



**KIOTECH INTERNATIONAL
PLC**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2000

KIOTECH INTERNATIONAL PLC

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

Company Registration Number: 03345857

Registered Office: 22 Melton Street
London
NW1 2BW

Directors: D C G Gyle-Thompson
N C J Scott
G H Dodd

Secretary: Cargil Management Services Limited

Stockbrokers: J M Finn & Co
Salisbury House
London Wall
London
EC2M 5TA

Corporate Advisers: Ruegg & Co Limited
Georgian House
63 Coleman Street
London
EC2R 5BB

Bankers: Barclays Bank plc
27 Soho Square
London
W1A 4WA

Solicitors: Christopher Bate
Bryn-y-Môr
Bangor
Gwynedd
LL57 2HG

KIOTECH INTERNATIONAL PLC

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Registrars: Moorgate Registrars plc
Dukehead House
39 High Street
Chelmsford
Essex
CM1 1DE

KIOTECH INTERNATIONAL PLC

FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

INDEX	PAGE
Report of the chairman	1
Report of the directors	2
Report of the auditors	3 – 4
Principal accounting policies	5 – 6
Consolidated profit and loss account	7
Balance sheets	8
Consolidated cash flow statement	9
Notes to the financial statements	10 – 17

KIOTECH INTERNATIONAL PLC

CHAIRMAN'S STATEMENT

For the year ended 31 DECEMBER 2000

I and my colleagues, on your Board of Directors, have pleasure in presenting to you the report and accounts for the Kiotech Group for the year ending 31 December 2000.

As you will be aware there have been very considerable changes in the ownership, management and strategy of the Group since early 2001. Since I and my colleagues became involved, we have been devoting ourselves to rebuilding the Group's foundations so that we can begin to develop shareholder value from the important product research and development carried out by the previous Board; the accounts I am now presenting reflect that programme.

We are now entering the exciting phases of production and marketing of your products. While this, too, will present considerable challenges, we look forward with confidence, not least because of the support and loyalty of our staff.

David Gyle-Thompson
Chairman
17 September 2001

KIOTECH INTERNATIONAL PLC

REPORT OF THE DIRECTORS

For the year ended 31 DECEMBER 2000

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

Principal activity

The company's principal activity is that of the development and exploitation of fragrances, scents and odours.

Business review and future developments

The financial results are set out in the profit and loss account. The directors do not recommend the payment of a dividend.

Research and development

The group spent £57,581 (1999: £115,148) during the year on research and development.

Directors and their interests

The directors who served during the year and their beneficial interests in the shares of the company are set out below:

	Ordinary shares of £1 each	
	31 December 2000	1 January 2000 (or date of appointment if later)
G H Dodd	178,000	163,000
R A Page (resigned on 9 February 2001)	228,001	273,001
I Gray (appointed 6 June 2000; resigned 9 February 2001)	-	-
S M Eskell (appointed 23 March 2000; deceased 6 June 2000)	-	-
W G Campbell – non executive (resigned 17 March 2000)	-	163,001
P J Kleeman (resigned 23 March 2000)	-	45,000

Messrs D C G Gyle-Thompson and N C J Scott were appointed directors on 9 February 2001.

Directors' responsibilities for the financial statements

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements

KIOTECH INTERNATIONAL PLC

REPORT OF THE DIRECTORS

For the year ended 31 DECEMBER 2000

Directors' responsibilities (continued)

- 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

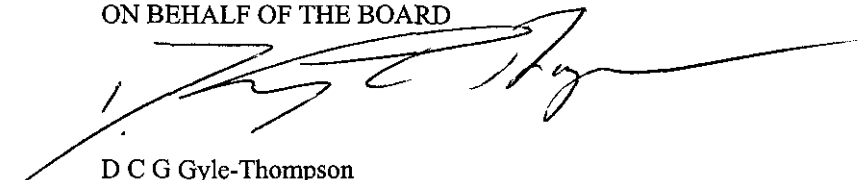
Creditor payment policy

It is the group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction, to ensure that suppliers are aware of those terms and to abide by them. The group's trade creditors at the year end amounted to 157 days of average supplies for the year (1999: 18 days).

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



D C G Gyle-Thompson
Director
17 September 2001

REPORT OF THE AUDITORS TO THE MEMBERS OF

KIOTECH INTERNATIONAL PLC

We have audited the financial statements on pages 6 to 17 which have been prepared under the accounting policies set out on pages 5 and 6.

Respective responsibilities of the directors and auditors

As described on pages 2 and 3 the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with United Kingdom Auditing Standards 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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.


Fundamental uncertainty - company

Recoverability of certain assets

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements in note 8 concerning the uncertainties affecting the future recoverability of Kiotech International's investment in and loan to Kiotech Limited, which are included in the balance sheet of Kiotech International at £1,179,143 and £1,997,189 respectively. In view of the significance of this uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2000 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**GRANT THORNTON
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS**

LONDON

28 SEPTEMBER 2001

KIOTECH INTERNATIONAL PLC

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

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

The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

GOING CONCERN

The financial statements have been prepared on a going concern basis which, assumes that the company will continue in operational existence for the foreseeable future.

Subsequent to the year end the company received an amount of £685,082 which following the Extraordinary General Meeting held on 6 July 2001 was converted into new ordinary shares of Kiotech International plc.

Additionally, on 22 August 2001 the company successfully completed a private placing of 6,460,778 new ordinary shares which raised £1.10 million net of expenses related to the issue.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 8) drawn up to 31 December 2000.

TURNOVER

Group turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts.

GOODWILL

Purchased goodwill is capitalised and is amortised on a straight line basis over its useful economic life.

DEPRECIATION

Depreciation is calculated to write down the cost of tangible fixed assets by equal annual instalments over their expected useful economic lives.

The periods applicable are:

Fixtures and fittings	3 years
Office equipment	3 years

INVESTMENTS

Investments are included at cost less amounts written off

STOCKS

Stocks are stated at the lower of cost and net realisable value.

KIOTECH INTERNATIONAL PLC

PRINCIPAL ACCOUNTING POLICIES

DEFERRED TAXATION

Deferred tax is provided for using the tax rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

KIOTECH INTERNATIONAL PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 DECEMBER 2000

	Note	2000 £	1999 £
Turnover	1	116,793	9,213
Cost of sales		<u>(168,450)</u>	<u>(56,119)</u>
Gross loss		(51,657)	(46,906)
Administrative expenses		<u>(775,862)</u>	<u>(522,400)</u>
Operating loss		(827,519)	(569,306)
Interest receivable	2	<u>7,860</u>	<u>8,320</u>
Loss on ordinary activities before taxation	1	(819,659)	(560,986)
Tax on loss on ordinary activities	4	<u>-</u>	<u>-</u>
Loss on ordinary activities after taxation		(819,659)	(560,986)
Equity minority interest		-	56,423
Transfer from reserves	13	<u>(819,659)</u>	<u>(504,563)</u>
Basic loss per share (pence)	5	<u>(44.73)</u>	<u>(32.99)</u>

All transactions arise from continuing operations.

There were no recognised gains or losses other than the loss for the year.

The accompanying accounting policies and notes form an integral part of these financial statements.

KIOTECH INTERNATIONAL PLC

BALANCE SHEETS AT 31 DECEMBER 2000

	Note	Group 2000 £	Group 1999 £	Company 2000 £	Company 1999 £
Fixed assets					
Tangible assets	7	18,997	9,939	-	-
Investments	8	110	-	1,181,306	1,179,196
		<u>19,107</u>	<u>9,939</u>	<u>1,181,306</u>	<u>1,179,196</u>
Current assets					
Stocks	9	105,584	-	-	-
Debtors	10	46,742	74,846	1,997,201	1,403,381
Cash at bank and in hand		1,513	458,586	-	437,618
		<u>153,839</u>	<u>533,432</u>	<u>1,997,201</u>	<u>1,840,999</u>
Creditors: amounts falling due within one year	11	<u>(362,262)</u>	<u>(150,809)</u>	<u>(96,602)</u>	<u>(7,039)</u>
Net current (liabilities)/assets		<u>(208,423)</u>	<u>382,623</u>	<u>1,900,599</u>	<u>1,833,960</u>
Total assets less current liabilities		<u>(189,316)</u>	<u>392,562</u>	<u>3,081,905</u>	<u>3,013,156</u>
Capital and reserves					
Called up share capital	12	1,859,672	1,799,672	1,859,672	1,799,672
Share premium account	13	1,305,317	1,222,816	1,305,317	1,222,816
Profit and loss account	13	(3,354,305)	(2,534,646)	(83,084)	(9,332)
Equity shareholders' funds	14	<u>(189,316)</u>	<u>487,842</u>	<u>3,081,905</u>	<u>3,013,156</u>
Equity minority interest		-	(95,280)		
		<u>(189,316)</u>	<u>392,562</u>		

The financial statements were approved by the Board of Directors on 17 September 2001


D C G Gyle-Thompson - Director

The accompanying accounting policies and notes form an integral part of these financial statements.

KIOTECH INTERNATIONAL PLC**CONSOLIDATED CASH FLOW STATEMENT**

For the year ended 31 DECEMBER 2000

	Note	2000 £	1999 £
Net cash outflow from operating activities	15	(583,568)	(516,972)
Returns on investments and servicing of finance			
Interest received		7,860	8,320
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(23,756)	(2,893)
Purchase of investments		(110)	-
		<u>(23,866)</u>	<u>(2,893)</u>
Management of liquid resources			
Cash withdrawn from/(deposited) in money market account		400,000	(180,000)
Financing			
Issue of share capital		150,001	787,501
Expenses paid in connection with share issues		(7,500)	(41,735)
		<u>142,501</u>	<u>745,766</u>
(Decrease)/increase in cash	16	<u>(57,073)</u>	<u>54,221</u>

The accompanying accounting policies and notes form an integral part of these financial statements.

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

1 TURNOVER AND LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Turnover is attributable to the principal activity of the company.

The loss on ordinary activities is stated after charging:

	2000	1999
	£	£
Research and development	57,581	115,407
Auditors' remuneration:		
Audit services	12,000	8,500
Non-audit services	9,740	8,196
Depreciation	14,698	8,580
Amortisation of purchased goodwill	<u>95,280</u>	<u>-</u>

2 INTEREST RECEIVABLE

	2000	1999
	£	£
Other interest receivable and similar income	<u>7,860</u>	<u>8,320</u>

3 DIRECTORS AND EMPLOYEES

Staff costs during the year, excluding directors, was as follows:

	2000	1999
	£	£
Wages and salaries	27,475	6,975
Social security costs	<u>2,595</u>	<u>698</u>
	<u>30,070</u>	<u>7,673</u>

The average number of employees, excluding directors, during the year was:

	2000	1999
	Number	Number
Administration	<u>2</u>	<u>1</u>

Remuneration in respect of directors was as follows:

	2000	1999
	£	£
Emoluments	<u>149,858</u>	<u>81,624</u>

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

4 TAX ON LOSS ON ORDINARY ACTIVITIES

There is no charge to corporation tax on the result for the year due to the loss for the year.

5 LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year being £819,659 (1999: £504,563) divided by the weighted average number of shares in issue during the year, being 1,832,459 (1999: 1,529,549) shares. Share options outstanding at the year end were anti-dilutive.

6 INTANGIBLE FIXED ASSETS

	Purchased goodwill £
Cost	
At 1 January 2000	-
Additions	95,280
At 31 December 2000	<u>95,280</u>
Amortisation	
At 1 January 2000	-
Provided in the year	95,280
At 31 December 2000	<u>95,280</u>
Net book amount	
At 31 December 2000	<u>-</u>
Net book amount	
At 31 December 1999	<u>-</u>

On 24 January 2000 the company acquired the remaining minority interest in Boditech Diagnostics Limited for nominal consideration giving rise to goodwill of £95,280. Boditech Diagnostics Limited is a dormant entity and the directors believe that this goodwill has no future benefit to the group. They have therefore written off the goodwill balance in the accounts for the year.

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

7 TANGIBLE FIXED ASSETS

The group

	Office equipment £	Fixtures and fittings £	Total £
Cost			
At 1 January 2000	2,893	22,848	25,741
Additions	23,276	480	23,756
At 31 December 2000	<u>26,169</u>	<u>23,328</u>	<u>49,497</u>
Depreciation			
At 1 January 2000	964	14,838	15,802
Provided in the year	7,002	7,696	14,698
At 31 December 2000	<u>7,966</u>	<u>22,534</u>	<u>30,500</u>
Net book amount at 31 December 2000	<u>18,203</u>	<u>794</u>	<u>18,997</u>
Net book amount at 31 December 1999	<u>1,929</u>	<u>8,010</u>	<u>9,939</u>

The company did not hold tangible fixed assets at any time during the year.

8 FIXED ASSET INVESTMENTS

The group

	Unlisted investments £
Cost	
At 1 January 2000	-
Additions	110
At 31 December 2000	<u>110</u>

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

FIXED ASSET INVESTMENTS (CONTINUED)

The company

	Investment in group undertakings £
Cost	
At 1 January 2000	1,179,196
Additions	<u>2,110</u>
At 31 December 2000	<u><u>1,181,306</u></u>

At 31 December 2000 the company had interests in the following subsidiaries:

Name of subsidiary	Country of registration	Class of share capital held	Proportion held	Nature of business
Kiotech Limited	England and Wales	Ordinary	100%	Development and exploitation of fragrances, scents and odours
Ultrabite Limited	England and Wales	Ordinary	100%	Dormant
Kiotech R & D Limited	Scotland	Ordinary	100%	Dormant
Boditech Diagnostics Limited	England and Wales	Ordinary	100%	Dormant

The subsidiary undertakings have been accounted for by the acquisition accounting method.

The recoverability of the company's investment in and loan to Kiotech Limited is uncertain as it is dependent on the future profitability of that company. Nevertheless, the directors believe that neither the company's investment in nor loan to that company have suffered a permanent diminution in value having given regard to projected cash flows and earnings of the company. Therefore the investment and the loan continue to be carried at their original acquisition cost and the total of advances made respectively.

KIOTECH INTERNATIONAL PLC**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 DECEMBER 2000

9 STOCKS**The group**

	2000 £	1999 £
Raw materials	20,804	-
Finished goods	84,780	-
	<u>105,584</u>	<u>-</u>

The company did not hold stocks at any time during the year.

10 DEBTORS

	Group 2000 £	Group 1999 £	Company 2000 £	Company 1999 £
Trade debtors	11,433	-	-	-
Amounts owed by group undertakings (see note 8)	-	-	1,997,189	1,348,762
Other debtors	35,309	52,400	12	32,173
Prepayments and accrued income	-	22,446	-	22,446
	<u>46,742</u>	<u>74,846</u>	<u>1,997,201</u>	<u>1,403,381</u>

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2000 £	Group 1999 £	Company 2000 £	Company 1999 £
Trade creditors	203,122	28,566	35,993	7,037
Amounts owed to group undertakings	-	-	1,999	2
Other taxation and social security	25,623	14,701	-	-
Accruals and deferred income	133,407	100,442	58,500	-
Other creditors	110	7,100	110	-
	<u>362,262</u>	<u>150,809</u>	<u>96,602</u>	<u>7,039</u>

12 SHARE CAPITAL

	2000 £	1999 £
Authorised		
Ordinary shares of £1 each	<u>3,000,000</u>	<u>3,000,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>1,859,672</u>	<u>1,799,672</u>

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

SHARE CAPITAL (CONTINUED)

The following shares were issued during the year:

	Reason for issue	Number of ordinary shares	Nominal value £	Premium £
14 June 2000	Working capital	60,000	60,000	30,001

Details of outstanding share options:

Date of grant	At 1 January 2000	At 31 December 2000	Exercise price	Exercise dates
20 June 1997	50,000	50,000	£1.00	20 June 2000 – 19 June 2001
14 November 1997	100,000	10,000	£5.00	1 April 1998 – 31 March 2001
29 July 1998	10,000	10,000	£2.60	23 May 2000 – 22 May 2002

On 23 March 2000, 60,000 share options that had been granted to P J Kleeman on 4 November 1999 at an exercise price of £2.50 lapsed due to him ceasing to hold office within the company.

The market price of the shares at 31 December 2000 was 96.5p and the range during the year was 95.5p to 290.0p.

13 SHARE PREMIUM ACCOUNT AND RESERVES

	Profit and loss account £	Share premium account £	Total £
At 1 January 2000	(2,534,646)	1,222,816	(1,311,830)
Retained loss for the year	(819,659)	-	(819,659)
Premium on allotment during the year	-	90,001	90,001
Issue costs	-	(7,500)	(7,500)
At 31 December 2000	<u>(3,354,305)</u>	<u>1,305,317</u>	<u>(2,048,988)</u>

The company does not present its profit and loss account as it is exempt from doing so under section 230 of the Companies Act 1985. The loss for the year of the company was £73,752 (1999: £11,846).

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

14 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2000 £	1999 £
Retained loss for the financial year	(819,659)	(504,563)
Issue of shares (net of expenses)	142,501	745,766
Shareholders' funds at 1 January 2000	487,842	246,639
Shareholders' funds at 31 December 2000	<u>(189,316)</u>	<u>487,842</u>

15 NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2000 £	1999 £
Operating loss	(827,519)	(569,306)
Amortisation	95,280	-
Depreciation	14,698	8,580
(Increase)/decrease in stocks	(105,584)	9,078
Decrease in debtors	28,104	45,340
(Increase)/decrease in creditors	211,453	(10,664)
Net cash outflow from operating activities	<u>(583,568)</u>	<u>(516,972)</u>

16 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2000 £	1999 £
(Decrease)/Increase in cash in the year	(57,073)	54,221
Cash (outflow)/inflow from (decrease)/increase in liquid resources	(400,000)	180,000
Movement in net funds in the year	(457,073)	234,221
Net funds at 1 January 2000	458,586	224,365
Net funds at 31 December 2000	<u>1,513</u>	<u>458,586</u>

17 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 January 2000 £	Cash flow £	At 31 December 2000 £
Cash at bank and in hand	58,586	(57,073)	1,513
Cash in money market account	400,000	(400,000)	-
	<u>458,586</u>	<u>(457,073)</u>	<u>1,513</u>

KIOTECH INTERNATIONAL PLC

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 DECEMBER 2000

18 CAPITAL COMMITMENTS

The company had no capital commitments at 31 December 2000 or 31 December 1999.

19 CONTINGENT LIABILITIES

There were no contingent liabilities at 31 December 2000 or 31 December 1999.

20 RELATED PARTY TRANSACTIONS

Services were provided to the group by Lifetime Productions International Limited, a company under the control of R A Page and W G Campbell. For these services the group has been recharged £5,537 (1999: £60,929) for wages and salaries and £5,553 (1999: £52,205) for overheads and sundry expenses. At the year end £nil (1999: £7,981) was owed to Lifetime Productions International Limited.

During the year P J Kleeman was paid £3,750 (1999: £nil) as a fee for assisting the company in raising equity finance.