Accsys Technologies PLC

Consolidated Financial Statements

Year Ended

31 March 2006

the strength within

Page:

Directors	William Paterson-Brown	Executive Chairman
	Stefan Allesch-Taylor	Non-Executive Director
	Gordon Campbell	Non Executive Director
	Tim Paterson-Brown	Non-Executive Director
	Edward J Pratt	Chief Executive Officer
	Glyn C Thomas	Chief Financial Officer
Company Secretary	Christopher C Morse	
Company Number	5534340	
Registered Office	7 Queen Street Mayfair London W1J 5PB	
Bankers	Barclays Bank PLC 180 Oxford Street London W1D 1EA	ABN Amro Gele Rijdersplein 6800 KW Arnhem The Netherlands
Auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL	

Chairman's Statement

Accsys Technologies was successfully listed on the AiM market of the London Stock Exchange in October 2005, raising €27 million before expenses. This has provided the Company with an excellent foundation for the continued development of its technologies and our market launch prior to commercial start-up, which is expected this year. The response of the investment community and the stock market confirmed the validity of the Company's strategy and reflected the broad interest of corporations and individuals in technologies which offer cost and environmental benefits to basic industries.

The past year saw enormous strides in Accsys Technologies' development, with particular emphasis on its Titan Wood subsidiary as planned. A new product brand was created and launched, customer and licensee development proceeded apace, product and process development continued positively and plant construction, including the acquisition of a new, larger site, moved forward. The Company expects to complete its wood acetylation production facility in the fourth quarter of 2006, with revenue from initial sales anticipated soon after.

During the past year staffing levels were increased and management and reporting systems transformed in readiness for full commercial production. Development efforts for future technologies were also continued, with discussions presently underway with several of the leading global companies in each field about how best to exploit each technology. Considering these activities, together with the stock market flotation, it is fair to say that 2005-6 was a busy, productive and successful year for our Company.

Willy Paterson-Brown

Executive Chairman

Date: 14 June 2006

Chief Executive's Business Review for the year ended 31 March 2006

A core part of both the licence proposition and the development of the customer base, particularly with a novel product, is the establishment of a strong brand identity. Feedback from early customers and partners, including independent research institutions, indicated that the Company's acetylated wood product was seen as a "new species", since it functions completely differently from the underlying base-species from which it is made. In October last year, the Company launched the new brand, Accoya™, at an industry fair in Germany, and in the trade-press in the UK and Netherlands. The brand name and design has received excellent endorsement from all who have seen it – especially from product users and target licensees – and continues to generate a strong, positive response.

Being a new product, Accoya™ has to be thoroughly evaluated before customers will place orders. Extensive test programmes have been conducted on different dimensions and grades of wood for a range of end-product applications. These tests have been with end-users, such as joinery companies, as well as research institutes, university departments, coatings manufacturers, glue manufacturers and other industry related organisations. Virtually without exception, the results have been excellent.

The Company's customer development efforts are looking extremely promising, with sizeable volumes expected to be committed in the coming months before start up of the plant at Arnhem. Pre-start-up agreements are anticipated for a range of end-uses, including:

- window and doors
- cladding / siding
- decking
- canal linings

Although much of our effort has been directed at those exterior applications in which wood has historically been used, we are extremely pleased that Accoya™ has passed a battery of additional tests that confirm its suitability for even the most demanding structural applications. The unique combination of durability, dimensional stability, UV resistance and strength looks set to open up market channels which are completely new for the wood industry.

With the excellent progress with customer and product development during the year, it is very satisfying to report similar success in the Company's pursuit of its primary goal, the licensing of its production technology. Major prospective licensees across four continents are presently evaluating the business, and option agreements have been signed for licences in the UK and Ireland, with BSW Timber PLC, and the Middle East, with Skanfore LLC. BSW Timber is the largest sawmill operator in the United Kingdom and one of the most successful companies in the wood industry.

BSW Timber has worked with us and Akzo Nobel Sikkens, the world's leading coatings manufacturer, to achieve outstanding coatings guarantees. With Sikkens' coating system guarantees of 30 years, including 12 years to first maintenance for opaque paints, Accoya™ offers performance levels that have never been seen before in the wood sector, enabling wooden windows to compete effectively with PVC products. Sikkens further evidenced its belief in our product by helping BSW to launch Accoya™ on its trade stand at Interbuild, the UK's largest building sector trade show, in April 2006.

At the beginning of the financial year the decision was taken to acquire a larger site to enable future expansion of Accoya™ production, as well as to create suitable space for already-identified technology developments. Construction of the group's ketene reactor (cracker) has been completed and commissioning is underway, whilst the fabrication of vessels and site work for the acetylation facility is well underway. The group retains a total commitment to the safety of its staff and to the proper management of risks. Indeed, plant safety is being certified by an independent notarised body even though it is not a requirement of the production permit.

Technology development, the core of Accsys' business, continued satisfactorily. Considerable work was done on improving the wood acetylation process, with technical efforts focused on cycle times and addressing specific customer needs in terms of materials' properties. The group appointed Akzo Nobel to undertake detailed design engineering for the wood acetylation plant, with their commitment enabling the schedule broadly to be maintained despite the inevitable challenges associated with scaling up novel technology of this kind. Other process development work was also undertaken, with important progress achieved in relation to both styrene and wood fibre acetylation process technologies. The group expects to achieve future value from both of these technologies and is presently engaged in negotiations about how best to exploit each technology with several of the leading global companies in each field.

Accsys Technologies would have been unable to achieve such great progress in Titan Wood and in its technology development work without continuing to strengthen its human resources. A new General Manager was appointed to assume full-time day-to-day responsibility for the Arnhem facility, and additional engineers, sales, administration and operational staff were appointed. Total staff numbers have increased to nearly 40, and full-scale operations are expected to increase that figure to around 70.

The challenges of launching a new product, as well as a combination of new technologies, will always be great. The dedication and commitment of the Company's staff has been exceptional during 2005-6. The response from our customers and potential licensees around the world leads us all to believe that the investment, both human and financial, in this effort will be rewarded.

Edward Pratt

Chief Executive
Date: 14 June 2006

The directors present their report together with the audited financial statements for the year ended 31 March 2006.

Results and dividends

The consolidated profit and loss account for the year is set out on page 8.

The directors do not recommend payment of a dividend.

Principal activities and review of the business

The principal activity of the group is the development and commercialisation of new process technologies for the chemical industry. A review of the business is set out in the Chairman's Statement and the Chief Executive's Business Review on pages 1 and 2.

Financial instruments

Details of the use of financial instruments by the Company and its subsidiary undertakings are set out in Note 20 of the financial statements.

Corporate restructure and financings

On 1 April 2005, Accsys Chemicals PLC, the former holding company, entered into a subscription agreement with MacNiven and Cameron Equity Holdings Limited under which MacNiven and Cameron Equity Holdings Limited agreed to subscribe €1,194,804 for 2,597,400 new Ordinary shares of €0.25 at a price of €0.46 each, in capitalisation of the balance of the outstanding interest free advances previously made to Accsys Chemicals PLC.

On 1 April 2005, Accsys Chemicals PLC also entered into a subscription agreement with Asia I. T. Capital Investments Limited under which Asia I. T. Capital Investments Limited agreed to subscribe €3,000,000 in cash for 6,521,739 new Ordinary shares of €0.25 at a price of €0.46 each. This subscription replaced a €3,000,000 debt facility previously provided by Asia IT.

On 11 August 2005, a new holding company, Accsys Technologies PLC, was formed to acquire the entire issued share capital of Accsys Chemicals PLC and to then obtain a listing for its Ordinary shares on the AiM market in London. On 14 September 2005, Accsys Technologies PLC made offers for the entire issued share capital of Accsys Chemicals PLC on the basis of one new Ordinary share of €0.01 for each existing Ordinary share and of one new Deferred share of 10p for every 48.1715 existing Deferred shares. At the initial close of the Offers, acceptances had been received in respect of 95.5% of the Ordinary shares and 94.9% of the Deferred shares. Accordingly, Accsys Technologies PLC exercised compulsory purchase powers under the Companies Act to acquire the outstanding Ordinary and Deferred shares.

On 26 October 2005, the Company completed the placing of 27,000,000 new Ordinary shares at a price of €1.00 each raising approximately €25,850,000 after expenses and its Ordinary shares were admitted to AiM.

On 22 November 2005, the Company completed its acquisition of the Ordinary and Deferred shares of Accsys Chemicals PLC, which became wholly owned, and also completed the offer in respect of options over Ordinary shares in Accsys Chemicals PLC.

On 16 December 2005, the Company acquired the entire issued share capital of all group subsidiaries held by Accsys Chemicals PLC and subsequently the activities of this company have been terminated in order that it may be voluntarily liquidated.

Impact of adoption of International Financial Reporting Standards (IFRS)

A review of the impact of adopting IFRS has been undertaken and the directors are not aware of any significant adjustments that would be made to the group and parent company financial statements of Accsys Technologies PLC for the year ended 31 March 2006 if the results and net assets were reported under IFRS.

Supplier payment policy

The Group's policy, in relation to all of its suppliers, is to negotiate terms of payment when agreeing the terms of transactions, to ensure that those suppliers are made aware of the terms of payment and to abide by those terms provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not follow any universal code or standard on payment practice but subsidiary companies are expected to establish payment terms consistent with local procedures, custom and practice. The Company has no trade creditors.

Significant shareholdings

The following shareholder held beneficial interests in the Ordinary shares exceeding 3%:

- MacNiven and Cameron Equity Holdings Limited 15.1%

Directors

The directors of the company during the year were:

Willy Paterson-Brown	Appointed 17 August 2005
Stefan Allesch-Taylor	Appointed 22 September 2005
Gordon Campbell	Appointed 3 October 2005
Tim Paterson-Brown	Appointed 22 September 2005
Edward J Pratt	Appointed 11 August 2005
Glyn C Thomas	Appointed 11 August 2005

Directors' interests in the Ordinary shares of the Company are set out below:

	Ordinary shares		Options over Ordinary shares	
	31 March 2006	31 March 2005	31 March 2006	31 March 2005
Willy Paterson-Brown	*20,000,000	-	1,440,000	-
Stefan Allesch-Taylor	*20,000,000	-	-	-
Gordon Campbell	48,172	-	-	-
Tim Paterson-Brown	*20,000,000	-	-	-
Edward J Pratt	618	-	1,440,000	-
Glyn C Thomas	618	-	960,000	-

All options were granted at an exercise price of €0.46 per Ordinary share. 50% of the options vested upon grant and 50% will vest upon the group receiving a cumulative €1 million in revenue from 1 April 2005. Once vested, options may be exercised from the date the Company's shares become listed on a recognised stock exchange or upon a change in control if earlier and any remaining unexercised at 30 March 2015 expire.

Note * 20,000,000 Ordinary shares and 415,184 Deferred shares are registered in the name of MacNiven and Cameron Equity Holdings Limited (formerly: STG Holdings PLC). Messrs S Allesch-Taylor, W Paterson-Brown and Mr T Paterson-Brown have beneficial interests in those shares as they are three of the discretionary beneficiaries of a trust which owns the majority of the issued share capital of MacNiven and Cameron Equity Holdings Limited. None of these persons can exercise, or influence the exercise of, the voting rights of the Ordinary and Deferred shares held by MacNiven and Cameron Equity Holdings Limited.

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 group and the company and of the profit or loss of the group 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 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

Going concern statement

The directors confirm that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these accounts.

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board

C C Morse
Secretary

Date: 14 June 2006

Independent Auditor's Report to the Shareholders of Accsys Technologies PLC

We have audited the group and parent company financial statements (the "financial statements") of Accsys Technologies PLC for the year ended 31 March 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chief Executive's Business Review and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 group's and company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

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

BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

London

Date: 14 June 2006

Accsys Technologies PLC

Consolidated profit and loss account for the year ended 31 March 2006

	Note	2006 €'000	2006 €'000	2005 €'000	2005 €'000
Turnover			80		-
Administrative expenses					
General administrative expenses		(5,860)		(2,965)	
Impairment of tangible and intangible fixed assets		-		(24,514)	
			(5,860)		(27,479)
Operating loss	5		(5,780)		(27,479)
Interest receivable and similar income	6		782		18
Loss on ordinary activities before and after taxation			(4,998)		(27,461)
Minority interest			-		841
Loss for the year	17		(4,998)		(26,620)
Basic and diluted loss per share	9		€(0.04)		€(0.43)

Consolidated statement of total recognised gains and losses

	Note	2006 €'000	2005 €'000
Loss for the year	19	(4,998)	(26,620)
Exchange translation differences on consolidation and conversion to Euro	19	-	(1,095)
Total recognised gains and losses for the year		(4,998)	(27,715)

All amounts relate to continuing activities.

The notes on pages 11 to 25 form part of these financial statements.

Accsys Technologies PLC

Balance sheets at 31 March 2006

	Note	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000
Fixed assets				
Intangible assets	10	13,715	14,246	-
Tangible assets	11	10,693	2,842	-
Investments	12	-	-	11,383
		24,408	17,088	11,383
Current assets				
Debtors	13	8,411	6,224	19,646
Other investments	14	15,513	-	15,513
Cash at bank		4,577	4,564	4,023
		28,501	10,788	39,182
Creditors: amounts falling due within one year	15	1,984	1,922	23,666
Net current assets		26,517	8,866	15,516
Net assets		50,925	25,954	26,899
Capital and reserves				
Called up share capital	16	1,473	1,203	1,473
Share premium account	17	25,504	-	25,504
Merger reserve	17	106,707	102,512	-
Profit and loss account	17	(82,759)	(77,761)	(78)
Shareholders' funds	19	50,925	25,954	26,899

The financial statements were approved by the Board and authorised for issue on 14 June 2006

Glyn Thomas)
) **Directors**
Willy Paterson-Brown)

The notes on pages 11 to 25 form part of these financial statements.

Accsys Technologies PLC

Consolidated cash flow statement for the year ended 31 March 2006

	Note	2006 €'000	2006 €'000	2005 €'000	2005 €'000
Net cash outflow from operating activities	23		(4,468)		(2,513)
Returns on investments and servicing of finance					
Interest received		269		18	
Interest paid		-		-	
Net cash inflow from returns on investments and servicing of finance			269		18
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(7,925)		(2,210)	
Sale of tangible fixed assets		53		-	
			(7,872)		(2,210)
Cash outflow before use of liquid resources and financing			(12,071)		(4,705)
Management of liquid resources					
Increase in short term deposits		(1,690)		(5,616)	
Increase in other investments		(15,000)		-	
			(16,690)		(5,616)
Financing					
Increase in loans		-		1,434	
Issue of share capital		27,000		11,773	
Expenses of issue of share capital		(1,226)		(565)	
Shares issued by subsidiary		3,000		800	
			28,774		13,442
Increase in cash	24		13		3,121

The notes on pages 11 to 25 form part of these financial statements.

1 Corporate restructuring

During the period the Group carried out a corporate re-restructuring including the introduction of a new holding company, Accsys Technologies PLC. The corporate restructuring has been accounted for as a merger in accordance with Financial Reporting Standard 6 'Acquisitions and Mergers' (FRS 6) see accounting policies (note 2). The profit and loss account for the year is accordingly prepared as if the new holding company had been in existence throughout both 2006 and prior periods.

2 Accounting policies

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

In preparing these financial statements, the group has adopted FRS25 'Financial Instruments: Disclosure and presentation' and voluntarily adopted FRS26 'Financial Instruments: measurement'.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Accsys Technologies PLC and all its subsidiary undertakings throughout the year ended 31 March 2006, using the merger or acquisition method of accounting as required. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition. Intra-group sales and losses are eliminated fully on consolidation.

If the acquisition meets the criteria of a group reconstruction merger accounting is used. In such instances the investment is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the Group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the Group. The results of such a subsidiary are included for the whole period in the year it joins the Group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the Company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the Company and those issued by the Company to acquire them is taken to a merger reserve.

Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets and liabilities acquired. It is capitalised and is being amortised over the directors' estimate of its remaining useful economic life, of nine years from the date of acquisition.

Intellectual property rights

Intellectual property rights, comprising patents pending which cover a portfolio of novel chemical processes and products, are shown in the financial statements at cost and are amortised in equal amounts over their useful economic life up to a maximum of 20 years. No amortisation charge is made until plants licensed to exploit the intellectual property are fully commissioned.

2 Accounting policies *(Continued)*

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 less estimated residual value of each asset, except freehold land, over its expected useful life, as follows:

Plant and machinery	These assets comprise pilot plants and production facilities in the course of construction. These assets are depreciated from the date the plant is commissioned at rates between 5% and 50%.
Office equipment	between 20% and 50% straight line
Motor vehicles	20% straight line

Impairment of tangible and intangible fixed assets

The need for any fixed asset impairment write-down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

Investments

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

Financial assets

Financial assets are recognised and derecognised on the trade date of their purchase or sale. The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The group's accounting policy for each category is as follows:

Fair value through profit or loss: This category comprises only the redeemable preference shares held as current asset investments. They are carried in the balance sheet at fair value with changes in fair value recognised in the profit and loss account. These assets have been designated as at fair value through profit and loss as they are held for trading.

Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment.

Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the period in accordance with FRS 17.

Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes except for deferred tax assets which are only recognised to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are not discounted.

2 Accounting policies *(Continued)*

Foreign currency translation

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

The exchange rate used at 31 March 2006 was €1.45 to £1 (2005: €1.46 to £1).

Government grants

Grants relating to expenditure on tangible fixed assets are credited to the profit and loss account at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income. Grants of a revenue nature are credited to the profit and loss account in the period to which they relate.

Liquid resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

3 Employees

	Group 2006 €'000	**Group 2005 €'000**
Staff costs consist of:		
Wages and salaries	1,609	691
Social security costs	189	73
Other pension costs	122	30
	1,920	794

The average number of employees, including directors, during the year was as follows:	**Number**	**Number**
Administration	11	8
Operating	10	8
	21	16

The Company has no employees

4 Directors' remuneration

	2006 €'000	2005 €'000
Directors' remuneration consists of:		
Salary	659	307
Bonus	400	-
Fees	42	-
Other benefits	4	-
Total emoluments	1,105	307
Company pension contributions to money purchase schemes	71	21
	1,176	328

	2006 €'000	2005 €'000
Emoluments disclosed above include the following amounts paid to the highest paid director:		
Emoluments for qualifying services	419	211
Company pension contributions to money purchase schemes	21	21

The group makes contributions to 2 (2005: 1) directors' personal pension plans.

5 Operating loss

	2006 €'000	2005 €'000
This has been arrived at after charging:		
Depreciation of tangible assets	21	838
Amortisation of intangible fixed assets	531	-
Impairment of intangible fixed assets	-	24,514
Operating lease rentals	286	252
Auditors' remuneration (company €13,050; 2005 - €12,000)	54	40
Remuneration of auditors for non-audit work (see note below)	-	22
Admission to AiM expenses	565	-
and after crediting:		
Research subsidies from governmental agencies	(308)	(348)
(Profit)/loss on foreign exchange	3	(308)

Included in admission to AiM expenses are corporate finance fees of €110,000 paid to the auditors. A further €38,000 of corporate finance fees paid to the auditors have been charged to the share premium account.

6 Interest receivable and similar income

	2006 €'000	2005 €'000
Interest receivable on bank and other deposits	269	18
Increase in market value of current asset investments	513	-
-	782	18

7 Taxation on loss from ordinary activities

	2006 €'000	2005 €'000
Current tax		
UK corporation tax on profits of the year	-	-
Adjustment in respect of previous years	-	-
Total current tax	-	-
Factors affecting the corporation tax charge for the period		
Loss on ordinary activities before tax	(4,998)	(27,461)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 - 30%)	(1,499)	(8,238)
Effects of:		
Expenses not deductible for tax purposes	345	7,355
Capital allowances in excess of depreciation (2005: depreciation in excess of capital allowances)	(125)	223
Increase in tax losses carried forward	1,279	660
Current tax charge for year	-	-

Deferred taxation

The potential deferred tax asset of the group arising from tax losses carried forward and the excess of depreciation over capital allowances are set out below. As the recoverability of these amounts in the foreseeable future is uncertain, the potential deferred tax assets have not been recognised.

	Group 2006 €'000	Group 2005 €'000
Tax losses carried forward	2,793	1,426
Excess of depreciation over capital allowances	264	223
	3,057	1,649

The company has no significant potential deferred tax assets or liabilities.

8 Loss for the financial period

As permitted by section 230 of the Companies Act 1985, the parent company's profit and loss account has not been included in these financial statements. The loss for the financial period includes a loss of €78,000 which is dealt with in the financial statements of the parent company.

9 Loss per Accsys Technologies PLC share

The loss per share shown below is calculated based upon the weighted average number of Accsys Technologies PLC Ordinary shares in issue.

	2006	**2005**
Weighted average number of Ordinary shares in issue	116,975,026	61,596,033
Loss for the year €'000	(4,998)	(26,620)
Loss per share	€(0.04)	€(0.43)

Since none of the Accsys Technologies PLC's potential Ordinary shares are dilutive, there is no difference between basic and diluted loss per share.

10 Intangible fixed assets

Group	**Intellectual property rights €'000**	**Goodwill on consolidation €'000**	**Total €'000**
Cost			
At 1 April 2005 and 31 March 2006	73,000	4,249	77,249
Amortisation			
At 1 April 2005	62,985	18	63,003
Charge for the year	-	531	531
At 31 March 2006	62,985	549	63,534
Net book value			
At 31 March 2006	10,015	3,700	13,715
At 31 March 2005	10,015	4,231	14,246

The directors have undertaken an impairment review (using the value in use method) of the carrying value of the intellectual property rights. In doing so, they have evaluated future potential patent licence fees and production royalty fees which may arise from full commercialisation of the patents applied for. When calculating this value, pre-tax discount rates of 25% and 35% have been applied. No impairment of intellectual property rights has been charged in the year. Goodwill is being amortised over its estimated remaining useful life.

11 Tangible assets

Group	Freehold land €'000	Plant & machinery €'000	Office equipment €'000	Motor vehicle €'000	Total €'000
Cost or valuation					
At 1 April 2005	-	10,083	13	53	10,149
Additions	950	6,948	27	-	7,925
Disposals	-	(6,542)	-	(53)	(6,595)
At 31 March 2006	950	10,489	40	-	11,479
Depreciation					
At 1 April 2005	-	7,248	6	53	7,307
Charge for the year	-	9	12	-	21
Disposals	-	(6,489)	-	(53)	(6,542)
At 31 March 2006	-	768	18	-	786
Net book value					
At 31 March 2006	950	9,721	22	-	10,693
At 31 March 2005	-	2,835	7	-	2,842

12 Fixed asset investments

Shares in subsidiary undertakings	**Company €'000**
Cost	
Acquisition of Accsys Chemicals PLC	1,203
Transfers from subsidiary undertaking	8,010
Additional share capital subscribed in subsidiaries	2,170
At 31 March 2006	11,383

The following were the principal subsidiary undertakings at the end of the year and have all been included in the financial statements:

Subsidiary undertakings	**Country of registration or incorporation**	**Class**	**Shares held %**
International Cellulose Company Overseas Limited	Gibraltar	Ordinary	100
International Chemical Company BV *(formerly Accsys Fibres BV)*	Netherlands	Ordinary	100
Titan Wood BV	Netherlands	Ordinary	100
Titan Wood Limited	England	Ordinary	100

The shares in Titan Wood BV are held indirectly by the company.

The principal activities of these companies were as follows:

International Cellulose Company Overseas Limited	The ownership and exploitation of patents and technical know how (collectively intellectual property rights), relating to the acetylation of cellulose, production of ketene, acetic anhydride, solvent recovery of acetate and acetic acid and tow spinning.
International Chemical Company BV	The technical validation and demonstration of patents and technical know-how relating to the acetylation of cellulose, the production of ketene, acetic anhydride, solvent recovery of acetone and acetic acid and tow spinning.
Titan Wood Limited	The development of acetylated wood as a principal source of durable wood for external applications through the licensing of process patents supported by the operation of a technology demonstrator plant by its subsidiary company, Titan Wood BV.
Titan Wood BV	The ownership and development of a plant to manufacture acetylated wood, together with the exploitation of patents and technical know-how, (collectively, intellectual property rights), relating to the acetylation of wood.

13 Debtors

	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000
Trade debtors	-	3	-
Amounts owed by subsidiary undertakings	-	-	12,316
Other debtors	943	457	-
Other loans and deposits	7,306	5,616	7,306
Prepayments and accrued income	162	148	24
	8,411	6,224	19,646

All amounts fall due for payment within one year. Other loans and deposits earn interest at 3% (2005: 3%).

14 Other investments

	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000
Securities available for sale	15,513	-	15,513

At the balance sheet date, the Company held 9,643,256 (2005: nil) redeemable preference shares of €0.000015 each in the Tactica Euro Fund, managed by Goldman Sachs International. These shares are redeemable at one month's notice.

15 Creditors: amounts falling due within one year

	Group 2006 €'000	Group 2005 €'000	Company 2006 €'000
Trade creditors	1,777	547	-
Amounts owed to former parent undertakings	-	1,195	-
Amounts owed to subsidiary undertakings	-	-	23,651
Other taxes and social security costs	55	70	-
Accruals and deferred income	152	110	15
	1,984	1,922	23,666

16 Share capital

	2006 €'000
Authorised	
Equity share capital	
200,000,000 ordinary shares of €0.01 each	2,000
1,000,000 deferred shares of 10p each	148
	2,148
Allotted, called up and fully paid	
Equity share capital	
132,463,447 ordinary shares of €0.01 each	1,325
1,000,000 deferred shares of 10p each	148
	1,473

The deferred shares have no right to receive a dividend, no right to attend, speak or vote at general meetings of the company and only a right to participate in a winding up after €100,000 has been paid on each ordinary share.

Movements in allotted, called up and fully paid share capital comprise:

	Deferred shares of 10p each €'000	**Ordinary shares of €0.01 each €'000**
Upon incorporation	-	-
Acquisition of Accsys Chemicals PLC	148	1,055
Placing and Open Offer	-	270
At 31 March 2006	148	1,325

Two ordinary shares were issued when the company was incorporated on 11 August 2005.

On 14 September 2005, the Company made offers for the entire issued share capital of Accsys Chemicals PLC on the basis of one new Ordinary share of €0.01 for each existing Ordinary share and of one new Deferred share of 10p for every 48.1715 existing Deferred shares. After acceptances exceeded 90%, the Company exercised compulsory purchase powers under the Companies Act to acquire the outstanding Ordinary and Deferred shares. A total of 105,463,445 Ordinary shares and 1,000,000 Deferred shares were issued in consideration. On 22 November 2005, the Company completed its acquisition of the Ordinary and Deferred shares of Accsys Chemicals PLC, which became wholly owned, and also completed the offer in respect of options over Ordinary shares in Accsys Chemicals PLC.

16 Share capital (continued)

On 26 October 2005, the Company completed the placing of 27,000,000 new Ordinary shares at a price of €1.00 each raising approximately €25,209,000 after expenses and its Ordinary shares were admitted to AIM.

As part of the offers made by the Company for the interests in Accsys Chemicals PLC, an offer was made to the holders of options over Ordinary shares in Accsys Chemicals PLC to exchange such options for options to subscribe for an equivalent number of Ordinary shares in the Company on similar terms – i.e. at the same exercise price of €0.46 per share and with 50% of the options vested upon grant and the remaining 50% on the attainment of cumulative Group turnover after 1 April 2005 of €1m. The options will lapse if unexercised on 31 March 2015. At the balance sheet date a total of 19 persons held an aggregate of 5,688,000 options.

On 22 September 2005, a further grant of options over 100,000 Ordinary shares was granted to one person at a price of €0.90 without vesting conditions.

17 Reserves

Group	**Share premium account €'000**	**Merger reserve €'000**	**Profit and loss account €'000**
Balance at 1 April 2005	-	102,512	(77,761)
Arising on shares issued by subsidiary	-	4,195	-
Premium on shares issued	26,730	-	-
Issue costs	(1,226)	-	-
Loss for the year	-	-	(4,998)
Balance at 31 March 2006	25,504	106,707	(82,759)

Company	**Share premium account €'000**	**Profit and loss account €'000**
Balance at 1 April 2005	-	-
Premium on shares issued	26,730	-
Issue costs	(1,226)	-
Loss for the period	-	(78)
Balance at 31 March 2006	25,504	(78)

In preparing the financial statements for the year ended 31 March 2006, the company has utilised merger relief available under S131 of the Companies Act 1985 in respect of the shares issued to acquire Accsys Chemicals PLC in that period.

18 Commitments under operating leases

As at 31 March 2006, the group had annual commitments under non-cancellable operating leases as set out below:

	2006 Land and buildings €'000	**2005 Land and buildings €'000**
Operating leases which expire:		
In two to five years	286	280

The company has no annual commitments under non-cancellable operating leases.

19 Reconciliation of movements in shareholders' funds

	2006 €'000	**2005** €'000
Group		
Loss for the year	(4,998)	(26,620)
Exchange translation differences on consolidation and conversion to euro	-	(1,095)
Proceeds from issue of shares	25,774	21,593
Shares issued by subsidiary	4,195	-
Net increase/(decrease) in shareholders' funds	24,971	(6,122)
Opening shareholders' funds	25,954	32,076
Closing shareholders' funds	50,925	25,954
Company		
Loss for the period	(78)	
Shares issued to acquire Accsys Chemicals PLC	1,203	
Proceeds from issue of shares	25,774	
Net increase in shareholders' funds	26,899	
Opening shareholders' funds	-	
Closing shareholders' funds	26,899	

20 Treasury policy

The group's Treasury Policy is structured to ensure that adequate financial resources are available for the development of its business whilst managing its currency, interest rate and counterparty credit risks. The group's Treasury strategy and policy are developed centrally and approved by the board.

Funding for the construction, commissioning and working capital requirements of the group's wood acetylation production facility has been funded by the additional share capital raised at the time of admission to AiM. The group's internal projections indicate that, subject to unforeseen problems, there is adequate funding available to complete this objective.

Currency exposures are limited to certain administrative expenditure incurred in pounds sterling, as all group companies have adopted the euro as their reporting currency. The group's currency exposures are minimal.

Counterparty credit risks arise principally in relation to the Company's short term liquid resources. These have been placed directly or indirectly with high quality financial institutions or are represented by a diversified portfolio managed within clearly defined investment guidelines by a highly reputable investment manager.

	Group 2006 €'000	**Group 2005 €'000**	**Company 2006 €'000**
Gross financial assets comprised:			
Redeemable preference shares	15,513	-	15,513
Other financial assets:			
Other loans and deposits	7,306	5,616	7,306
Money market deposits	4,000	4,000	4,000
Money at call	540	476	21
Money at call in sterling	37	88	2
	27,396	10,180	26,842

Redeemable preference shares are redeemable at the holder's option on one month's notice and are carried at fair value. This has been determined as the net asset value reported by the investment manager at the balance sheet date. In the opinion of the directors, there is no material difference between the book value and the fair value of other financial assets. All other financial assets have interest rates fixed for less than three months at a weighted average of 2.55% (2005: 2.44%). Apart from minimal amounts denominated in sterling currency, all financial assets are denominated in euro.

At the balance sheet date, the Group has financial liabilities of €1,777,000 comprising trade creditors (2005: €1,742,000 comprising trade creditors of €547,000 and a loan from a third party of €1,195,000). The Company has no financial liabilities. In the opinion of the directors, there is no material difference between the book value and the fair value of financial liabilities.

21 Related party transactions

Mr William Paterson-Brown is a director of Khalidiya Investments SA. During the year the Company paid €425,376 (2005: €52,320) in respect of directors services provided by Khalidiya Investments SA. Mr William Paterson-Brown is also a director of Asia I.T. Capital Investments Limited. During the year ended 31 March 2005, the Company paid €565,094 to Asia I.T. Capital Investments Limited in relation to the Placing of 25,593,030 new Ordinary shares. The Company has interest bearing deposits of €7,305,932 (2005: Group €5,616,000) held with Asia I.T. Capital Investments Limited.

Mr Stefan Allesch-Taylor and Mr Glyn Thomas are directors of Tactica Fund PLC, Gibraltar, in one of whose funds the Company has invested €15,000,000. This investment in non equity securities had a market value of €15,513,000 at the balance sheet date, see Note 14.

22 Capital commitments

	2006 €'000	**2005 €'000**
Group		
Contracted but not provided for	8,936	2,085

23 Reconciliation of operating loss to net cash outflow from operating activities

	2006 €'000	**2005** €'000
Operating loss	(5,780)	(27,479)
Depreciation of tangible fixed assets	21	838
Amortisation of intangible fixed assets	531	-
Impairment of intangible fixed assets	-	24,514
(Increase) in debtors	(497)	(476)
Increase in creditors	1,257	90
	(4,468)	(2,513)

24 Reconciliation of net cash inflow to movement in net funds/(debt)

	2006 €'000	**2005** €'000
Increase in cash in the year	13	3,121
Cash inflow from increase in debt and lease financing	-	(1,434)
Change in net funds resulting from cash flows	13	1,687
Shares issued in subsidiary in settlement of debt	1,195	3,000
Other non-cash movements	-	150
Exchange differences	-	115
Movement in net funds/(debt) in the year	1,208	4,952
Opening net funds/(debt)	3,369	(1,583)
Closing net funds	4,577	3,369

25 Analysis of net funds

	At 1 April 2005 €'000	**Cash flow** €'000	**Other non-cash changes** €'000	**At 30 March 2006** €'000
Cash in hand and at bank	4,564	13	-	4,577
Debt due within one year	(1,195)	-	1,195	-
Total	3,369	13	1,195	4,577