

Registered number. 3608447

**MICAP FLAVOURS LIMITED**  
**DIRECTORS' REPORT AND FINANCIAL**  
**STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2007**

TUESDAY



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**MICAP FLAVOURS LIMITED**

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**COMPANY INFORMATION**

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<b>DIRECTORS</b>	M J Norris Dr S C Duckham
<b>SECRETARY</b>	M J Norris
<b>COMPANY NUMBER</b>	3608447
<b>REGISTERED OFFICE</b>	Enterprise House Pemberton Business Centre Pemberton Greater Manchester WN5 8AA
<b>AUDITORS</b>	Tenon Audit Limited Registered Auditor 88-96 Market Street West Preston PR1 2EU
<b>BANKERS</b>	National Westminster Bank plc P O Box 631 100 Barbirolli Square Manchester M60 3NA
<b>SOLICITORS</b>	Halliwel LLP St James Court Brown Street Manchester M2 2JF

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**MICAP FLAVOURS LIMITED**

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## **MICAP FLAVOURS LIMITED**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2007**

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The directors present their report and the financial statements for the year ended 31 March 2007

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

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

#### **PRINCIPAL ACTIVITY**

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

#### **BUSINESS REVIEW AND FUTURE DEVELOPMENTS**

The directors are encouraged by the progress made by the company in the year and are very positive about the opportunities for the company going forward.

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to £712,222 (2006 - Loss £697,378)

The directors do not recommend payment of a dividend.

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## MICAP FLAVOURS LIMITED

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

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#### DIRECTORS

The directors who served during the year were

M J Norris  
Dr S C Duckham

#### 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 £7,064,398. 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.

#### RESEARCH AND DEVELOPMENT ACTIVITIES

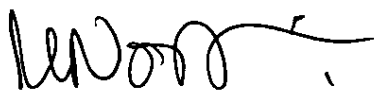
The company has an active policy to pursue its expertise in micro-encapsulation techniques.

#### AUDITORS

The auditors, Bowmans, have transferred their audit business to Tenon Audit Limited.

In accordance with Section 26 of the Companies Act 1989, Tenon Audit Limited has been appointed as auditor to succeed Bowmans, and will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985.

This report was approved by the board on 19-9-7 and signed on its behalf



M J Norris  
Director

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## **MICAP FLAVOURS LIMITED**

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### **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 2007 set out on pages 5 to 16. These financial statements have been prepared in accordance with the accounting policies set out therein.

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

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Annual 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.

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**MICAP FLAVOURS LIMITED**

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**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, of the state of the company's affairs as at 31 March 2007 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

**GOING CONCERN**

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £712,222 during the year ended 31 March 2007 and at that date the company's current liabilities exceeded its current assets by £7,078,463. These conditions along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

*Tenon Audit Limited*

**TENON AUDIT LIMITED**

Registered Auditor

88-96 Market Street West  
Preston  
PR1 2EU

Date

**19 SEP 2007**

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**MICAP FLAVOURS LIMITED**

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**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2007**

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	Note	2007 £	2006 £
<b>TURNOVER</b>	1,2	428,882	191,697
Cost of sales		<u>(280,257)</u>	<u>(133,476)</u>
<b>GROSS PROFIT</b>		148,625	58,221
Administrative expenses		<u>(827,665)</u>	<u>(903,895)</u>
<b>OPERATING LOSS</b>	3	(679,040)	(845,674)
<b>EXCEPTIONAL ITEMS</b>			
Reorganisation costs	8	<u>(129,514)</u>	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		(808,554)	(845,674)
Interest receivable		-	5
Interest payable	6	<u>(3,668)</u>	<u>-</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(812,222)	(845,669)
Tax on loss on ordinary activities	9	<u>100,000</u>	<u>148,291</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	17	<u><u>(712,222)</u></u>	<u><u>(697,378)</u></u>

All amounts relate to continuing operations

There were no recognised gains and losses for 2007 or 2006 other than those included in the profit and loss account

The notes on pages 7 to 16 form part of these financial statements



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**MICAP FLAVOURS LIMITED**

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**BALANCE SHEET  
AS AT 31 MARCH 2007**

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	Note	£	2007 £	£	2006 £	£
<b>FIXED ASSETS</b>						
Tangible fixed assets	11			<u>35,532</u>		<u>61,210</u>
<b>CURRENT ASSETS</b>						
Debtors	12	180,969			274,286	
CREDITORS, amounts falling due within one year	13		<u>(7,259,432)</u>		<u>(6,687,672)</u>	
<b>NET CURRENT LIABILITIES</b>				<u>(7,078,463)</u>		<u>(6,413,386)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>				<u>(7,042,931)</u>		<u>(6,352,176)</u>
CREDITORS: amounts falling due after more than one year	14			<u>(21,467)</u>		<u>-</u>
<b>NET LIABILITIES</b>				<u><u>(7,064,398)</u></u>		<u><u>(6,352,176)</u></u>
<b>CAPITAL AND RESERVES</b>						
Called up share capital	16			2,809		2,809
Share premium account	17			303,518		303,518
Profit and loss account	17			<u>(7,370,725)</u>		<u>(6,658,503)</u>
<b>SHAREHOLDERS' DEFICIT</b>	18			<u><u>(7,064,398)</u></u>		<u><u>(6,352,176)</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 19-9-7



M J Norris  
Director

The notes on pages 7 to 16 form part of these financial statements

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## MICAP FLAVOURS LIMITED

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2007

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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 £7,064,398. 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.

##### 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

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at 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 gains and losses are recognised in the profit and loss account.

##### 1.5 RESEARCH AND DEVELOPMENT

Research and development expenditure is written off in the year in which it is incurred.

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**1. ACCOUNTING POLICIES (continued)****1.6 OPERATING LEASES**

Rentals under operating leases are charged on a straight line basis over the lease term

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate

**1.7 DEFERRED TAXATION**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

**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 revenue recognised by the company in respect of goods and services supplied, exclusive of Value Added Tax and trade discounts

Turnover comprises contract development income, revenue grants and royalty income. Contract development income represents work done in the period for customers in respect of services rendered under development contracts and technology access fees. Contract revenue is recognised when all terms of the contract have been substantially met. Royalty income represents income earned as a percentage of product sales. Advance royalties received are treated as deferred income until earned, when they are recognised as income.

**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

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**1. ACCOUNTING POLICIES (continued)****1.11 LEASING AND HIRE PURCHASE**

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

**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:

	2007 £	2006 £
Depreciation of tangible fixed assets:		
- owned by the company	40,261	63,582
- held under finance leases	1,167	-
Difference on foreign exchange	862	77
Research and development - current period expenditure	619,150	676,867
Operating lease rentals - other	-	65,666
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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**4. STAFF COSTS**

Staff costs, including directors' remuneration, were as follows

	2007 £	2006 £
Wages and salaries	333,509	373,428
Social security costs	29,641	41,035
Other pension costs	47,454	27,497
	<u>410,604</u>	<u>441,960</u>

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

	2007 No.	2006 No.
Product development	<u>9</u>	<u>15</u>

**5. DIRECTORS' REMUNERATION**

	2007 £	2006 £
Emoluments	<u>96,000</u>	<u>158,000</u>
Company pension contributions to money purchase pension schemes	<u>9,000</u>	<u>13,024</u>

During the year retirement benefits were accruing to 2 directors (2006 - 2) in respect of money purchase pension schemes. During the year, the company made payments of £161,195 to directors of fellow subsidiary companies.

**6 INTEREST PAYABLE**

	2007 £	2006 £
On other loans	3,150	-
On finance leases and hire purchase contracts	518	-
	<u>3,668</u>	<u>-</u>

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**7. AUDITORS' REMUNERATION**

	2007 £	2006 £
Fees payable to the company's auditor for the audit of the company's annual accounts	15,000	2,000
Fees payable to the company's auditor and its associates in respect of: Other services relating to taxation	5,634	2,500

**8. EXCEPTIONAL ITEMS**

	2007 £	2006 £
Write off of inter company accounts	129,514	-

**9. TAXATION**

	2007 £	2006 £
<b>ANALYSIS OF TAX CREDIT IN THE YEAR</b>		
UK corporation tax credit on losses for the year	(100,000)	(151,173)
Adjustments in respect of prior periods	-	2,882
<b>TOTAL CURRENT TAX</b>	<b>(100,000)</b>	<b>(148,291)</b>
<b>TAX ON LOSS ON ORDINARY ACTIVITIES</b>	<b>(100,000)</b>	<b>(148,291)</b>

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**9. TAXATION (continued)****FACTORS AFFECTING TAX CHARGE FOR THE YEAR**

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

	2007 £	2006 £
Loss on ordinary activities before tax	<u>(812,222)</u>	<u>(845,669)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2006 - 19%)	(154,322)	(160,677)
<b>EFFECTS OF:</b>		
Expenses not deductible for tax purposes	26,534	27
Increase in tax losses	58,670	35,666
Depreciation for the period in excess of capital allowances	1,554	7,537
Research and development adjustment	67,564	28,345
Research and development claim	(100,000)	(62,071)
Adjustments to tax charge in respect of prior periods	-	2,882
<b>CURRENT TAX CREDIT FOR THE YEAR (see note above)</b>	<u>(100,000)</u>	<u>(148,291)</u>

**FACTORS THAT MAY AFFECT FUTURE TAX CHARGES**

There were no factors that may affect future tax charges.

**10. INTANGIBLE FIXED ASSETS**

	Patents and trademarks £
<b>COST</b>	
At 1 April 2006 and 31 March 2007	<u>359,975</u>
<b>AMORTISATION</b>	
At 1 April 2006 and 31 March 2007	<u>359,975</u>
<b>NET BOOK VALUE</b>	
At 31 March 2007	<u>-</u>
At 31 March 2006	<u>-</u>

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**11. TANGIBLE FIXED ASSETS**

	Plant and machinery £
<b>COST</b>	
At 1 April 2006	328,147
Additions	28,420
Disposals	(128,781)
	<hr/>
At 31 March 2007	227,786
<b>DEPRECIATION</b>	
At 1 April 2006	266,937
Charge for the year	41,428
On disposals	(116,111)
	<hr/>
At 31 March 2007	192,254
<b>NET BOOK VALUE</b>	
At 31 March 2007	35,532
	<hr/>
At 31 March 2006	61,210
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The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows

	2007 £	2006 £
Plant and machinery	26,833	-
	<hr/>	<hr/>

**12. DEBTORS**

	2007 £	2006 £
<b>DUE WITHIN ONE YEAR</b>		
Trade debtors	57,136	93,872
Other debtors	106,546	170,656
Prepayments and accrued income	17,287	9,758
	<hr/>	<hr/>
	180,969	274,286
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Trade debtors of £57,136 are factored



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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**13. CREDITORS:  
AMOUNTS FALLING DUE WITHIN ONE YEAR**

	2007 £	2006 £
Bank loans and overdrafts	832,678	549,480
Net obligations under finance leases and hire purchase contracts	5,600	-
Trade creditors	222,636	169,097
Amounts owed to group undertakings	6,066,336	5,922,192
Social security and other taxes	20,218	10,140
Other creditors	67,612	-
Accruals and deferred income	44,352	36,763
	<u>7,259,432</u>	<u>6,687,672</u>

The bank loans and overdraft are secured by way of a cross company guarantee with other group companies

Hire purchase liabilities are secured on the assets to which they relate.

Other creditors include a short term commercial loan secured on the book debtors of the company

**14. CREDITORS:  
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	2007 £	2006 £
Net obligations under finance leases and hire purchase contracts	<u>21,467</u>	<u>-</u>

Obligations under finance leases and hire purchase contracts, included above, are payable as follows

	2007 £	2006 £
Between one and five years	<u>21,467</u>	<u>-</u>

Hire purchase liabilities are secured on the assets to which they relate

**15. DEFERRED TAXATION**

There are tax losses carried forward of £3,949,430. 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.

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**16. SHARE CAPITAL**

	2007 £	2006 £
<b>AUTHORISED</b>		
300,000 Ordinary shares of 1p each	<u>3,000</u>	<u>3,000</u>
<b>ALLOTTED, CALLED UP AND FULLY PAID</b>		
280,900 Ordinary shares of 1p each	<u>2,809</u>	<u>2,809</u>

**17. RESERVES**

	Share premium account £	Profit and loss account £
At 1 April 2006	303,518	(6,658,503)
Loss retained for the year		(712,222)
At 31 March 2007	<u>303,518</u>	<u>(7,370,725)</u>

**18. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' DEFICIT**

	2007 £	2006 £
Opening shareholders' deficit	(6,352,176)	(5,654,798)
Loss for the year	<u>(712,222)</u>	<u>(697,378)</u>
Closing shareholders' deficit	<u>(7,064,398)</u>	<u>(6,352,176)</u>

**19. 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 £47,454 (2006 £27,497). There were outstanding contributions amounting to £9,566 at the end of the year.

**20. CONTINGENT LIABILITIES**

The company has guaranteed bank borrowings of other group companies which at 31 March 2007 amounted to £nil (2006 £nil).

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**MICAP FLAVOURS LIMITED**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2007**

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**21. TRANSACTIONS WITH DIRECTORS**

At the year end the company owed M J Norris £10,385

**22. RELATED PARTY TRANSACTIONS**

Details of balances with Group undertakings are disclosed in Note 12

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

**23. 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