shares</b>	<b>Period of warrant</b>	<b>Price per share</b>
4 October 2002	450,000	04/10/02 – 04/10/12	25p
20 May 2003	539,723	20/05/03 – 20/05/13	18p
3 October 2003	250,000	03/10/03 – 02/10/08	18p
21 October 2004	125,000	21/10/04 – 20/10/14	4p
1 July 2005	125,000	01/07/05 – 30/06/15	4p
1 August 2005	150,000	01/08/05 – 01/08/15	4p
1 November 2005	100,000	01/11/05 – 01/11/15	4p
18 November 2005	20,000	18/11/05 – 18/11/15	3p
1 February 2006	250,000	01/02/06 – 01/02/16	6p
18 May 2006	75,000	18/05/06 – 18/05/09	6p
1 August 2006	217,167	01/08/06 – 01/08/16	6p
8 August 2006	316,668	08/08/06 – 08/08/11	6p
8 September 2006	358,333	08/09/06 – 08/09/11	6p
20 October 2006	250,000	20/10/06 – 20/10/11	6p
29 November 2006	108,333	29/11/06 – 29/11/11	6p
14 December 2006	23,529	14/12/06 – 14/12/16	4.25p
12 February 2007	369,666	12/02/07 – 12/02/12	6p
14 March 2007	1,100,000	14/03/07 – 14/03/17	3.5p
14 August 2007	100,000	14/08/07 – 14/08/17	3.5p
31 October 2007	466,666	31/10/07 – 31/10/17	3.5p
1 April 2008	25,577,270	01/04/08 – 01/04/18	3.5p
1 May 2008	86,918	01/05/08 – 01/05/18	3.5p
31 July 2008	13,949,879	31/07/08 – 31/07/18	3.5p
31 July 2008	100,000	31/07/08 – 31/07/18	4p

## Notes to the financial statements

at 31 July 2008

### 16. Share capital (continued)

At 31 July 2008 the following share options were outstanding

<i>Date of grant</i>	<i>Number of shares</i>	<i>Period of option</i>	<i>Price per share</i>
6 September 2001	200,000	06/09/01 – 06/09/11	1p
6 September 2001	1,050,000	06/09/01 – 06/09/11	55p

### 17. Share based payments

As reported in note 16, the company has issued a number of share options and warrants which can be exercised at various dates before 31 July 2018. These warrants and options have been valued using the Black-Scholes pricing model with the following assumptions

Weighted average share price	Between 2p and 21p (see note 16)
Exercise price	Between 3.5p and 25p (see note 16)
Expected volatility	69% - average used for the period of data available from PLUS markets at the year end.
Expected life	Between 3 and 10 years
Expected dividends	Nil
Risk free interest rate	3% based on base rate.

The expense charged to the profit and loss account in the year amounted to £65,922 which represents fair value of the warrants and options disclosed in Note 16, spread over their respective vesting periods. Due to accounting for FRS20 for the first time a prior year adjustment of £197,671 has been reflected in the financial statements (See Note 18)

## Notes to the financial statements

at 31 July 2008

### 18. Reserves

Group

	<i>Share premium account</i>	<i>Merger reserve</i>	<i>Profit and loss account</i>	<i>Option &amp; warrant reserve</i>	<i>Other reserve</i>
	£	£	£	£	£
At 1 August 2006					
As previously stated	2,507,243	(998,750)	(4,310,155)	-	5,000
Prior year adjustment	-	-	(153,000)	153,000	-
As restated	<u>2,507,243</u>	<u>(998,750)</u>	<u>(4,463,155)</u>	<u>153,000</u>	<u>5,000</u>
Loss for the year	-	-	(311,918)	-	-
Credit in respect of fair value of options and warrants	-	-	-	44,671	-
Premium on allotments net of costs	66,794	-	-	-	-
At 31 July 2007	<u>2,574,037</u>	<u>(998,750)</u>	<u>(4,775,073)</u>	<u>197,671</u>	<u>5,000</u>
At 1 August 2007					
As previously stated	2,574,037	(998,750)	(4,577,402)	-	5,000
Prior year adjustment	-	-	(197,671)	197,671	-
As restated	<u>2,574,037</u>	<u>(998,750)</u>	<u>(4,775,073)</u>	<u>197,671</u>	<u>5,000</u>
Loss for the year	-	-	(308,883)	-	-
Credit in respect of fair value of options and warrants	-	-	-	65,922	-
Premium on allotments net of costs	78,250	-	-	-	-
At 31 July 2008	<u>2,652,287</u>	<u>(998,750)</u>	<u>(5,083,956)</u>	<u>263,593</u>	<u>5,000</u>

The prior year adjustment arises from the company adopting FRS 20 for the first time. The prior year charges are £44,671 for the year ended 31 July 2007 and a total of £153,000 for the 4 years ended 31 July 2006.

## Notes to the financial statements

at 31 July 2008

### 18. Reserves (continued)

<i>Company</i>	<i>Share premium account £</i>	<i>Profit and loss account £</i>	<i>Options &amp; warrants reserve £</i>	<i>Other reserve £</i>
At 1 August 2006				
As previously stated	2,507,243	(4,170,849)	-	5,000
Prior year adjustment	-	(153,000)	153,000	-
As restated	2,507,243	(4,323,849)	153,000	5,000
Loss for the year	-	(412,515)	-	-
Credit in respect of fair value of options and warrants	-	-	44,671	-
Premium on allotments net of costs	66,794	-	-	-
At 31 July 2007	2,574,037	(4,736,364)	197,671	5,000
At 1 August 2007				
As previously stated	2,574,037	(4,538,693)	-	5,000
Prior year adjustment	-	(197,671)	197,671	-
As restated	2,574,037	(4,736,364)	197,671	5,000
Loss for the year	-	(292,034)	-	-
Credit in respect of fair value of options and warrants	-	-	65,922	-
Premium on allotments net of costs	78,249	-	-	-
At 31 July 2008	2,652,286	(5,028,398)	263,593	5,000

The prior year adjustment arises for the company adopting FRS 20 for the first time. The prior year charges are £44,671 for the year ended 31 July 2007 and a total of £153,000 for the 4 years ended 31 July 2006.

### 19. Reconciliation of movements in shareholders' funds

<i>Group</i>	<i>2008 £</i>	<i>2007 £</i>
Opening shareholders' funds – in deficit	(598,517)	(413,952)
Issue of shares, net of fundraising costs	107,000	82,682
Credit in respect of fair value of warrants	65,922	44,671
Proceeds of issue of Warrants	-	-
Loss for the financial year	(308,883)	(311,918)
Closing shareholders' funds – in deficit	(734,478)	(598,517)

## Notes to the financial statements

at 31 July 2008

### 20. Reconciliation of operating loss to net cash outflow from operating activities

	2008	2007
	£	£
Operating loss	(338,418)	(291,076)
Other interest	(28,948)	(19,852)
Depreciation	13,504	9,418
Charge re share options	65,922	-
(Increase)/decrease in stocks	(2,305)	11,159
Decrease/(increase) in debtors	107,089	(52,706)
(Decrease)/increase in creditors	(148,145)	45,856
	<u>(331,301)</u>	<u>(297,201)</u>

### 21. Reconciliation of net cash flow to movement in net debt

	2008	2007
	£	£
(Decrease)/increase in cash during the year	(10,469)	227,849
Directors' loans advanced during the year	(195,329)	(415,237)
	<u>(205,798)</u>	<u>(187,388)</u>
Movement in net debt in the year	(205,798)	(187,388)
Opening net debt	(403,128)	(215,740)
	<u>(608,926)</u>	<u>(403,128)</u>

### 22. Analysis of net debt

	At 1 August 2007	Cash flow	Non cash changes	At 31 July 2007
	£	£	£	£
Cash at bank and in hand	12,109	(10,469)	-	1,640
Directors' loans	(415,237)	(195,329)	-	(610,566)
	<u>(403,128)</u>	<u>(205,798)</u>	<u>-</u>	<u>(608,926)</u>

### 23. Contingent liabilities

The Company had no contingent liabilities at 31 July 2008 or 31 July 2007.

## Notes to the financial statements

at 31 July 2008

### 24. Post balance sheet events

Since the balance sheet date the company has issued a further 3,251,998 shares for a total consideration of £99,550. There were no costs incurred in association with these additional shares issued.

Negotiations are ongoing with various investors with regards to significantly larger sums of investment.

### 25. Capital commitments

The group had no contracted capital commitments at 31 July 2008 or 31 July 2007.

### 26. Other financial commitments

At 31 July 2008 the group had commitments under non-cancellable operating leases as follows:

	<i>Land and Buildings</i>		<i>Other</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	£	£	£	£
Operating leases which expire:				
Within one year	20,511	20,511	-	546
In two to five years	-	22,636	-	-
	<u>20,511</u>	<u>43,147</u>	<u>-</u>	<u>546</u>

### 27. Pension schemes

The company operates a defined contribution group personal pension scheme and a stakeholder pension scheme for its directors and employees. The assets of the schemes are held separately from those of the company in independently administered funds. The unpaid contributions outstanding at the year ended 31 July 2008 were £1,248 (2007 - £2,695).

### 28. Related party transactions

In the year the company accrued and paid interest on directors loans totalling £24,948 (2007 £19,852).

During the year the company granted warrants to certain directors to subscribe for 39,993,815 shares, as set out in Note 7 to these financial statements.

## Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the above named Company will be held at our Registered Office, Fairfax House, 15 Fulwood Place, London, WC1V 6AY at 11am on 15 January 2009, for the following purposes, namely:

### Ordinary Business

1. To receive and adopt the Directors' Report and Accounts for the year ended 31 July 2008.
2. To re-appoint haysmacintyre as Auditors to the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting at which the Accounts are laid before the Company.
3. To elect Mr J Urquhart-Stewart, being a Director retiring in accordance with the Articles of Association.
4. To authorise the Directors to determine the Auditors' remuneration.

### Special Business

5. To consider and if thought fit to pass the following resolution which will be proposed as an Ordinary Resolution: "That for the purposes of Section 80 of the Companies Act 1985 ("the Act") (and so that expressions used in this resolution shall bear the same meaning as in the said Section) the Directors be and they are hereby generally and unconditionally authorised to exercise all or any of the powers of the Company to allot relevant securities of the Company up to an aggregate nominal value of £3,770,502 to such persons at such time and on such terms as they think proper, such authority to expire (unless previously renewed, varied or revoked by the Company in General Meeting) at the conclusion of the next Annual General Meeting of the Company following the passing of this Resolution, save that the Company may prior to such expiry make any offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution and so that all previous authorities of the Directors pursuant to Section 80 of the Act be and they are hereby revoked."
6. To consider and if thought fit to pass the following resolution which will be proposed as a Special Resolution: "That the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94(2) of the Act) in the capital of the Company for cash pursuant to the authority conferred on them in accordance with Section 80 of the Act by Resolution 7 above as if Section 89(1) of the Act did not apply to such allotment provided that this power:
  - a) shall expire at the conclusion of the next Annual General Meeting of the Company following the passing of this resolution (or if sooner 15 months after the date of this resolution), save that the Company may prior to such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer or agreement notwithstanding the expiry of the authority given by this resolution and so that all previous authorities of the Directors pursuant to Section 95 of the Act be and they are hereby revoked: and
  - b) shall be limited to the allotment of equity securities up to an aggregate nominal amount of £3,770,502."

BY ORDER OF THE BOARD

Graham Beswick, Secretary, Fairfax House

15 Fulwood Place, London, WC1V 6AY

5 December 2007

Notes

Resolutions 4 and 5

*The Board is seeking authority again this year from our shareholders to issue further shares in the Company over and above the 49,995,093 issued at the present time. The authority is limited to one half of the Company's current authorised but unissued share capital. The intention is to issue shares in connection with further fundraising required by the Group.*



# FeONIC plc

FeONIC PLC

FORM OF PROXY FOR THE ANNUAL GENERAL MEETING TO BE HELD AT Fairfax House, 15 Fulwood Place, London, WC1V 6AY at 11AM ON THURSDAY 15<sup>TH</sup> JANUARY 2009

I/We

of

being a member of FeONIC plc

HEREBY APPOINT

either 1. The Chairman of the meeting or

failing her 2. of

As my/our proxy to vote in my/our name(s) and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday, 15<sup>th</sup> January 2008 and any adjournment of the same.

I DIRECT AND REQUIRE that my proxy votes as follows in relation to the resolutions set out in the notice of the meeting

	FOR	AGAINST	ABSTAIN
Resolution No.1			
Resolution No.2			
Resolution No.3			
Resolution No.4			
Resolution No.5			
Resolution No.6			

NOTE:

Unless otherwise instructed a proxy may use his/her own discretion whether to vote or to abstain from voting. Also, unless otherwise instructed, a proxy who does vote may do so as he/she thinks fit.

DATED

SIGNED :

Print Name :

NOTES:

1. *A member who is entitled to attend the meeting and vote is entitled to appoint a proxy or proxies to do so instead of him/her or on his/her behalf. A proxy need not be a member of the Company. This form of proxy must be received by the Company not less than 48 hours before the meeting. A proxy is only able to vote if a poll is taken on any question and may join in any demand for a poll, but he/she is not able to speak at the meeting.*
2. *If not signed personally by the member, the power of attorney under which the proxy is executed by a person on behalf of the member (or copy of such power which is certified notari ally) must also be lodged with the Company not less than 48 hours prior to the meeting or adjourned meeting.*

*A member which is a corporation must either execute this form under seal or under the hand of an officer or attorney authorised in that behalf.*

**PLEASE RETURN THIS PROXY FORM TO:**

**FeONIC plc, 3E Newlands Science Park, Inglemire Lane, Hull, HU6 7TQ**

