

**MICAP FLAVOURS LIMITED**

**DIRECTORS' REPORT  
AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH  
2006**



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**MICAP FLAVOURS LIMITED**

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**COMPANY INFORMATION**

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**DIRECTORS**

M J Norris  
Dr S C Duckham (appointed 21/9/05)

**SECRETARY**

M J Norris

**COMPANY NUMBER**

3608447

**REGISTERED OFFICE**

Enterprise House  
Pemberton Business Centre  
Pemberton  
Greater Manchester  
WN5 8AA

**AUDITORS**

Bowmans  
Chartered Accountants & Registered Auditors  
88-96 Market Street West  
Preston  
PR1 2EU

**BANKERS**

National Westminster Bank plc  
P O Box 631  
100 Barbirolli Square  
Manchester  
M60 3NA

**SOLICITORS**

Halliwell LLP  
St James Court  
Brown Street  
Manchester  
M2 2JF

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## **DIRECTORS' REPORT**

For the year ended 31 March 2006

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The directors present their report and the financial statements for the year ended 31 March 2006.

### **PRINCIPAL ACTIVITY , REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS**

The company is engaged in the development and commercial exploitation of micro-encapsulation solutions and other technologies for a range of industries.

### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to £697,378 (2005 - Loss £1,599,564) .

The directors do not recommend the payment of a dividend.

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

The company has an active policy to pursue its expertise in micro-encapsulation techniques.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

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

In 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 practice.

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 (s. 234ZA (2)).

**DIRECTORS' REPORT**

For the year ended 31 March 2006

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**DIRECTORS**

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	Ordinary shares of 1p each	
	<u>31/3/06</u>	<u>1/4/05</u>
M S Brennand (resigned 21/09/05)	-	-
M J Norris	-	-
Dr S C Duckham (appointed 21/9/05)	-	-

**ADDITIONAL INFORMATION RE DIRECTORS**

The interests of the directors in the shares of the holding company are disclosed in the holding company's accounts.

**GOING CONCERN**

The company meets its day to day working capital requirements through its holding company. The directors of the company have obtained assurances as to the continued support of the holding company for the foreseeable future.

The accounts have been prepared on a going concern basis. The directors consider this to be an appropriate basis notwithstanding the fact that the company has net liabilities as at the balance sheet date of £6,352,176. The company has the continued financial support of Micap plc, its parent undertaking. This support is reflected in the advance of an interest free loan with no fixed date for repayment and a group guarantee on bank borrowings.

The holding company's continued support of this company is dependent upon the achievement of anticipated turnover levels, the continued support of the group's bankers and the success of further fund raising by the holding company.

**AUDITORS**

The auditors, Bowmans, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on

**14 AUG 2006**

and signed on its behalf.



**M J Norris**  
Director

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MICAP FLAVOURS LIMITED**

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We have audited the financial statements of Micap Flavours Limited for the year ended 31 March 2006 set out on pages 5 to 14. These financial statements have been prepared under the accounting policies set out therein.

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

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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 judgments 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.

**GOING CONCERN**

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the uncertainty as to the continued operation of the company. In view of the significance of this uncertainty, we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MICAP FLAVOURS LIMITED

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**OPINION**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities, of the state of the company's affairs as at 31 March 2006 and of its loss for the year then ended; and
- 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.

*Bowmans*

**Bowmans**

Chartered Accountants  
Registered Auditors

88-96 Market Street West  
Preston  
PR1 2EU

Date:

**14 AUG 2006**

**PROFIT AND LOSS ACCOUNT**  
For the year ended 31 March 2006

	Note	2006 £	2005 £
<b>TURNOVER</b>	1, 2	<b>191,697</b>	<b>123,566</b>
Cost of sales		<u>(133,476)</u>	<u>(73,494)</u>
<b>GROSS PROFIT</b>		<b>58,221</b>	<b>50,072</b>
Administrative expenses		<u>(903,895)</u>	<u>(1,281,678)</u>
<b>OPERATING LOSS</b>	3	<b>(845,674)</b>	<b>(1,231,606)</b>
<b>EXCEPTIONAL ITEMS</b>			
Other exceptional items	6	<u>-</u>	<u>(594,703)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		<b>(845,674)</b>	<b>(1,826,309)</b>
Interest receivable		<u>5</u>	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(845,669)</b>	<b>(1,826,309)</b>
<b>TAX ON LOSS ON ORDINARY ACTIVITIES</b>	7	<b>148,291</b>	<b>226,745</b>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<u><b>(697,378)</b></u>	<u><b>(1,599,564)</b></u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2006 or 2005 other than those included in the profit and loss account.

The notes on pages 7 to 14 form part of these financial statements.



**BALANCE SHEET**  
**As at 31 March 2006**

		2006		2005	
	Note	£	£	£	£
<b>FIXED ASSETS</b>					
Intangible fixed assets	8		-		-
Tangible fixed assets	9		61,210		116,790
			<u>61,210</u>		<u>116,790</u>
<b>CURRENT ASSETS</b>					
Debtors	10	274,286		507,472	
Cash in hand		-		47	
		<u>274,286</u>		<u>507,519</u>	
<b>CREDITORS:</b> amounts falling due within one year	11	(6,687,672)		(6,279,107)	
<b>NET CURRENT LIABILITIES</b>			<u>(6,413,386)</u>		<u>(5,771,588)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>(6,352,176)</u>		<u>(5,654,798)</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	13		2,809		2,809
Share premium account	14		303,518		303,518
Profit and loss account	14		(6,658,503)		(5,961,125)
<b>SHAREHOLDERS' DEFICIT - All Equity</b>	15		<u>(6,352,176)</u>		<u>(5,654,798)</u>

The financial statements were approved by the board on

**14 AUG 2006**

and signed on its behalf.


**M J Norris**  
 Director

The notes on pages 7 to 14 form part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2006

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**1. ACCOUNTING POLICIES**

**1.1 Basis of preparation of financial statements**

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

The company meets its day to day working capital requirements through its holding company. The directors of the company have obtained assurances as to the continued support of the holding company for the foreseeable future.

The accounts have been prepared on a going concern basis. The directors consider this to be an appropriate basis notwithstanding the fact that the company has net liabilities as at the balance sheet date of £6,352,176. The company has the continued financial support of Micap plc, its parent undertaking. This support is reflected in the advance of an interest free loan with no fixed date for repayment.

The holding company's continued support of this company is dependent upon the achievement of anticipated turnover levels, the continued support of the group's bankers and the success of further fund raising by the holding company.

**1.2 Intangible fixed assets and amortisation**

Intangible fixed assets are stated at cost less amortisation. Patents and licence fee expenditure is capitalised and carried forward to be written off against future income streams when in the director's opinion future income streams are reasonably certain. Other expenditure is written off in the period in which it is incurred.

**1.3 Tangible fixed assets and depreciation**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant & Machinery	-	20-33% straight line
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**1.4 Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating loss.

**1.5 Research and development**

Expenditure on research and development is charged to the profit and loss account in the period in which it is incurred.

**1.6 Operating leases**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on the straight line basis over the lease term.

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2006

**1.7 Deferred taxation**

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

**1.8 Pensions**

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

**1.9 Turnover**

Turnover comprises the value of goods and services provided by the company, exclusive of Value Added Tax and trade discounts.

**1.10 Cash flow**

The company, being a subsidiary undertaking where 90% or more of the voting rights are controlled within the group whose consolidated financial statements are publicly available, is exempt from the requirement to draw up a cash flow statement in accordance with FRS1.

**2. TURNOVER**

The whole of the turnover is attributable to the principal activity of the company.

All turnover arose within the United Kingdom.

**3. OPERATING LOSS**

The operating loss is stated after charging:

	2006	2005
	£	£
Depreciation of tangible fixed assets:		
- owned by the company	63,582	62,081
Auditors' remuneration	2,000	3,000
Auditors' non audit remuneration	2,500	-
Difference on foreign exchange	77	-
Research and development - current period expenditure	676,867	944,769
Operating lease rentals - other	65,666	149,011
	<u>          </u>	<u>          </u>

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2006

**4. STAFF COSTS**

Staff costs, including directors' remuneration, were as follows:

	2006 £	2005 £
Wages and salaries	373,428	650,135
Social security costs	41,035	128,800
Other pension costs	27,497	68,311
	<u>441,960</u>	<u>847,246</u>

The average monthly number of employees, including directors, during the year was as follows:

	2006	2005
Product development	<u>15</u>	<u>14</u>

**5. DIRECTORS' REMUNERATION**

	2006 £	2005 £
Emoluments	<u>158,000</u>	<u>222,000</u>
Company pension contributions to money purchase pension schemes	<u>13,024</u>	<u>21,000</u>

During the year retirement benefits were accruing to 2 directors (2005 - 2) in respect of money purchase pension schemes.

**6. EXCEPTIONAL ITEM**

	2006 £	2005 £
Reorganisation costs	-	119,203
Compensation for loss of office (directors)	-	225,500
Bad debt	-	250,000
	<u>-</u>	<u>594,703</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2006

## 7. TAXATION

	2006 £	2005 £
Analysis of tax credit in year		
UK corporation tax credit on losses of the year	(151,173)	(226,745)
Adjustments in respect of prior periods	2,882	-
Total current tax	<u>(148,291)</u>	<u>(226,745)</u>
Tax on loss on ordinary activities	<u>(148,291)</u>	<u>(226,745)</u>

## Factors affecting tax charge for year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK applicable to the company (19%). The differences are explained below:

	2006 £	2005 £
Loss on ordinary activities before tax	<u>(845,669)</u>	<u>(1,826,309)</u>
Loss on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 19% (2005 - 19%)	(160,677)	(346,999)
Effects of:		
Expenses not deductible for tax	27	71
Depreciation for period in excess of Capital Allowances	7,537	5,793
Research and development adjustment	28,345	42,514
Research and development claim	(62,071)	(89,752)
Adjustment to prior period	2,882	-
Increase in tax losses	35,666	114,128
Current tax credit for year (see note above)	<u>(148,291)</u>	<u>(274,245)</u>

There were no factors that may affect future tax charges.

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2006

8. INTANGIBLE FIXED ASSETS

	Patents and Trademarks £	Total £
<b>Cost</b>		
At 1 April 2005 and 31 March 2006	359,975	359,975
<b>Amortisation</b>		
At 1 April 2005 and 31 March 2006	359,975	359,975
<b>Net book value</b>		
At 31 March 2006	-	-
At 31 March 2005	-	-

9. TANGIBLE FIXED ASSETS

	Plant and machinery £
<b>Cost</b>	
At 1 April 2005	320,145
Additions	8,002
At 31 March 2006	328,147
<b>Depreciation</b>	
At 1 April 2005	203,355
Charge for the year	63,582
At 31 March 2006	266,937
<b>Net book value</b>	
At 31 March 2006	61,210
At 31 March 2005	116,790

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2006

**10. DEBTORS**

	2006 £	2005 £
Trade debtors	93,872	278,176
Other debtors	170,656	229,296
Prepayments and accrued income	9,758	-
	<u>274,286</u>	<u>507,472</u>

**11. CREDITORS:**  
Amounts falling due within one year

	2006 £	2005 £
Bank loans and overdrafts	549,480	435,497
Trade creditors	169,097	10,076
Amounts owed to group undertakings	5,922,192	5,550,537
Social security and other taxes	10,140	56,777
Accruals and deferred income	36,763	226,220
	<u>6,687,672</u>	<u>6,279,107</u>

The bank loans and overdraft are secured as disclosed in note 17.

**12. DEFERRED TAXATION**

There are tax losses carried forward of £3,640,644. These have not been recognised as a deferred tax asset because it is not anticipated that the company will generate taxable profits in the next accounting period.

**13. SHARE CAPITAL**

	2006 £	2005 £
Authorised		
300,000 Ordinary shares of 1p each	<u>3,000</u>	<u>3,000</u>
Allotted, called up and fully paid		
280,900 Ordinary shares of 1p each	<u>2,809</u>	<u>2,809</u>

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended 31 March 2006

14. RESERVES

<b>Share premium account</b>	<b>£</b>
At 1 April 2005	303,518
	<u>          </u>
At 31 March 2006	303,518
	<u>          </u>
<b>Profit and loss account</b>	<b>£</b>
At 1 April 2005	(5,961,125)
Loss retained for the year	(697,378)
	<u>          </u>
At 31 March 2006	(6,658,503)
	<u>          </u>

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2006 £	2005 £
Loss for the year	(697,378)	(1,599,564)
	<u>          </u>	<u>          </u>
	(697,378)	(1,599,564)
Opening shareholders' deficit	(5,654,798)	(4,055,234)
	<u>          </u>	<u>          </u>
Closing shareholders' deficit	(6,352,176)	(5,654,798)
	<u>          </u>	<u>          </u>



**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 March 2006

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**16. PENSION COMMITMENTS**

The company operates defined contribution pension schemes. The assets of the schemes are held in independently administered funds. The pension charge represents contributions payable by the company to the funds and amounted to £27,497 (2005: £68,311). These were no outstanding or prepaid contributions at the beginning or end of the year.

**17. CONTINGENT LIABILITIES**

The company has guaranteed the bank borrowings of other group companies which at 31 March 2006 amounted to £nil (2005 £353,091). At 31 March 2006 and 31 March 2005 the 'banking group' as a whole was in credit.

**18. RELATED PARTY TRANSACTIONS**

Details of balances with Group undertakings are disclosed in Note 11.

Advantage has been taken of the exemption in Financial Reporting Standard No. 8 in that transactions with Group undertakings are not disclosed as consolidated financial statements are published.

Included in exceptional items in the prior year was a £250,000 provision for doubtful debt relating to a debt due from Jagotech SA, a wholly owned subsidiary of SkyePharma plc, a shareholder in the ultimate holding company.

The debt related to an option fee of £500,000 payable to Micap upon the exercise of a technology access option by Jagotech in March 2004. In August 2005 Micap agreed to accept a payment of £250,000 together with the return of the rights granted under the option agreement in full and final settlement of all sums due from Jagotech.

**19. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

In the opinion of the directors there is no overall control.

Micap plc, incorporated in England and Wales, is considered by the directors as being the company's ultimate holding company.

Copies of the consolidated financial statements are available from Companies House.