

**Micap plc (MIC.L)**

*Interim results for the six months to 30<sup>th</sup> September 2006*

Micap plc (“Micap” or the “Company”) today reports its interim results for the six months to 30<sup>th</sup> September 2006.

Micap is a provider of microencapsulation solutions to a range of customers in fields such as flavour delivery, agrochemicals, healthcare and industrial applications, using both its proprietary yeast cell technology and bespoke methods developed by its scientific team.

**HIGHLIGHTS**

- Turnover up by 146% to £0.46 million (2005: £0.19 million).
- Reduced loss per ordinary share of 0.7p (2005: loss 2.0p); After tax loss of £0.39 million (2005 - loss £0.59m).
- Operating loss reduced by 38 % to £0.43 million (2005: loss £0.69 million).
- Good progress made with agrochemical partners using Micap yeast technology.
- Strong growth at Micap GmbH, provider of bespoke microencapsulation services to a wide variety of customers.
- Upgraded production facility in Ireland running customer trials for its spray drying services.

**Post Period End**

- Cost reduction programme continues, including assignment of lease on former head office.
- Successful placing of new Ordinary shares to raise £595,000 gross.

**Commenting on the results, Michael Norris, Chief Executive of Micap, said:**

*“Micap has made excellent progress on many commercial fronts during the period. This, coupled with the ongoing cost reduction programme, has allowed us to post a significantly lower loss than the corresponding period last year.*

*It is our hope that the short term revenue growth from our bespoke solutions and production operations will support the long term opportunities from our yeast encapsulation to help us build a strong, profitable business.*

*We are now generating revenues from all our operating divisions, with significant growth expected from Micap Encapsulates in the next few months. The extension to the Nufarm option agreement will make the achievement of a break even position in the final quarter unlikely, but if we continue to make the progress we are seeing throughout the Group this should be possible early in our new financial year.”*

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## **Chief Executive's Statement**

Since year end Micap has continued to develop its business as it seeks to become the microencapsulation solution provider of choice to industry. To this end, we have pursued a number of opportunities to generate immediate revenue in order to fund our long term development.

The business units within the Group allow Micap to offer a one stop shop to its customers, from initial problem solving, through scale up to full production, which is proving attractive to potential partners. We have established relationships with a number of multi-national organisations with whom we hope to collaborate on projects more fully in the new year.

As part of our ongoing drive to reduce the cost base of the Company, we have post period end negotiated the assignment of our former Head Office premises, which was a significant drain on our resources. I will continue to review our overhead to ensure it is commensurate with our business model. On October 10<sup>th</sup> we announced a placing to raise £595,000 to provide funds for the exit of the lease and additional working capital for the business.

Micap has made significant commercial progress in recent months and I would like to thank all my colleagues who have contributed to this.

## **Financial review**

The loss after tax of £0.39m (2005: loss £0.59m) represents a loss per ordinary share of 0.7p (2005: loss 2.0p). Turnover of £0.46m (2005: £0.19m) was generated from across all divisions, however now that the Athlone plant is fully operational this should lead to significant growth in Micap Encapsulates' revenue.

We are keen to develop our short term revenue streams in order to bring the Group into profit, which will allow us to continue to invest in our long term opportunities in agrochemicals and other fields where royalties and licensing income would be significant.

## **Yeast Technology**

Good progress has been made with our partners in the use of Micap's patented yeast encapsulation technology for Agrochemical applications.

In July of this year Nufarm Ltd, a major Australian crop protection company, capitalised at cAus\$1.7bn took a 6 month option to evaluate the potential of our technology for specific crop protection functions. Since then we have worked very closely with Nufarm on product formulation and efficiency and trials on a variety of crops are currently underway in a number of countries across Europe.

Due to the fixed nature of the North European growing season, Nufarm have requested a six month extension to the option period to enable them to collect data over a full cycle, and, taking into account the progress that has been made during our relationship with them, we have agreed to this request. As a sign of goodwill, Nufarm have agreed to make the first milestone payment reflecting progress to date, but the delay in concluding the full licence has made our hope of a profitable final quarter more unlikely.

We also announced in August that we had signed an option agreement with another leading crop protection company (the subsidiary of a major international business with worldwide sales in 2005 in excess of \$3 billion) to evaluate and license Micap's patented yeast encapsulation technology for specific applications in the agrochemical field. Micap has been working with this partner on a number of projects over recent months and promising results have been seen in the use of Micap's technology to enhance the performance of agrochemical actives in fields in which this partner has a

significant interest. Micap has been concentrating on increasing the loading of chemical within the yeast cell with very encouraging results and trials are currently underway on this project.

We are also pleased to be working on another project with this partner to investigate novel microencapsulation solutions using methods other than our yeast technology. Work on this is ongoing and results to date are encouraging.

A project is also underway with a leading consumer products group to develop a product for a chemical application. A number of samples have been produced including a quantity to allow the partner to carry out a large scale production trial. We are pleased with progress to date and are hopeful of announcing further developments shortly.

## **Production**

Since the year end we have completed our investment in the production facility in Athlone, Ireland, and have received quality approval from external sources.

Our initial commercial partner to take a licence on the yeast technology was Firmenich SA, the Swiss flavour company. In September this year Firmenich gave notice to terminate the licence, and as such we are now free to commercialise yeast encapsulated flavours both directly and through other partners with the key aim of producing yeast encapsulated flavours for the food ingredients market. We currently have a large customer for our mustard product and we are looking for further customers using both direct sources and external agents. Initial approaches have generated strong interest in the product. The margin we can obtain from direct sales is significantly higher than any royalty we may achieve through a license agreement.

Additionally, we are able to provide a full spray-drying service to food ingredient and colorant producers. We have carried out a number of funded trial production runs during December, and have seen particular success in the production of colorants. We are confident that we will see regular orders from these customers in the new year.

## **Bespoke Solutions**

Our German subsidiary, Micap GmbH, has had a very successful year. Contract development services have increased significantly as a number of major companies look for unique microencapsulation solutions from our technical team.

Micap GmbH operates by utilising a range of techniques and know-how to develop protection, stability or controlled release of chemical ingredients for industry.

Contracts won include creation of a controlled release oral product for a FTSE 100 company, a packaging reformulation for a worldwide food business and a timed release product for use in steel production. The diversity of these customers highlights the breadth of opportunities available to us.

We are now looking to sustain our relationships by offering scale up and production facilities, both in house at Athlone and through sub-contractors, allowing us to take an ongoing return from the solutions we produce. This will be one of our key growth targets in 2007.

We are also in the final stages of appointing a second distributor for our cosmetic Jojoba bead product, which is a moisturising and exfoliating agent that can be used in a range of cosmetic applications. The consistency of size and range of colours we can offer allows us to differentiate our product from many others on the market. Following sales into the German market, we have appointed a pan-European agent to manage the route to market on our behalf. We are hopeful that we will be in a position to launch the relationship early in 2007.

## **Formulation and analysis**

Our fourth business unit is Applied Analysis Ltd, which offers stability, formulation and analytical services to a range of pharmaceutical and nutraceutical customers. Following the takeover of our largest customer, we have seen a drop off in orders for our services. In line with our intention of producing a profitable Group as quickly as possible, we are looking at ways of replacing the business through business development or corporate relationships.

## **Prospects**

Micap has made excellent progress on many commercial fronts during the period. This, coupled with the ongoing cost reduction programme, has allowed us to post a significantly lower loss than the corresponding period last year.

It is our hope that the short term revenue growth from our bespoke solutions and production operations will support the long term opportunities from our yeast encapsulation to help us build a strong, profitable business.

We are now generating revenues from all our operating divisions, with significant growth expected from Micap Encapsulates in the next few months. The extension to the Nufarm option agreement will make the achievement of a break even position in the final quarter unlikely, but if we continue to make the progress we are seeing throughout the Group this should be possible early in our new financial year.

**Michael Norris**

**Chief Executive**

19 December 2006

MICAP PLC

Consolidated Profit and Loss Accounts

		6 months to 30/09/06	6 months to 30/09/05	Year ended 31/03/06
	Notes	£'000	£'000	£'000
Turnover		460	187	561
General and administrative expenses		(885)	(885)	(2,034)
Operating loss		(425)	(698)	(1,473)
Exceptional items		-	-	(195)
Loss on ordinary activities before interest		(425)	(698)	(1,668)
Net interest (payable)/receivable		(9)	4	-
Loss on ordinary activities before taxation		(434)	(694)	(1,668)
Tax credit for the financial period	6	45	109	148
Retained loss for the period	3	(389)	(585)	(1,520)
Loss per Ordinary share	2	(0.7)p	(2.0)p	(3.34)p

## MICAP PLC

## Consolidated balance sheet as at 30 September 2006

	Notes	30 Sept 2006	30 Sept 2005	31 Mar 2006
		£'000	£'000	£'000
<b>Fixed assets</b>				
Intangible assets		1,008	1,572	1,028
Tangible assets		369	202	422
Investments		188	188	188
Investments in joint ventures				
Share of gross assets		-	120	-
Share of gross liabilities		-	(119)	-
		<u>1,565</u>	<u>1,963</u>	<u>1,638</u>
<b>Current Assets</b>				
Stock		10	11	-
Debtors		278	392	565
Cash at bank and in hand		-	166	41
		<u>288</u>	<u>569</u>	<u>606</u>
<b>Creditors: Amounts falling due within one year</b>		<u>(906)</u>	<u>(577)</u>	<u>(900)</u>
<b>Net current (liabilities)</b>		<u>(618)</u>	<u>(8)</u>	<u>(294)</u>
<b>Total assets less current liabilities</b>		947	1,955	1,344
<b>Creditors: Amounts falling due after more than one year</b>		<u>(109)</u>	<u>(210)</u>	<u>(109)</u>
<b>Net assets</b>		<u>838</u>	<u>1,745</u>	<u>1,235</u>
<b>Capital and reserves</b>				
Called up share capital	3	10,604	10,334	10,604
Share premium account		6,489	5,991	6,497
Other reserve		50	400	50
Profit and loss account		(16,305)	(14,980)	(15,916)
		<u>838</u>	<u>1,745</u>	<u>1,235</u>
<b>Shareholders' funds</b>		<u>838</u>	<u>1,745</u>	<u>1,235</u>

## Consolidated cash flow statements

	Notes	6 months 30/9/06 £'000	6 months 30/9/05 £'000	Year to 31/3/06 £'000
Net cash outflow from operating activities	4	(212)	(433)	(1,207)
<b>Returns on investments and servicing of finance</b>				
Interest received		-	5	5
Interest paid		(9)	(1)	(4)
Hire purchase interest		-	-	(1)
<b>Net cash (outflow)/ inflow from returns on Investment and servicing of finance</b>		<u>(9)</u>	<u>4</u>	<u>-</u>
<b>Taxation</b>		151	230	223
<b>Capital expenditure and financial investment</b>				
Purchase of intangible fixed assets		-	-	(21)
Purchase of tangible fixed assets		-	(18)	(95)
Sale of tangible fixed assets		-	-	11
Purchase of investment		-	(1)	-
Loan to joint venture		-	(119)	-
<b>Net cash (outflow) from capital expenditure and financial investment</b>		<u>-</u>	<u>(138)</u>	<u>(105)</u>
<b>Acquisitions and disposals</b>		-	-	(127)
<b>Cash outflow before financing</b>		<u>(70)</u>	<u>(337)</u>	<u>(1,216)</u>
<b>Financing</b>				
Share premium expenses		(8)	14	755
Capital element of finance lease rental payments		-	-	(9)
<b>Cash inflow/(outflow) from financing</b>		<u>(8)</u>	<u>14</u>	<u>746</u>
<b>(Decrease) in cash in the period</b>	5	<u>(78)</u>	<u>(323)</u>	<u>(470)</u>

## Notes to the interim financial statements

## 1. Preparation of the financial statements

The interim results have been prepared in accordance with the accounting policies set out in the Group's annual accounts to 31 March 2006 and are un-audited. The interim financial statements were approved by a duly appointed and authorised committee of the Board of Directors on 18th December 2006.

## 2. Loss per Ordinary share

	Six Months to 30/09/2006	Six Months to 30/09/2005	Year to 31/03/2006
Loss on ordinary activities after tax	£(388,674)	£(585,697)	£(1,520,437)
Average number of shares in issue	55,825,329	28,825,229	45,496,355
Loss per ordinary share	(0.70)p	(2.03)p	(3.34)p

The effect of dilutive share options outstanding at 30 September 2006 would be to reduce the loss per ordinary share.

## 3 Movement in capital and reserves

The movement in capital and reserves during the period was as follows:-

	Share capital £'000	Share premium £'000	Profit and loss account £'000
At 1 April 2006	10,604	6,497	(15,916)
Loss for the period	-	-	(389)
Expenses in period	-	(8)	-
At 30 September 2006	<u>10,604</u>	<u>6,489</u>	<u>(16,305)</u>

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

	6 months 30/9/06 £'000	6 months 30/9/05 £'000	Year to 31/3/06 £'000
Operating loss	(425)	(698)	(1,473)
Exceptional items	-	-	(195)
Amortisation of goodwill	20	-	40
Depreciation charges	54	45	126
Profit on asset disposals	-	-	(1)
(Increase)/decrease in stock	(10)	(1)	11
Decrease in debtors	180	334	83
(Decrease)/increase in creditors	(31)	(113)	202
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash outflow from operating activities	(212)	(433)	(1,207)
	<u>          </u>	<u>          </u>	<u>          </u>

## 5. Reconciliation of net cash flow to movement in net funds

(Decrease) in cash for the period	(78)	(323)	(470)
Cash outflow from decrease in debt and lease financing	-	-	9
	<u>          </u>	<u>          </u>	<u>          </u>
Movement in net funds in the period	(78)	(323)	(461)
Opening net funds	29	489	490
	<u>          </u>	<u>          </u>	<u>          </u>
Closing net funds	(49)	166	29
	<u>          </u>	<u>          </u>	<u>          </u>

Notes to the interim financial statements *(continued)*

## 6. Taxation on loss on ordinary activities

	30 Sept 2006 £'000	30 Sept 2005 £'000	31 March 2006 £'000
United Kingdom corporation tax being research and development expenditure taxation credit	45	109	151
Adjustment in respect of prior periods	-	-	(3)
Deferred tax	-	-	-
	<hr/>	<hr/>	<hr/>
	45	109	148
	<hr/>	<hr/>	<hr/>

## 7. Dividend

The Directors have not declared an interim dividend.

## 8. Copies of the Interim Report

Copies of the Interim report are being sent to shareholders and are also available to the public from the Company's head office: Pemberton Business Centre, Enterprise House, Richmond Hill, Pemberton, Wigan, WN5 8AA.

## Introduction

We have been instructed by the company to review the financial information for the six months ended 30 September 2006, which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company, in accordance with the terms of our engagement. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with the guidance contained in bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

## Review conclusion

On the basis of our review, we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Bowmans  
Chartered Accountants