

21 September 2005

## Micap plc

### **Preliminary Results**

*for the twelve months to 31 March 2005*

Micap plc (“Micap” or the “Company”) today reports its preliminary results for the twelve months to 31 March 2005.

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

### **KEY FEATURES**

- Significant move towards revenues opportunities
- Major reorganisation of senior management and reduction in central overhead
- Acquisition of Applied Analysis Ltd and Micap GmbH
- Post year end acquisition of a 50% stake in Micap Encapsulates Ltd, a provider of spray drying services to the food flavour industry
- Turnover of £0.32m (2004: £0.90m – includes Skyepharma’s 2004 license fee of £0.50m)
- Loss after tax but before exceptional items of £1.37m (2004: loss £0.65m)
- Global launch of Thermarome, a Firmenich flavour brand created utilising the Micap technology
- Field trials underway on herbicides and fungicides with a world leading agrochemical company
- Numerous evaluation agreements underway with major international partners

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

*“This year has seen Micap undergo a major refocusing of its efforts, to concentrate on relationships with immediate revenue opportunities whilst carrying out a major cost reduction programme. The acquisition of Applied Analysis Ltd and Micap GmbH, together with the purchase post year end of a 50% stake in Micap Encapsulates Ltd, gives us direct control over our route to market, whilst still retaining the technology upside associated with our relationships in flavours and agrochemicals.”*

### **Contact:**

#### **Micap plc**

Michael Norris, CEO

Tel: 01942 625590/07966 341802

#### **Binns & Co PR**

Tarquin Edwards/Chris Steele

Tel: 020 7786 9600

07879 458 364/07979 604 687

## **Chairman's statement**

This year has been an extremely challenging one for Micap plc. On the positive side, we have made good progress on the commercialisation of our agrochemical opportunities, and our acquisitions of Applied Analysis and Micap GmbH have allowed us to take more direct control over our route to market. Both acquisitions have significant revenues with potential for growth although they have had limited time to impact on the year ended 31 March 2005. Unfortunately, developments in Pharmaceuticals have been hampered by the decision of our licensee, SkyePharma, to dispose of their interests in Dermatology drugs, the field in which the Micap technology has had most success.

Major changes have also taken place within our management team. We announced that Rob Rule and Gordon Nelson, stepped down from the Board in January 2005, and both have subsequently left the Company. Today, I can announce that both Michael Brennand, CEO, and Ian Gowrie Smith, non-executive Chairman, are leaving Micap. These and other cost savings ensure that as we go forward our cost base is better balanced to reflect the Company's short term revenue expectations.

Michael was pivotal in the formation of the Company in 2000, and has brought significant dynamism to the business over this period. The Directors would like to thank him for his efforts, and wish him well with his future ventures. Michael Norris, Finance Director of Micap since June 2002 will take over as Chief Executive with immediate effect.

Ian combined his role with the non-executive Chairmanship of SkyePharma plc and positions on numerous other Boards, and his growing workload has led to his decision to step down. Again, we wish Ian well in all his endeavours.

I am confident that we are taking the right actions to take the Company to its next stage of development. We have cut our cost base very aggressively, and are focused on those business opportunities with short to medium term revenue streams. We are building a company with repeatable and sustainable revenues from direct sales whilst maintaining the technology upside from licensing opportunities.

Finally, I would like to thank everyone at Micap for their support through the past year, and I look forward to an exciting future.

**Ian McManus**  
**Chairman**

## **Chief Executive's review**

### **Financial review**

The loss after tax was £2.31m (2004: loss £0.65m), which represents a loss per ordinary share of 8.0p (2004: loss 2.6p). Turnover on continuing operations was £0.32m (2004: £0.90m). Included in the loss after tax are exceptional costs of £0.94m (2004: nil) which are analysed in note 7 below. Year end cash balances totalled £0.49m, with short term debtors (including R&D tax credits) of £0.72m.

The major factor in the reduction in turnover was the presence in 2004 figures of the licence fee from SkyePharma on exercise of their option (£0.50m) which did not reoccur in 2005.

Control of overhead expenditure has been a major aspect of the last year. We have significantly reduced our headcount at Micap Flavours and within Head Office, including reducing the Executive Board from four directors to just one, and we will continue with this cost reduction programme into the new financial year. To this end, we are vacating our head office at Newton le Willows for a suite of offices at a managed facility in Wigan. This will allow us to actively market the Newton site, the assignment of which will significantly reduce our cost base.

Since year end we have received a Research and Development tax credit of £0.23m, and with the payment agreed from SkyePharma, as set out below, this has eased our immediate cashflow pressures, allowing us to implement the business reorganisation and plan our medium term strategy accordingly.

In the past year we have made two acquisitions, and since the year-end, entered into a new joint venture.

### **Acquisitions**

#### *Applied Analysis ("Applied")*

In October 2004 we purchased Applied Analysis, a provider of formulation, stability and analysis services to the pharmaceutical and nutraceutical industries. Clients include major pharmaceutical and biotechnology companies and various Regional Health Trusts. The cost of Applied was approximately £60,000 in cash, with a further £100,000 payable in Micap plc shares subject to performance. In the seven months prior to acquisition, Applied turned over £185,000 and made a small profit.

Since the acquisition we have focused on upgrading the facilities at Applied to enable us to broaden the range of partners we can support. We are now in a position to actively seek new contracts, and having been granted approved supplier status by the NHS, we are targeting the Pharmacy departments at Hospital Trusts as potential customers. We also took a stand at the PABORD exhibition in London on 14-15 September 2005, which promotes the use of outsourced solutions for pharmaceutical and biotechnology companies worldwide.

#### *Micap GmbH (GmbH)*

In February of this year we acquired Micap GmbH. Micap GmbH is a newly created German company which was set up to acquire the business of Rendel and Scherer GbR, for which we made an initial payment of €250,000 in cash and a further €750,000 in cash and shares subject to performance.

We have been delighted with the progress the business has made since then. GmbH is based at the Biotechnology Centre in Bremerhaven, Germany. The core business is the provision of innovative encapsulation solutions to customers in the food and cosmetics industries, but the team at GmbH have a range of technologies which are applicable across all sectors.

Current relationships include the production of encapsulated flavour products for a large German food company and the production of encapsulated Jojoba oil for a cosmetics company, for use as a “scrubbing and perfume” agent.

Numerous other research and development agreements are underway, and I am hopeful that these will lead to long-term supply or licensing agreements.

#### *Micap Encapsulates Ltd (“Encapsulates”)*

On 11 August, we entered into a joint venture via a 50% stake in a newly incorporated Irish Company, Micap Encapsulates Ltd. The joint venture company was created to purchase the assets of a spray drying facility based in Athlone, Ireland from Redbrook Flavours and Food Ltd, for an initial cash consideration of £240,000 and a further £70,000 payable over a 2 year period. The book value of the assets purchased was in excess of the consideration.

Encapsulates will provide spray drying facilities for the food flavours market, and we hope to be in a position to announce our first contract shortly.

Our partner in the joint venture is Shane Delaney, who was previously a director of Redbrook, and has extensive experience in the food ingredients market. Shane will also take over responsibility for direct sales of Micap flavours and oils, products developed by Micap GmbH and our ongoing relationship with Firmenich, our flavour partner.

These new businesses are already demonstrating their worth and I am confident that we will see substantial benefits from synergies in both new product development and marketing.

Turning now to our ongoing trading divisions:

#### *Micap Flavours Ltd*

In Autumn of 2004, Firmenich, our global flavour partner, officially launched Thermarome, a branded flavour technology created utilising the Micap technology. Firmenich also exercised its option to extend the licence to all flavours, with an increased licence fee and the prospect of further royalties outside of the initial applications in savoury foods.

Thermarome is being promoted to a worldwide audience of international food companies as an encapsulation technology offering high temperature stability, free flowing powder (for ease of handling) and optimised flavour release in the mouth. Particular benefits are offered to flavoured fried products such as batters, coatings, noodles, and potato and tortilla chips. The launch was sponsored by two major, worldwide food companies, with whom a number of projects are still ongoing. The first contract win was in the area of speciality pasta, where the thermal benefits of the technology are advantageous. We are confident that the marketing effort being put into this launch by Firmenich will lead to significant royalties to Micap over the coming years.

## *Micap Healthcare Ltd*

Following the sale by our licensee, SkyePharma plc, of their interests in Dermatological pharmaceuticals, the field in which the Micap Technology has had most success, Skyepharma, has been investigating other opportunities to use the Micap Technology in oral applications. However, it has become clear that for those drugs currently under development, there were limited applications and thus, Micap has agreed that SkyePharma will surrender all rights under the license agreement back to Micap, and in return the Company will accept a payment of £250,000 in settlement of the original licence payment of £500,000. Full provision for this has been made in the 2005 accounts.

Whilst we are obviously disappointed that strategic decisions within SkyePharma have led to this situation, we are now in a position to approach prospective partners with strengths in the Topical field to instigate discussions regarding future partnerships. Particularly of interest in our Topical activities have been the results of *in-vitro* studies carried out into antifungal activity, whereby bioavailability of a topical drug such as econazole nitrate is improved considerably upon encapsulation. The efficacy of the drug is enhanced in terms of both active required and speed of action.

These results have encouraged a number of partners to approach us regarding research projects into Topical applications. We are undertaking a Government funded Nanotechnology initiative to carry out research into the prevention of microbial colonisation of polyurethane based catheters, in conjunction with Biomer Technology Ltd and Manchester Metropolitan University. We have also established an evaluation agreement with Innocoll Inc to assess the viability of incorporating our anti microbial capsules into collagen dressings for burns patients.

We have commenced a Phase 1/partial Phase 2 clinical trial of our Micap encapsulated biocide and essential oil product for the control of MRSA at the Burns Unit of Wythenshawe Hospital, Manchester. Our initial programme involved the recruitment of 40 out-patients who had been diagnosed as carrying MRSA, however we have encountered problems with compliance and re-attendance. Accordingly, we have agreed with the sponsoring consultant to amend the trial to cover in-patients, where we will have full control over application, timing and testing. In parallel, we are to commence a larger scale trial using healthy volunteers to test efficacy against MSSA, a harmless bacteria carried by many people, but which acts as an excellent model for MRSA. These trials will give us a portfolio of information to take to commercial partners with a view to establishing formal evaluation agreements.

Over the course of our many research programmes, we have discovered that some of the best candidates for encapsulation and release have been natural essential oils. We have identified a number of commercial applications in the natural health/nutraceutical fields where Micap encapsulation can bring significant enhancement to performance. The low barriers to entry and shortened regulatory procedure for this market makes it an attractive opportunity for Micap, and we continue to discuss potential relationships with a number of specialist, niche producers in this field.

Our work with BioProgress on the use of our combined technologies on a smoking cessation product was introduced to a major participant in this sector in early Summer. Following this meeting, we are in discussions with BioProgress to plan the next steps towards generating clinical data for the project.

## *Micap Specialities Ltd*

We continue to make significant progress on the use of the Micap technology in the agrochemical field.

Two major agrochemical companies have been carrying out field trials on encapsulated herbicides and fungicides over the summer growing season, and initial indications show very positive results in both fields. We are negotiating with these companies to plan further development work, and I am hopeful that we will make progress in this arena.

We are also undertaking funded research for two very innovative companies in the field of post-harvest protection. The storage and transporting of crops, particularly citrus fruits, creates an ideal environment for the growth of fungal infections which can damage the entire crop. Micap is working with its partners to utilise the unique properties of its yeast encapsulation system to provide a targeted delivery of fungicides, thus reducing the dosage and application rates necessary for protection. Also involved in this project are Micap GmbH, who are developing a method to protect a biological control agent, which is a natural predator to damaging fungi, and prolong its life to increase performance.

We have been successful in an application for a grant from the DTI's Technology programme for smart materials, for the development of innovative intumescent coatings, in conjunction with Leigh's Paints. Leigh's Paints are the largest independent manufacturer of high performance coatings and passive fire protection products in the UK, providing coatings solutions to a wide variety of industries and supplying major construction companies worldwide. Intumescent paint, when heated by a flame swells to form an insulating char. This insulates the substrate from the surrounding heat and provides extra time for evacuation of a building, prior to structural failure of the steel. The combination of the protective capsule of the yeast and Leigh's Paints' expertise offers a novel opportunity for improving the performance of such products.

Other projects on which we are currently working include the supply of encapsulated menthol to one of the world's largest tobacco manufacturers and a project with a major cosmetics company to incorporate natural essential oils into cleansing products.

## *Summary and prospects*

As detailed above, our income flows from ongoing operations are strengthening and with a more realistic cost base we are now in a better position to progress our technologies without being dependent upon third parties.

Micap continues to have several potentially very rewarding products under development and appraisal and there are a number of alternative routes to market under evaluation.

Most importantly our core technology of yeast based encapsulation continues to gain in credibility and our broad exposure to a wide range of applications means we continue to be the first choice of any major company looking to develop products in these areas.

The recent progress made in the agrochemical field, together with the acquisition of Applied Analysis, Micap GmbH and 50% of Micap Encapsulates has allowed us to transform the company from a speculative, research driven business into one with immediately secure revenues and significant short term opportunity of further sales. At the same time, we have continued to cut costs very aggressively - skills brought in by our acquisitions have allowed us to cut the headcount at Micap plc and Flavours from 18 to 6 in less than 12 months.

We now have, within the Group, a wide range of encapsulation capabilities, ranging from the core Micap yeast encapsulation, through the innovative techniques brought by Micap GmbH to the full scale production facilities of Micap Encapsulates.

Micap Plc can now promote itself as the first point of contact for any commercial organisation with an encapsulation requirement. We intend to build on this capability, and by offering our partners the best quality service and scientific advice, look to create a profitable, cash generative business.

**Michael Norris**  
**Chief Executive**

MICAP PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 £	2004 £
<b>TURNOVER</b>			
Continuing operations		319,962	697,331
Discontinued operations		-	202,965
		<u>319,962</u>	<u>900,296</u>
Cost of sales		<u>(107,971)</u>	<u>(12,565)</u>
<b>GROSS PROFIT</b>		211,991	887,731
Administrative expenses		<u>(1,880,050)</u>	<u>(1,805,023)</u>
<b>OPERATING LOSS</b>			
Continuing operations		(1,668,059)	(663,148)
Discontinued operations		-	(254,144)
		<u>(1,668,059)</u>	<u>(917,292)</u>
<b>EXCEPTIONAL ITEMS</b>			
Other exceptional items	7	<u>(943,788)</u>	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		(2,611,847)	(917,292)
Interest receivable		62,326	67,006
Interest payable		<u>(258)</u>	<u>(1,163)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(2,549,779)	(851,449)
<b>TAX ON LOSS ON ORDINARY ACTIVITIES</b>	6	<u>234,854</u>	<u>203,042</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<u>(2,314,925)</u>	<u>(648,407)</u>
Earnings per share			
-basic	3	(8.03p)	(2.61p)
-diluted	3	(12.43p)	(2.80p)

There were no recognised gains and losses for 2005 or 2004 other than those included in the profit and loss account.

MICAP PLC

CONSOLIDATED BALANCE SHEET  
AS AT 31 MARCH 2005

	Note	£	31 March 2005 £	£	31 March 2004 £
<b>FIXED ASSETS</b>					
Intangible fixed assets			1,571,447		755,969
Tangible fixed assets			228,737		404,402
Investments			<u>188,333</u>		<u>188,333</u>
			1,988,517		1,348,704
<b>CURRENT ASSETS</b>					
Stocks		10,715		-	
Debtors		718,378		886,175	
Cash at bank and in hand		<u>498,792</u>		<u>3,323,395</u>	
			1,227,885		4,209,570
<b>CREDITORS: amounts falling due within one year</b>			<u>(684,465)</u>		<u>(1,292,450)</u>
<b>NET CURRENT ASSETS</b>			<u>543,420</u>		<u>2,917,120</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			2,531,937		4,265,824
<b>CREDITORS: amounts falling due after more than one year</b>			<u>(216,038)</u>		<u>(35,000)</u>
<b>NET ASSETS</b>			<u>2,315,899</u>		<u>4,230,824</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital			10,333,626		10,333,626
Share premium account	4		5,977,379		5,977,379
Other reserves	4		400,000		-
Profit and loss account			<u>(14,395,106)</u>		<u>(12,080,181)</u>
<b>SHAREHOLDERS' FUNDS - ALL EQUITY</b>			<u>2,315,899</u>		<u>4,230,824</u>

MICAP PLC

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2005

	Note	2005 £	2004 £
Net cash flow from operating activities	5	(1,677,191)	(2,935,557)
Returns on investments and servicing of finance		62,068	65,843
Taxation		217,057	327,579
Capital expenditure and financial investment		(110,014)	(183,221)
Acquisitions and disposals		(280,478)	-
<b>CASH OUTFLOW BEFORE FINANCING</b>		<b>(1,788,558)</b>	<b>(2,725,356)</b>
Financing		(6,135)	4,601,049
<b>(DECREASE)/INCREASE IN CASH IN THE YEAR</b>		<b><u>(1,794,693)</u></b>	<b><u>1,875,693</u></b>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS  
FOR THE YEAR ENDED 31 MARCH 2005

	2005 £	2004 £
(Decrease)/Increase in cash in the year	(1,794,693)	1,875,693
Cash outflow from decrease in debt and lease financing	6,135	471
<b>CHANGE IN NET DEBT RESULTING FROM CASH FLOWS</b>	<b>(1,788,558)</b>	<b>1,876,164</b>
New finance lease	(15,135)	-
<b>MOVEMENT IN NET DEBT IN THE YEAR</b>	<b>(1,803,693)</b>	<b>1,876,164</b>
Net funds at 1 April 2004	2,293,485	417,321
<b>NET FUNDS AT 31 MARCH 2005</b>	<b><u>489,792</u></b>	<b><u>2,293,485</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Preparation of the financial statements

The preliminary results have been prepared in accordance with the accounting policies set out in the Group's annual accounts to 31<sup>st</sup> March 2004.

2. The financial information set out above does not comprise the company's statutory financial statements. Statutory financial statements for the previous financial year ended 31 March 2004 have been delivered to the Registrar of Companies. The auditors' report on those financial statements was unqualified and did not contain any statement under section 237(2) or (3) of the Companies Act 1985. The auditors have not yet reported on financial statements for the year ended 31 March 2005, nor have any such financial statements been delivered to the Registrar of Companies. The financial statements were approved by a duly appointed and authorised committee of the Board of Directors on 19th September 2005.

### 3. Earnings per share

Basic earnings per share are calculated on loss for the financial year of £2,314,925 (2004: £648,407) and on the weighted average number of shares in issue during the year of 28,825,229 (2004: 24,830,730). Diluted earnings per share are calculated on loss for the financial year of £2,314,925 (2004: £648,407) and on the weighted average number of shares in issue during the year of 18,622,354 (2003: 23,142,971).

### 4. Movements in reserves

Group	Share premium account £	Other reserves £	Profit and loss account £
At 1 April 2004	5,977,379	-	(12,080,181)
Loss retained for the year			(2,314,925)
Unissued share capital	-	400,000	-
	<u>5,977,379</u>	<u>400,000</u>	<u>(14,395,106)</u>
At 31 March 2005			=

### 5. Reconciliation of operating loss to net cash flow from operating activities

	2005 £	2004 £
Operating loss	(1,668,059)	(917,292)
Exceptional items	(943,878)	-
Amortisation/impairment of intangibles	40,000	40,000
Depreciation of tangible fixed assets	300,814	89,195
Increase in stocks	(10,715)	-
Decrease/(increase) in debtors	185,594	(579,635)
Increase/(decrease) in creditors	418,963	(767,825)
Decrease in provisions	-	(800,000)
<b>NET CASH OUTFLOW FROM OPERATIONS</b>	<u><b>(1,677,191)</b></u>	<u><b>(2,935,557)</b></u>

## 6. Taxation

	2005 £	2004 £
<b>Analysis of tax credit in year</b>		
<b>Current tax</b> (see note below)		
UK corporation tax credit on losses of the year	(226,745)	(214,149)
Adjustments in respect of prior periods	-	11,107
<b>Total current tax</b>	<u>(226,745)</u>	<u>(203,042)</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(8,109)	-
<b>Total deferred tax</b> (see note )	<u>(8,109)</u>	-
<b>Tax on loss on ordinary activities</b>	<u>(234,854)</u>	<u>(203,042)</u>

### Factors affecting tax charge for year

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

	2005 £	2004 £
Loss on ordinary activities before tax	<u>(2,549,779)</u>	<u>(851,449)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2004 - 19%)	(484,458)	(161,775)
<b>Effects of:</b>		
Expenses not deductible for tax purposes	22,295	7,708
Capital allowances for period in excess of depreciation	47,112	(1,165)
Movement in tax losses	234,169	(3,075)
Tax losses in overseas subsidiary	-	490
Research and development adjustment	(89,752)	(97,078)
Adjustments in respect of prior periods	-	11,107
Research and development	42,514	40,746
Profits falling in nil rate corporation tax band	1,375	-
<b>Current tax credit for year</b> (see note above)	<u>(226,745)</u>	<u>(203,042)</u>

There were no factors that may affect future tax charges.

## 7. Exceptional items

	2005 £	2004 £
Reorganisation costs	157,956	-
Dilapidation costs	65,000	-
Legal and professional fees	51,000	-
Compensation for loss of office (directors)	225,500	-
Provision for doubtful debt	250,000	-
Write down of leasehold improvements	194,332	-
<b>Total exceptional costs</b>	<b>943,788</b>	<b>-</b>

The reorganisation and compensation for loss of office payable during and after the year end reflect the redundancy costs of a decision to restructure the business during the year.

The dilapidation costs arise as a result of the decision to relocate offices and laboratories.

The legal and professional fees relate to an aborted acquisition.

In the prior year the directors made provision for future payments under a royalty agreement which were not expected to be covered by future sales of the licensed product. The provision of £72,860 was included within administration expenses.

The provision for doubtful debt relates to an option fee payable to Micap upon the exercise of a technology access option by Jagotech (a wholly owned subsidiary of SkyePharma plc) in March 2004. In August 2005 Micap agreed to accept a payment of £250,000, together with the return of the rights granted under the option agreement in full and final settlement of all sums due from Jagotech.

The write down of leasehold improvements relates to a change in the useful economic life of the company premises.

## 8. Dividend

The Directors have not declared a dividend.

Copies of the annual report will be sent to all shareholders shortly and will also be available to the public at the Company's registered office, 1 The Parks, Lodge Lane, Newton le Willows, WA12 0JQ.