

13 May 2008
Strictly Embargoed Until 0700



Freeplay Energy plc
("Freeplay Energy", "the Group" or "the Company")

Preliminary Results for the year ending 31 December 2007

Freeplay Energy plc, the original and leading global brand of clean, dependable energy products, announces preliminary results for the year ending 31 December 2007.

Highlights:

- Group revenue from continuing operations showed a strong increase to US\$44.7 million (2006: US\$26.1 million)
- Operational costs across the Group were significantly reduced as a result of the Group restructuring programme, which was completed at the end of March 2008
- Dixie Sales was successful in attracting new customers including Bye Bye Standby Inc, American Lawnmower Products, C Crane and ATK, a hunting accessories manufacturer
- Sales of Freeplay products increased by 9% to US\$7.9 million where we have seen a good performance in Africa and ROW, up 18%., driven by sales to Aid & Humanitarian organisations which increased by 38% and Europe, up 42%
- Focused management team, well positioned to take the Group forward

Commenting on the outlook, Rory Stear, Chairman, said:

"Freeplay Energy continues to develop its strategy of becoming a broad based supplier of dependable, clean energy products across both the developed and developing world as it explores the many opportunities that exist across our markets.

"The restructuring measures implemented across the Group have allowed Dixie Sales to make strong progress since the year end and we firmly believe that its solid business and customer base, together with the Freeplay division's strong product range, position the Group for significant profitability in the years ahead.

"Overall, although 2007 was a year of significant restructuring for the Group, we are confident that we are moving forward as a more streamlined and focused business to take advantage of the many opportunities that lie ahead. The Board is positive about the Group's prospects for 2008 and looks forward to an exciting year of strong growth in both divisions."

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Notes to Editors

Freeplay Energy plc is the original and leading global brand of clean, dependable energy products. Freeplay Energy's clean, patented technology harnesses human, solar and rechargeable energy and converts it into electricity to power unique portable, consumer products replacing conventional disposable battery-powered systems that are environmentally toxic and expensive. The current product range includes radios, torches, lanterns, mobile phone chargers and standalone foot powered generators. Freeplay Energy's "Lifeline" radio is distributed throughout the developing world by The Freeplay Foundation (www.freeplayfoundation.org) and other AID and Humanitarian organisations such as Unicef and other United Nations' agencies. Further information about Freeplay Energy plc and its products can be found at www.freeplayenergy.com.



Freeplay Energy – Best in the World, Best for the World

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Freeplay Energy plc
("Freeplay Energy", "the Group" or "the Company")

Preliminary Results for the year ending 31 December 2007

CHAIRMAN'S STATEMENT

I am pleased to announce the preliminary results for Freeplay Energy plc for the period ended 31 December 2007.

The Board is encouraged by the progress made in what was a pivotal year for the Company and is particularly satisfied by the achievements made against a backdrop of significant Group restructuring and difficult consumer markets.

The restructuring was completed at the end of March 2008 and, as a result of the measures undertaken, overall operational costs across the Group have been reduced significantly on an annualised basis. Since the start of the restructuring in September 2007, Freeplay Energy has performed in line with the Board's expectations thanks largely to the increased visibility of earnings afforded to both the Dixie Sales ("Dixie") and Freeplay ("Freeplay") divisions.

This restructuring has resulted in a simplified, better focused Group that is more able to pursue the significant growth opportunities identified and we continue to be encouraged by the opportunities available in both our core North American and European markets as well as in the developing world, especially the Aid and Humanitarian markets and India. The progress already being made in the current financial year allows the Board to feel confident that sales are ahead of our internal forecasts. We are encouraged that both Freeplay and Dixie are performing in line with the Board's expectations and anticipate a continued strong performance in 2008.

In November 2007 the Group successfully raised an additional £2.35 million (US\$4.6 million net of expenses) by way of a placing and subscription of 47,062,691 new ordinary shares at a price of 5 pence per ordinary share. As stated at the time of the November fundraising, additional funding will be needed during 2008 and the Board continue to pursue a number of solutions to resolve this funding gap. Additionally, The Company has received an unsolicited offer to purchase certain of the Group's Freeplay operations. The Board of Directors is currently in discussions with the potential acquirer, which may or may not lead to the disposal of certain of the Group's operations.

FINANCIAL REVIEW

For the period ended 31 December 2007, Group revenue was US\$44.7 million (2006: US\$26.1 million). The 2006 results include a five month contribution of US\$18.8 million from Dixie Sales Company, following the acquisition of Barrett Marketing Group Inc in July 2006.

Sales of Freeplay products increased by 9% to US\$7.9 million. Sales were strong in both Africa and ROW, which increased by 18% and Europe, where they increased by 42%. In North America, sales declined by 32% to US\$1.9 million primarily as a result of the loss of Target, a major customer, withdrawing from the sustainable energy market.

Revenue at Dixie declined by 3% to US\$37.2 million on like for like basis as a result of poor weather conditions in the second half of 2007 and the conscious strategy to exit certain low margin business.

Gross profit increased to US\$11.5 million (2006: US\$7.2 million). Gross profit as a percentage of sales was consistent with 2006 but suffered a 2% reduction compared to 2006 due to inventory write downs of Weza, Freeplay's Portable energy source, and World Phone chargers as a result of excess inventory.

Administrative and distribution expenses increased by US\$7.1 million to US\$18.8 million (2006: US\$11.7 million). The impact of full year Dixie expenses was US\$6.2 million.

Interest costs rose to US\$1.1 million (2006: US\$0.5 million) as a result of the inclusion of a full year of Dixie funding and net debt increasing by US\$2.1million to US\$13.3 million.

The Group reported an increase in operating loss to US\$10.0 million (2006: US\$4.8 million). The loss before taxation increased to US\$11.1 million (2006: US\$5.3 million).

The combination of restructuring charges and one-off items negatively impacted 2007 losses from operations by US\$3.5 million, which included reserves for discontinuation of the Weza product of US\$0.5 million, restructuring costs of US\$1.2 million and the impairment of goodwill of US\$1.8 million. Excluding the one-off items above, losses from operations amounted to US\$6.5 million.

REVIEW OF OPERATIONS

Dixie Sales ("Dixie")

2007, the first full year as part of Freeplay Energy, was challenging for Dixie with drought conditions in the south eastern United States having a negative impact on Dixie's core outdoor product offering and difficult economic conditions. However, following a strong first half, the business still enjoyed a good year in light of the prevailing environmental conditions. According to Dixie's manufacturing partners its performance was better than average as compared to other central distributors.

During the year, the division completed its strategic review as part of the overall Group restructuring and made significant progress in reducing its cost structure, exiting certain low margin businesses and reducing operating costs by US\$3.0 million and a refocusing of the division away from non performing, low margin categories.

We believe Dixie now has a compelling and competitive business proposition, which is to concentrate on expanding its key distribution channels including; independent dealers, mass merchant and retail direct. In addition, Dixie continues to expand its geographic reach through an aggressive growth strategy in Canada by leveraging its key US-based manufacturing and mass merchant relationships. This approach is proving to be successful in attracting new customers, evidenced by notable key new business wins including Canadian Tire Corporation, American Lawnmower Products, and ATK, a hunting accessories manufacturer.

As of the end of April 2008, Dixie was performing in line with the Board's expectations and its results have significantly improved as compared to the same period in 2007. Dixie remains on course to return to profitability in 2008. A number of new business wins have been secured over the past 12 months and this momentum has been maintained in the start of 2008 with new contracts secured with Canadian Tire Corporation and Husqvarna. The agreement with Canadian Tire Corporation is a "fee for service" arrangement to provide after sales support for foreign manufacturers which do not have this service capability in Canada while the contract with Husqvarna is a special order parts programme for Lowes stores nationally. Dixie is also generating a very positive response from manufacturers in providing e-commerce and tele-sales solutions using Dixie's web and contact centre resources. Dixie expects to announce a number of new relationships during the next few months. Furthermore, we plan to expand our existing relationships with current customers and, as an example of this, were recently awarded a line of optical products by ATK.

Under Harold Reiter's leadership, this move into higher margin businesses, combined with a renewed focus on the "fee for service" model, thereby securing dual payment from both retailers and customers, gives us every confidence in the future prospects of the business.

Freeplay division ("Freeplay")

We have continued to make progress in the Freeplay division, where sales to Aid and Humanitarian organisations have remained strong. In Europe the United Kingdom continues to perform well. We were pleased to see an increase in total Freeplay revenue to US\$7.9 million (2006: US\$7.1 million).

However, the performance in 2007 was significantly affected by the decision to terminate the five-year agreement with World Phones to distribute the FreeCharge Mobile Phone Charger in Africa and the Caribbean region due to World Phones not fulfilling its contractual obligations to the Group.

Europe

We were encouraged by revenue growth of 42% in Europe during the year to US\$2.3 million (2006: US\$1.6 million) as a result of our securing agreements with Marks and Spencer, ASDA, Dixons/Currys and Comet to sell Freeplay products in 2007. We have also signed a distribution agreement with Dalesman, a UK based distributor focused on the UK Outdoor market, which has achieved notable success by bringing a range of Freeplay products to outdoor retailers such as Field & Trek and we look forward to progressing this relationship.

Following negotiations regarding their Spring/Summer ranges, both Curry/Dixons and Marks and Spencer will continue to stock Freeplay products throughout 2008 and have placed orders for 3,500 units to be delivered by the end of May.

Comet have also confirmed that they will maintain the Eyemax product as an ongoing line and have continued to order steadily.

North America

North America remains a key focus for the Group where our main objective is to build sales and secure margin. However, revenue declined by 32% to US\$1.9 million (2006: US\$2.5 million) primarily due to the withdrawal of Target from the sustainable energy market. We are committing management resource to rebuilding this important geographic market and have appointed Rahul Sharma to lead the sales function. Although we are encouraged by the progress made in the second half of 2007 in this region, we remain disappointed by our mixed performance over the whole of 2007.

Freeplay secured important new accounts with Eddie Bauer and LL Bean, both of which are expected to produce good growth in 2008. During the year we strengthened our relationship with REI, the leading North American retailer and the Freeplay Indigo lantern was REI's best selling product in the lantern category in 2007.

Our performance in the Canadian market was strong and in line with market expectations. We were pleased to secure new accounts with Canadian Tire and Mountain Equipment Co-Op, two of Canada's leading national retailers. We remain very encouraged by our performance in the Outdoor market and see this as offering significant potential.

As evidence by consumer sales information supplied to us by REI, Eddie Bauer and LL Bean, Freeplay's product offering in North America has received significant interest from consumers and underlines the appropriateness of our offering as we actively seek to secure further distribution agreements to aid market penetration in both the US and Canadian markets. As a result we remain optimistic about the prospects for our US business and, long term, believe this region will prove to be very significant for the Group.

AID & Humanitarian

The Aid & Humanitarian division enjoyed a strong year and contributed sales of US\$3.2 million to total Group revenue, an increase of 38% on the US\$2.3 million achieved in 2006. This was largely due to the contract awarded to the Freeplay Foundation in October 2007 for the supply of in excess of 180,000 units of Scout and Lifeline radios to South Sudan, the last units of which were shipped at the end of March 2008.

Our long term supply agreement for Lifeline radios with UNICEF, which was renewed in June 2007, continues to provide the Group with a good visibility of earnings. The original contract was negotiated in 2006 for two years and has now been extended for an additional year to May 2009.

This division continues to be a very important part of the Group and delivers robust overall growth. Furthermore, our relationship with UNICEF remains extremely strong and provides the Group with access to other United Nations agencies. Freeplay Energy's reputation in this key market is excellent and the relationships that we have built over the last decade help to lift barriers to entry. The contribution from the Freeplay Foundation was outstanding and they continue to do important work in many parts of Africa in providing access to information to people who need it the most but can afford it the least. Their contribution emphasises Freeplay Energy's core vision of providing access to energy to everyone, everywhere.

Product Development

Following the successful launches of new products during 2006, such as the Indigo and Kito Lanterns, Freeplay Energy continues to explore ways to expand and upgrade its current product platforms. Our aim is increasingly towards developing regionally focused product offerings to match the specific needs of individual markets, as evidence by our work with our Indian partners to develop the Indian specific LED hurricane lantern, and different sized versions of our traditional products for the camping and hiking markets in North America.

Highlights of our additional product development efforts in 2007 include:

- The new solar and wind-up Companion radio, flashlight and mobile phone charger, launched at the Consumer Electronic Show in Las Vegas in January 2008;
- Ongoing research into the possible applications in the medical products industry including significant progress in the development of the Texas Instruments MSP430-based self-powered pulse oximeter and foetal heart rate monitor. These products are now in formal trials to prove their efficacy compared with standard products; and
- Our ongoing relationship with MIT's One Laptop Per Child US\$ 100 laptop programme throughout 2007, first orders for which were shipped in December 2007.

Throughout 2008, a further focus in product development will be to improve and upgrade our current mobile product lines, particularly our FreeCharge mobile phone charger where we are looking at different products for the developing and developed world.

Freeplay Energy India

We are seeing positive signs from the joint-venture with Narang Group, Freeplay Energy India, which has provided the Company with a number of interesting opportunities. During 2007 the joint-venture focused on product research and development, adapting products specifically for this important region, in particular the FreeCharge mobile phone charger and new torch and new lantern specifically aimed at rural consumers.

At the end of January 2008 we received orders from Reliance, India's largest company and third largest mobile phone network, and Indian Farmers Cooperative ("IFFCO"), the Indian farmers' cooperation. The first orders from IFFCO for 225,000 units of a new, Indian market specific LED lantern along with another lighting product commenced shipping in February 2008 and are due to be completed by July 2008. Both orders are expected to contribute significantly to sales in the 2008 financial year.

Given the significant opportunities for the Group within India, a new bespoke manufacturing facility began production of Freeplay products in February 2008, enabling the Group to compete more effectively in the region. This, combined with the first orders from the IFFCO and Reliance, gives the Company encouragement that 2008 will see Freeplay Energy recognise significant growth in the region.

Post Year-End Trading Update

Trading in the first quarter of the current financial year has been good with all divisions delivering sales performance in line with the Board's expectations. The focus for 2008 continues to be to concentrate on delivering top line growth in the Freeplay division and to drive margins in Dixie.

Freeplay is expected to exceed management's expectations in the first quarter and the Group remains encouraged by the significant potential from the joint venture agreement with the Narang Group in India. The North American business has had a good first quarter and with the increased management focus we expect this to continue during the year.

We continue to build retail channels in our key developed markets with retailers such as M&S, Dixons, Comet, REI, Canadian Tire all continuing to support the brand and products into 2008 while the developing market continues to bring strong growth in 2008, supported by the one year extension to the UNICEF agreement.

Following negotiations regarding their Spring/Summer ranges, both Currys/Dixons and Marks and Spencer will continue to stock Freeplay products throughout 2008 and have placed orders for 3,500 units to be delivered by the end of May. We also anticipate good levels of growth from our agreements with Eddie Bauer and LL Bean in 2008.

Furthermore, we aim to introduce three core new product platforms in 2008 which are expected to deliver positive results in the second half of 2008. These include a new DAB product that will improve penetration in the European DAB market, a new product to build on our success in the lantern category and a third product that will augment our existing FreeCharge portfolio.

First quarter trading at Dixie has been strong with additional new business wins and improved weather conditions in core markets helping the division to continue the positive momentum built towards the end of 2007. In particular, we have seen good trading in April, with revenue approximately 8% above internal forecasts and this trend has continued into May. Revenue for April was also marginally higher than April 2007 indicating the growth in Dixie's core business as offset by the refocusing of the division away from non performing, low margin categories.

Our People

On behalf of the Board, I would like to thank all management and staff and my fellow Board members for their commitment throughout what has been a challenging year for the Group in light of the significant restructuring measures we have undertaken. They have responded fantastically to the restructuring and are motivated to build a valuable company in 2008 and the years ahead.

During the period we welcomed Colin Batt, who joined the Company from Aircom International Limited, a telecommunications consultancy, where he was Interim Finance Director Europe. Prior to that he was Operations Director, Europe, Middle East and Asia ('EMEA') at Motorola Networks. Colin has held a number of senior positions at Motorola where his recent experience will be important to Freeplay Energy in his capacity as Finance Director as the Company completes its restructuring and moves into the next phase of development.

Outlook

In the Freeplay division, we are continuing to benefit from a strong enquiry and order book. We continue to develop our strategy of becoming a major provider of dependable, clean energy products in the developing world, where revenue increased by 18%, as we explore the many opportunities that exist and select the most appropriate models specific to these regions.

The restructuring measures implemented by the Board mean that Dixie Sales has made strong progress since the year end and we firmly believe that its solid business and customer base position the Group well for significant profitability in the years ahead.

As at the end of April, the Board is very positive for the Group's prospects during 2008 and beyond and looks forward to a promising and exciting year.

- ends -

For further information, please contact:

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Freeplay Energy Group plc
GROUP INCOME STATEMENT
For the year ended 31 December 2007

	Year ended 31 December 2007			Year ended 31 December 2006		
	Before separately disclosable items	Separately disclosable items (note 4)	Total	Before separately disclosable items	Separately disclosable items (note 4)	Total
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
REVENUE	44,708	-	44,708	26,108	-	26,108
Cost of sales	(32,683)	(540)	(33,223)	(18,939)	-	(18,939)
GROSS PROFIT	12,025	(540)	11,485	7,169	-	7,169
Administrative expenses	(15,113)	(1,258)	(16,371)	(9,934)	-	(9,934)
Distribution expenses	(2,340)	-	(2,340)	(1,782)	-	(1,782)
Other losses	(28)	-	(28)	(253)	-	(253)
Other (expenses)/income	(230)	-	(230)	(755)	999	244
Impairment of intangible assets	-	(1,787)	(1,787)	-	-	-
Amortisation of intangible assets	(633)	-	(633)	(257)	-	(257)
Share of losses of joint venture	(145)	-	(145)	-	-	-
LOSS FROM OPERATIONS	(6,464)	(3,585)	(10,049)	(5,812)	999	(4,813)
Finance expenses			(1,097)			(492)
Finance income			7			1
LOSS BEFORE TAX			(11,139)			(5,304)
Income tax			518			450
LOSS AFTER TAX			(10,621)			(4,854)
Basic			(0.20)			(0.14)
Fully diluted			(0.20)			(0.14)

Freeplay Energy Group plc
GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 December 2007

	2007 US\$000	2006 US\$000
Foreign currency differences	99	55
Net income recognised directly in equity	99	55
Loss after tax	(10,621)	(4,854)
Total recognised income and expense for the financial year	(10,522)	(4,799)

Freeplay Energy Group plc

GROUP BALANCE SHEET

As at ended 31 December 2007

	2007 US\$000	2006 US\$000
ASSETS		
NON CURRENT ASSETS		
Goodwill	3,495	5,282
Other intangible assets	4,428	4,690
Property, plant and equipment	948	1,386
	<u>8,871</u>	<u>11,358</u>
CURRENT ASSETS		
Inventory	11,488	10,203
Trade receivables and other receivables	7,234	8,724
Corporation tax receivable	824	393
Cash and cash equivalents	396	353
	<u>19,942</u>	<u>19,673</u>
TOTAL ASSETS	<u>28,813</u>	<u>31,031</u>
EQUITY AND LIABILITIES		
EQUITY		
Share capital	11,426	6,608
Share premium account	28,761	29,028
Merger reserve	1,947	1,947
Other reserves	60	60
Foreign currency translation reserve	154	55
Share based payment reserve	1,881	1,387
Retained losses	(39,275)	(28,654)
TOTAL EQUITY	<u>4,954</u>	<u>10,431</u>
NON CURRENT LIABILITIES		
Amounts due to bankers and long term financial liabilities	364	1,101
Deferred taxation	1,698	1,902
	<u>2,062</u>	<u>3,003</u>
CURRENT LIABILITIES		
Trade and other payables	8,029	6,360
Amounts due to bankers and short term financial liabilities	13,289	10,418
Provisions	479	819
	<u>21,797</u>	<u>17,597</u>
TOTAL LIABILITIES	<u>23,859</u>	<u>20,600</u>
TOTAL EQUITY AND LIABILITIES	<u>28,813</u>	<u>31,031</u>

Freeplay Energy Group plc
GROUP STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2007

	Share Capital US\$000	Share Premium US\$000	Merger reserve US\$000	Other reserve US\$000	Foreign currency translat'n reserve US\$000	Share based payment reserve US\$000	Retained losses US\$000	Total Equity US\$000
Balance 31 December 2005	3,936	17,052	1,947	60	-	630	(23,800)	(175)
Share based compensation	-	-	-	-	-	757	-	757
Issue of shares in the year	2,672	12,826	-	-	-	-	-	15,498
Share issue costs	-	(850)	-	-	-	-	-	(850)
Loss for the period	-	-	-	-	-	-	(4,854)	(4,854)
Exchange differences arising on translation of foreign operations	-	-	-	-	55	-	-	55
Balance 1 January 2007	6,608	29,028	1,947	60	55	1,387	(28,654)	10,431
Share based compensation	-	-	-	-	-	494	-	494
Loss for the year	-	-	-	-	-	-	(10,621)	(10,621)
Issue of shares in the year	4,818	-	-	-	-	-	-	4,818
Share issue costs	-	(267)	-	-	-	-	-	(267)
Exchange differences arising on translation of foreign operations	-	-	-	-	99	-	-	99
Balance 31 December 2007	11,426	28,761	1,947	60	154	1,881	(39,275)	4,954

The share premium account arose from the issue of equity shares during the year, the conversion of shareholder loans, convertible loan stock and the issues of non-equity shares in prior years.

A merger reserve has been established in respect of previous acquisitions, which qualify for Section 131 merger relief.

Net proceeds of US \$60,000 have been attributed to an issue of warrants in a prior year and this amount has been included within shareholders' funds as an Other reserve.

Freeplay Energy Group plc
GROUP CASHFLOW STATEMENT
For the period ended 31 December 2007

	Year ended 31 December 2007 US\$000	Year ended 31 December 2006 US\$000
Loss for the year	(10,621)	(4,854)
Adjustments to reconcile loss for the year to cash generated/(used in) from operating activities		
Finance cost	1,097	492
Finance income	(7)	(1)
Taxation	(518)	(450)
Share based compensation	494	757
Depreciation	520	308
Amortisation of intangible assets and impairment of goodwill	2,420	288
Write back of legal obligation	-	(999)
Increase in inventory	(1,285)	(218)
Decrease in accrued income, trade and other receivable	1,030	650
Increase/(decrease) in trade and other payables	1,669	(2,586)
Share of loss from joint venture	145	-
Loss on disposal of property, plant and equipment	144	-
Net movement on provisions	(340)	50
Cash used in operations	(5,252)	(6,563)
Taxation	343	321
Cash used in operating activities	(4,909)	(6,242)
Cashflows from investment activities		
Acquisition of property, plant and equipment	(226)	(204)
Acquisition of intangible assets	(369)	(89)
Interest received	7	1
Advances to joint venture	(145)	-
Acquisition of subsidiary undertaking	-	(6,709)
Cash used in investing activities	(733)	(7,001)
Cashflows from financing activities		
Proceeds from the issue of shares	4,818	6,074
Payment for share issue costs	(267)	(850)
Repayment of borrowings	(858)	(93)
Interest on loans	(1,097)	(492)
Cash from financing	2,596	4,639
Decrease in cash and cash equivalents	(3,046)	(8,604)
Exchange gains	97	66
Opening cash and cash equivalents	(9,746)	(1,208)
Closing cash and cash equivalents	(12,695)	(9,746)

Freeplay Energy Group plc

NOTES TO THE PRELIMINARY ANNOUNCEMENT

For the period ended 31 December 2007

1. GENERAL INFORMATION

The preliminary financial information does not constitute full accounts within the meaning of section 240 of the Companies Act 1985 but is derived from accounts for the years ended 31 December 2007 and 31 December 2006. The figures for the year ended 31 December 2007 are audited. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year ended 31 December 2007. The auditors have issued an audit report modified by the inclusion of an emphasis of matter paragraph which highlights the existence of a material uncertainty that casts doubt on the company's and group's ability to continue as a going concern. Their opinion is not qualified in this respect. Further information is disclosed in the going concern paragraph under significant accounting policies.

While the financial information include in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS), as adopted by the European Union (EU), this announcement does not in itself contain sufficient information to comply with IFRS's.

Freeplay Energy Group plc is incorporated and domiciled in the United Kingdom.

2. SIGNIFICANT ACCOUNTING POLICIES

The Group's previous financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP). However for the financial year ended 31 December 2007, the Group has prepared its annual consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK.

The presentation of financial information under IFRS is governed by IAS 1. In some cases this will require the presentation of an item in a different position, or the use of a different description in the IFRS income statement or balance sheet to that adopted in the UK GAAP profit and loss account or balance sheet. These reclassifications have been described in the explanatory notes.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's results and income statement for the year ended 31 December 2006, and the equity and balance sheets as at 31 December 2005 and 31 December 2006 is set out in note 6.

Statutory accounts for the year ended 31 December 2006, which were prepared under accounting practices generally accepted in the UK, have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under Section 237 (2) or (3) of the Companies Act 1985.

INTERPRETATIONS AND STANDARDS WHICH BECAME EFFECTIVE DURING THE YEAR

IFRS 7 Financial Instruments: Disclosures became effective for accounting periods commencing on or after 1 January 2007. The Group has adopted IFRS 7 accordingly. The accounting policy amendment affects disclosures only and has no material impact on the current or preceding periods' financial position and performance.

INTERPRETATIONS AND STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of the authorisation of the financial information the following standards and interpretations, which have not been applied in the financial information, were in issue but not yet effective:

IFRS 8	Operating segments
IAS 1	Amendment – Presentation of financial statements
IFRIC 11	Group and treasury share transactions
IFRIC 12	Service concession arrangements
IFRIC 13	Customer Loyalty Programmes
IFRS 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction
IAS 23	Amendment to IAS 23 Borrowing Costs
IAS 27	Amendment – Consolidated and Separate Financial Statements
IFRS 3	Amendment – Business Combinations
IFRS 2	Amendment – Share-based payment

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial information when the relevant standards and interpretations come into effect.

REPORTING CURRENCY

The financial information is presented in United States of America Dollars, denoted by the symbol “US \$”, as this is considered by the directors to be the group’s functional currency.

GOING CONCERN

These accounts are prepared on a going concern basis, which assumes the Group will continue in operational existence for the foreseeable future. The Group’s ability to meet its future funding and working capital requirements and therefore continue as a going concern is dependent upon being able to generate significant revenues and free cash flow. The directors have prepared projected cashflow information for the period ending 12 months from the date of approval of these financial statements. On the basis of these projections the directors have identified the requirement to raise further funds and negotiations are being undertaken with a number of interested parties. This would generate significant amounts of funds, and which would, based upon projections prepared by the Group, enable it to continue to meet its debts as they fall due for at least the next 12 months. As at the date of these accounts, however, there remains some uncertainty over the timing of the completion of these matters.

Whilst there is a fundamental uncertainty in relation to the above matters, the directors are continuing their negotiations with various parties and, based on indications so far, anticipate a positive outcome and consider that it is appropriate that the accounts be prepared on a going concern basis.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements under IFRS requires the Board to make judgements, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets and liabilities as at the date of the financial statements and the reported amount of revenue and expense during the reporting year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements that are not readily apparent from other sources. However, the actual results may differ from these estimates.

Other areas of judgement, risk and uncertainty which are relevant to an understanding of these results and the Group's financial position are referred to in the Directors' Report. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Critical accounting estimates concern the valuation of intangible assets arising on business combinations

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of Freeplay Energy plc and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date control has changed. Acquisitions are accounted for under the acquisition method of accounting. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The investment in joint venture is carried in the balance sheet at cost plus the Group's post acquisition share in the change in net assets of the joint venture less any impairment provision. The income statement reflects the Group's share of the post tax result of the joint venture.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

GOODWILL

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent year. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

INTANGIBLE ASSETS

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the year in which it is incurred. An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the year in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost until the asset starts generating economic benefit at which point it is reduced by amortisation and impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The value of acquired contractual relationships is determined by estimating the net present value of the future profits expected from those contractual relationships which have finite useful lives. The resultant carrying value is amortised over its expected useful economic life as follows:

Acquired contractual relationships	over 10 years on a straight line basis
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Other intangible assets

Intangible assets such as computer software and web sites which have finite useful lives, are measured at cost, net of any amortisation and any provision for impairment. Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Web sites	over 3 years on a straight line basis
Software	over 3 years on a straight line basis

Websites acquired during the period have been recognised as intangible assets in accordance with the principles outlined in SIC Interpretation 32 (Intangible Assets – Web Site Costs).

IMPAIRMENT

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually.

At each balance sheet date, the Group reviews the carrying amounts of its other tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US Dollars ('\$ US'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in US Dollars using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The principal annual rates for this purpose are:

Fixtures & fittings	-	25% straight line
Leasehold improvements	-	over the shorter of the term of the lease or 10% - 33%
Plant and machinery, moulds and tooling	-	20% - 50% straight line
Motor vehicles	-	20% straight line
Office furniture and equipment	-	10% - 20% straight line

INVENTORIES

Inventories are stated at the lower of cost incurred in bringing each product to its present location and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventories held by the method most appropriate to the particular class of inventory, with the majority being valued on a first-in-first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation. Such provisions have not been subject to discounting.

SHARE-BASED COMPENSATION

The Group operates an equity-settled, share based compensation plan. The fair value of the employee services received in exchange for the grant of options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and growth targets). Non-market vesting conditions are included in the assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss. Contingent rentals are recognised as expenses in the years in which they are incurred. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the year in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative over the lease term.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

Cash and cash equivalents

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

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdraft.

Financial liability

Financial liabilities are classified according to the substance of the contractual arrangements entered into. An instrument will be classified as a financial liability when there is a contractual obligation to deliver cash or another financial asset to another enterprise.

Borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, which represents the fair value of the consideration received, net of any issue costs associated with other borrowings. Borrowings are subsequently stated at amortised cost.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and allocated to the profit or loss over the term of the instrument using an effective rate of interest on the outstanding carrying value.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

TAXATION

The tax expense represents the sum of the current tax expense and deferred tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated by using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority or by

different taxable entities where the Group intends to settle its current tax assets and liabilities on a net basis.

EMPLOYEE BENEFITS

Certain companies in the group operate defined contribution pension schemes. The pension cost charge for the year for defined contribution schemes represents contributions payable by the group to the schemes.

3. SEGMENTAL REPORTING

Primary reporting format business segments

The following tables present revenue and losses and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2007 and 31 December 2006.

	Continuing operations		
	Freeplay 2007 US\$000	Dixie 2007 US\$000	Total 2007 US\$000
Revenue			
Group revenue	7,964	37,271	45,235
Inter segment revenue	-	(527)	(527)
Segmental revenue	<u>7,964</u>	<u>36,744</u>	<u>44,708</u>
Result			
Segmental result before separately disclosed items	(3,052)	(404)	(3,456)
Separately disclosable items	(1,483)	(2,102)	(3,585)
	<u>(4,535)</u>	<u>(2,506)</u>	<u>(7,041)</u>
Common costs			(2,863)
Share of losses of joint venture			(145)
Loss from operations			(10,049)
Finance expenses			(1,097)
Finance income			7
Loss before taxation			(11,139)
Taxation			518
Loss after taxation			<u>(10,621)</u>
Assets and liabilities			
Segment assets	<u>5,477</u>	<u>23,336</u>	<u>28,813</u>
Segment liabilities	<u>7,509</u>	<u>16,350</u>	<u>23,859</u>
Other segment information			
Capital expenditure Property plant and equipment	<u>77</u>	<u>149</u>	<u>226</u>
Depreciation	<u>345</u>	<u>175</u>	<u>520</u>

	Continuing operations		
	Freeplay	Dixie	Total
	2006	2006	2006
	US\$000	US\$000	US\$000
Revenue			
Group revenue	7,329	19,123	26,452
Inter segment revenue	-	(344)	(344)
	<u>7,329</u>	<u>18,779</u>	<u>26,108</u>
Result			
Segmental result before separately disclosed items	(3,822)	535	(3,287)
Separately disclosable items	-	999	999
	<u>(3,822)</u>	<u>1,534</u>	<u>(2,288)</u>
Common costs			(2,525)
Loss from operations			(4,813)
Finance expenses			(492)
Finance income			1
Loss before taxation			(5,304)
Taxation			450
Loss after taxation			(4,854)
Assets and liabilities			
Segment assets	<u>5,288</u>	<u>25,743</u>	<u>31,031</u>
Segment liabilities	<u>6,921</u>	<u>13,679</u>	<u>20,600</u>
Other segment information			
Capital expenditure			
Property plant and equipment	<u>74</u>	<u>130</u>	<u>204</u>
Depreciation	<u>56</u>	<u>252</u>	<u>308</u>

Geographical segments

The following table represents revenue, expenditure and certain asset information regarding the Group's geographical segments by location for the years ended 31 December 2007 and 31 December 2006.

	United Kingdom and Europe		North America		Africa and the Rest of the World		Total	
	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000	2007 US\$000	2006 US\$000
Revenue								
<i>Continuing activities</i>								
Sales to external customers	2,341	1,645	39,344	21,802	3,550	3,005	45,235	26,452
Inter segment revenue	-	-	(527)	(344)	-	-	(527)	(344)
	<u>-</u>	<u>-</u>	<u>(527)</u>	<u>(344)</u>	<u>-</u>	<u>-</u>	<u>(527)</u>	<u>(344)</u>
Segmental revenue	2,341	1,645	38,817	21,458	3,550	3,005	44,708	26,108
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>
Segment assets								
Segment assets	5,105	5,049	23,336	25,743	372	239	28,813	31,031
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>
Segment liabilities								
Segment liabilities	6,828	6,664	16,350	13,679	681	257	23,859	20,600
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>
Capital expenditure								
Property plant and equipment	70	59	149	130	7	15	226	204
	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>	<u>=</u>

4. SEPERATELY DISCLOSED ITEMS

In December 2007 Freeplay Energy wrote down the value of inventory for two slow moving products. \$234k of this charge related to the cancellation of the WP phones contract.

As announced in August 2007 Freeplay Energy plc embarked on an aggressive restructuring program involving the consolidation of locations and function as a result of which it incurred one-off severance and exit costs.

As a result of the annual Goodwill impairment test a charge of \$1,787k was taken during 2007.

	2007 US\$000	2006 US\$000
Reserve for discontinuance of product	(540)	-
Restructuring expense	(1,258)	-
Impairment of goodwill	(1,757)	-
Release of legal obligation	-	999
	<u>(3,585)</u>	<u>999</u>

5. LOSS PER SHARE

	2007 US\$000	2006 US\$000
Loss for the financial year	(10,621)	(4,854)
Average number of ordinary shares in issue	52,356	33,831
Basic and diluted loss per 5p (2006: 5p) ordinary share (in US\$)	(0.20)	(0.14)

The calculation of the basic and diluted loss per ordinary share of 5p (2006: 5p) each has been based on the loss for the relevant financial year and on 52,355,662 shares (2006: 33,830,842). This represents the weighted average number of ordinary shares in issue. The loss for the year and the weighted average number of ordinary shares for the purposes of calculating the diluted loss per share are the same as for the basic loss per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore not dilute under the terms of IAS 33.

6. EXPLANATION OF THE TRANSITION TO IFRS

For all periods up to and including the year ended 31 December 2006 the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practices (UK GAAP).

In preparing these financial statements, the Group has started from an opening balance sheet as at 31 December 2005, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS.

IFRS 1 allows first time adopters certain exemptions from the general requirements to retrospectively apply IFRS as effective for the 30 December 2005 year end. The optional exemptions taken by the Group are as follows:

- (a) **Business Combinations:** The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business that took place prior to the transition date. Consequently goodwill arising on business combinations before transition date remains at its previous UK GAAP carrying value as at the date of transition.
- (b) **Cumulative translation differences exemption:** Cumulative translation differences on foreign operations are deemed to be nil at 30 December 2005. Any gains or losses recognised in the consolidated income statement on subsequent disposal of foreign operations will exclude translation differences arising prior to the transition date.
- (c) **Share based payment transactions:** Only share based payment arrangements granted on or after 7 November 2002 that had not vested prior to 31 December 2005 are recognised in the financial statements.

Reconciliations between IFRS and UK GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 31 December 2006. The following reconciliations provide details of the impact of the transition on:

- (a) Equity at 31 December 2006
- (b) Net income for the year ended 31 December 2006
- (c) Balance sheets as at 31 December 2006 & 31 December 2005

The principal effects identified on adoption of IFRS are discussed below:

Goodwill

IFRS 3 'Business Combinations', IAS 36 and IAS 38 resulted in a change to the carrying values of Goodwill. Until 31 December 2005, goodwill was amortised on a straight line basis over a period of up to 10 years from the year of acquisition and assessed for an indication of impairment at each balance sheet date.

Under IFRS 3, goodwill is no longer amortised and, instead, is assessed annually for impairment. As a result of this change, the goodwill has been increased by \$364,000.

In addition, under IFRS 3, intangible assets purchased as part of a business combination may meet the criteria set out in IFRS 38 for categorisation as an intangible asset other than goodwill and are then amortised over their useful economic life.

The Group has recognised intangible assets under IFRS3 for the contractual relationships and website acquired. These have been valued at \$4,416,000 and \$287,000 respectively at the date of acquisition by the Group. These intangible assets will be written off over their expected useful lives of 10 years and 3 years. Deferred tax has been provided on these intangible assets in line with the principles in IAS 12 'Income Taxes'.

Intangible assets

Under IAS 38 'Intangible assets', if development expenditure meets the definition of an intangible asset then it must be capitalised. Costs that were directly related to the development of products were capitalised and amortised over their useful life. Under UK GAAP these were expensed as incurred.

Under UK GAAP, computer software was disclosed under "Tangible Assets" which fell under "Fixed Assets". Under IFRS, this must be disclosed under Other Intangible Assets. This has no effect on equity. It is merely a balance sheet reclassification.

Share based compensation

Recognition of share options issued. IFRS 2 'Share Based Payments' requires that an expense is recognised over the vesting period in respect of all equity instruments that have been granted, based on their fair value at the date of grant, in order to reflect the cost of issuing these share options. The Group has applied the Black-Scholes method of valuing the fair value of the relevant share options.

Reconciliation of loss for year ended 31 December 2006

	Year ended 31 December 2006 US\$000
Loss after tax under UK GAAP	(4,368)
Capitalisation of development costs	79
Amortisation of development costs	(33)
Share based payments	(757)
Amortisation of intangible assets recognised on acquisitions	(224)
Amortisation of goodwill	364
Deferred taxation	85
Loss after tax under IFRS	<u>(4,854)</u>

Reconciliation of equity as at 31 December 2006

	31 December 2006 US\$000
Total equity under UK GAAP	10,086
Capitalisation of development costs (net of accumulated amortisation)	120
Amortisation of goodwill	364
Amortisation on intangible assets recognised on acquisitions	(224)
Deferred taxation on intangible assets	85
Total equity under IFRS	<u>10,431</u>

Reconciliation of income statement for year ended 31 December 2006

	UK GAAP US\$000	IAS 38 Capitalisation of developmen t costs US\$000	IFRS 2 Share based payments US\$000	IFRS 3 Business Combination s US\$000	IFRS US\$000
Revenue	26,108	-	-	-	26,108
Cost of Sales	(18,939)	-	-	-	(18,939)
Gross Profit	<u>7,169</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,169</u>
Administration expenses	(10,013)	79	-	-	(9,934)
Distribution expenses	(1,782)	-	-	-	(1,782)
Other losses	(253)	-	-	-	(253)
Other income	999	-	(757)	-	242
Investment revenue	2	-	-	-	2
Amortisation of intangible assets	-	(33)	-	(224)	(257)
Amortisation of goodwill	(364)	-	-	364	-
Total Administration expenses	<u>(11,411)</u>	<u>46</u>	<u>(757)</u>	<u>140</u>	<u>(11,982)</u>
Loss from operations	<u>(4,242)</u>	<u>46</u>	<u>(757)</u>	<u>140</u>	<u>(4,813)</u>
Finance costs	(491)	-	-	-	(491)
Loss before Taxation	<u>(4,733)</u>	<u>46</u>	<u>(757)</u>	<u>140</u>	<u>(5,304)</u>
Income tax expense	365	-	-	85	450
Loss for period	<u>(4,368)</u>	<u>46</u>	<u>(757)</u>	<u>225</u>	<u>(4,854)</u>

Reconciliation of balance sheet as 31 December 2006

	UK GAAP US\$000	IAS 38 Capit'n of develop't costs US\$000	IAS 38 Capit'n of software costs US\$000	IAS 21 Foreign currency US\$000	IFRS 2 Share based payments US\$000	IFRS 3 Business Comb'ns US\$000	IFRS US\$000
Non current assets							
Goodwill	7,834	-	-	-	-	(2,552)	5,282
Other intangible assets	-	120	91	-	-	4,479	4,690
Property, plant and equipment	1,477	-	(91)	-	-	-	1,386
	<u>9,311</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,927</u>	<u>11,358</u>
Current assets							
Inventory	10,203	-	-	-	-	-	10,203
Trade and other receivables	8,724	-	-	-	-	-	8,724
Corporation tax receivable	393	-	-	-	-	-	393
Cash	353	-	-	-	-	-	353
	<u>19,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,673</u>
Total Assets	<u>28,984</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,927</u>	<u>31,031</u>
Equity and Liabilities							
Equity							
Issued capital	6,608	-	-	-	-	-	6,608
Share premium account	29,028	-	-	-	-	-	29,028
Merger reserve	1,947	-	-	-	-	-	1,947
Other reserve	60	-	-	-	-	-	60
FCTR	-	-	-	55	-	-	55
Share based payments reserve	-	-	-	-	1,387	-	1,387
Retained losses	(27,557)	120	-	(55)	(1,387)	225	(28,654)
	<u>10,086</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>225</u>	<u>10,431</u>
Non current liabilities							
Borrowings	1,101	-	-	-	-	-	1,101
Deferred tax	200	-	-	-	-	1,702	1,902
	<u>1,301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,702</u>	<u>3,003</u>
Current liabilities							
Trade payables and other payables	6,360	-	-	-	-	-	6,360
Borrowings	10,418	-	-	-	-	-	10,418
Provisions	819	-	-	-	-	-	819
	<u>17,597</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,597</u>
Total liabilities	<u>18,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,702</u>	<u>20,600</u>
Total equity and liabilities	<u>28,984</u>	<u>120</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,927</u>	<u>31,031</u>

Reconciliation of balance sheet as 31 December 2005 (date of transition to IFRS)

	UK GAAP US\$000	IAS 38 Capitalis'n of develop't costs US\$000	IAS 38 Capitalis'n of software costs US\$000	IFRS 2 Share based payments US\$000	IFRS US\$000
Non current assets					
Property, plant and equipment	651	-	(17)	-	634
Goodwill	-	-	-	-	-
Other intangible assets	-	74	17	-	91
	<u>651</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>725</u>
Current assets					
Inventory	838	-	-	-	838
Trade and other receivables	2,643	-	-	-	2,643
Corporation tax receivable	-	-	-	-	-
Cash	325	-	-	-	325
	<u>3,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,806</u>
Total Assets	<u>4,457</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>4,531</u>
	=	=	=	=	=
Equity and Liabilities					
Equity					
Issued capital	3,936	-	-	-	3,936
Share premium account	17,052	-	-	-	17,052
Merger reserve	1,947	-	-	-	1,947
Other reserve	60	-	-	-	60
Share based payments reserve	-	-	-	630	630
Retained losses	(23,244)	74	-	(630)	(23,800)
	<u>(249)</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>(175)</u>
Non current liabilities					
Borrowings	45	-	-	-	45
	<u>45</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>45</u>
Current liabilities					
Trade payables and other payables	1,949	-	-	-	1,949
Borrowings	2,571	-	-	-	2,571
Provisions	141	-	-	-	141
	<u>4,661</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,661</u>
Total liabilities	<u>4,706</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,706</u>
Total equity and liabilities	<u>4,457</u>	<u>74</u>	<u>-</u>	<u>-</u>	<u>4,531</u>
	=	=	=	=	=

7. BASIS OF THE PRELIMINARY ANNOUNCEMENT

The board of directors of Freeplay Energy Group plc approved the Preliminary Results on 12 May 2008.

The statutory accounts for the year ended 31 December 2007 will be delivered to the Registrar of Companies following the Annual General Meeting. The statutory accounts will be posted to shareholders in due course. Further copies will be available to the public, free of charge, at the company's registered office, 2 Stone Buildings, Lincoln's Inn, LONDON WC2A 3TH and the Company's website at www.freeplayenergy.com